Sustainable palm oil production and the World Bank Group role

October, 2012
Outline

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

A CLOSER LOOK AT OUR APPROACH
Why are we engaged in palm oil?

- **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

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