
[Indonesia: Call for suspension of World Bank \(IFC\) lending to oil palm](#)

An internal audit has revealed that the World Bank's private sector arm – the International Finance Corporation (IFC) – has allowed commercial interests to override its social and environmental standards in making major loans to the oil palm sector in Indonesia.. The uncontrolled expansion of oil palm plantations in Indonesia has become synonymous with widespread clearance of forests and peatlands, massive CO2 emissions and the theft of indigenous peoples' lands. Yet the government plans to expand from a current 7 million hectares of plantings to more than 20 million hectares over the next decade.

Although the IFC knew about all these risks, it went ahead with loans to the Wilmar palm oil trading group, in violation of its own standards, according to the report. The IFC failed to assess the supply chains or look into the damaging impacts of the company's subsidiary plantations that were taking over community lands and forests in Borneo and Sumatra. These findings come from a highly critical audit report just issued by the semi-independent Compliance Advisory Ombudsman of the IFC which looked into a detailed complaint filed in July 2007 by Forest Peoples Programme and a coalition of 19 Indonesian civil society and indigenous peoples' organisations, including SawitWatch and Gemawan.

The complaint was sparked by the fact that the IFC was persistently ignoring NGO warnings that its favoured commercial client, Wilmar International, was operating in violation of both IFC standards and Indonesian law. In a detailed dossier submitted in 2007, the NGOs demonstrated that Wilmar was: failing to recognise the customary rights of local communities; grabbing the lands of communities with the connivance of local and national State agencies; party to serious human rights abuses when communities objected to the takeover of their lands; clearing extensive areas of forest and peat; carrying out illegal practices such as use of fire to clear lands; failing to comply with legal regulations and failing to carry out environmental impact assessments and; breaking promises made to communities to establish areas as smallholdings. At the time the IFC made the investment guarantee to Wilmar that triggered the complaint, Wilmar group companies were actually the subject of legal proceedings brought by the government for alleged violations of environmental laws.

The company, Wilmar trading, has over the 8 years that it has enjoyed IFC patronage grown into the world's largest trader of crude palm oil and become a 'vertically integrated' business empire, worth an estimated US\$7 billion, with factories in eastern Europe, ports and refineries in Sumatra, shipping facilities, an HQ in Singapore and an aggressively expanding 'land bank' of extensive plantations in Sarawak and Indonesia, heading towards a target area of 1 million hectares.

The IFC-Wilmar case has been particularly shocking as, even after the complaint had been filed and a team from the CAO was negotiating land disputes between Wilmar and local communities, IFC staff persisted in ignoring the situation and prepared a further loan to the Wilmar Group. Although NGOs warned the President and full Board of this travesty and even though IFC staff were again in violation of procedures, the Board approved a further loan to the company.

As is normal when the CAO issues an audit, in this case Senior IFC staff also published a

'Management Response' to go out at the same time that the audit was released. Having carefully scrutinised this response NGOs have told the IFC they find it 'inadequate'. In a strongly worded [letter](#) supported by NGOs from all over the world to World Bank/IFC President, Richard Zoellick, they argue that:

"In the first place, it is clear to us, and the audit confirms this, that IFC suffers a systemic problem whereby the pressure to lend and to support business interests overcomes prudence, due diligence and concern for social and environmental outcomes. No actions are proposed to address this problem. Secondly, the Management Response provides no contextual analysis of the wider problems within the palm oil sector in Indonesia, instead an Annex to the management response only puffs the potential benefits. As our own documentation has detailed and as the audit report confirms, the palm oil sector in Indonesia suffers endemic problems which are not limited to one company or group of companies.... We note in particular that in the Management Response:

- No actions are suggested to discipline IFC staff for systematic policy violations.
- No actions are recommended to stop IFC staff misleading the Board when controversial projects are presented for the Board's approval.
- No actions are proposed to remedy the wider problems still besetting the Wilmar group's operations in which IFC has so heavily invested.
- No actions are proposed to address the fundamental problem that the current land tenure laws and land acquisition procedures in Indonesia deny customary rights and encourage companies to take over communities' lands without their free, prior and informed consent.
- No actions are proposed to address the problems raised in our complaint that companies are planting on peatlands and burning forests, despite global concern about climate change being exacerbated by deforestation and land use change,
- Indeed no comprehensive action plan is presented to clarify what IFC staff will actually do to ensure future compliance with standards."

The NGOs have thus called on the IFC President and Board to suspend IFC lending to the palm oil sector in Indonesia until these deficiencies are addressed.

Sources: Press release by Forest Peoples Programme, SawitWatch and Gemawan, 10th August 2009; http://www.forestpeoples.org/documents/ifi_igo/ifc_wilmar_cao_fpp_press_rel_aug09_eng.pdf
Original complaint and follow up correspondence with the IFC and CAO

see: http://www.forestpeoples.org/documents/ifi_igo/ifc_wilmar_fpp_let_jul07_eng.pdf

http://www.forestpeoples.org/documents/prv_sector/bases/oil_palm.shtml

CAO audit see:

http://www.forestpeoples.org/documents/ifi_igo/ifc_wilmar_cao_audit_report_jun09_eng.pdf