



**International  
Finance Corporation**  
World Bank Group

# Sustainable palm oil production and the World Bank Group role



October, 2012



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Finance Corporation**  
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# Outline

- Introduction to the World Bank Group (WBG) and International Finance Corporation (IFC)
- WBG Palm Oil Strategy
- IFC in frontier and emerging markets



10 Years Of Driving Sustainability.  
A Business Model For The Future.

# The World Bank Group and IFC

## AN INTRODUCTION

# The World Bank Group

- Largest multilateral financial institution owned by 188 member countries
- **World Bank** provides financial support (concessional loans + grants to poorest) and advice to **governments** (ex. health, education, regulatory reform, capacity building)
- **IFC** directly invests in and advises **private companies** and **financial institutions**
- **Multilateral Investment Guarantee Agency (MIGA)** provides **foreign investors** with insurance against political / non-commercial risks

*In support of development and reducing poverty*

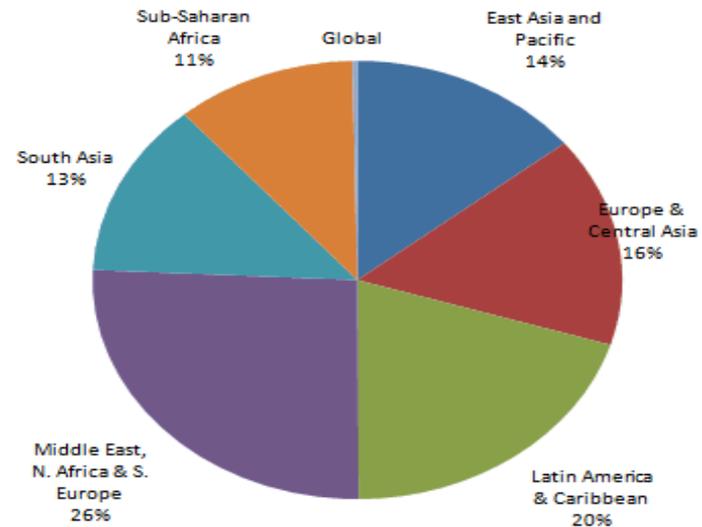
# IFC is the world's largest development institution focused on the private sector

- IFC promotes development in Emerging Markets ( EM), with USD 45 bn invested in the private sector
- Over 100 offices and 4,000 staff globally
- Client base: 1,700 companies and 600 financial intermediaries

## IFC Agribusiness

- USD 5 bn portfolio
- USD 3.2 bn in financings in FY12
- New strategy: grow to USD 4 bn p.a. by FY14

## IFC Agribusiness portfolio



# IFC's three business lines

## Investment Services

- Loans
- Equity
- Trade finance
- Syndications
- Securitized finance
- Blended finance

USD 45 bn  
portfolio

## Advisory Services

- Access to finance
- Sustainable Business
- Investment Climate
- Public-Private Partnerships

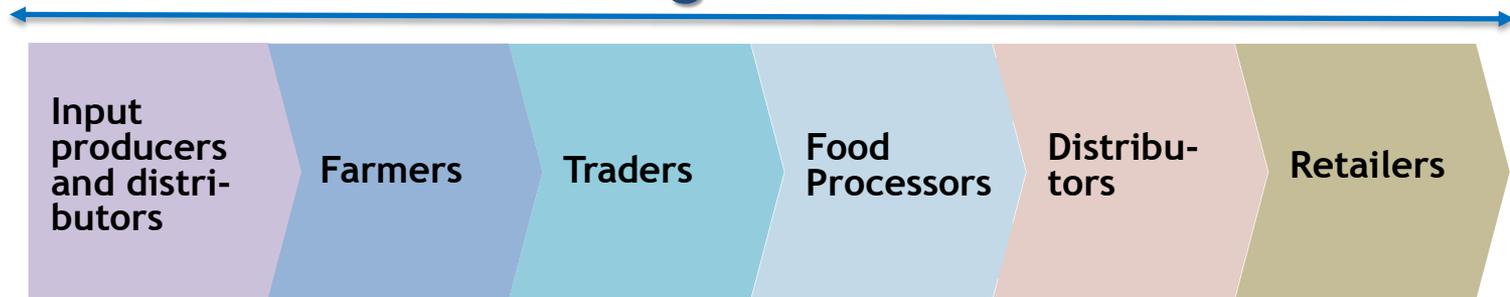
USD 200 mn per  
year

## Asset Management Company

- Private equity fund manager
- Invests third-party capital alongside IFC

USD 4.5 bn  
under mgmt

# IFC supports an integrated value chain approach in agribusiness



## Spectrum of IFC services offered to clients

Infrastructure, Public Private Partnerships (PPPs)

Investment climate

Financial/Risk management products

Advisory/Technical assistance

Environmental, social and corporate governance standards

# IFC's Agribusiness Strategy Action Plan (ASAP)

- 1. Enhance productivity and efficiency:** focus on projects that increase production, enhance rural incomes/livelihoods and reduce waste
- 2. Promote economic development & inclusiveness:** focus on smallholders, women, trade/commodity finance and risk management
- 3. Make environmental & social sustainability a business driver:** focus on resource utilization, efficiency and lessen negative E&S impact
- 4. Promote country/systemic interventions** across critical value chains
- 5. Put IFC in leadership position in private sector led agribusiness development:** Global Agricultural Food Security Program (GAFSP), commodity round tables, Private Sector Consortium



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# Palm oil

## A CLOSER LOOK AT OUR APPROACH

## Why are we engaged in palm oil ?



*The World Bank Group is a development institution and palm oil is a compelling development story*

- **Food security:** the most consumed and traded vegetable oil globally. Key ingredient in many consumer products
- **Productivity:** agriculture must produce more from the same area to feed a world of 9 billion people by 2050
  - ✓ *Oil palms are the most productive oil bearing plants*
- **Poverty reduction/employment** impact is substantial—labor intensive industry which raises rural income and provides numerous social benefits
- **Environmental, Social & Governance** issues are significant and an area of strength of the World Bank Group

## Why a new approach for palm oil?



- In 2009 external criticism of previous investments in palm oil weakened our “license to operate” resulting in a temporary suspension of new engagements
- Commitment to a new, strategically-driven approach informed by external stakeholders (industry, NGOs, governments)
- What we heard from 99% of stakeholders: “please stay involved”
- 15 month consultative process yielded broad stakeholder support for matching World Bank Group capacities with palm oil’s challenges and opportunities
- New strategy effective April 2011

# WBG framework/IFC strategy for palm oil is based on four pillars

- I. Support the development of an enabling policy and regulatory environment
- II. Mobilize private sector investment (environmentally & socially sustainable)
- III. Enhance benefit sharing for smallholders
- IV. Support the enhancement and uptake of sustainability codes of practice (RSPO, Rainforest Alliance, etc)

# Implementation - World Bank

Potential World Bank interventions (when host government agrees) could include:

- ✓ Land tenure/titling & registration
- ✓ Enforcement capacity-building
- ✓ Spatial/land use planning
- ✓ Protection of Indigenous Peoples/Community rights
- ✓ Publicly financed infrastructure - roads, ports, power, etc.
- ✓ Extension services/Technical assistance for smallholders
- ✓ Research support
- ✓ Risk management tools to reduce losses from weather/price volatility
- ✓ Strengthening smallholder producer organizations

# Implementation—IFC

## ▲ Potential IFC interventions can include:

- ✓ Loan and equity investments in primary and downstream **producers** that are committed to high standards/certification
- ✓ Investments in **traders and processors** that are committed to sustainable supply chains (traceability and increased CSPO sourcing)
- ✓ Investments in **financial intermediaries** with appropriate environmental management systems
- ✓ Parallel funds for **cleaner production** improvements (ex. methane capture)
- ✓ **Member RSPO** (+Smallholder Working Group + P & C Task Force)
- ✓ **RSPO National Interpretations** & “road shows” (Liberia, Sierra Leone, Ghana)
- ✓ **Smallholder certification & dispute resolution support**
- ✓ Investments in **private infrastructure** (transport & storage facilities)



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# Palm oil

## WHAT WE INVEST IN

# IFC palm oil investments: what we look for

## Prospective investment pre-qualifications:

- ✓ Quality sponsors with proven experience in palm oil
- ✓ \$20 million total project cost and up
- ✓ Plantations > 2000 ha with road, rail or barge links to market
- ✓ Rehabilitations/conversions of existing plantations/mills preferred (but open to greenfield)
- ✓ Commitment to certification (RSPO or similar required)
- ✓ Existing or potential Smallholder supplier base (ex. 80% from plantations & 20% from smallholders)
- ✓ Clarity of land titling (or sponsor support to compensate/mitigate)
- ✓ Favorable climatic conditions (+/- 10 degrees of equator, 1500mm+ rainfall p.a., dry season 4 months or less)—client to have agronomic studies confirming suitability
- ✓ Management experience

# RSPO participation

- Strong supporter since 2005
- IFC staff have served on a number of working groups: GHG, HCV, New Plantings, P& C Revision
- Through Biodiversity and Agricultural Commodities Program (BACP) supporting palm oil related NGO initiatives (Example: WRI/POTICO) to remove obstacles to degraded land development
- USD 2 mn grants via BACP to NGOs to support palm sustainability + RSPO directly



## Palm oil advisory projects

- African P&C national interpretation and smallholder support in Indonesia
- Smallholder sustainability and traceability support projects



# Conclusion-we want to do business and help move the industry forward

- Stakeholders want us in the sector and have endorsed the new Framework/IFC Strategy
- IFC is committed to a sustainable palm oil industry
- The key to success is taking a holistic view and understanding country, sector and project context EARLY
- Combination of investment & advisory support provides comprehensive service for clients

# IFC global business examples

Globally: seeking new investments

## Latin America

Two palm plantation companies

## Africa

One palm plantation and NIWG in three countries

## Asia

Advisory support to smallholder sector

# ANNEX



# IFC Performance Standards



**PS1: Assessment and Management of E&S Risks and Impacts**



**PS2: Labor and Working Conditions**



**PS3: Resource Efficiency and Pollution Prevention**



**PS4: Community Health, Safety and Security**



**PS5: Land Acquisition and Involuntary Resettlement**



**PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources**



**PS7: Indigenous Peoples**



**PS8: Cultural Heritage**

# Smallholder market access fund

## Project objectives

- ✓ To increase access of smallholders to the certified sustainable palm oil market. (Funds available from Exchange of Certified CPO on GreenPalm trading platform, held in escrow by RSPO.)

## Project description

- ✓ IFC experts will work with Task Force on Smallholders of RSPO to determine fund priorities and design the mechanism.
- ✓ Attention to support for group certification of smallholders

# Investment climate for sustainable palm oil

- **Project objectives**
  - ✓ Identify and reduce regulatory constraints to sustainable oil palm development, including sustainable certification by smallholders
  
- **Project description**
  - ✓ Work closely with sub-national and national level governments
  - ✓ Review policies affecting smallholder certification, land swaps, etc.



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