



WORLD GROWTH

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World Bank's New Anti Poor Palm Oil Policy



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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.

World Bank's New Anti Poor Palm Oil Policy

Executive Summary

The World Bank Group and International Finance Corporation have released the Final Framework for Engagement in the Palm Oil Sector. The Framework will have wide ranging negative impacts on the growth and development opportunities from palm oil industry in developing nations.

The Framework retains the most harmful elements of the original strategy and will move the World Bank Group further away from its mandate to reduce poverty and establish it as an international environmental regulator. It will hinder attempts to expand food production to meet growing demand and rising prices.

Through this Framework the World Bank clearly establishes itself as a partner in a new strategy announced by WWF to control markets to meet environmental criteria.

- **World Bank Becomes A Sustainability Czar:** the Bank's new policy will turn it into the *de facto* global czar of sustainability. That is not in its charter.
- **New Policy Will Deter Investment:** The new policy will reduce the capacity of the International Finance Corporation (IFC) to support new investors in the palm oil sector in developing countries and thereby reduce investment.
- **WWF Standards Are Set As A Global Standard, Precluding National Standards:** The Bank has effectively endorsed Roundtable for Sustainable Palm Oil (RSPO) as the only acceptable standard for sustainability. Yet the standard ignores the national development strategies of developing countries.
- **World Bank A Partner In WWF's Anti Free Market Campaign:** The World Bank has signaled in this new policy that it is a partner in WWF's recently declared intention to control trade and commerce in key food products.
- **Opportunities For Small Holders Will Be Restricted:** The new World Bank standards also will require that all small

holder producers of palm oil be certified. This will reduce the number of small holders producing palm oil.

- **Adverse Implications For Africa:** The Bank's new policy will reduce investment in the palm oil sector in Africa.

World Bank Becomes A Sustainability Czar

The Bank's new policy will make it the *de facto* global Czar of sustainability. Compliance with the new World Bank standards on palm oil will be required from investors seeking financing from the International Finance Corporation, the Bank's private finance arm.

More importantly, compliance will become an obligation of the many leading global financial institutions which subscribe to the Equator Principles, the sustainability standards set by the Bank and the IFC.

The Equator Principles set out a myriad of do's and don'ts for financial institutions. Many financial institutions have set compliance with them as conditions for financing projects in developing countries. They have become so onerous and so loaded with NGO conditions, that in some industries, major corporations with very good sustainability records now avoid World Bank or IFC financing because the Equator Principles provide ample opportunities for anti growth NGOs to attack the companies.

World Bank singles out Asia for NGO developed investment rules

The strategy singles out the Asia Pacific region for Bank intervention to support the growth and development of voluntary certification schemes. It notes that due to the well developed palm oil industries in the Asia Pacific region, private sector investment is likely to be the most significant

source of funding. As a result, the World Bank will actively seek to “support multi stakeholder led development of industry wide voluntary standards for sustainable investments.”¹

In other words, the Bank will seek to support NGO and civil society led institutions, such as the RSPO, to develop additional certification standards for investment once the Bank’s investment is no longer required.

It seems as the World Bank is not content merely to promote sustainable development at the expense of their mandated task of reducing poverty through investment — now they wish to influence markets once the Bank’s investment is no longer needed.

New Policy Will Deter Investment

In the past, the International Finance Corporation has supported projects to introduce or expand palm oil in developing countries. The new conditions will deter investors from doing so. There is such a commendable project in Uganda led in part by United Nations’ International Fund for Agricultural Development (IFAD) and private investors like Wilmar. One specific purpose of this project is to encourage development of palm oil by small holders.

Until this new policy, it was World Bank policy to encourage palm oil as an active instrument to reduce poverty. Historically, the Bank specifically commended the industry for this. Now it has elevated environmental concerns over development interests.

WWF Standards Are Set As A Global Standard, Precluding National Standards

Despite concerns being raised during the consultative process over the World Bank’s intention to give exclusive

endorsement to the Roundtable for Sustainable Palm Oil (RSPO), the Framework effectively does so. It also fails to allow the possibility of alternative certification systems being accepted as a condition for IFC funding such as those proposed by Indonesia.

While the Bank commented that it “acknowledges that, while RSPO is currently the only certification system focusing exclusively on the palm oil sector, other certification systems are being developed that could play a role in promoting sustainable practices in the sector,”² it is clear from the Framework that only the RSPO will meet the Framework’s criteria for an acceptable code of sustainable practice.

The Framework states that:

“an appropriate certification system as one that would be independent, cost effective, based on objective and measurable performance standards and developed through consultation with relevant stakeholders, such as local people and communities, indigenous peoples, and civil society organizations representing consumer, producer and conservation interests. Such a system has fair, transparent and independent decision making procedures that avoid conflicts of interest.”³

The clear implication of these criteria is that the World Bank Group will not accept or endorse any government run certification scheme because it will not be considered to be ‘independent.’ The World Bank also states that other certification schemes may play a ‘supplementary’⁴ role in helping define certification standards.

The ramifications of this Framework are that the World Bank has now excluded funding for any project certified under a certification scheme other than RSPO. This will severely

1 The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector, section 4.4, page 40

2 The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector, Summary of Stakeholders’ Comments, page 1

3 The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector, Annex XIII, page 84

4 Ibid, Section 4.1.4, page 32

constrain the 'market' for alternative certification schemes and cements the RSPO as the only acceptable or recognised form of sustainability certification globally.

The RSPO standard disregards the national development strategies of developing countries. In this respect the Bank is following the precedent it set on forest sustainability where the Bank created a set of criteria which only recognize the Forest Stewardship Council (FSC), a certification system set up by WWF.

The Bank has consistently refused to recognize another voluntary forestry certification system — the Program for Evaluation of Forest Certification (PEFC) — which has wider coverage and by any objective standard is as effective as the FSC. However, the PEFC system recognizes the right of developing countries to use forestry for national economic development. FSC does not.

The Bank has a formal alliance with WWF and has not acted impartially on this matter. It is moving in the same direction on palm oil.

World Bank A Partner in WWF's Anti Free Market Campaign

The World Bank has signalled in this new policy that it is a partner in WWF's recently declared intention to control trade and commerce in key food products.

WWF has declared its goal is to "transform" markets and to use the certification systems it has developed (such as in forestry and palm oil) to pressure (a common tactic is greenmail) key stakeholders in the supply chain (such as major processors or retailers) to demand suppliers adopt WWF certification standards. If suppliers will not comply, their product will not be procured or stocked for sale. The product will be targeted for aggressive boycott style campaigns by other sympathetic NGOs like Greenpeace and Rainforest Action Network.

This is wholly contrary to the notion that markets set prices and determine availability of products to consumers. The

World Bank since the time it was established has argued economic growth must be fostered by promoting open market economic systems.

In endorsing WWF's sustainability standards exclusively, the Bank has become a partner in this anti free market strategy being implemented by WWF.

Opportunities For Small Holders Will Be Restricted

The new World Bank standards also will require that all small holder producers of palm oil should be certified. This will reduce the number of small holders producing palm oil.

This policy illustrates how the Bank's new role as an environmental regulator harms small producers. The RSPO is supposed to be a voluntary certification system. The concept is built on the model of international quality systems, like ISO 9000, the world's leading quality management system.

Complex sustainability systems are expensive to implement. Large businesses use them because consumers recognize it connotes use of high standard management systems. They recoup the cost by increasing the cost of their products or services. Small businesses cannot afford them. Consumers have a choice to select between the products and services. The measure of success of the system is its acceptability to consumers, not that all operators in the industry adopt the standard.

Yet the new Bank policy on palm oil prescribes precisely that. It is applying the WWF strategy that the system is to be used to ensure a management sustainability standard is employed across the industry.

Small holders in the largest palm oil producing countries account for around 40 percent of production. They cannot afford the cost of the sustainability controls mandated by the RSPO. Nor should they. The idea is that the consumer will decide if they want certified palm oil or non certified palm oil.

Under the new World Bank policy, all smallholders should be certified and must be certified. The summary of stakeholders' comments included the World Bank's response to concerns over certification costs was that the IFC would seek to invest in "larger producers with affiliated smallholder suppliers." In other words, it would disregard independent smallholders. This makes clear the World Bank has subordinated poverty alleviation to setting environmental standards.

The World Bank justifies the need to certify smallholders because "they risk losing access to markets if they fail to achieve certification."⁶ This is wrong. Currently only about 7 percent of global palm oil supply is RSPO certified. There is a large market for uncertified palm oil in Indonesia, China, India and Africa.

The result of the Bank's new policy is that it discourages development of palm oil by small producers. It would also increase the cost of palm oil to low income consumers.

Adverse Implications For Africa

There is considerable interest in developing palm oil in Africa. Demand for palm oil is strong. Palm oil has recognized potential as a valuable development tool. The Bank's new policy will reduce investment for that purpose.

The World Bank actively encouraged development of palm oil in Indonesia two or three decades ago because it created income, security, prosperity and property for poor people. Governments in Indonesia and Malaysia mandated that around 40 percent of palm oil should be produced by small holders. These were effective economic development strategies.

That same opportunity is now before a number of countries in the equatorial zone in Africa. The Bank's new palm oil policy means it will deny to Africa the development opportunities it supported in Southeast Asia.

5 The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector, Stakeholder Comments, page 2

6 Ibid



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