



POLICY BRIEF

World Bank investments in Palm Oil may undermine EU decisions¹

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Authors : Sisilia Dewi, Arimbi Heroepectri, Stephen Leonard & Diana Gultom

Introduction

Indonesia is the largest palm oil producer and exporter worldwide. The industry contributes US\$20 billion per year to the country's total export foreign exchange earnings². The rapid development of Indonesia's palm oil industry, particularly over the last four decades, which to some extent has been 'development at all costs', has generated significant revenues for Indonesia's economy but simultaneously has caused massive environmental degradation.

Human rights violations in palm oil plantations are also widely documented and are not given the attention they deserve. Conflicts associated with land acquisition have led to violence and criminalisation of local communities, including indigenous peoples, threats to community livelihoods, and stateless children. Labour related breaches of human rights are also being committed in the palm oil sector, especially child labour.³ The industry fails to take into account the special needs of women and gender equality does not feature any priority in relevant regulations or policies⁴.

The World Bank Group (WBG) has a long history of investing in the palm oil industry including supporting damaging practices, also in Indonesia. About ten years ago, following the findings of an independent complaints advisory Ombudsman, the IFC put in place a moratorium on the provision of financial investments in favour of the palm oil sector. The independent investigation found that the International Finance Corporation (IFC), a member of the WBG did not have a specific strategy for dealing with the Indonesian palm oil sector, despite being aware of social, environmental and governance problems.⁵ The then World Bank President Robert Zoellick said that the independent audit had highlighted important deficiencies in IFC's practices.⁶

Increasing concerns are being raised that palm oil plantation owners and their host States now have new reasons to increase their production and to expand for the purposes of so-called renewable energy and transport in the name of climate change mitigation. It is highly likely that the biofuels, and consequently, the palm oil industry will expand rapidly

1 The views expressed in this publication are those of the authors and do not necessarily represent the views of the Heinrich Böll Foundation.

2 Fernandez, M.G. (2017): Pengusaha Tekankan PP 57/2016 Bisa Ganggu Iklim Usaha, Bisnis Indonesia. Retrieved on July 17, 2017 from : <http://industri.bisnis.com/read/20170531/99/658261/pp-no.572016-berpotensi-ganggu-industri-sawit-dan-pulp>.

3 Jiwan, N. (2013): The Political Ecology of the Indonesian Palm Oil Industry: A Critical Analysis. In Pye, O. (Ed.), The Palm Oil Controversy in Southeast Asia : A Transnational Perspective. iBooks. Retrieved from : <https://itunes.apple.com/au/book/palm-oil-controversy-in-south-east-asia-transnational/id794302655?mt=11>.

4 Dewi, Leonard, and Heroepectri (2018): Effectively Integrating Human Rights and Gender Equality into EU Climate Actions : A Case Study of Palm Oil for Biofuels in Indonesia, pg.11.

5 Reuters (2009): World Bank's IFC Suspends Palm Oil Investments, Retrieved on 26th September 2018 from <https://www.reuters.com/article/us-worldbank-palmoil/world-banks-ifc-suspends-palm-oil-investments-idUSTRE58860D20090909>.

6 Ibid.

in a short period of time in order to feed the growing global demand for biofuels⁷, and simultaneously increasing risks of rights violations⁸ including indigenous rights and rights of women. National drivers of this growth include measures such as the Indonesian domestic biofuels policies while on international level the EU 2020 transport target requires all Member States to achieve at least a 10% share of renewable energy in their transport sectors. Measures to be applied through the aviation industry's Carbon Offsetting and Reduction Scheme for International Aviation (CORSA) of the International Civil Aviation Organisation (ICAO) will contribute to this growth significantly. This expansion and trend is supported and incentivised through Indonesian national policies, including through the provision of subsidies.

Whilst the EU is showing some leadership on the subject of sustainability of palm oil production, there is no indication from the IFC and the WBG that it plans to follow suit or put in place any similar supporting policies, which has potential to undermine progress made by the EU. This is important for the purposes of policy coherence and consistency between the IFC and their investments as well as the use of funds provided by the EU as a major donor to the WBG.

The World Bank Group's Investments in Palm Oil

The World Bank Group is made up of several different organisations, each of which has its own specific mandate and role in relation to the global financial world. For the purposes of this paper, and due to the emphasis placed on provision of financial support to the private sector engaged in palm oil in Indonesia, we focus more specifically on the IFC. The IFC works by financing private sector investment to companies and governments in developing countries. IFC has been widely involved throughout the palm oil sector supply chain with investments in plantations (Indonesia, Thailand, Ghana and Nicaragua), processing (Indonesia and Ukraine), and trade in palm oil (Indonesia and Singapore).¹⁰

Since 2011, the IFC and the WBG have determined to be involved again in the palm oil industry putting more emphasis on regulatory and governance reform, responsible private investments, improved benefit sharing with smallholders and communities, and of environmentally and socially sustainable standards and codes of practice.¹¹ Some of the reasons include the growing demand for palm oil and the comparison of benefits when compared to other vegetable oils; the potential to reduce risk, and opportunities to generate development benefits. The aim of the World Bank Group's involvement in the palm oil sector is to invest in the potential of the sector to reduce poverty by generating development and income, and to contribute to food security while ensuring sustainable man-

agement of resources and the environment. The WBG's work strategies and programs in each country are specifically determined by the priorities of the host country's government development and interest from the private sector and IFC allows commercial pressures to prevail and overly influence the categorization and scope and scale of environmental and social due diligence.¹²

Currently the IFC is investing in a project supporting independent farmers and sustainable business models¹³ in Indonesia as well as providing US\$100 million to support the Indonesian company PT Kaldu Sari Nabati Indonesia over a period of 7 years for the construction of a new factory capable of producing wafers, biscuits, snacks, and confectionery in Majalengka, West Java, Indonesia.¹⁴ Indonesian CSOs hold concerns that support for the provision of factories in particular may avoid stringent application of IFC safeguards and performance standards due to the 'removed' nature of the investment, as opposed to direct investments in plantations.

International Policy Consistency for sustainable palm oil: The WBG, the EU and ICAO

Positive steps to use less palm oil are being made in some parts of the world, especially in Europe. In April 2017, the European Parliament voted to call on the EU to phase-out the use of palm oil in biofuels by 2020 and adopted the Palm Oil and Deforestation of Rainforest Report. Members of the European Parliament noted that the EU demand requires the use of about one million hectares of tropical soils and identifies that self-regulation is not enough to stop deforestation, and points to the thin standards and weak enforcement capacities.¹⁵ This resolution builds on the Amsterdam Declaration (2015) of which the EU and its Member States take note and support the private sector driven commitment to 100% sustainable palm oil in Europe, by no later than 2020.

In June 2018 a new political agreement was reached between the European Commission, the European Parliament and the Council of the EU on the EU's Renewable Energy Directive, (known as REDII), which will put in place a legally binding EU-wide target of 32% for renewable energy by 2030, with an upward review clause by 2023 at the latest. In order to contribute to these targets, the proposed Directive will freeze the level of consumption of biofuel feedstocks from which a significant expansion of the production area is into land with high carbon stock at 2019 levels and decrease gradually to 0% by 31 December 2030 at the latest¹⁶. In other words, the proposed Directive will completely phase out unsustainable palm oil based biofuels, which drive deforestation by 2030.

Sustainability measures of this nature however are not

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- 7 Malins, Chris (2018): Driving Devorestation: The Impact of Expanding Palm Oil Demand through Biofuel Policy., pg. 2.
- 8 Ibid. pg. 5.
- 9 The following organisations are included in the WBG: International Bank for Reconstruction and Development (IBRD); International Development Association (IDA); International Finance Corporation (IFC); The Multilateral Investment Guarantee Agency (MIGA); and The International Center for Settlement of Investment Disputers (CSID).
- 10 IFC, Kerangka Kerja Kelompok Bank Dunia dan Strategi IFC untuk Keterlibatan dalam Sektor Minyak Kelapa, Sawit, Retrieved on 3 October 2018 from https://www.ifc.org/wps/wcm/connect/481375804be32ed18f8ddf7cbf6249b9/WBG+Framework+and+IFC+Strategy_BAHASA_FINAL.pdf?MOD=AJPERES.
- 11 IFC: IFC in the Palm oil Sector, Retrieved on 3 October 2018 from https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/agribusiness/resources/palmoil_landingpage.
- 12 As quoted in Lukas, Karin, et. Al (2016): Corporate Accountability: The Role and Impact of Non-Judicial Grievance Mechanisms, pg. 132.
- 13 IFC: Project Information Document retrieved on 3 October 2018 from <https://disclosures.ifc.org/#/projectDetail/AS/594007>.
- 14 IFC: Project Information Document retrieved on 3 October 2018 from <https://disclosures.ifc.org/#/projectDetail/AS/594007>.
- 15 Dewi, Leonard, and Heroepectri (2018): Op. Cit., Pg. 14.
- 16 Council of the European Union 10308/18 Interinstitutional File: 2016/0382 (COD).



Photo : Moses Ceaser/CI FOR

without their own social challenges. Readiness of smallholder farmers due to requirements to implement the higher environmental standards is expensive and difficult to achieve¹⁷, whilst domestic laws are stacked in favour of large companies that sometimes operate without proper legal requirements¹⁸. There is a need for more targeted support for small holder farmers. Measures such as the ILO Just Transition Guidelines can guide this transition towards sustainable palm oil through social dialogue, social protection and rights-based approaches¹⁹. The provision of financial support from the IFC for such measures could go a long way in Indonesia.

Furthermore, some contradictions exist with regard to EU internal and external policy measures. Whilst the EU has no formal status in ICAO, all EU Member States have expressed their intention to participate in the ICAO scheme, which is global by nature. In other words, whilst the EU is making decisions to phase out unsustainable palm oil expansion, there is also support from EU countries for this global mechanism, which is likely to act as a significant driver of further unsustainable palm oil expansion.

EU decisions are important in relation to the IFC as the EU is one of IFC's largest donors. EU Member States hold almost a third of IFC's shares²⁰. They contribute to IDA through their national budgets rather than the common EU budget, however a section of the later is channelled through WBG-administered Trust Funds.²¹ The relationship between the EU and the IFC is centred around an ongoing dialogue and cooperation on issues related to private sector development.²²

As a major contributor to the IFC, the EU should therefore be taking steps towards ensuring policy coherency between its

own policy objectives and the investments of the IFC. For example, the IFC could amend its Environmental, Health and Safety Guidelines for Airlines²³ to reflect the decisions and resolutions made in the EU.

Furthermore, the Roundtable on Sustainable Palm Oil (RSPO), of which the IFC is a member, has established a Human Rights Working Group (HRWG), which links its work to the UN Guidelines on Business and Human rights ('the Ruggie Principles'). In 2007, Indonesia has developed a National Action Plan (NAP) for Business and Human Rights, also premised on the Ruggie Principles. However, despite the HRWG's involvement with the RSPO, there is no provision for human rights included in the RSPO's conflict resolution policies. The implementation of the NAP is going slowly and possibly failing due to a lack of political will and the voluntary nature of the process.

Companies are also making pledges to go deforestation free. The New York Declaration on Forests was a global milestone in this context. Major global traders of palm oil have adopted zero deforestation policies covering about 60 percent of global trade, including Wilmar International, Golden Agri-Resources (GAR) and Cargill. Financial institutions such as HSBC, Rabobank, and BNP Paribas have all adopted 'No Burn Policies'. Transparency and accountability related to these pledges will be a major challenge and questions related to participation, tracking, independent monitoring and independent verification remain largely unanswered, despite efforts by non-governmental organisations. This is without doubt also an important area for engagement by the IFC as there is considerable uncertainty as to whether these companies are meeting these targets. In fact, assessments of the NYDF suggest that these pledges have not been fulfilled.

17 Opijnen, Brinkman and Meeker(2013), as quoted in Hidayat, NK, et.al.: Sustainability Certification and Palm Oil Smallholders' Livelihood: A Comparison between Scheme Smallholders and Independent Smallholders in Indonesia (IFAMA: 2015), Retrieved on 3 October 2018 from <https://www.ifama.org/resources/Documents/v18i3/Hidayat-Glasbergen-Offermans.pdf> , pg.27.

18 Dewi, Leonard, and Heroepeotri (2018): Op. Cit., Pg. 3.

19 Loc.Cit.

20 IFC: European Union Institutions Relations, Retrieved on 26 September 2018 from https://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/western+europe/priorities/western+europe+european+union+institutions.

21 World Bank: The EU and World Bank Group, Retrieved on 26 September 2018 from <http://web.worldbank.org/WBSITE/EXTERNAL/EXTA-BOUTUS/PARTNERS/WBEU/0,,contentMDK:22924761~menuPK:7952425~pagePK:64137114~piPK:64136911~theSitePK:380823,00.html>.

22 IFC: IFC and European Union, Partners in Private Sector Development, Retrieved on 26 September 2018 from <https://www.ifc.org/wps/wcm/connect/ae7ad800482c7c61a4bfecd1c8896efa/IFC+and+European+Union.pdf?MOD=AJPERES>.

23 IFC: Environmental, Health and Safety Guidelines for Airlines, Retrieved on 26 September 2018 from <https://www.ifc.org/wps/wcm/connect/c0da4600488552a2ac2cfe6a6515bb18/Final+--+Airlines.pdf?MOD=AJPERES>.

Conclusions and recommendations

Whilst the IFC and the WBG have sought to ensure their investments in the palm oil sector, promote sustainability and support for smallholders, more can be done. The IFC should put in place new policies that are consistent with those being developed by the EU. In this context, we make the following recommendations :

- The IFC and the WBG should reinstate the moratorium on palm oil-related investments until it has put in place policies and measures that are consistent with and support the EU decisions related to phasing out of investments in unsustainable palm oil and its derivative products by 2030 at the latest;

- The IFC and the WBG should amend relevant policies related to aviation, including its Environmental, Health and Safety Guidelines for Airlines to ensure it does not invest in further unsustainable palm oil expansion, which may be linked to the increasing demand for biofuels from the aviation sector ;

- The IFC should provide full disclosure on the US\$100m investment made in PT Kaldu Sari Nabati Indonesia, including information to evidence that all palm oil provided to the factory will come only from sustainable sources ;

- The IFC, as a member of the RSPO should seek for the inclusion of provisions for human rights in the RSPO's conflict resolution policies, and support the implementation of the National Action Plan for Business and Human Rights in Indonesia ;

- The IFC should support measures for tracking, independent monitoring and independent verification of pledges made by companies to go deforestation free ;

- As a major contributor to the IFC, the EU should do more to support small holder farmers and help them meet the sustainability criteria through IFC investments ; and

- The EU should put in place regulations that require European companies to only use deforestation-free biofuels under the ICAO CORSIA.



HEINRICH BÖLL STIFTUNG
EUROPEAN UNION

Place du Luxembourg 47 - 51, B-1050 Brussels, Belgium

T +32 2 743 41 00 **E** info@eu.boell.org **W** www.eu.boell.org