

Whither Poverty Reduction? The World Bank's Visible Green Hand

A Review of the World Bank / International Finance Corporation's Proposed Palm Oil Strategy

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WORLD GROWTH



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**Palm Oil Green Development
Campaign**

Alleviating Poverty through Wealth Creation

Palm oil provides developing nations and the poor a path out of poverty. Expanding efficient and sustainable agriculture such as Palm Oil Plantations provides small and large plantation owners and their workers with a means to improve their standard of living.

Sustainable Development

Sustainable development of palm oil plantations and growth of the palm oil industry in developing nations can and will be achieved through consultation and collaboration with industry, growers, lobby groups and the wider community.

Climate and the Environment

Palm Oil is a highly efficient, high yielding source of food and fuel. Palm Oil plantations are an efficient way of producing fossil fuel alternatives and capturing carbon from the atmosphere.

Opportunity and Prosperity

Developing nations must be allowed the chance to grow and develop without political intervention by environmental groups or developed nations. It is crucial that developing nations be given the same opportunities which developed nations have benefited from.

Property Rights

Efficient palm oil plantations and the growing demand for palm oil give smaller land holders greater opportunities to make a living off their land, maintain their ownership and support their rights to property and prosperity.

Introduction

World Growth is a non-profit, non-governmental organization established to expand the research, information, advocacy, and other resources to improve the economic conditions and living standards in developing and transitional countries. At World Growth, we embrace the age of globalization and the power of free trade to eradicate poverty and create jobs and opportunities.

World Growth supports the production of palm oil and the use of forestry as a means to promote economic growth, reduce poverty and mitigate greenhouse gas emissions. World Growth believes a robust cultivation of palm oil and forestry provides an effective means of environmental stewardship that can serve as the catalyst for increasing social and economic development.

World Bank's Proposed New Strategy on Palm Oil Undermines Efforts to Address the Global Food Crisis

The World Bank Group (WBG) has proposed a new policy approach for engagement on palm oil which will substantially alter the Group's current approach and runs counter with the Bank's response to the impending global food crisis.

It will erect new conditions for financing, create a new and more onerous set of preconditions for financing, establish a de facto regulatory role for the World Bank, and skew Bank lending and support away from its development mission.

The framework will restrict Bank lending to development of palm oil and endorses the concept of restricting use of forest land for agricultural development.

This runs counter to the World Bank's own Global Food Crisis Response Program announced two years ago in response to the emerging global food crisis, which advocates support for

broad-based growth in productivity and market participation in agriculture.

The United Nations Food and Agriculture Organization has pointed for years that conversion of forest land to agricultural use is one of the standard means by which production of food in developing countries can increase.

Palm oil has become a food staple and demand for it is forecasted to continue to grow strongly. The industry anticipates securing significant improvements in productivity from existing plantations, but all major producers will have to expand to meet demand.

Every government in every developing country also knows that land for agriculture will have to expand to meet growing demand.

This does not mean forest biodiversity is threatened. Most developing countries have already set aside large areas of land, as World Growth research shows, for conservation and biodiversity. That research shows that on average most developing countries in the tropical zones where palm oil is grown have already set aside more land for forest conservation than most industrialized economies.

Only environmental NGOs argue that any further conversion of forest land, regardless of how much is already conserved, should cease.

The World Bank Group is bowing to the advocacy of environmental NGOs, which do not factor development objectives into their environmental strategies.

Case for the New Approach Not Established

World Growth has reviewed closely the draft framework, the background and consultation documents to support it, which have been developed by the World Bank Group. Its conclusions are:

- The premise on which the Review was based is unfounded; and
- The rationale for new framework is not established.

The complaint that one palm oil operator (which is a leader in adoption of sustainable practices in palm oil production) breached the International Finance Corporation (IFC)'s performance standards at the refinery and trader stage of the supply chain is what led the Bank to initiate this review. The transgressions were found to be relatively minor. They did not indicate a systemic failure. Yet the response is a strategy which requires a substantial revision of the WBG approach to palm oil. It includes requirements that all small holders be certified, that new land use planning rules for palm oil plantations be introduced and that the Bank tighten its regulatory role on certification of palm oil's entire production cycle.

World Growth's conclusion is that the World Bank Group has acted at the behest of environmental NGOs to toughen the policies of the Group on the terms financial support is provided to palm oil projects. They have also urged the World Bank Group to endorse the idea that all forest conversion globally should stop, and even to consider providing financial support to a system of certification of sustainability of palm which was set up by the World Wide Fund for Nature, one of the NGOs which advocates the goal of global cessation of forest conversion.

No case is made in the supporting documentation prepared by the World Bank Group which demonstrates that there is a significant problem with the environmental impact of palm oil. It can only be inferred from the documentation that there is a problem because a number of NGOs say there is one.

The Criticism of Palm Oil by Environmental NGOs

The technical paper commissioned by the Group is more in the nature of a literature review, than a technical assessment of the sustainability of the palm oil industry. There is no technically supportable proposition that there should be a

requirement to alter the approach of the World Bank Group to provide finance for development of oil palm. Claims by environmental NGOs that palm oil is a leading cause of deforestation are simply listed against comments by others they are not.

Yet the new framework proposes major changes.

World Growth requests the WBG to assess objectively the environmental impact of the palm oil industry rather than respond to claims designed to advance political objectives.

The general claims are that palm oil is responsible for significant forest clearance, and hence is a major contributor to loss of biodiversity and generation of greenhouse gases. It also asserted that diversion of crops to produce biofuel instead of foodstuffs undermines global food supplies. The facts of the matter are set out briefly below.

Palm Oil is not a Major Driver of Deforestation

In Malaysia, the world's second largest palm oil producer, palm oil is not developed on land reserved for forestry, which is about half the country. In Indonesia, the biggest producer, palm oil accounts for only 7 percent of forest land cleared. These details are verifiable from official sources.

As a generality, plantation industries are not the drivers of deforestation. Worldwide they account for 20 to 30 percent. The rest is the forestation caused by poor people, mostly procuring firewood.

The solution to ending deforestation by the poor is to raise their standards of living. That is just what palm oil does. Since the 1960's the World Bank has funded programs which, apart from that in Nigeria, have been successful in developing the industry.

As a result, today, in both Indonesia and Malaysia, large companies are obliged by law to develop land for small holders to take up. They account for between 20 and 40 percent of palm

oil producers in both countries. Both have strong statistics demonstrating acquisition of wealth by small holders in palm oil, the key to getting people out of the poverty trap.

The Palm Oil is not a Significant Emitter of Greenhouse Gases – Rather, it Performs as a Sink

Research shows palm oil plantations performs as sinks for greenhouse gases, provided the carbon cycle is correctly calculated over cycles of regrowth.

The latest controversy over palm oil arises from claims that it generates very significant amounts of emissions because in some areas it is developed on peat land. A number of claims have been made of very high levels of emissions due to irregular events like fires and drought, which are wrongly treated as regular occurrences. Most claims made of very high levels of emissions and continuing high levels are based on limited research, which is challenged by other research with quite opposite results. This shows scientific understanding of the carbon cycle of Palm Oil on peat land is poor. Research is ongoing. Regardless of the foregoing, the amount of peat land on which palm is grown however is small.

This is the sort of weak analysis, which supports the general claim that Indonesia is the third largest emitter of greenhouse gases in the world. Recent work has shown this number is an unwarranted exaggeration, despite use of it in widely publicized reports like the British Government's Stern Report. The Indonesian Government has disavowed the claim.

The techniques for reducing emissions from peat land are known and being trialled. In some sensitive areas in Southeast Asia, moratoria have been introduced until the science is clearer. As yet there has been little technical analysis on how much peat needs to be preserved to ensure preservation of biodiversity.

The peat issue is worthy of study, but does not warrant creation of a new regulatory framework of green conditionality by the World Bank Group.

Palm Oil is not a Major Source of Biofuel

Palm oil is now criticized by environmental NGOs because it is a successful plantation product and because it is now being used to develop biofuels. These are NGOs– Greenpeace and Friends of the Earth, for example – who oppose all biofuels.

The first complaint is that the availability of biofuel eases pressure to stop generation of greenhouse gas emissions from combustion of carbon fuel. To most environmental NGOs, this is the only legitimate strategy to reduce greenhouse gases. As it is, the amount of biofuel generated from palm oil is very small compared to ethanol from corn and sugar. It will never be a major biofuel.

The second complaint is that development of land for biofuel reduces land available for production of food. The World Bank itself recently reported that this is not a side effect of production of palm oil. The FAO points out that the greatest redirection of product from away from food and feedstock to biofuel is in the corn and sugar industries.

The Proposed Framework – An Anti-Growth Strategy

The set of measures and policies proposed in the draft framework will advance policies that reduce the capacity of the World Bank Group to support economic growth. The justification is that this will make the industry more sustainable. By any ordinary measure the industry is already quite sustainable.

The strategy in the draft framework proposed by the World Bank not only reduces the capacity of the World Bank Group to finance pro-growth palm oil strategies. It also sets up a framework to discourage finance institutions in the private sector from financing palm oil.

World Growth contends this because the framework sets up the same set of institutions and procedures that have been developed in the WBG in the area of forestry.

In the early nineties, the World Bank Group adopted a set of

policies which resulted in its effective withdrawal from financing forestry in natural forests. It then built these policies into the Equator Principles to which it encouraged private sector financial institutions to adhere.

Certification and Sustainability

Following the formation of a formal “forestry” partnership with WWF in the late nineties, the Bank then crafted sustainability standards. These standards were built into the Equator Principles and had the effect of binding subscribers for them to agree only to finance forestry projects certified by the Forest Stewardship Council, a system of forest certification set up by WWF and other environmental NGOs that favored imposition of limits on forestry.

The result is that today the World Bank Group has set principles for certification of forestry, which only recognize the FSC system and fail to recognize others, including the largest system of forest certification used worldwide.

As a consequence, many financial institutions in the private sector now refuse to finance forestry in the developing world. In effect, they have become agents of the WWF policy to discourage extension of forestry in natural forests, in line with the policy of WWF and other anti-forestry NGOs to achieve global cessation of reduction of forestry.

World Growth notes the inclination of the World Bank Group to recognize the Roundtable on Sustainable Palm Oil (RSPO) as the certification system of which it would approve. It notes reference to the possibility that other systems might be developed. It notes that the framework seems to suggest that the World Bank Group would provide assistance to help with the development of the RSPO.

World Growth is concerned that the World Bank Group is setting up to replicate the discriminatory policy it applies in forest certification and urges it to commit to recognize any certification system which producers and consumers consider

satisfactory. As noted before, the essence of voluntary certification systems is not that they implement a set of standards approved by a third party, but that they serve the interest of both producer and consumer in demonstrating to their satisfaction the sustainability of a product.

In developing its sustainability standards for forestry, the World Bank Group has made no technically-based assessment of the measures taken by developing countries to set aside forest land for conservation or to protect biodiversity. It has simply adopted the anti-growth mantra of WWF and other environmental NGOs that no natural forest should in the future be harvested or removed.

It is not surprising that environmental NGOs like WWF and Greenpeace would advocate policies that hinder efforts to expand global food production. Economic growth or eradication of poverty are not in their mandates. They have done it before. Both rule out the use of GMO technology which will be also be key to increasing production of food.

World Growth urges the World Bank Group not to make the same mistake again. It calls on the World Bank Group to restore support for economic growth as a cornerstone of its institutional mission and to balance sustainability with economic growth, as the standing position in UN institutions, in its programs.

World Growth urges the World Bank Group to revise its Framework for Palm Oil Engagement so that it is no longer an unwarranted strategy to wrap a growth-sapping mantle over an industry that is already highly sustainable. The current proposal amounts another step in the process of advancing implementation of a goal (cessation of any further conversion of forest land) to which the World Bank has not formally subscribed and which will retard economic growth in developing countries as well as efforts to meet the rapidly growing demand for an increase in food production.



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