

# The World Bank Group's Framework for Engagement in the Palm Oil Sector

DRAFT

*For Consultation*



THE WORLD BANK



**International  
Finance Corporation**  
World Bank Group

## **The World Bank Group's Mission**

The World Bank Group's mission is to:

- Fight poverty with passion and professionalism for lasting results
- Help people help themselves and their environment.

And this is achieved by:

Providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

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## LIST OF ABBREVIATIONS

<b>BACP</b>	Biodiversity and Agricultural Commodities Program
<b>CAS</b>	Country Assistance Strategy
<b>CIRAD</b>	International Cooperation Centre for Agricultural Research and Development (Centre de coopération internationale en recherche agronomique pour le développement)
<b>CPS</b>	Country Partnership Strategy
<b>CSPO</b>	Certified Sustainable Palm Oil
<b>EA</b>	Environment Assessment
<b>EHS</b>	Environmental, Health and Safety
<b>GIIP</b>	Good International Industry Practice
<b>HCV</b>	High Conservation Value
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICSID</b>	International Centre for the Settlement of Investment Disputes
<b>IDA</b>	International Development Association
<b>IEG</b>	Independent Evaluation Group
<b>IFAD</b>	International Fund for Agricultural Development
<b>IFC</b>	International Finance Corporation
<b>ISO</b>	International Organization for Standardization
<b>MIGA</b>	Multilateral Investment Guarantee Agency
<b>NES</b>	Nucleus Estates and Smallholders
<b>NGO</b>	Non-Governmental Organization
<b>P&amp;C</b>	Principles and Criteria
<b>PNG</b>	Papua New Guinea
<b>RSPO</b>	Roundtable on Sustainable Palm Oil
<b>WWF</b>	World Wildlife Fund

## EXECUTIVE SUMMARY

The World Bank Group, with its primary mission of poverty reduction, sees the palm oil sector as an important contributor to furthering economic development in many developing countries.

The World Bank Group is aware of the sector's negative environmental and social impacts, including deforestation, biodiversity loss, greenhouse gas emissions, land use conflicts, and questions over land tenure and human rights.

In recent years, strong efforts have been made to better understand and address these challenges. The Roundtable on Sustainable Palm Oil's (RSPO's) protocols are an encouraging contribution, but there is still significant scope for moving the industry to a more sustainable footing.

Drawing on lessons from past experience and global analysis, and in partnership with others, the World Bank Group has the potential to help induce positive change at the national and industry level to deepen positive development impacts, encourage sustainable practices and limit further deforestation.

### Rationale for a New Framework

Recent civil society organization complaints to the Office of the Compliance Advisor/Ombudsman in relation to IFC's handling of four downstream investments (in a palm oil trader and a refinery), as well as a complaint to the Inspection Panel regarding a World Bank smallholder oil palm program have raised concerns about sustainability issues.

The World Bank Group recognized the legitimacy of these concerns and in response temporarily suspended any new investments in the palm oil sector. In an effort to develop a comprehensive approach to palm oil investments, the World Bank Group launched a series of consultations with a diverse group of stakeholders, which were designed to be participatory and transparent. These consultations, together with guidance from analytical work and field experience, inform this framework.

### Current Status and Future Trends of the Palm Oil Industry

Palm oil is a major global agricultural commodity used in a host of food and non-food products. The palm oil sector has played a significant role in advancing development and accelerating poverty reduction in the many tropical countries in which it grows. It often forms an important basis for national economies, both as a source of jobs, an export and a raw material for local industry.

The oil palm plant originated in coastal West Africa, where it has long been part of the staple diet of subsistence farmers. It is now commercially cultivated on about 12 million ha in the humid tropics, principally in Southeast Asia. In terms of volume of production, the industry has been primarily based in Malaysia and Indonesia (notably Sumatra and Kalimantan), which account for about 85 percent of global output. Smaller but significant producers are Nigeria, Colombia, Costa Rica, Ecuador, Honduras, Cote d'Ivoire, Ghana, Cameroon, Papua New Guinea, and Thailand. Almost three-fourths of the 45 million tons of global production are traded; China, the European Union, India, and Pakistan are the major importers. Oil palm also provides more than 5 million tons of palm kernel oil as a byproduct for industrial and food uses.

With demand for palm oil growing, and land becoming less available in Malaysia and, to a lesser extent, Indonesia, several countries in Latin America and Africa are seeking to expand their palm oil industry. In the immediate future, expansion of the industry will most likely continue to be centered in Southeast Asia where governments support the development of the palm oil sector and where there is a well established supply chain to both internal and external markets. In Southeast Asia, where the RSPO's certification system for sustainable palm oil production is slowly gaining traction, it is expected that planting will gradually shift away from forested areas with high conservation value to existing agricultural land or areas designated as degraded. The World Bank Group strongly supports this shift.

## **A Framework for World Bank Group Engagement**

The World Bank Group has defined four key themes that will frame its future engagement in the sector. These are:

- Supporting the development of an enabling policy and regulatory environment
- Mobilizing socially and environmentally sustainable private sector investment
- Encouraging benefit sharing with smallholders and communities
- Supporting sustainability codes of practice.

At the invitation of governments, the World Bank will offer a menu of interventions based on these four themes, taking into account specific country issues, context, and needs. In addition, and subject to private sector clients' willingness to engage, the IFC will intervene at the project level to catalyze private sector-led economic development in a sustainable manner. Although the two approaches target two different levels of sector interventions (public and private), they complement each other and build on the comparative advantage of the World Bank Group.

The scope and scale of the World Bank Group's engagement in the sector will vary by country, subject to client demand and the strength of the partnerships that can be forged with other key stakeholders, including private industry and civil society.

### **A Common Approach**

The World Bank and the IFC will coordinate more closely on actions in the palm oil sector than in the past. Whenever feasible, IFC will draw on World Bank support to strengthen the regulatory and policy environment in the countries in which it engages with the private sector. The World Bank will encourage IFC support for sustainable private sector investment in countries where it is supporting host governments.

In major palm oil producing countries, the World Bank will, if requested by governments, engage in policy dialogue relevant to the palm oil sector as part of the design of the Country Assistance Strategy. It can draw, for example,

on global analysis of agribusiness, productivity, land tenure and forest governance issues relevant to the sector. The primary vehicle for defining the World Bank Group's policy support and work program in a country is the Country Assistance Strategy (CAS). Country-level interactions on the CAS and its associated policy dialogue will be led by the World Bank with the participation of the IFC.

In addition, the World Bank and the IFC have a joint commitment to improving benefit sharing for smallholders and communities and supporting emerging certification schemes -- particularly the inclusion of smallholders in such schemes.

Depending on private sector interest and opportunities, the IFC will, through its investments and advisory services products, support private sector development and promote environmentally and socially sustainable palm oil production. These interventions will be informed by the four themes identified in the present framework and focus in particular on broadening support for smallholders, expanding the number of internationally certified companies and increasing the supply of Certified Sustainable Palm Oil.

IFC will invest only where its interventions will meet IFC's Performance Standards and will have clear and measurable development impacts that contribute to economic growth and poverty reduction. In particular, IFC will only invest in plantation operations that are certified for sustainable palm oil production according to an internationally-recognized certification scheme, or have a time-bound action plan to achieve such certification.

Linked to the above investments, the IFC's Advisory Services will play a role in addressing issues related to the environmentally and socially sustainable enabling environment for private sector businesses as well as supporting smallholders for better management practices and productivity gains. The IFC will stress early engagement in particular with projects involving new plantation operations (with CSO participation, if possible) to improve project design for better inclusion and impacts on smallholders as well as ensuring that Critical

Habitat/High Conservation Value habitat is protected.

The IFC will strive for a global portfolio of projects and programs that will contribute to meeting its objectives of scaling up development reach and impacts while also contributing toward economic, environmental, and social sustainability.

IFC may invest in oil palm plantation operations and other palm oil sector companies even if the public sector legal/regulatory enabling environment is less than ideal, if IFC is convinced that the project will have strong and measurable development impacts and that any risks can be mitigated through other governmental or non-governmental programs, including other World Bank Group operations, if present. IFC will give priority to investing in countries which have either addressed the

policy and regulatory issues highlighted by the Country Assistance Strategy consultation process or are working to address them. In all cases, the IFC will engage with the World Bank and other stakeholders in the countries where it decides to invest in environmentally and socially sustainable palm oil projects and will endeavor to influence positive change in the four thematic areas highlighted through the consultation process.

In conclusion, the World Bank Group, in partnership with others, can play a significant role in promoting change in the palm oil sector. Engagement is consistent with its mission to fight poverty without compromising economic, environmental and social sustainability. This Framework outlines in greater detail how the World Bank Group proposes to go about fulfilling this role.

World Bank Group Commitments	
<p style="text-align: center; color: #4a4a8a;"><b>For the World Bank</b></p> <ol style="list-style-type: none"> <li>1. <b>Bring global analysis and local lessons learned into policy dialogue</b> designed to strengthen the sector’s policy and regulatory environment, at the invitation of governments. <i>Key actions could include:</i> working with governments to implement land registration systems, build capacity for environmental and social impact assessment and regulation, strengthen forest and land governance and administration and increase productivity.</li> <li>2. <b>Facilitate benefit sharing for smallholders and communities.</b> <i>Key actions could include:</i> working with governments to invest in infrastructure that enables access to markets, strengthen smallholder producer organizations and extension and advisory services; and expand smallholder access to finance.</li> </ol>	<p style="text-align: center; color: #4a4a8a;"><b>For the IFC</b></p> <ol style="list-style-type: none"> <li>1. <b>Mobilize private sector</b> investment in sustainable palm oil production through direct investments, with strengthened due diligence including requirements for certification of palm oil producing operations; delivering advisory services as well as strengthening access to finance, for both smallholders and SMEs;</li> <li>2. <b>Strengthen the RSPO’s</b> capacity, and assist clients to achieve RSPO or equivalent certification</li> </ol>
<p style="color: #4a4a8a;"><b>For the World Bank and the IFC</b></p> <ol style="list-style-type: none"> <li>1. Support international <b>certification schemes</b> and in particular, <b>smallholder inclusion</b> in any such schemes</li> <li>2. Strengthen <b>coordination and collaboration</b> between the World Bank and IFC through joint analysis, Country Assistance Strategies , advisory services and investment climate diagnostic tools</li> <li>3. Strengthen <b>monitoring and evaluation</b></li> </ol>	

## I. INTRODUCTION

This document presents the World Bank Group's framework for engagement in the palm oil sector. The framework outlines priority areas and options for action.

The content of this document builds on the World Bank Group's previous work, such as the World Development Report 2008, the Agriculture Action Plan 2010–2012, the Forest Strategy, and other land, water, and climate change initiatives of the International Finance Corporation (IFC) and the World Bank, as well as the World Bank Group's practical experience in the field. The preparation of this framework complements the ongoing review of the IFC's Performance Standards.

The framework builds on the World Bank Group's commitment to "support client countries efforts to improve agriculture's contribution to food security, raise the incomes of the poor, facilitate economic transformation and provide environmental services."<sup>1</sup>

Concerns about sustainability-related issues in the sector were highlighted by the IFC's Office of the Compliance Advisor<sup>2</sup>, the World Bank's inspection panel, and civil society organizations and prompted a temporary moratorium in November 2009 on new World Bank Group investments in the palm oil sector pending development of a more strategic approach to engagement in the sector.

### Strong call for re-engagement

This document was developed following a consultative process designed to be transparent and inclusive. During the consultations, there were strong calls from stakeholders urging the World Bank Group to re-engage and tackle some of the challenges facing the sector. The primary challenges include issues related to governance, land policies, environmental and social issues,

smallholder development, partnerships, and certification. Annex I provides a more detailed overview of the consultative process and its key messages.

### Experience in the sector

The World Bank and the IFC, have invested in and supported the development of the palm oil sector since 1965 and 1976, respectively, in Latin America, Africa, and Asia Pacific. Some of these investments in both public and private sector projects were successful at creating jobs and raising the incomes of smallholders and employees, but other experiences pointed to critical challenges affecting the sector. Project experience and lessons learned are described in more detail in Annex III.

Both these shortcomings and development opportunities point to the need for a well-informed and strategic approach to guide future World Bank Group interventions and navigate a complex sector, characterized by a multitude of actors along the supply chain<sup>3</sup>.

### A catalytic role

Although the challenges facing the sector are daunting, the opportunities for the World Bank Group and other partners to make a difference are substantial. The World Bank Group can provide convening power, global knowledge and local presence, and a diverse set of products and services such as financing, advisory services, and technical assistance.

The World Bank Group's engagement in the palm oil sector is consistent with its mission to **fight poverty without compromising economic, environmental and social sustainability**. Adoption of this framework, coupled with compliance with environmental and social policies (the IFC's Performance Standards and the World Bank's Safeguard Policies), will enable the World Bank Group to play a catalytic role in moving the palm oil sector to a more sustainable footing.

<sup>1</sup> *Implementing Agriculture for Development: The World Bank Group Agriculture Action Plan: 2010-2010*, p.1.

<sup>2</sup> *The IFC's Office of the Compliance Advisor/Ombudsman has raised concerns in relation to IFC's handling of four IFC investments in traders and refineries.*

<sup>3</sup> *See Annex II for a description of actors in the palm oil sector.*



## II. THE GLOBAL CONTEXT

### The Value of Agricultural Investment

The World Development Report on Agriculture (2008) notes that 75 percent of the world's poor live in rural areas and most of them are farmers. The report concludes that growth originating in agriculture has been three times more effective in raising the incomes of the poor than growth generated from other sectors. Recent analysis demonstrates that the additional agricultural investment required to meet the Millennium Development Goal of halving poverty by 2015 is estimated to be \$14 billion annually for developing countries. These conclusions have generated increased public sector investment in agriculture. The World Bank Group is committed to a significant increase in support to agriculture from a baseline in 2008 of \$4.1 billion to between \$6.2 and \$8.3 billion annually by 2012.<sup>4</sup> However, public sector investment alone is unlikely to be sufficient. Innovative approaches to inclusive public-private partnerships will be crucial for generating investment, reducing poverty, and delivering growth.

Rising food demand (by 2050 there will be 9 billion people to feed worldwide) and climate change are placing additional pressures on rural livelihoods and the environment. Substantial productivity growth will be needed to meet demand and reduce the risks of further environmental degradation. The Action Plan that guides the World Bank Group's agricultural investment has five pillars: raising productivity, linking farmers to markets, reducing risk and vulnerability, facilitating agricultural entry and exit, and enhancing environmental services and sustainability. Smallholder farmers are at the center of each pillar.

### The World's Leading Vegetable Oil

Palm oil, which is produced from the fruit of the African oil palm (*Elaeis guineensis*), has become a major, global agricultural commodity which is used in a host of food and non-food

products. The oil palm is cultivated entirely in developing countries in the humid tropics, where it often forms an important basis for local economies, both as an export and as a raw material for local industry. This commodity can stimulate further economic development and contribute to a rising standard of living for poor people in many developing countries, when environmental, social, and governance risks are adequately addressed.

The World Bank and the IFC, since 1965 and 1976, respectively, have invested in and supported the development of this sector in Latin America, Africa, and Asia Pacific. These investments, in both public and private sector projects, have focused on primary production as well as downstream processing of palm oil, and have in some cases addressed complementary infrastructure, area development, and smallholder linkages to larger producers.

In recent years, cultivation of oil palm has grown exponentially. The often negative impacts associated with this expansion have focused increased attention on the environmental and social sustainability of the sector, particularly in Indonesia and Malaysia (the two largest producers of crude palm oil).

### A Global Commodity

Palm oil has become the leading vegetable oil produced globally. Crude palm oil in particular has become a major global agricultural commodity, mainly used (in refined form) as a cooking oil but with a wide range of uses in the food industry as well as in soaps, detergents, lubricants, cosmetics, oleochemicals, and as a feedstock for the production of biodiesel. With rising incomes and urbanization, vegetable oil consumption has grown globally at 6 percent annually since 1980. As the lowest cost oil, the share of palm oil in the consumption of vegetable oils has increased and it is now the world's most abundant vegetable oil by volume, accounting for one-quarter of global consumption and more than 59 percent of international trade in vegetable oils.

<sup>4</sup> World Bank Group Agriculture Action Plan: 2010-2012.

Malaysia and Indonesia (notably Sumatra and Kalimantan) account for about 85 percent of global output. Smaller but significant producers are Nigeria, Colombia, Costa Rica, Guatemala, Honduras, Cote d'Ivoire, Ghana, Cameroon, Papua New Guinea, and Thailand, several of which are International Development Association (IDA<sup>5</sup>) countries. Almost three-fourths of the 45 million tons of global production are traded, and China, the European Union, India, and Pakistan are the major importers. Oil palm also provides more than 5 million tons of palm kernel oil as a valuable byproduct for industrial and food uses.

### Rising Prices Affect Demand

Strong demand for vegetable oils has been reflected in the rising prices of palm oil since 2000. Palm oil has become the staple food oil in Malaysia and Indonesia, joining much of West Africa in this respect. Although prices peaked in 2008, the current price of crude palm oil at over \$800 per ton in 2010 was still 90 percent above the long-run trend of just over \$400 per ton (CIF Rotterdam). Worldwide demand for vegetable oils is expected to increase by 36 percent from 2007 to 2017, with biofuels accounting for one-third of the increase.<sup>6</sup> Palm oil will not necessarily be used to supply all the increase in biofuel demand but will more likely supplement temperate oils, such as rapeseed oil, which will be used as biofuel feedstocks in Europe and will thus be unavailable for non-fuel uses.

With strong demand and growing land scarcity in Malaysia and, to a lesser extent, Indonesia, several countries in Latin America and Africa are seeking to expand their palm oil industry. Several Asian and European companies are actively seeking to invest in suitable areas in Liberia, Cameroon, Democratic Republic of Congo, and Brazil where prospects for growth are moderate to good.

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<sup>5</sup> *The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries, through providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.*

<sup>6</sup> *FAO/OECD Agricultural Outlook 2008 – 2017.*

In the immediate future, expansion of the industry will most likely continue to be centered in Southeast Asia where governments are supportive of the palm oil sector, there is a well established supply chain to both internal and external markets, and there are large areas of new plantings which will come into production over the next few years. In Southeast Asia, where eco-standards in the form of the Roundtable on Sustainable Palm Oil (RSPO) certification system are gaining traction, it is expected that planting will gradually shift away from forested areas with high conservation values to existing agricultural land or areas designated as degraded.

### The Palm Oil Sector and Development<sup>7</sup>

The palm oil sector is important for overall economic and rural development in many tropical regions.

#### Contribution to economic growth

Palm oil is a large industry in many tropical regions. In Indonesia it generated \$7.9 billion in exports in 2007, accounting for 13 percent of agricultural output, second only to rice. In Malaysia in 2008, palm oil exports accounted for \$19.6 billion. Oil palm is generally the most profitable land use, relative to alternatives such as annual crops (rice, maize, or soybeans), timber, and pasture for livestock, for both large enterprises and smallholders. Like many other agricultural commodities, palm oil also generates added value to downstream products (refined oil, food, and consumer items) as well as stimulates upstream industries that provide inputs such as planting materials and fertilizer. In addition, palm oil is an important source of national and local tax revenues.

#### Job creation and poverty reduction

Palm oil production and related industries generate jobs for many poor people. Largely due to the low level of mechanization, oil palm

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<sup>7</sup> *An overview of opportunities and challenges facing the palm oil sector can be found in a paper commissioned by the World Bank Group, titled "Key Sustainability Issues facing the Palm Oil Sector," by Teoh Cheng Hai. The executive summary is in Annex III.*

plantations employ about 30 times more people per hectare than substitute oils such as soybean. However, labor use varies greatly from location to location and company to company. Up to 3 million people are directly employed in the industry in Indonesia and up to 6 million worldwide according to the RSPO. Job creation is higher where smallholders are involved.

At least 40 percent of the palm area in Southeast Asia is under smallholder management, involving 1 million smallholders, and this proportion is higher in Sub-Saharan Africa at around 80 percent. The sector can have a significant poverty reduction impact, and smallholders are entering the industry in increasing numbers. Poor people may derive social benefits from investments made in roads, schools, health, and other government services in oil palm growing areas by plantation companies and/or the government. As increased incomes derived from oil palm cultivation come to formerly remote rural areas, towns develop and offer new economic opportunities and increased opportunities for other rural farm and off-farm employment.

### **Major Challenges for the Palm Oil Industry**

Despite its high development potential, oil palm production has had some negative social and environmental consequences.

#### **Negative impacts on vulnerable groups**

The process of land acquisition for large-scale oil palm development can generate negative impacts on the livelihoods of communities including small farmers and Indigenous Peoples. This is particularly true when land titles are unclear or unrecognized and companies or the government, as a result of inadequate legal protections or poor enforcement, fail to consult adequately with existing customary users or provide appropriate compensation. Conflict from unclear or overlapping land claims has been widely reported in Indonesia and, to some extent, Colombia. Labor issues also arise when workers on plantations are subjected to poor labor management practices. Social conflict surrounding oil palm expansion also derives

from opaque or poorly understood agreements between companies and out-growers/smallholders due to lack of clarity on the terms under which land is transferred, smallholders are remunerated, loan repayments are made, and people are employed. Conflict seems to be greater in new development areas compared with more established regions.

#### **High environmental costs**

Oil palm has been one of the fastest growing crops in terms of land use expansion in the tropics. The industry has been criticized for causing large-scale deforestation and being a major contributor to greenhouse gas emissions. Some 70 percent (4.2 million ha) of Indonesia's oil palm plantations are on land that was previously forested; more than 56 percent of the expansion between 1990 and 2005 occurred at the expense of natural forest cover. Similarly, about half of Malaysia's oil palm expansion has been at the expense of forests. In common with other forms of large-scale agriculture, oil palm plantations harbor much less biodiversity than natural forests. And they do not provide the same level of other environmental services, such as carbon storage, although they are a good alternative to grassland/scrub (*Imperata cylindrica*), which is common in much of Kalimantan following repeated fires. Land use change and deforestation are the largest single contributors to greenhouse gas emissions in tropical countries such as Brazil and Indonesia. Some 12 percent of Indonesia's land area (21 million ha) is classified as peat land, and some 25 percent of oil palm is estimated to have been established on peat of varying depths. Development of oil palm on peat land causes especially high levels of carbon emissions and irreversible damage to fragile ecosystems.

#### **Low productivity**

Well managed palm oil plantations can yield ten times the oil per hectare of other oil crops, such as soy. However, there remains an enormous yield gap between palm producers, with the best estates in Southeast Asia producing more than 7 t/per ha and some smallholders producing less than half a ton. This gap exists at the production level due to

deficiencies in crop and soil management and in the milling extraction rate. Smallholder yields tend to lag behind estates. Increasing the productivity of existing plantations has the potential to increase livelihood benefits for smallholders.

The nature and severity of these challenges is specific to each country and production system. They have received the most attention in the largest producer country, Indonesia, where the social and environmental

aspects of land use change and related governance issues are at the core of concerns. In other regions, notably Latin America, Papua New Guinea, and Sub-Saharan Africa, the challenges have been less acute, possibly due to the much slower rate of development of the sector. In Sub-Saharan Africa, the largest challenges are to improve productivity and competitiveness.

### III. A FRAMEWORK FOR ENGAGEMENT IN THE PALM OIL SECTOR

This section outlines a framework for the World Bank Group’s approach to the global palm oil sector. The framework consists of the WBG’s overall objective for sector development, four thematic areas which have been identified as being crucial for this sector, and an implementation approach which is informed by and draws on those four global themes. This framework is illustrated in **Figure 1**. This framework is part of the renewed commitment to the agriculture sector as outlined in the World Bank Group’s Agriculture Action Plan (AAP) FY2010-2012.<sup>8</sup>

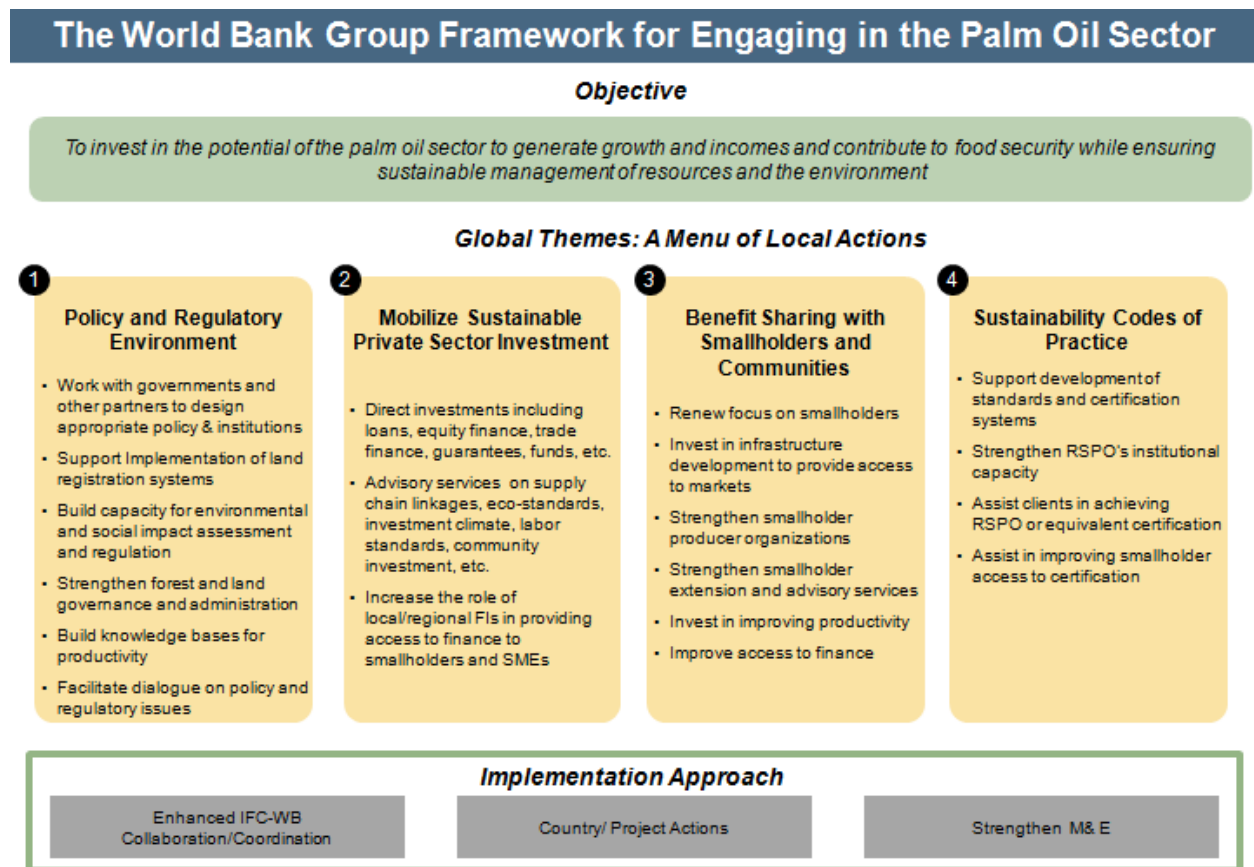
#### Objective

The World Bank Group’s objective in engaging in the palm oil sector is:

- To invest in the potential of the palm oil sector to generate growth and incomes and contribute to food security while ensuring
- sustainable management of resources and the environment.

The World Bank Group is committed to working in partnership to implement this framework and recognizes that collaborative action amongst all stakeholders is critical for success.

**Figure 1: Proposed WBG Framework for Engaging in the Palm Oil Sector**



<sup>8</sup> World Bank Group Agriculture Action Plan: 2010-2012.

## Thematic Areas for Sustainable Development of the Palm Oil Sector

As the basis for development of this framework, the World Bank Group carried out a global series of consultations designed to capture the views of a wide range of stakeholders in the palm oil sector (details are provided in Annex I). Based on these consultations, the World Bank Group has identified four central themes on which successful development in this sector is contingent. The themes are:

- Policy and Regulatory Environment
- Mobilization of Sustainable Private Sector Investment
- Benefit Sharing with Smallholders and Communities
- Sustainable Codes of Practice.

Each theme can be considered to be a menu of potential interventions that can be selected based on the context and needs in any specific country, and the requests of governments and private sector clients. Implementation of the framework will be carried out with the benefit of ongoing dialogue and through appropriate partnerships with a range of stakeholders.

IFC and World Bank engagement will be based on the following themes and specific interventions or tools.

### 1: Policy and Regulatory Environment

Experience has shown that achieving an environmentally and socially sustainable palm oil sector in a country is difficult or impossible if the enabling policy and regulatory environment are weak. Issues regarding land acquisition, land tenure, forest governance, and the rights of workers, communities, and Indigenous Peoples are at the root of much of the social and environmental problems in the sector. Resolving these challenges and ensuring consistent application of good practice and fairness are the ultimate responsibility of national governments. Where the relevant actors are willing partners, the World Bank Group is committed to work with governments and others toward the design and implementation of appropriate policies, institutions, and regulatory capabilities. The

World Bank can bring its capacities and experience with country programs to assist in relevant areas, including:

- Land use planning and administration
- Facilitation of dialogue on policy and regulatory issues and strengthened regulatory capacity
- Capacity-building for environmental and social impact assessment and regulation
- Strengthened forest and land governance and administration
- Knowledge bases to enable increases in productivity.

The World Bank's engagement with governments provides an opportunity to facilitate dialogue on policy and regulatory issues at the national level. In addition, the IFC, with its primary connections to private sector clients, is well positioned to help address issues of constraints to private sector development. Working in collaboration on areas such as investment climate diagnosis and reforms, the World Bank and the IFC can support dialogue with public and private sector players as well as other partners, in order to inform strategic priority setting at the country level.

### 2: Mobilization of Private Sector Investment in Support of Sustainable Palm Oil

The World Bank Group will support sustainable development of the palm oil sector through investment in or cooperation with a range of clients and stakeholders along the value chain, using both direct and indirect financing and advisory services.

Direct and indirect financing, along with associated advisory services for private sector development, is the IFC's core business. It draws on global reach and local delivery, its catalytic role as a leading financier, and its work as a recognized environmental and social standard setter in financial markets. Where there are willing clients and co-investors, the IFC can promote change by working with firms from small to large and across various segments of the economy (producers, traders,

processors, and supporting services), with companies that are committed to sustainable practices and can meet the IFC's Performance Standards. The IFC's financial products include loans, equity financing, trade finance, intermediated finance, guarantees and risk-sharing facilities, public-private partnerships and privatization vehicles, and funds. These are enhanced by a range of advisory services in areas such as supply chain linkages, investment climate, eco-standards, labor standards, cleaner production, access to finance, community investment, and the "Business Edge" product<sup>9</sup>. World Bank policy work in areas such as the financial sector complements the IFC's application of these products.

### 3: Benefit Sharing with Smallholders and Communities

The World Bank Group's Agriculture Action Plan 2010-2012 recognizes that maintaining and enhancing the poverty-reducing impacts of agricultural growth will require concerted efforts to integrate smallholder farmers into growing global agricultural markets and supply chains. Palm oil is recognized as a significant contributor to improved livelihoods and poverty reduction in many rural communities. Promoting environmentally and socially sustainable models of oil palm development that improve the distribution of benefits of the sector to local communities and smallholders and reduce poverty is critical.

**The World Bank** has considerable experience in a range of sectors in developing programs to support smallholders, which could be applied in palm oil sector programs. These include:

- Investing in infrastructure development (in particular, roads to provide access to markets)
- Strengthening smallholder producer organizations

- Identifying and scaling up sustainable and inclusive business models that maximize opportunities and benefits for smallholders
- Strengthening public and private extension and advisory services
- Improving access to finance.

Historically, the **IFC's** primary means of supporting smallholders has been when they are associated third-party suppliers to a larger plantation and/or processing company. The IFC has additional capacity through its expanded Advisory Services, offering products that increase access to finance (and support group certification that can provide a more financially affordable means for smallholders to achieve certified status). Other possible relevant interventions include building on the IFC's Global Index Reinsurance Facility, which supports crop insurance for smallholders in developing countries, and providing access to training courses in futures markets and hedging for commodity price risk management.

### 4: Sustainability Codes of Practice

The World Bank Group is committed to sustainable palm oil production. The World Bank Group will encourage the development of appropriate international standards and codes of practice, including certification systems based on the standards. Such support will be informed by lessons from experience with certification in related sectors.

The development, adoption, and implementation of sustainability standards and codes of practice is, when accompanied by complementary regulatory requirements, an effective means for influencing sector-wide change in the industry.

Concern about environmental and social impacts of the palm oil industry triggered the development of an independent roundtable of concerned stakeholders to jointly address these issues.<sup>10</sup> In its 7 years of existence, the RSPO has successfully developed a standard (its Principles and Criteria) and a fledgling

<sup>9</sup> *Business Edge offers clients applicable management training solutions through a comprehensive set of study books and training modules adapted to the local business context, delivered by a network of local franchised providers and certified trainers.*

<sup>10</sup> *Annex VI provides background information on the RSPO.*

certification system to certify that palm oil plantations are managed in a sustainable fashion. Despite some criticism leveled at it, the RSPO has a key role to play, as it is the only internationally-recognized multi-stakeholder platform in the sector. The IFC has supported the development of the RSPO, primarily through the IFC's Biodiversity and Agricultural Commodities Program (BACP).<sup>11</sup> The IFC will continue to engage with the RSPO through membership, participation on technical committees, and program support through the BACP or other programs.

While independent certification for sustainable management of oil palm plantations is considered to be an effective way to ensure that palm oil is sustainably produced, in practice the comprehensive requirements in the RSPO certification scheme are likely to be well beyond the capacity of most smallholders and thus they may be significantly disadvantaged. This concern is being actively addressed by RSPO, which has proposed remedies such as inclusion of smallholders in the certification process for larger plantations or through separate certification of groups of smallholders. Discussion of revision of the standard to accommodate smallholder concerns is being discussed by RSPO.

Other interventions could include working with other certification bodies, such as the Roundtable on Sustainable Biofuels and/or the Rainforest Alliance, which are relevant to the sector to ensure coordination among them and with other initiatives such as the Indonesian government's proposed rating system for Indonesia Sustainable Palm Oil (ISPO). The IFC will also seek, through its clients, the RSPO, and others, to promote the uptake of Certified Sustainable Palm Oil (CSPO). The IFC will support its clients' efforts to maintain and/or achieve RSPO certification.

**Supply chains:** Supply chain concerns can only be addressed through concerted action to examine the entire supply chain in order to identify at what stages issues may occur and where third parties, such as the World Bank Group, have leverage to address these issues.

The IFC's Performance Standards require that supply chain issues be examined and addressed as appropriate.

While plantation-level certification can contribute to ensuring that palm oil is produced in a sustainable fashion, other mechanisms are needed to track that certified sustainable palm oil through the supply chain, to processors and to the ultimate consumers. While in an early stage, mechanisms are being developed to track palm oil (GreenPalm and Utz Certified being two examples).

To conclude, Table 1 provides an overall summary of the above four thematic areas, indicating some of the main interventions possible within each theme, and indicating how these are related to the main subject areas discussed during the consultations.

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<sup>11</sup> See Annex VII for more information on the BACP.



**Table 1: A Summary of Possible World Bank Group Interventions under the Four Themes and Their Relation to Feedback from Consultations**

Stakeholder feedback from consultations	Development themes for the palm oil sector			
	Policy/Regulation	Private investment	Benefit sharing	Sustainability standards
<b>Public policy/legal environment</b> aspects, including governance issues, human rights issues, and regulatory concerns, especially land use planning	CAS planning process Land registration systems Strengthening environmental regulations Policy dialogue	Financial sector policy work Investment climate	Policy dialogue Legal protection and enforcement capacity building in support of land rights and access	Policy dialogue Development and enhancement of accreditation and certification systems
<b>Environmental concerns</b> , including deforestation, biodiversity loss, greenhouse gas, conversion of high conservation value and peat land	Building EIA and institutional and enforcement capacity Building knowledge bases, Green House Gas accounting, protection of forest and high conservation value assets, knowledge management	Application of Performance Standards, Safeguard Policies require certification, Strengthening environment management capacity, Advisory services assistance	Extension services including training on farm management, RSPO or similar certification	Advisory services assistance (increase local auditing capacity)
<b>Social and human rights issues</b> regarding land acquisition and tenure, Indigenous Peoples' rights, conflict resolution	Policy dialogue Land tenure systems and enforcement Conflict management mechanisms Legal protections	Community development programs Advisory services assistance, adoption of conflict avoidance and resolution procedures by firms	Community development programs, RSPO or similar certification	Advisory services assistance in support of community engagement
<b>Smallholder concerns</b> including access to finance, markets, and inputs, need for yield improvement, access to land	Policy dialogue, institution of plasma or other third-party supplier schemes	Access to finance through larger processing companies and financial institutions  Crop insurance Technical assistance and input support	Promoting market access Strengthening producer organizations, third-party out-grower schemes Extension and agricultural input services Access to finance Yield improvement	Advisory services assistance Supporting smallholders in meeting standards (i.e., group certification)
<b>Standards and certification</b> , including the role of the RSPO, demand for CSPO	Policy dialogue Development of accreditation and certification systems Standards development	Supporting harmonization and consistency in application Assisting clients to achieve certification	Supporting smallholder standards development, group certification	Advisory services assistance including capacity support to RSPO and related standards

## Implementation Approach

Ultimate determination of a set of activities to be implemented will be driven by the host country's or client's interest in engaging with the World Bank Group, either at the country or project level. The World Bank will endeavor to support government-driven programs at the country and lower levels as needed. In addition, and subject to private sector clients' willingness to engage, the IFC will intervene at the project level to catalyze private sector-led economic development in a sustainable manner. Although the two approaches target two different levels of sector interventions (public and private), they complement each other and build on the comparative advantage of the World Bank Group.

Using the four themes elaborated above and as requested by clients, the World Bank Group will selectively implement activities through complementary or joint actions at the country and project levels, through the following approaches.

### 1. Enhanced World Bank-IFC Collaboration

The World Bank Group is committed to strengthening internal coordination and collaboration at the global, regional, and country levels. Joint economic and sector work – within the broad agriculture sector – will be undertaken to better inform the agriculture and agribusiness sectors in general and specifically to inform public and private sector interventions in the palm oil sector. In designing this joint sector work, the World Bank Group will take into account: government demand, the potential to deliver global public goods, and existing knowledge products from the World Bank Group and its partners.

### 2. Country and Project Level Actions

#### *The Country Assistance Strategy*

The primary vehicle for defining the World Bank Group's policy support and work program in a country is the Country Assistance Strategy. Country ownership and drive are central elements of its priority setting framework. The process leading to the development of a Country Assistance Strategy and its content provides an established

framework for the World Bank Group to support government-driven economic development. Consequently, the Country Assistance Strategy provides the World Bank Group with an opportunity for policy dialogue with the government and in consultation with other stakeholders. The strategies are jointly developed by the World Bank and the IFC and reviewed and updated regularly. Subject to governments' willingness to engage, review and/or formulation of new Country Assistance Strategies will serve as an opportunity to develop programs that address issues that affect broad agriculture policy, including the palm oil sector.

In major palm oil producing countries, the World Bank will, if requested by governments, engage in policy dialogue relevant to the palm oil sector as part of the design of the Country Assistance Strategy. It can draw for example on global analysis of agribusiness, productivity, land tenure and forest governance issues relevant to the sector. Country-level interactions on the CAS and its associated policy dialogue will be led by the World Bank with the participation of the IFC.

Through the Country Assistance Strategy process, the World Bank Group will draw on its global experience as well as existing information on the country situation prepared by the World Bank Group and other stakeholders, including:

- Existing and ongoing World Bank Economic and Sector Work and/or similar studies
- Other agricultural sector analyses from partners such as Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), International Cooperation Center for Agricultural Research and Development (CIRAD), International Food Policy Research Institute (IFPRI), Consultative Group on International Agricultural Research (CGIAR) etc.
- Host country government research reports
- Other studies, including reports by non-governmental organizations, academic institutions, and foundation research reports

- Consultations and other inputs derived from stakeholders.

Knowledge transfer through South-South investments will be promoted whenever possible.

#### *Project Level Investment and Advisory Service Interventions*

Depending on private sector interest and opportunities, the IFC will, through its investments and advisory services products, support private sector development and promote environmentally and socially sustainable palm oil production.

IFC may invest at various points along the palm oil supply chain, from producers to traders to processors as well as in supporting services, wherever IFC identifies that it can have clear and measurable development impacts. Each investment will be carefully appraised in terms of how it deals with direct and indirect impacts of its involvement in the palm oil supply chain. Requirements for investments include the following:

Producers. IFC will only make direct investments in oil palm plantation operations if:

- The client's operations are certified for sustainable palm oil production according to an internationally-recognized certification scheme, or have a time-bound action plan to achieve such certification;
- The client is committed to fully meeting IFC's Performance Standards; and
- The project is expected to have clear and measurable development impacts which contribute to economic growth and poverty reduction.

Other supply chain investments (traders, processors). IFC will invest in such companies only if:

- The client is knowledgeable of risks in the supply chain and is taking steps to ensure that their supply of palm oil is certified or comes from production operations which are in the process of achieving certification;

- The client is committed to fully meeting the IFC's Performance Standards; and
- The project is expected to have clear and measurable development impacts which contribute to economic growth and poverty reduction.

Supporting services (especially, financial intermediaries). IFC will only invest in companies which provide such services under the following conditions:

- The client is committed to fully meeting IFC's Performance Standards;
- If a financial intermediary, the client will meet IFC's requirements for Financial Intermediaries and will promote the requirement for independent certification as part of its own due diligence process; and
- The project is expected to have clear and measurable development impacts which contribute to economic growth and poverty reduction.

Linked to the above investments, the IFC's Advisory Services will play a role in addressing issues related to the environmentally and socially sustainable enabling environment for private sector businesses as well as supporting smallholders for better management practices and productivity gains. When considering specific investments, the IFC will consider how they would achieve development impact and promote sustainable development. As noted previously, South-South knowledge transfer between investments will be encouraged. The IFC will stress early engagement in particular with projects involving new plantation operations (with CSO participation, if possible) to improve project design for better inclusion and impacts on smallholders as well as ensuring that Critical Habitat/High Conservation Value habitat is protected. The IFC will strive for a global portfolio of projects and programs that will contribute to meeting its objectives of scaling up development reach and impacts while also contributing toward economic, environmental, and social sustainability.

The IFC will consider the country context as part of its investment due diligence, as currently practiced, but will draw on any

broader assessments done for specific countries, if available. IFC will continue to apply its Environmental and Social Review Procedures (ESRP), which specifies categorization and appraisal requirements depending on the nature and scale of the proposed investment. Investments in vertically-integrated trading companies, which occur in the palm oil sector, receive particular attention in the ESRP<sup>12</sup> and were updated in 2009.

IFC may invest in oil palm plantation operations and other palm oil sector companies even if the public sector legal/regulatory enabling environment is less than ideal, if IFC is convinced that the project will have strong and measurable development impacts and that any risks can be mitigated through other governmental or non-governmental programs, including other World Bank Group operations, if present. IFC will give priority to investing in countries which have either addressed the policy and regulatory issues highlighted by the Country Assistance Strategy consultation process or are working to address them. In all cases, the IFC will engage with the World Bank and other stakeholders in the countries where it decides to invest in environmentally and socially sustainable palm oil projects and will endeavor to influence positive change in the four thematic areas highlighted through the consultation process.

### Monitoring and Evaluation

This section summarizes the monitoring and evaluation tools, aimed at determining whether the framework is having the desired development impact. IFC and World Bank projects are currently subject to regular supervision, monitoring, and evaluation, as specified in the operational procedures; these will continue to be applied and reported per the current practices.

**Table 3** illustrates a set of illustrative indicators tied to the thematic focus areas of the framework. These indicators are intended to provide World Bank and IFC teams with options, the ultimate selection of which will

depend on the nature of the World Bank Group's specific interventions. A subset of the indicators can be customized as relevant to a particular project intervention.

For the IFC, the project level indicators elaborated in the table will be tracked through the IFC's Development Effectiveness Framework.

For the World Bank, the final selection of indicators will follow as activities are selected.

<sup>12</sup> Paragraph 2.2.4, *IFC Environmental and Social Review Procedures, Ver. 4.0, Aug 14, 2009.*

**Table 3: Proposed Indicators for Monitoring and Evaluation**

World Bank Group Inputs/Activities <sup>13</sup>	Outputs	Outcomes	Source of Information
<b>Theme 1: Policy and Regulatory Environment</b>			
<u>World Bank country level</u> Support governments to strengthen policy and regulatory environment for sustainable palm oil production and land use	Number of stakeholder dialogues on policy and regulatory issues in target countries	Number of target countries which have undertaken agreed activities such as E&S assessments	World Bank Group Country Assistance Strategy documents and Completion Reports
<b>Theme 2: Mobilization of Sustainable Private Sector Investment</b>			
<u>IFC advisory services/investment:</u> Mobilize private sector participation in sector	Number and volume (\$) of IFC investments in sector	Number of permanent employees in palm oil entities  Number of small and medium enterprises engaged (upstream, downstream)  Number of small farmers engaged (land < 50 Ha)  Yield per hectare	IFC Annual Report
<b>Theme 3: Benefit Sharing with Smallholders and Communities</b>			
<u>World Bank project:</u> Promote sustainable models of palm oil development to improve distribution of benefits to local communities	Number of targeted smallholders and smallholder groups trained in sustainable production	% increase in targeted smallholders using sustainable production practices <sup>14</sup>	Bank Implementation Completion Reports Independent Evaluation Group-World Bank evaluations
<u>World Bank project:</u> Develop risk management tools to reduce losses from price and weather volatility	Number of risk management instruments developed	Number (percent) of smallholders using risk management instruments	Bank Implementation Completion Reports Independent Evaluation Group-World Bank evaluations
<u>World Bank and IFC projects</u> Focus on strengthening smallholder producer organizations and support improved access to markets and infrastructure	Volume (\$) of community development outlays - IFC %of target beneficiaries who are members of a producer organization Number. of technologies demonstrated km of roads built/ upgraded – World Bank	Number of beneficiaries % of target beneficiaries who are satisfied with agricultural services – World Bank	IFC Annual Report World Bank Implementation Completion Reports Independent Evaluation Group-World Bank evaluations
<b>Theme 4: Sustainable Codes of Practice</b>			
<u>IFC Advisory Services/Information Solutions:</u> Promote the use of certified sustainable palm oil among clients	Number of people trained in environment and social assessment	Number of IFC clients certified or in process of certification	IFC Annual Report Project Environmental and Social Review Summary

<sup>13</sup> Indicators in purple will be measured via the IFC's Development Effectiveness Framework.

<sup>14</sup> For example, appropriate use of chemicals/fertilizer, maintenance of buffers, and protection of high conservation value forests and habitats.

## Implementation Commitments

To conclude, **Table 4** briefly summarizes the commitments the World Bank Group is making with regard to the implementation of this framework.

**Table 4: World Bank Group Commitments**

For the World Bank	For the IFC
<p><b>1. <i>Bring global analysis and local lessons learned into policy dialogue</i></b> designed to strengthen the sector's policy and regulatory environment, at the invitation of governments.</p> <p><b>Key actions could include:</b> working with governments to implement land registration systems, build capacity for environmental and social impact assessment and regulation, strengthen forest and land governance and administration and increase productivity.</p> <p><b>2. <i>Facilitate benefit sharing for smallholders and communities.</i></b> <b>Key actions could include:</b> working with governments to invest in infrastructure that enables access to markets, strengthen smallholder producer organizations and extension and advisory services; and expand smallholder access to finance.</p>	<p><b>1. <i>Mobilize private sector</i></b> investment in sustainable palm oil production through direct investments, with strengthened due diligence including requirements for certification of palm oil producing operations; delivering advisory services as well as strengthening access to finance, for both smallholders and SMEs;</p> <p><b>2. <i>Strengthen the RSPO's</i></b> capacity, and assisting clients achieve RSPO or equivalent certification</p>
For the World Bank and the IFC	
<p><b>1.</b> Support international <b><i>certification schemes</i></b> and in particular, <b><i>smallholder inclusion</i></b> in any such schemes</p> <p><b>2.</b> Strengthen <b><i>coordination and collaboration</i></b> between the World Bank and IFC through joint analysis, Country Assistance Strategies, advisory services and investment climate diagnostic tools</p> <p><b>3.</b> Strengthen <b><i>monitoring and evaluation</i></b></p>	

## ANNEXES

**Annex I:** Stakeholders Consultations: Summary of the Process and Feedback

**Annex II:** Actors in the Palm Oil Sector

**Annex III:** The World Bank Group Experience in the Palm Oil Sector

**Annex IV:** Key Sustainability Issues in the Palm Oil Sector

**Annex V:** Improving Livelihoods of Palm Oil Smallholders

**Annex VI:** The Roundtable on Sustainable Palm Oil

**Annex VII:** The Biodiversity and Agricultural Commodities Program

**Annex VIII:** The World Bank and IFC Environmental and Social Policies

## Annex I: Stakeholder Consultations: Summary of the Process and Feedback

### Overview of the Process

The World Bank Group made a commitment to develop the key principles of its future engagement in the palm oil sector in consultation with a diverse group of stakeholders. The World Bank Group developed an open, inclusive and consultative process consisting of global multi-stakeholder face-to-face group discussions, one-on-one meetings, as well as electronic and web based consultations open to all interested parties.

The consultative process was designed as a two-phase approach: (i) to solicit input on the key issues in the sector, and (ii) to solicit comments on the draft framework before it is finalized. The consultations have been moderated by independent parties.

**Phase I**, held from April 23 to June 4, 2010, focused on seeking input from stakeholders on the key issues facing the palm oil sector and potential interventions for the World Bank Group. Consultations were held in five regions: Washington, DC, USA; Medan, Pontianak, and Jakarta, Indonesia; San Jose, Cost Rica; Accra, Ghana; and Amsterdam, Holland. Nearly 350 stakeholders from 30 countries participated, representing the private sector, civil society organizations, governments, affected communities, smallholders, banks, research institutes, and donors. A discussion paper, "Key Sustainability Issues in the Palm Oil Sector," was prepared and presented by an independent consultant, Cheng Hai Teoh, to facilitate the discussion.

In addition, the World Bank Group held several bilateral meetings with government, civil society organization, and private sector representatives and received additional input through a dedicated web site and by e-mail. The stakeholders consulted and the summaries of the consultations as well as all additional comments received electronically are disclosed on the palm oil strategy web site.

**Phase II** of the consultative process begins with the release of the draft framework document on July 22, 2010, and will last

through September 1, 2010. The main objective of this phase is to continue an open dialogue with stakeholders on the proposed World Bank Group approach in the sector. This phase has been extended from the original timeline for an additional two months and includes another face-to-face multi-stakeholder consultation in response to the comments received by the World Bank Group to allow more time for an iterative discussion of the draft framework paper.

### Summary of key themes and messages

This section provides a global overview of the themes and messages that emerged from all the consultations. The nature, scale, and emphasis of issues raised varied between Asia (Indonesia), Latin America, and West Africa. Indonesia, with its long history and large-scale of palm oil production and particular governance issues, was where the most serious environmental and social concerns arose. In the other two regions, there was more concern about the negative image for the sector created mainly by the situation in Indonesia and the impact of this on development opportunities. With this said, it was clear that in general there was a commonality in the major issues and concerns across all regions. Further, it should be noted that some issues that have arisen to a serious level in Indonesia may not have done so in other regions simply because of the relatively nascent stage of the sector's development in those regions.

### Environmental Issues

Across all stakeholder groups, the seriousness of a range of environmental issues was recognized. In particular these issues included deforestation and biodiversity loss, release of greenhouse gases, water pollution, and chemical usage. The lack of clarity about what constitutes high-value conservation forest was raised as an important issue for resolution. The nature and extent of issues varies considerably between different regions. Although generally recognizing the seriousness of issues, business and producer groups (including some smallholders) were concerned that a balanced



and factual view on the nature of the issues was not always portrayed to the media and policy makers. Civil society organizations were concerned about lack of independent and transparent monitoring of environmental impacts.

Broadly, all stakeholders expected the World Bank Group to support the industry in achieving a high level of environmentally sustainable practices. Particularly for civil society organizations, but also largely supported by business, there was a clear expectation that the World Bank Group must not invest where its own environmental Performance Standards and Safeguards cannot be rigorously upheld. All stakeholders would like to see the World Bank Group use its convening power and linkages with government to help tackle the underlying structural causes of unsustainable practices.

#### Social and Human Rights Issues

Particularly in the Indonesian context, but also in the other regions, many concerns were raised about social issues and human rights. These included concerns with regard to legal and traditional land use rights, land acquisition, and treatment of local and indigenous communities. Issue regarding how companies and government agencies obtained consent for land use changes was a strong theme. The adequacy and fairness of labor and working conditions was also a major issue. Especially in Indonesia, the policy and legal framework and its implementation is not seen by many groups as adequately protecting the interests and rights of local communities, indigenous peoples, and workers. This is seen as leading to exploitation by some companies.

From Indonesia, there was concern about inadequate conflict resolution mechanisms and the use of violence and intimidation against some communities by some companies. Concern was raised that not enough attention is given to the negative impacts on other agricultural and livelihood options caused by palm oil plantations.

As with the environmental issues, the World Bank Group was seen as being able to support good industry practices, assist in policy and

legal reform, and needing to abide by its own standards. Full adherence to the concept of Free Prior Informed Consent by investors in the palm oil sector was seen as essential by many of the stakeholders. Human rights and social issue assessments should be part of early project assessment and due diligence.

#### Sustainable Development Opportunities for the Sector

Alongside the environmental and social issues affecting the sector, most stakeholders were also keen to point out the current and potential benefits of palm oil production. Being the most productive vegetable oil per hectare, in a world with rapidly growing food demand, there are obvious environmental benefits. For national and local economies, communities, and smallholders, there can also be significant economic benefits.

There was considerable frustration that the good practices and positive impacts from good operators in the sector are overshadowed by the negative impacts of those with poor practice. This concern also emerged in regional differences with much concern in Latin America and West Africa about the negative image created from the companies operating in Indonesia. In these two regions, the negative impact of the World Bank Group's moratorium on palm oil investments was a major concern with strong opinions that the blanket moratorium was unjustified. In these two regions, the opportunity to develop a sustainable sector that could avoid the problems Indonesia has experienced was seen as important and as a competitive advantage. In these regions, environmental and social civil society organizations want to look closely and critically as the sector expands.

Across all regions, there were strong demands for the World Bank Group to take a catalyzing role in helping the sector to operate on a sustainable footing. It was seen that the lending practices of the IFC can help to create and promote good practice from the financial sector as a whole. Particularly in Latin America and West Africa, there were strong calls for the IFC to re-engage and to provide finance that would enable overall development of the sector.

### Credibility, Reputational Risk, and Negative Image

For private sector actors, and particularly those who are committing themselves to working toward improved sustainability, credibility of the sector and public perceptions are key concerns. They see that bad industry practices are not in their interests and they have endorsed the need for credible sustainability standards that can be independently monitored.

Among the private sector and some smallholder groups, while not disputing that there are serious issues, there is a concern that the entire industry is receiving a bad name that is not justified in terms of the overall situation and current developments in the sector. This has led to calls for creating a more balanced public perception about the sector. There was also concern that policy makers are not adequately informed about the true situation in the sector. The Latin American and West Africa perspective on the negative image of the sector was discussed above.

In Indonesia some smallholder groups referred to what they called a “black” campaign by some environmental groups that they felt grossly exaggerated the environmental issues in their area. They expressed the fear that this could affect the global demand for palm oil from Indonesia. A further private sector concern was the risk they face from not always having full traceability in the supply chain and not always being able to fully control field level operations, particularly where there is weak governance.

As with the previous theme, the convening power of the World Bank Group and its ability to work across the private and government sectors was seen as a key asset.

### Smallholder and Community Development

In all the consultations, much emphasis was given to smallholder development, by civil society organization, producer representative, and private sector participants alike. Smallholder development was seen as a key mechanism for ensuring that more equitable benefits flow to local communities. A multi-

faceted approach was called for that recognizes the roles that public, private, and civil society actors can all play in improving the productivity and sustainability of smallholders. Improving smallholder yields was seen as critically important.

Much discussion also occurred around the conditions under which smallholders can deliver into the supply chain and receive fair prices. Better access to financial and legal services, improved extension, stronger producer organizations, and improved infrastructure were all seen as critical conditions for successful smallholder development.

Strong calls were made for the World Bank Group to find ways for making finance more accessible to smallholders. It was also seen that the World Bank Group could be working with government and the private sector to improve research and extension services for the benefit of smallholders. For specific IFC projects, it was seen that much more attention could be given to the way its clients work with smallholders.

### Spatial and Land Use Planning

Clear and effective spatial planning frameworks, laws, and enforcement mechanisms have been raised by all stakeholders as critical for sustainable development of the sector and for overcoming many of the current environmental and social issues. However, this is highly dependent on effective domestic policies, legal frameworks, and enforcement mechanisms at the national and local levels.

The World Bank was seen as having a key role to play in engaging with government on improved spatial planning and land use. Meanwhile it was seen that the IFC needs to ensure that the lack of appropriate spatial planning and land policy does not lead to inappropriate practices by its clients. It was seen that the World Bank Group could play a role in supporting the capacity development needed for effectively implementing spatial planning. Some NGO groups considered that appropriate spatial planning needs to be a pre-condition for IFC investment.

### Enabling Policy and Legal Environment

A wide range of governance issues were raised by participants, particularly related to the policy and legal context at national and local levels. These included, inappropriate or conflicting laws, weak law enforcement, corruption, lack of attention for human rights issues, weak or non-existent conflict resolution mechanisms, lack of stakeholder engagement, and lack of good information for policy making. Such policy and legal issues were seen as the underlying cause for many inequitable and unsustainable practices. Of particular concern in Indonesia was the difficulty in meeting RSPO standards, given the current legal and policy framework. The nature of policy and legal issues and level of concern raised by stakeholders varies significantly between different countries and regions.

As with spatial planning, this is an area where stakeholders felt the World Bank could engage with national governments and use its convening power for supporting multi-stakeholder dialogues on improving the enabling environment for sustainable business practices. Some stakeholders felt strongly that the IFC should not invest in situations where the policy and legal environment is such that there is widespread unsustainable environmental practices and violation of people's rights.

### Standards, Certification, and Monitoring

Effective standards, certification, and transparent monitoring in the sector are seen as critically important and in need of improvement. Considerable emphasis was placed on the role of the RSPO and its standards for sustainable palm oil. However, current weaknesses in the RSPO related to credibility, certification delays, compliance, and capacities of the RSPO were raised. In general, it was not seen as desirable for a range of competing standards to emerge and that the RSPO should be strengthened.

Those attending the consultations saw that the sector should be moving toward 100 percent certification. However, currently only 3.5–4 percent is certified and demand for certified oil has been weak. In this regard, creating demand for sustainable palm oil by China and

India, as the emerging dominant markets, was seen as a critical factor.

Stakeholders largely considered that the IFC should only engage with companies that are certified or rapidly moving toward certification. The current support for the RSPO should be continued and strengthened by the IFC. The World Bank Group should use its influence to encourage other lending institutions to follow its high standards on financing. Calls were made for the World Bank Group to support group certification schemes.

### Knowledge and Infrastructure Support for Sector Development

Two areas of additional support for the sector were seen as critical: (i) research, innovation, and knowledge brokering, and (ii) infrastructure development. Increasing the yield and improving the productivity of smallholders was seen as key to sustainable and equitable development of the sector. Yet it was recognized that research efforts and existing knowledge are highly fragmented with little sharing of experiences and lessons between companies and different countries. Further, existing knowledge is often not being applied, especially by smallholders.

It was seen that significant improvements are needed in the overall innovation system of the palm oil sector. Limited and poorly maintained infrastructure, particularly ports, roads, and bridges, emerged as a concern. Road infrastructure can be especially important in terms of opportunities and costs for smallholders. The importance of health and education infrastructure in local and plantation communities was also raised.

Stakeholders saw that the World Bank Group could potentially invest in research, development and infrastructure that would support the sector. It was also seen that the World Bank Group could assist in creating global and regional research coordinating mechanisms.

### Partnerships, Stakeholder Collaboration, and Conflict Management

Participants widely acknowledged that sustainable development of the sector requires interconnection across scales and between government, private sector, producer, researcher, local community, and civil society actors. Yet the mechanisms for such multi-stakeholder collaboration and partnership are not adequately developed.

The value of the sort of constructive multi-stakeholder engagement occurring as a result of the palm oil strategy process was generally seen very positively by participants. It was used as an example of what could happen in the future. Emphasis was also given to the importance of inclusive development processes that involve the full range of stakeholders from the start of a palm oil development project.

Of particular importance for local communities is having trusted and independent conflict resolution mechanisms that engage the different interests in dialogue. Again, the convening role of the World Bank Group was seen as important in being able to bring different stakeholders together. Calls were made for the IFC to require companies to engage more proactively with local communities in project formulation and to have effective conflict management mechanisms in place. It was also seen that the World Bank Group could provide additional support to the RSPO to help in stakeholder engagement and conflict resolution, that technical assistance could be offered to governments, and that in difficult situations independent mediators could be appointed.

## Annex II: Actors in the Palm Oil Sector

It is through collective action and partnerships that positive development impacts associated with the sector can be scaled up and extended to reach poor people. There are many actors in the palm oil sector; these include other international financial and other institutions, donors, public and private sector players, civil society organizations, foundations, communities, as well as professional and academic associations. The World Bank group intends to continue working with all relevant development actors to support the implementation of the strategic framework.

### Governments

Governments bear primary responsibility for establishing the strategic, legal and regulatory context for development of the palm oil sector. More specifically, the ideal role of government is to:

- Define development policies and objectives relevant to the oil palm sector
- Establish the relevant legal and regulatory framework that supports sustainable palm oil production
- Ensure non-discriminatory enforcement of the operative legal and regulatory framework
- Identify and protect high-value environmental assets and services
- Protect the rights and access to livelihood of Indigenous Peoples and local communities
- Establish good governance practices
- Ensure appropriate incentives, protections and a “level playing field” for the private sector, in a way that is also inclusive of smallholders.

Consistent with the Paris Declaration and Accra Agenda for Action, the World Bank will continue to work to integrate its support into government-led efforts, including leveraging joint financing of programs by development partners, including foundations. The World Bank will continue to support global partnerships for agriculture, and work to ensure that these efforts integrate better with regional and country programs.

### Multi-stakeholder platforms – the RSPO and others

An important mechanism for improved sustainability in the palm oil sector can come from multi-stakeholder formulated and agreed protocols such as those established by the RSPO, the Rainforest Alliance, and others. In this respect, the palm oil sector is further advanced and has made more tangible progress than most other agricultural commodities. The World Bank Group supports the application and broader uptake of appropriate standards and will look to help build local, national, and global capacity in this regard in partnership with selected multi-stakeholder platforms. The World Bank Group will also encourage links and partnerships, where appropriate, *between* standard setters with a view to promoting opportunities for improvements in efficiency and effectiveness.

### Civil Society Organizations

Civil society organizations collectively are key actors in supporting migration of the palm oil industry to a more sustainable footing.

Contributions of civil society organizations to development projects can enhance operational performance by contributing local knowledge, providing technical expertise, and leveraging social capital. Some examples include:

- *Promoting public sector transparency and accountability* as well as contributing to the enabling environment for good governance
- *Promoting public consensus and local ownership* for reforms, national poverty reduction, and development strategies by building common ground for understanding and encouraging public-private cooperation
- *Bringing innovative ideas and solutions*, as well as inclusive approaches to solve local problems
- *Strengthening and leveraging development programs* by providing local knowledge, targeting assistance, and generating social capital at the community level
- *Providing professional expertise* and increasing capacity for effective service delivery, especially in environments with

weak public sector capacity or in post-conflict contexts.

The World Bank will continue to promote and seek the participation of civil society organizations in government development projects and programs.

### Industry

The private sector is the single most dominant player in the palm oil industry from both a producer and buyer/consumer standpoint. It encompasses large plantation companies, smallholders, processors, traders, and buyers/users of palm oil, in addition to a variety of supporting firms in transport, provision of inputs, and other services. The World Bank Group explicitly supports companies committed to improving the sustainability of their industry. The private sector can play the following roles in support of positive changes in the sector:

- Implementing at the company and estate level good agricultural practices
- In the case of large producer firms, defining fair and equitable relationships with local communities
- In the case of large producer firms, ensuring integration and fair/equitable treatment of smallholder suppliers
- Engaging with civil society (including direct partnerships) in support of better environmental and social performance
- Committing to sustainable sourcing and then monitoring/vetting the sustainability of their supply chain
- Establishing strong and effective environmental, social, and labor policies, practices, and management capacity, and achieving certified status
- Supporting the establishment of and implementing sector-specific codes of conduct or sustainability protocols (e.g., the RSPO).

### The World Bank Group

The World Bank Group consists of: (i) the [International Bank for Reconstruction and Development](#) (IBRD), which works in middle-income and creditworthy poorer countries; (ii)

the [International Development Association](#) (IDA), which focuses on the world's poorest countries (collectively the World Bank); (iii) the [International Finance Corporation](#) (IFC), which invests and advises in support of private sector development; (iv) the [Multilateral Investment Guarantee Agency](#) (MIGA), which provides political risk insurance and guarantees to the private sector; and (v) the International Centre for the Settlement of Investment Disputes (ICSID), which is an autonomous international institution established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States with more than 140 member states. The World Bank Group's work program is broadly determined by its 186 member country shareholders, the needs and priorities of the client countries in which it operates, international conventions and agreements, and a broad community of stakeholders including civil society and the private sector.

All World Bank Group lending, equity investments, grants, and advice are regulated by operational policies and Performance Standards. Each World Bank Group institution can deploy a unique set of tools and instruments but all share a common mission of fighting poverty and promoting environmentally and socially sustainable development.

### The World Bank

The World Bank seeks to fulfill this mission by working primarily through the public sector in developing countries in providing financial and technical assistance, generating and sharing knowledge, building capacity, supporting policies and institutions, as well as forging partnerships among stakeholders. The World Bank also authors and supports an extensive body of research that directly informs the World Bank Group's work and other external stakeholders.

The World Bank uses poverty reduction goals and objectives and Country Assistance Strategies (CAS) for low-income countries or Country Partnership Strategies (CPS) for middle-income countries to guide its projects and operations. Clients of the World Bank: governments are the key drivers behind the

strategic priority setting in CAS/CPS. The design of these strategies is led by the relevant host country government and reflects the input of a diverse range of stakeholders achieved through a formal engagement and consultation process. *Poverty Reduction Strategies* seek to define a country's long-term vision and are prepared by low-income country governments. The papers define a country's macroeconomic, structural, and social policy goals and external financing needs. CAS and CPS lay out a selective program of World Bank Group support for a particular country and take as a starting point the country's own long-term vision for development. They also take into account the World Bank Group's comparative advantages in the context of programs and projects supported by others. In practice this means that the World Bank can only engage in a sector if the government of the country in question requests such engagement.

#### IFC

The IFC seeks to fulfill the World Bank Group's poverty reduction mission by strengthening the private sector. The IFC advises on investment laws and regulations and directly supports private companies through the provision of equity and loan financing and advisory services (directly or via financial intermediaries which then on-lend or make equity investments). The purpose of this support is to generate productive and sustainable jobs, deliver essential services to the underserved, catalyze other sources of finance and for private enterprise development, and establish and

support good or best practice examples of environmentally and socially sustainable enterprises. Notably, the IFC will at times invest for the purpose of demonstrating good environmental and social performance even when the country context may be challenging, as long as its Performance Standards can be adhered to by the client company. IFC operations are designed to be consistent with the relevant CAS referenced above for the country in which they are working.

The IFC also seeks to improve sector performance at the global level by supporting standard setting for the relevant industry or agricultural commodity. Examples include the commodity roundtables the IFC has been actively supporting, including the Roundtable on Sustainable Palm Oil. The IFC also seeks to support improvements in sector-wide performance through initiatives such as the Equator Principles and the Better Work Program. When commercial financial institutions agree to implement the Equator Principles, it means they have adopted the IFC's environmental and social Performance Standards. The Better Work Program is a joint effort in collaboration with the International Labour Organization (ILO) and brings together stakeholders in a particular country to establish a protocol for good labor practices that are in line with ILO conventions.

Additional information on World Bank and IFC products and services can be found on the World Bank Group's website at [www.worldbank.org](http://www.worldbank.org).

## Annex III: The World Bank Group's Experience in the Palm Oil Sector

### Overview of World Bank Investments

Since 1965, the World Bank (IBRD/IDA) has committed nearly US\$2 billion over 45 projects in the palm oil sector, in 12 countries in Africa, Latin America and Southeast Asia. Many stand-alone projects focused on oil palm, while others included crops such as rubber, coconut, coffee etc. Most of the oil palm projects were implemented in the 1970s and 1980s. Many were repeat or follow-on projects within countries. Regionally, most projects were based in West Africa and East Asia with only one project implemented in Latin America during this period. Three such projects are currently in implementation, while the balance has been completed and closed.

Countries	Total Committed Amount (mln, \$) *
Benin	4.6
Burundi	35
Cameroon	118.4
Congo, Democratic Republic of	9
Cote d'Ivoire	53.1
Ghana	43.6
Indonesia	618.8
Liberia	12
Malaysia	383.2
Nigeria	451.5
Panama	19
Papua New Guinea	100.6
<b>Total</b>	<b>1848.8</b>

\*most of the projects were stand alone focusing on oil palm, however there were some which included other crops such as coconut, rubber and coffee. In addition, there are a few projects which may have very small amounts going towards oil palm.

Generally, the objective of these projects was to reduce poverty and promote economic growth by improving productivity in the palm oil sector through investments in planting and replanting oil palm over several thousand hectares of land. The World Bank supported public sector projects included construction of palm oil processing factories and mills and also included associated facilities such as collection roads, buildings and other infrastructure

(housing, medical and administrative buildings, store sheds, vehicles and equipment etc.). Projects often supported the establishment and operation of nucleus estates, provided funding for extension services and credit facilities to develop smallholder farms, and in some cases promoted out-grower schemes. Some third and fourth generation projects expanded their scope and settled landless families on prepared land, and created productive employment on the estates and in the palm oil mill to raise the incomes of smallholders and employees.

### Selected Country Experience

#### Indonesia

Indonesia has been a central focus of World Bank lending for oil palm development projects, with more than a third of the total lending for the sector. Over the 1969 to 1983 period, eight projects were financed by the Bank. This was a period of considerable emphasis by the Government of Indonesia (GOI) on developing the agricultural sector, and the government established a range of government-sponsored (public sector) operations in the palm oil and other sectors.

The eight Bank projects in Indonesia were generally deemed to have been successful in establishing new plantations and introducing smallholders to oil palm cultivation. Results achieved included:

- Nearly 100,000 ha of oil palm planted and replanted (total)
- 12,000 smallholder families (rubber and oil palm) benefited and 24,000 new jobs generated on the nucleus estates and smallholdings (*North Sumatra I*)
- 2.59 million tons of palm oil production (*North Sumatra II*)
- Rubber and oil palm components benefited about 10,000 poor smallholder families and generated about 6,000 new jobs on the nucleus estates and smallholdings (*NES V*)
- 900 km of road improved/ built (*NES V*)

The projects were assessed by IEG, which found the first six projects to be satisfactory according to their internal rating scheme, while the last two, which were considered larger and



more complex, were unsatisfactory due to the poor performance of the responsible agencies, and logistical and management difficulties. Land titling was identified as being subject to delays, and remains a challenge to this day. It was noted that in one case in West Java there were difficulties with competing land claims from local communities which did not want to participate in the project. Based on the disappointing performance of the public agencies, the GOI subsequently encouraged private sector development of oil palm plantations.

### Nigeria

Nigeria was the second largest recipient of World Bank palm oil sector funding, with six projects over the 1975 to 2009 period. One project is still under implementation. Results achieved included:

- 42,658 ha of oil palm planted (total)
- 384 km of roads improved (*Eastern Central and Nucleus*)
- Two small mills with capacities of 1 ton and 3 ton FFB/hr were rehabilitated (*Tree Crops*)
- 30 tons/hour of milling capacity was installed (*Eastern Central and Nucleus*)

In its review of these projects, IEG rated only two of five to be satisfactory. Issues that were identified included poor management, high labor costs and questions over land use rights for smallholders.

### Cameroon

From 1967 to 1982 the World Bank funded six palm oil projects in Cameroon. The main objective of these projects was to increase the production of palm oil in the western region and improve the financial efficiency of public enterprises. Results achieved included:

- 10,464 ha of oil palm planted and 4,682 ha felled and replanted resulting in a net increase of 5,782 ha (*Camdev I*)
- Successful institution building of the Camdev company
- 8,280 ha of oil palms planted (*Socapalm I*)
- 2,031 ha of oil palm planted (281 ha estate and 1750 ha smallholder) (*Camdev II and Socapalm II*)

Out of the six projects, four were rated satisfactory by IEG. The first two projects

(Camdev 1 and Socapalm) were satisfactory and their objective of increased production of palm oil was largely met. Socapalm was a new company and its management performed reasonably well. Despite their success, both the projects faced financial difficulties. Follow-on projects (Camdev II and Socapalm II) financed by the Bank were unable to address the financial difficulties but introduced smallholder out-grower schemes. These new additional components did not perform well either and financial situation of both companies deteriorated further. Finally, the World Bank decided to suspend further investments in this sector due to questions of profitability and competitiveness of palm oil production in Cameroon.

### Papua New Guinea

The World Bank has had six projects in Papua New Guinea over the 1969 to 2008 period which primarily addressed oil palm. Five are closed while one project (Smallholder Agriculture Development Project) is still under implementation. Results of the first two projects included:

- 50,000 tons of palm oil produced in 5,583 ha of land benefiting 1517 smallholders (Popondetta Smallholder Oil Palm)
- 8,230 ha of oil palm planted in new blocks (8,230 ha) (Oro Smallholder Oil Palm)
- Access road of 345 km built (Oro Smallholder Oil Palm)

IEG's evaluations of the first four closed projects were rated as satisfactory, while the last project was moderately satisfactory. Success was attributed to good suitability of the area for cultivation of palm oil with regard to soil and climate, and good management by the project staff. There were difficulties in providing inputs (fertilizer) for cultivation which reduced productivity.

### Malaysia

Malaysia is one the largest oil palm producer in the world and received significant Bank funding. From 1968 to 1994, seven projects were approved and all were rated as satisfactory by IEG. These projects are not discussed in the review because at the time of the research, the projects were missing from

the Bank's information depository (Business Warehouse) due to a problem with the internal sector coding system.

### *Lessons Learned*

Lessons learned<sup>15</sup> from the World Bank's experience in the sector include the following:

The nucleus estate approach through public sector companies with poor management capacity may not be the best approach for smallholder tree crop development: Experience with series of nucleus estates and smallholders (NES) projects suggested that the NES approach to smallholder tree crop development does not work well when public sector companies have poor management capacity (incl. financial management) On the other hand, nucleus estates under private sector management have performed better (e.g. PNG). Improved coordination among government agencies is also critical in development of smallholder tree crop projects.

Land tenure issues should be addressed at the outset of the project: In some countries, land tenure issues resulted in disputes which affected project implementation. At the outset of the projects, land for crop developments should have been secured legally as well as through in-depth consultation with the project beneficiaries.

Management capacity of public sector estate companies affects project performance: In some countries, public sector companies like FELDA (Malaysia) performed very efficiently, from both a technical and financial standpoint. As a result, Bank financed projects in Malaysia were categorized as successful. Alternatively, in countries where the public sector estate companies had financial management problems and were overstretched, the estate companies were unable to manage large commercial investments well.

Infrastructure components (i.e. roads) need to be well integrated into the project: In projects that included access roads and which were given less attention, there were delays in their

construction and maintenance. Projects that addressed all components in balance were able to avoid cost overruns and extension of closing dates. It also contributed towards achieving the overall success of the project.

### Different approaches to out-grower/smallholder involvement have varying success:

Various approaches were tried with varying success. Additional analysis is needed to evaluate which models of smallholder involvement offer the best approach and it may vary depending upon the countries and involvement of public/private management.

### **Overview of IFC Investments**

The IFC has engaged extensively throughout the supply chain in the palm oil sector, with investments in plantations (Indonesia, Thailand, Ghana, and Nicaragua) as well as palm oil refining (Indonesia and Ukraine) and palm oil trading (Indonesia and Singapore). Since 1976, the IFC has invested US\$311 million in 26 palm oil related projects. This compares to net commitments of US\$5.5 billion in the agribusiness sector over the same period, and US\$80.1 billion invested in total by the IFC. A summary of these investments is provided in the table below.

The IFC's early investments (1970s and 1980s) focused on smaller-scale processing as well as oil palm cultivation. Most of the investments in Africa were done through the Africa Enterprise Fund, which focused on small and medium-scale investments. These, and the project in Brazil, included investment in oil palm plantation development as well as expansion or upgrading of crude palm oil mills, palm kernel crushing, and associated facilities (bulk storage, effluent treatment). Environmental and social reviews of these investments were minimal, as these preceded any formal requirements by either IFC or the World Bank.

Subsequent investments, since the 1990s, have focused on larger plantation operations in Indonesia, with investments in operations in Bengkulu, West and South Kalimantan, and North and South Sumatra. These were located on existing agricultural lands (transmigration projects) or degraded lands (*Imperata* grasslands).

<sup>15</sup> See additional examples of lessons at the end of this annex.

### IFC Investments in the Palm Oil Sector

Country	Year	Committed Amount (mln \$)*	Status
Brazil	1980	4.7	closed
	1982	6.1	closed
	1993	0.6	closed
Cameroon	1976	0.8	closed
	1978	0.4	closed
	1981	0.2	closed
	1985	1.9	closed
Cote d'Ivoire	1987	2.0	closed
	1993	4.7	closed
	1996	3.8	closed
Ghana	2007	12.5	active
Honduras	2009	30.0	active
Indonesia	1990	12.7	closed
	1996	35.0	closed
	2002	11.5	closed
	2003	14.0	closed
	2003	12.0	closed
	2004	33.3	closed
	2007	50.0	closed
Mexico	2006	1.0	closed
Nicaragua	2009	25.0	active
Philippines	1982	11.0	closed
Thailand	1987	4.7	closed
Ukraine	2006	17.5	active
	2008	45.0	active

Other recent plantation investments have been in Nicaragua and Ghana, and further investments in Africa and Latin America are expected in the future.

Since 2004, the IFC has been more active in moving down the palm oil supply chain, with substantial investments in trading (Wilmar Trading-short-term trade finance support) and in refining (Ukraine). These investments have resulted in criticism of the IFC for insufficient attention to supply chain issues with regard to sustainability in trading and refining operations, which has in turn prompted this current strategy exercise for the palm oil sector.

IFC-financed companies generally performed well and were able to grow their business over time in spite of unexpected difficulties along the way with one investment (Brazil) failing after experiencing disease problems and then ceasing operations. The main challenges to implementing (palm plantation) projects and achieving the expected returns were: (i) the

long gestation of palm plantations and the heavy capital commitment that is required upfront; (ii) frequent claims over disputed lands; and (iii) economic and financial crises in the country of operation. Although land claims were generally resolved through local mechanisms, they often resulted in delayed planting and production. Economic crises had a negative impact on the financial performance of plantations because of the direct impact of devaluations, policies that lowered the revenue base (e.g., export tax), but also because governments were often unable to deliver on their budgeted commitments (e.g., to support financially the development of smallholder plantings); under these circumstances, private sector companies had to step in and fill the financial gap at a high additional cost.

Palm oil projects were also found to have had strong economic impacts for the countries involved. They supported the emergence of a class of private companies that, in Indonesia, took over the development of palm oil production from the mixed performance of state-owned estates (see World Bank experience above). They also had a significant economic impact on the livelihoods of local communities. The industry estimates that one job is created for each 5-hectare plantation developed. Common attributes for permanent workers have included housing, medical care, transport, water, and electricity.

A key component of some of the projects, particularly in Indonesia, was the transfer of land for the development of small oil palm holdings. Although the implementation of these schemes was sometimes delayed for reasons previously mentioned, and the economics was strongly impacted by economic crises, it eventually resulted in the establishment of a sector of smallholders who are able to derive a decent livelihood from their production, while benefiting from their access to the nucleus's infrastructure and technical support.

Finally, IFC engagement in the investment ensured that all investors adjusted their environmental and social policies and processes to the World Bank's guidelines and, from 2006 to the IFC's Performance Standards.

### Lessons Learned

While a number of generic lessons for all IFC investments would apply, palm-oil related projects differed particularly with regard to the following:

The need for careful selection of clients. The IFC's investment experience shows that clients vary greatly in their capacity to understand and respond to environmental and social issues. In a sector such as palm oil, where there are a number of major issues of concern to stakeholders, clients need to have the capacity to deal with these issues as needed, or they need to be able to obtain or develop such capacity rapidly. It is important not to assume that the names and reputations of sponsoring companies will guarantee good management in any specific case—careful and regular monitoring is needed in every case in order to ensure that productivity and management are continuously benchmarked.

The need for careful attention to questions of land acquisition and land tenure. Questions in regard to land use and land ownership can arise in all countries in which the IFC works, even in areas where land ownership may be relatively settled and codified. Where land use rights are being transferred from local communities to private sector companies, by government fiat, there is a particular need for care in ensuring that procedures meet local laws and regulations and do not disadvantage local peoples.

The need for careful attention to biodiversity issues. Although oil palm plantations today do not cover an overall area as large as other commodities, areas suitable for oil palm cultivation in the world are also the richest in terms of biological diversity. Concerns over loss of biodiversity are well known. The conversion of primary tropical forest to agriculture has been shown to result in major biodiversity loss. Lands that are planned for conversion to oil palm (or other crops) must be analyzed for their biodiversity and conservation value, and areas designated as being critical habitat (as per the IFC's PS6) or of high conservation value (or similar designations) need to be protected.

The importance of working effectively with local communities to ensure that benefits are appropriately shared and issues properly managed. Especially in cases where communal lands have been transferred to private control, there is a need for companies to work with local communities both to build support for their business as well as to demonstrate that positive development benefits can accrue to the community.

The value of developing appropriate partnerships with stakeholders, such as roundtables, in order to address sector-wide issues. Strengthening the private sector more broadly, beyond financing specific businesses, can be achieved through mechanisms such as roundtables, which bring together a variety of stakeholders to address issues. Roundtables provide a measure of internal governance for the private sector, and seek to transform the market through development of mutually-agreed standards for sustainability in the sector.

The value of working within a defined and agreed strategy for a sector. The IFC recognizes the shortcomings of engaging on a transaction-by-transaction basis in the absence of an overarching strategy. Effectively targeting investment interventions is best accomplished through a thorough understanding of the sector and a comprehensive strategy for its development. Such a strategy should address how different investment products and advisory services<sup>16</sup> can be targeted to address local conditions—particularly those relating to environmental and social issues. The strategy needs to define how the IFC will work, through both its investment and advisory services, with all components of the private sector as well as addressing certain regulatory issues.

The need for adequate attention to supply chains. Concerns over supply chains, particularly for agricultural commodities, have

<sup>16</sup> *The IFC's Advisory Services are designed to complement traditional investment lending. Additional details are provided at <http://www.ifc.org/ifcext/about.nsf/Content/TAAS>.*

become much more pronounced in recent years. Consumer concerns over environmental and social issues in production, trade, and processing of commodities are now important risks that need to be addressed.

## Annex IV: Key Sustainability Issues in the Palm Oil Sector – Executive Summary

Executive Summary of a Discussion Paper for Multi-Stakeholder Consultations, **by Cheng Hai Teoh** (commissioned by IFC to inform development of the WBG framework for engagement in the palm oil sector and Phase I of the associated consultations)

The World Bank Group commissioned a discussion paper to provide an overview of the major challenges confronting the palm oil sector with regard to the social, environmental, and economic aspects as well as governance issues. This is an executive summary of the discussion paper “Key Sustainability Issues in the Palm Oil Sector,” written by an independent expert, Mr. Cheng Hai Teoh. The full discussion paper is available online in English, Bahasa Indonesian, French, and Spanish at <http://www.ifc.org/ifcext/agriconsultation.nsf/Content/keydocuments>.

The discussion paper is part of the phased-approach adopted by the World Bank Group to develop a comprehensive framework to guide its future engagement in the sector ([www.ifc.org/palmoilstrategy](http://www.ifc.org/palmoilstrategy)). The purpose of the paper is to facilitate the discussions in a series of inclusive stakeholder workshops in selected key regions and via electronic consultations. The outcomes and recommendations from these consultations will serve as key inputs towards the development of the World Bank Group’s framework. However, the paper is not intended to be comprehensive or to cover all aspects of the sector in different producer regions, nor is it meant to be prescriptive when identifying potential opportunities.

Originating in West Africa, the oil palm, *Elaeis guineensis* Jacq., has over the past century been an increasingly important driver for the economies of producing countries in Southeast Asia, Papua New Guinea, Central and West Africa, and to a lesser extent tropical Latin America. Oil palm-based development has been a major thrust for agricultural development and diversification in the producing countries, particularly Indonesia and Malaysia. The sector has been a major contributor to national export earnings and a key source of employment. It has been estimated that more than 3 million people are

involved in the industry in Indonesia. Today, palm oil is the most important tropical vegetable oil in the global oils and fats industry, in terms of production and trade. Indonesia and Malaysia are the world’s largest producers of palm oil, accounting for about 85 percent of global production (equivalent to 38.5 million tonnes) in 2009. Originally used in its crude form for cooking, palm oil has evolved into an international commodity with many food and non-food applications. More recently it has been promoted as a feedstock for the production of biofuels.

With regard to cultivated area, global plantings of oil palm grew eight-fold in the past four decades to more than 12 million ha in 2009. The area under cultivation in Malaysia increased by five times and in Indonesia by a phenomenal 23 times over the same period. Expansion of oil palm plantations in Indonesia has been particularly rapid since 2000, with the area covered by mature oil palm increasing to 5.35 million ha in 2009. The development of the palm oil sector has been driven largely by the private sector. However, smallholders, often in Asia under government auspices, have contributed significantly to the development of the sector, either as participants in land development schemes or as independent growers, cultivating from a few hectares to about 50 to 100 ha of land. Globally, about 3 million smallholder heads of family are involved in the sector.

The demand for palm oil for edible use is expected to continue to rise with population growth, increased per capita consumption, and as the developed world moves away from saturated animal fats. Assuming a population increase of 11.6 percent (based on the World Bank’s projection of 7.58 billion people in 2020) and a 5 percent increase in per capita consumption, an additional 27.7 million tonnes of vegetable oils will have to be produced by 2020. If this higher demand is to be met by palm oil, an additional 6.3 million ha would

need to be planted, assuming that there is 10 percent improvement in productivity per hectare. In the biofuel sector, countries around the world have been setting national biodiesel blending targets; if the planned mandates materialize, it has been estimated that an additional 4 million hectares of oil palm would have to be planted to meet the requirements of the European Union and another one million hectares would be needed to satisfy China's demand.

Given the insatiable global demand for palm oil, producing countries in Southeast Asia as well as Africa and Latin America have plans to increase their production significantly. For example, the Indonesian government has announced its intention to increase national palm oil production to 40 million tonnes by 2020; this means that production would have to be doubled in the next 10 years. Expansion of the industry on this scale is cause for considerable concern among many stakeholders, particularly local communities and NGOs. The major sustainability challenges faced by the sector are discussed in this paper within the framework for sustainable development covering social, environmental, and economic dimensions and good governance.

The most important economic challenge to the palm oil sector is probably the wide productivity gap between the actual and achievable yields of palm oil. Although plant breeders have made impressive progress in raising the genetic potential of oil palm yields over the years and currently available materials are capable of producing more than 8.5 tonnes of oil per hectare, the actual average oil yields of major producing countries were within the range of 3.0 to 4.4 tonnes per hectare per year since 1975. The yield gap in the smallholder sector is of greater concern as productivity is substantially lower than production by plantations.

Among the environmental and social concerns, the recurring issues in the sector that are of serious concern to stakeholders, particularly NGOs and local communities, include deforestation, biodiversity loss, climate change and land and social conflicts.

Protection and conservation of the remaining tropical forests have been core programs for NGOs such as the World Wildlife Fund and Greenpeace. The overall aim is to prevent further conversion of forests to agriculture. Although the RSPO principles and criteria (P&C) have not allowed the development of high conservation value forests since 2005, monitoring by NGOs has shown that significant deforestation continues, particularly in Indonesia. According to the Stern Review, deforestation globally contributes about 18 percent of the world's greenhouse gas emissions. With regard to the potential contribution of the palm oil sector to climate change, there are serious concerns that with diminishing availability of mineral soils, the expansion of oil palm would increase on peat lands. It has been estimated that Indonesia alone has 22.5 million hectares of peat soil, which is about 12 percent of its total land area. Drainage of this massive store of carbon and conversion to palm oil could contribute to enormous greenhouse gas emissions as well as regional air pollution.

Concerns about biodiversity loss are directly related to the loss of natural forests. The major palm oil producing countries are also megabiodiversity centers but endangered species are under threat globally through expansion of a range of agricultural commodities. The plight of the charismatic, endangered orangutan has been the focal point of numerous campaigns and has been given extensive coverage through the mass media. The largest threats to the future of the orangutan are illegal logging, forest conversion to agriculture, and forest fires. Other flagship species affected by development include the Asian elephant and Sumatran tigers. A related problem has been that fragmentation of natural forest habitats and encroachment by palm oil development has resulted in serious human-wildlife conflicts.

Land and social conflicts are major problems in the palm oil sector. Conflicts occur between smallholders, local communities, and indigenous peoples and plantation companies as well as with the government. Many of the issues relate to questions concerning land rights and ownership, land use, and land acquisition. An underlying cause of land conflicts with Indigenous Peoples is the

inconsistencies of the laws relating to the recognition and respect of native customary land rights. The implications and consequences for local communities of acquisition of land for palm oil have been well documented in numerous publications, such as “Promised Land – Palm oil and land acquisition in Indonesia” and “Land Is Life – Land rights and oil palm development in Sarawak.” Other significant social issues relate to improving agronomic practices and productivity in the smallholder sector, particularly among independent smallholders, providing a fair and safe working environment for plantation workers in respect to occupational health and safety, fair wages, freedom of association, various forms of discrimination, gender issues, and child labor.

On issues of governance, ineffective policies, weak governance structures, and weak management systems relating to environmental and social performance are some of the major threats to sustainable development. Problems occur at various levels, from governments, international institutions, and industry bodies, to individual companies. Although governments of major producer countries may have in place appropriate laws and regulations, poor planning and weak enforcement, particularly with regard to land development, could put high conservation value land at risk.

This discussion paper has also identified a number of opportunities to address sustainability challenges. These are by no means exhaustive; they have been provided to stimulate discussion among the stakeholders with the hope that additional and innovative solutions could emerge from the consultations. From the economic perspective, improving land productivity is one of the most effective ways to improve the profitability of the sector and mitigate rising production costs. Closing the wide productivity gaps through use of better planting materials and better management practices would also have a positive impact on the environmental bottom-line, as increased productivity could reduce the pressure to open new land.

Opportunities to address environmental challenges include a moratorium on

deforestation proposed by Greenpeace and Unilever, use of degraded land for new oil palm development, use of the Clean Development Mechanism and Reducing Emissions from Deforestation and Degradation (REDD) for reducing greenhouse gas emissions, and market transformational initiatives such as the IFC’s Biodiversity and Agricultural Commodities Program (BACP).

On social issues, legal land reforms would be the way forward although this would be a complex and protracted process. Meanwhile, some of the opportunities that could address the challenges include the establishment of conflict resolutions, such as the proposed RSPO Dispute Settlement Facility; strengthening of institutional support for smallholders, particularly through the RSPO Task for Smallholders; technical and financial support for preparing smallholders for certification; use of smaller independent mills to reduce smallholder dependence on commercial mills; and promotion of integrated farming.

In the past four decades, governments, businesses, and civil society have played different and changing roles as the “problem,” “solution,” or “catalyst/monitor” in sustainable development. These key players may hold contrasting or even adversarial positions from time to time, as can be seen in the ongoing debate pertaining to palm oil development and sustainability. However, in the future, these groups must work together as partners to address the urgent social and environmental challenges and climate change.

Based on the broad and specific issues facing the palm oil sector identified in this paper, some questions have been formulated to focus and guide the inclusive stakeholder consultations that will be conducted in physical meetings and by electronic means in the second phase of the preparation of the framework. These questions have been framed in a manner to facilitate the stakeholder discussions toward producing meaningful outputs or recommendations that could guide the World Bank Group in redefining its role and approach in the palm oil sector.



## Annex V: Improving Livelihoods of Palm Oil Smallholders: The Role of the Private Sector

*An Executive Summary of a Report by FSG "Improving Livelihoods of Palm Oil Smallholders: The Role of the Private Sector"  
(commissioned by IFC to inform development of the WBG framework for engagement in the palm oil sector)*

### Purpose of This Report

This report provides an assessment of the private sector's efforts to improve the livelihoods of smallholder farmers engaged in oil palm production. Palm oil is the world's most traded vegetable oil and the industry employs millions around the developing world. At the same time, palm oil production has also resulted in significant controversy due to its potential effects on the environment, as well as various social challenges. The challenges faced by smallholder farmers – those controlling 50 hectares or less of cultivated land – are especially acute.

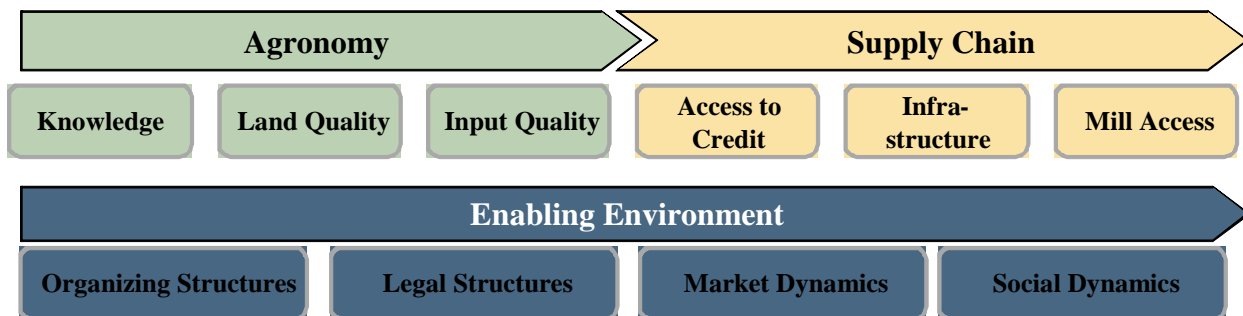
Addressing these challenges requires participation from the entire sector, including donors, civil society, governments, and corporations. We believe that corporations in the palm oil supply chain can play a crucial role in improving smallholder livelihoods, given the resources and expertise they bring. These efforts can both impact smallholder livelihoods and also benefit companies through greater yields and improved quality – a significant

opportunity to create shared value for the private sector.

This report was created to inform development of the World Bank Group's (WBG) framework for palm oil. Given the emphasis of the WBG framework on addressing smallholder needs, the findings of this report can serve as important guidelines for implementing future activities. Our research consisted of 28 interviews with a range of stakeholders, including representatives from companies, civil society organizations, industry associations, and multilateral agencies, as well as secondary research.

### Factors Affecting Smallholder Livelihoods

While smallholder conditions and structures vary significantly across and even within regions, three major categories of factors affect smallholder livelihoods: agronomy, supply chain, and the enabling environment. Within each of these factors, there are significant needs to improve smallholder livelihoods.



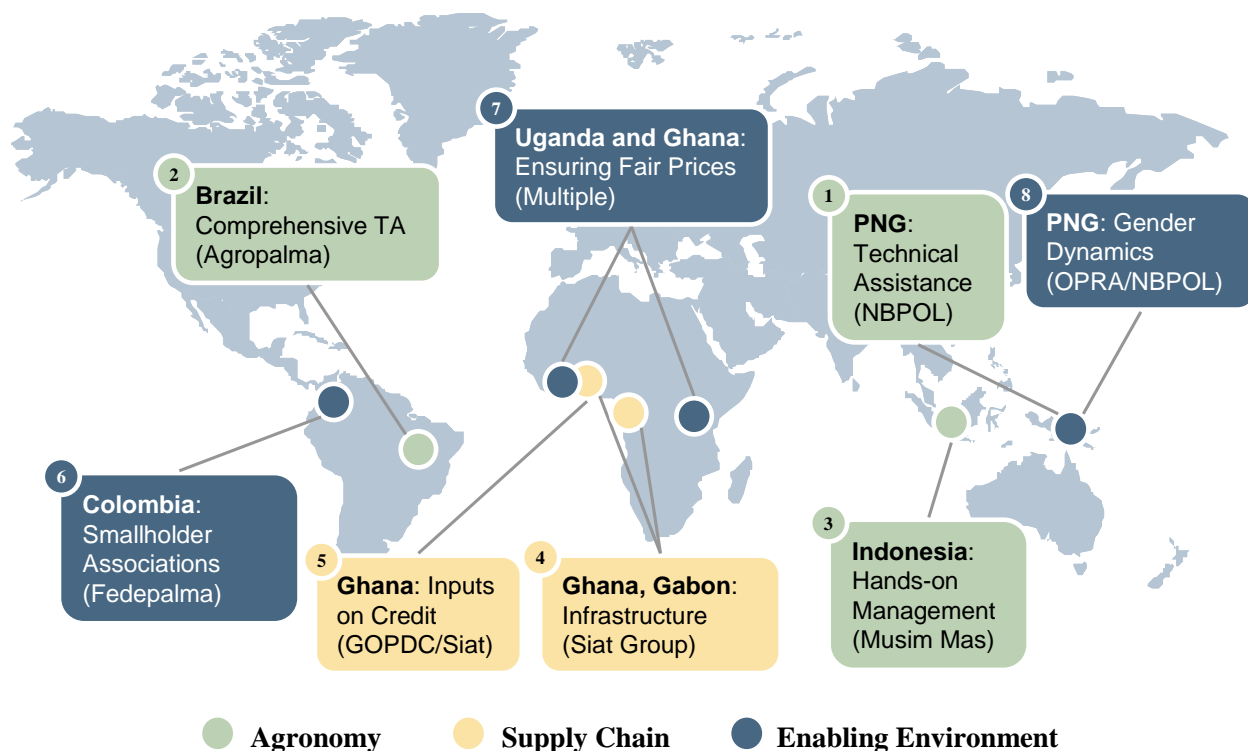
### Profiles of Private Sector Efforts

Palm oil producing companies have substantial business interest in improving smallholder productivity and livelihoods, and our research identified several examples of private sector-led efforts. In many cases, companies focus on providing support on agronomy issues via technical assistance. For example, New Britain Palm Oil supports the provision of extension

services to smallholders in Papua New Guinea in order to improve productivity. Other companies, such as Siat Group are involved in strengthening supply chain conditions by improving the mechanisms for smallholders to access credit from oil palm mills. A few companies are attempting to address elements of the enabling environment for smallholder livelihoods: in Uganda, Bidco partnered with

IFAD and the Ugandan government to develop a pricing policy that ensures a transparent and fair pricing mechanism for smallholders.

This paper profiles several smallholder development efforts, as depicted in the figure below.



### Trends in Private Sector Efforts

Beyond the specific case examples of existing projects, our research identified several themes regarding the role of the private sector in promoting smallholder development:

- **More Is Needed:** *Despite important efforts by some companies, there is a need for significantly more engagement by the private sector in order to address smallholder livelihood challenges.* There is a continued substantial gap between the yields of smallholder farms and that of plantations, highlighting the need for a sustained focus on the development of smallholder farmers.
- **Leadership Vacuum:** *Stakeholders could not identify specific companies that are leaders in improving smallholder livelihoods in palm oil.* In some other corporate sectors, such as the pharmaceutical industry, multiple leading companies model best practice approaches

to corporate social responsibility efforts. The palm oil sector does not have widely accepted leaders in Corporate Social Responsibility related to smallholders

- **Systems Matter:** *Few companies are working on enabling environment issues that can have large scale impact beyond their own smallholders.* Several companies work on enabling environment factors in a more limited way, for example, by strengthening associations among their smallholders, or by addressing social issues in affected communities. However, few are working on broad enabling environment conditions, such as developing national institutional capacity related to extension and research. This theme stands in contrast to some other crops such as cocoa, where several initiatives are under way that take systemic approaches to development.
- **Power of Partnering:** *Collaboration across sectors is a critical component of many*

*existing efforts.* While companies can play an important role in directly improving livelihoods of their associated smallholders, there is significant potential for more systemic challenges to be addressed through multi-sectoral collaboration

### Recommendations for Private Sector Engagement

Significant opportunities exist for corporations to commit to smallholder livelihood development in ways that link efforts more closely with their business expertise and priorities. As companies engage in future investments in improving smallholder livelihoods, they should consider the following recommendations:

1. *Identify opportunities for shared value creation* that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates
2. *Prioritize issues that leverage the company's core capabilities* (e.g., providing technical assistance in improving yields is a core competency for agricultural companies, while investing in road construction does not use companies' core strengths)
3. *Partner with other actors to achieve collective impact*, working with governments, NGOs, donors, or other companies to develop shared strategies rather than only pursuing individual projects
4. *Take advantage of the existing momentum* in the field on certain issues (e.g., certification) so as to increase chances of success
5. *Consider the scale of impact* of the intervention, and focus on opportunities with large-scale benefits that can serve as models for replication
6. *Measure the results* of smallholder development efforts in order to learn effectively to inform future projects

### Strategic Opportunities for the Private Sector

Stakeholders suggest several areas for corporations to improve smallholder livelihoods. These include:

- *Creating new incentive structures* that reward farmers for utilizing agronomy best practices (e.g., paying farmers based on appropriate fertilizer use)
- *Working with financial institutions to develop appropriately-designed financial products* for farmers (e.g., access to loans with deferred repayment which do not require land titles as collateral)
- *Incorporating productivity improvements* into steps taken toward certifying smallholders (e.g., incorporating stronger technical assistance into the monitoring required by RSPO standards)

Donors and development agencies, such as IFC, can provide incentives for the private sector to invest in innovative models and fund research efforts that encourage additional investments.

We hope that the opportunities presented here will catalyze the field to take action on the challenges faced by smallholders, leading to improved smallholder livelihoods in the oil palm sector.

## Annex VI: The Roundtable on Sustainable Palm Oil (RSPO)

A number of commercial participants in the global palm oil value chain with the World Wildlife Fund (WWF) in 2004 formed the RSPO, a global multi-stakeholder roundtable. The intention of the RSPO is to improve the sustainability of palm related operations, partly in response to pressure from environmentally sensitive markets. So far the membership has expanded rapidly and is dominated by producers. The RSPO has gained most traction in the center of production and consumption, Asia, as well as North America and Europe.

The RSPO, with a secretariat in Kuala Lumpur, brings together stakeholders from seven sectors of the palm oil industry: palm producers, processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental or nature conservation NGOs, and social or development NGOs. The RSPO's objective is to promote the growth and use of sustainable oil palm products through the development of a credible global standard and Code of Practice (known as the Principles and Criteria) and engagement of stakeholders. The Principles and Criteria (P&C) cover environmental and social aspects of principally upstream development. As of November 2008, the RSPO had implemented an auditable certification system based on the P&C, which provides independent certification that production is being managed in a sustainable fashion. About 4 percent (nearly 2 million tonnes) of global palm oil supply at present is certified as CSPO (certified sustainable palm oil). This has involved the auditing and certification by independent certification bodies (TUV, BSI, etc.) of 12 grower and 44 supply chain companies.

The RSPO plays an important role in setting standards that have impacts beyond the areas managed by its members, and is working on extending certification to smallholders. Although the RSPO is a voluntary, market-driven program, it plays an important role in defining the nature and scope of necessary regulatory interventions. The RSPO's strength, visibility, and achievements so far have raised government awareness of key issues. This

places pressure on public authorities to complement the RSPO's activities with improved policies. Market demand for sustainable palm oil is still limited and reduces incentives for some companies to join; but there are indications that demand for sustainable palm oil is emerging through a number of market instruments.

The IFC is an active member of the RSPO, supporting several technical committees, biodiversity improvement, and the development of national interpretations of the P&C in Africa.

The RSPO is recognized by a broad range of stakeholders as being the most effective means by which improvements in sustainable production may be made. At present it is weak institutionally and stretched with multiple demands.

The World Bank Group could increase assistance to the RSPO in a number of ways, including assisting with broadening geographic scope by supporting National Interpretation Working Groups and catalyzing the setting up of regional offices in Latin America and West Africa. In addition, the World Bank Group might assist with funding for staffing or outsourcing of certification. A further area in which the World Bank Group could assist could be in the funding of the installation of environmental management systems (ISO 14001) in order to speed up the implementation of the P&C in member companies.

## Annex VII: The Biodiversity and Agricultural Commodities Program (BACP)

Although it has had a number of investments in palm oil, as described in Annex II, the IFC has not been very active with advisory services in this sector. However, it has (i) actively supported the RSPO since 2005, and (ii) supported its members in understanding and implementing the biodiversity related Principles and Criteria, through the Biodiversity and Agricultural Commodities Program (BACP). The expansion of agriculture is the leading cause of habitat destruction and a major threat to global biodiversity. However, biodiversity is both one of the least understood sustainability issues and an important risk factor for all agribusiness companies and farmers. The IFC therefore sought and obtained a grant from the Global Environment Facility, soon joined by other donors (Japan, the Netherlands) and its own funds to try to remedy this problem. BACP, approved in 2007, aims at increasing knowledge on, and reducing threats to, biodiversity in four commodity sectors, by leveraging market forces at all levels of the value chain. Palm oil is one of the four commodity sectors targeted and is also, with soy, a priority focus in BACP's first 5-year phase (2008-2012). BACP helps mainstream the use of Better Management Practices (BMPs) that decrease the impact of production on biodiversity. BACP works in partnership with the RSPO and major players in the sector who are willing to test and adopt more sustainable practices such as: High Conservation Value assessments and management plans, planting on fallow lands, or operationalizing biodiversity offsets. It also works with public entities to modify problematic regulatory frameworks or define landscape level land use plans. Finally, it works with financial institutions to help them adopt policies and procedures that encourage biodiversity protection.

The IFC manages the BACP with the support of Chemonics International and Ecoagriculture Partners, which are in charge of Monitoring and Evaluation. Individual projects submitted to BACP funding must fit strict eligibility and selection criteria to be approved. At the mid-point of BACP's Phase 1, the following projects are being implemented:

### Fauna & Flora International – BACP

This project works with local stakeholders to identify HCVA and degraded areas fit for oil palm cultivation:

- Assisting district governments to incorporate results from HCVA assessment into action plans
- Facilitating the adoption of landscape scale HCVA assessment and management by RSPO members and smallholders.

### Zoological Society of London – BACP (in partnership with *Wilmar International*)

- Designing, testing, and implementing guidelines and better management practices for implementing the RSPO's biodiversity-related P&C, with measurable impact
- Reducing or removing policy barriers to implementation of P&C.

### PanEco Foundation - BACP Grant

- Developing palm oil plantations (with smallholders and palm oil estates) on fallow or degraded land
- Closing existing concessions on peat land.

### Roundtable on Sustainable Palm Oil

- Biodiversity Technical Committee and Coordinator.

### Lessons learned so far:

Emerging lessons include (i) there is continued need for knowledge on ways to simplify biodiversity issues and related best practices, which would in turn make it easier for farmers and companies to implement the practices; (ii) regulatory frameworks continue to be among the largest bottlenecks in the sector; and (iii) there is a need for incentives models for those who protect biodiversity. Detailed information on BACP can be found at: [www.bacp.net](http://www.bacp.net).

## Annex VIII: World Bank and IFC Environmental and Social Policies

### World Bank Safeguards

The World Bank's environmental and social safeguard policies are a cornerstone of its support to sustainable poverty reduction. The objective of these policies is to prevent and mitigate undue harm to people and their environment in the development process through improved decision making, ensuring that project options under consideration are sound and sustainable, that potentially affected people have been properly consulted and safeguard documents are disclosed. Safeguard policies provide a platform for the participation of stakeholders in project design, and have been an important instrument for building ownership among local populations.

World Bank Group Safeguard Policies cover three main areas:

- a. Environmental (including Environmental Assessment, Natural Habitats, Pest Management, Forests, Physical Cultural Resources, Safety of Dams);
- b. Social (Involuntary Resettlement, Indigenous Peoples); and
- c. Legal Policies (Disputed Areas, Projects on International Waterways).

All World Bank projects are categorized on the basis of the environmental and social risks associated with the project. Depending on the assessment of environmental and social impacts and risks, projects may require Environmental Assessments and/or Environmental Management Plans to be prepared and implemented. The Environmental Assessment (EA) evaluates a project's potential environmental and social impacts and risks in its area of influence; examines project alternatives; identifies ways of improving project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts; and includes the process of mitigating and managing adverse environmental and social impacts and risks throughout project implementation. The Bank favors preventive measures over mitigatory or compensatory

measures, whenever feasible. The Environmental Assessment is initiated as early as possible in project processing. The borrower is responsible for carrying out the EA and the World Bank advises the borrower on the EA requirements. The Environmental Assessment is used as a framework for the application of policies concerning Natural Habitats, Pest Management, Forests, and Physical Cultural Resources. The World Bank reviews the findings and recommendations of the EA to determine whether they provide an adequate basis for processing the project for World Bank financing.

World Bank social safeguard policies may also require application in investments in the oil palm sector. The objective of the policy on Involuntary Resettlement is to support measures to avoid or minimize involuntary resettlement, where this is not feasible, measures are to be taken to assist displaced persons in improving or at least restoring their livelihoods and standards of living to pre-displacement levels or to levels prevailing to prior to the beginning of the project implementation, whichever is higher. The policy provides for the use of a Resettlement Plan or a Resettlement Policy Framework both of which include grievance procedures. The Indigenous Peoples Policy requires action if there is a presence of Indigenous Peoples in the project area, whether potential impacts are positive or negative. The policy provides for the use of an Indigenous Peoples Plan or Indigenous Peoples Planning Framework. These instruments ensure that Indigenous Peoples receive culturally appropriate benefits and that specify measures to avoid, minimize, mitigate or compensate for any adverse effects and include grievance procedures. .

Detailed information on the World Bank safeguard policies can be found at [www.worldbank.org/safeguards](http://www.worldbank.org/safeguards).

### Application of the IFC's Performance Standards

The IFC strives for positive development outcomes in the private sector projects it

finances in emerging markets. An important component of positive development outcomes is the social and environmental sustainability of projects, which the IFC expects to achieve by applying a comprehensive set of social and environmental performance standards.

Through its Policy on Social and Environmental Sustainability (the Sustainability Policy), the IFC puts into practice its own commitment to social and environmental sustainability. Translating this commitment into successful outcomes depends on the efforts of the IFC and its clients. Specifically, the IFC's Performance Standards define clients' roles and responsibilities for managing their projects and the requirements for receiving and retaining IFC support.

Consistent with its commitment, the IFC carries out due diligence of its clients' projects against the requirements of the Performance Standards. The Performance Standards consist of the following: PS1: Social and Environmental Assessment and Management System; PS2: Labor and Working Conditions; PS3: Pollution Prevention and Abatement; PS4: Community Health, Safety and Security; PS5: Land Acquisition and Involuntary Resettlement; PS6: Biodiversity Conservation

and Sustainable Natural Resources Management; PS7: Indigenous Peoples; PS8: Cultural Heritage.

In addition, the World Bank Group's Environmental, Health, and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice (GIIP). The EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs.

In relation to the palm oil sector, the IFC screens projects it finances through all the Performance Standards, taking into consideration the specific risks associated with this sector and the potential impacts of a particular project. Based on previous experience in the palm oil sector, the IFC finds especially challenging issues related to the client's labor and working conditions in the client's own operations and in its supply chain; pesticide management and use; land use and involuntary resettlement; biodiversity impacts of the client's facilities and its supply chain (traceability system); and impact on Indigenous Peoples.

2121 Pennsylvania Ave., NW, MSN 8P 807  
Washington DC, 20433, USA  
Tel. + 1 202 458 0430  
Fax: + 1 202 974 4338  
palmoilstrategy@ifc.org

[www.ifc.org/palmoilstrategy](http://www.ifc.org/palmoilstrategy)



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