Under the Influence

How International Financial Institutions fund deforestation in Asia Pacific

JUBILEE AUSTRALIA
drop the debt

Jubilee Australia Report September 2007

September 2007

Research by Renee Attard, Jennifer Vallentine and Stephanie Lusby
with assistance from Katie Quinly

Edited by Stephanie Lusby

With ideas and advice from Luke Fletcher

Design by Adele Low

Photographs AID/WATCH

Jubilee Australia gratefully acknowledges
funding support from Baptist World Aid Australia

Jubilee Australia is a non-profit advocacy campaign in Australia urging economic justice for developing countries and an end to the debt crisis.

Level 7, 379 Kent St,
Locked Bag 199,
Sydney NSW 1230
AUSTRALIA
+61 2 9299 2215
www.jubileeaustralia.org
Stephanie Lusby slusby@ncca.org au
Adele Low alow@ncca.org.au

Contents

Executive Summary

In this report, Jubilee Australia explores the links between IFIs (international financial institutions), deforestation and climate change.

Deforestation in the Asia Pacific is a direct consequence of the expansion of exploitative industry. IFIs have encouraged or coerced developing nations in the region to undertake much of this expansion. Through loan conditions and policy intervention, the economies of developing countries have been restructured to increase national profit. This has necessitated sacrifice of the environmental and social well-being for the majority of areas and communities affected, the ill effects of which have lasted long after the initial programs were implemented.

These relationships continue to allow deforestation. Economic policy interventions create market conditions that demand unsustainable levels of forest clearing. In addition, all financing from IFIs comes in the form of loans that must be repaid with interest. This redirects substantial amounts of developing country income away from environmental monitoring and law enforcement.

The Asia Pacific region is home to some of the most important rainforests in the world. These areas hold multifaceted value. Ecologically, the forests house extraordinary biodiversity and are critical atmospheric filters for a world threatened by climate change. They form the basis of livelihood and cultural tradition for local people. The forests also represent vast amounts of potential economic revenue generated by extracting timber, planting export crops in their rich soil, or mining the minerals that lie beneath.

Jubilee Australia contends that IFIs have given much greater priority to the economic value of forests, with devastating consequences for land, water and people.

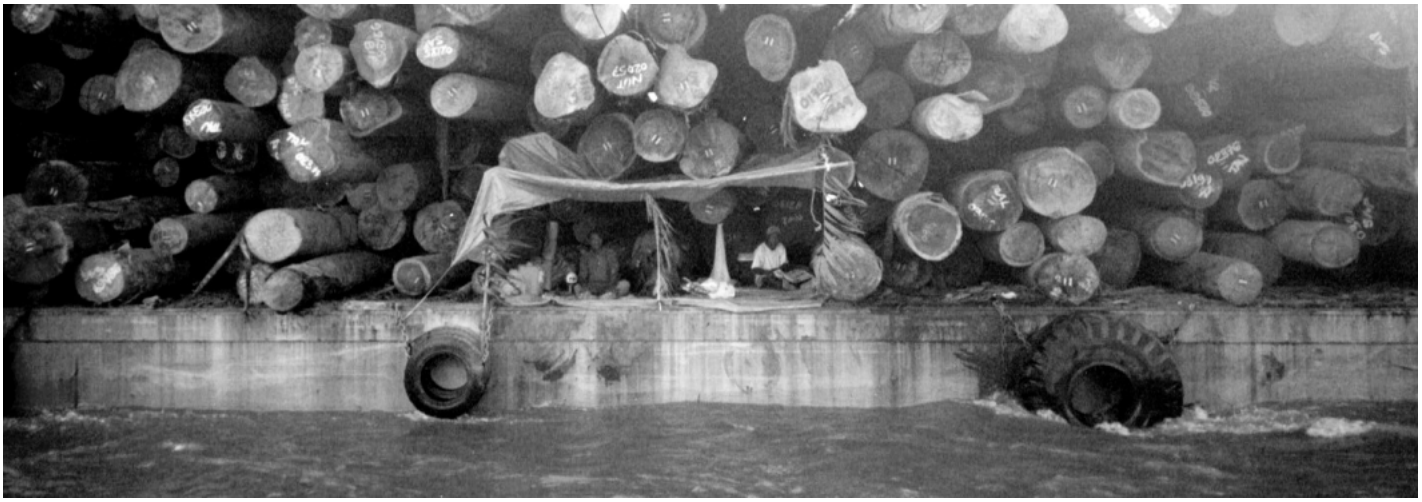
Part I: The Issues details the environmental implications of deforestation on both the local and global level. Examining the role of IFIs in the global economy and their influence over developing nations, the section then demonstrates how this influence manifests itself in national industry and market sectors. It considers the impact of national development debt on people and environments, and the process by which it has led to deforestation.

Part II: The Past uses case study examples from Indonesia and Papua New Guinea to provide a comparative historical analysis of IFI involvement in deforestation. IFI interventions in these countries began a generation apart. Despite this large time span the report shows the striking similarities and connections between policy effects.

Part III: Present Trends and Future Plans notes how mounting international pressures around issues of deforestation have made IFIs and partner countries move toward improved monitoring and accountability of environmentally sensitive industry. The section examines the rhetoric of planned changes against the reality of IFIs' continued focus on private sector industry expansion. We consider how IFIs and Australia have approached their role as development and economic leaders in the Asia Pacific, specifically focusing on their forestry protection policies.

We find many of the proposed strategies to be promising indicators that the powerful economies have at least begun to acknowledge the scale of the problems posed by deforestation. However, there remains little recognition of the role IFI policy has played in the deforestation, and thus no catalyst for re-thinking development priorities. As a result, there is dim hope that current or future initiatives will elicit the substantial, long-term change that is required to stamp out deforestation.

Part I Introduction to the Issues



The purpose of this report is to demonstrate that international financial institutions are responsible for devastating levels of deforestation[1] in Asia Pacific. Existing research attests to the role IFIs have played in deforestation of the developing world,[2] however little has been done to place this reality within the context of the global climate change debate. *Under the Influence* joins the dots between IFI intervention, deforestation and climate change.

IFIs promote a simplistic development strategy focused on resource exploitation for global market consumption. This approach forces countries to follow a fixed development path contingent upon prioritising economic rationalism over social and environmental concerns. While historically this has paid dividends for creditor institutions, promising a predictable global economic environment and repayment of debts, this 'development' approach has seen IFIs contribute to environmental degradation which not only threatens livelihoods across the region, but quality of life for the whole planet.

Undeniably, poor governance in fragile states and developing economies plays a part in allowing deforestation to occur. However, this report contends that IFIs and the wealthy governments who finance them must bear responsibility for creating and maintaining the structures that have caused this large scale deforestation.

Under the Influence highlights the ongoing ramifications of IFIs' stubborn refusal to rethink development outside the economic framework. This research uncovers the urgent need for a re-imagining of development by IFIs, and calls into question the authenticity of their current efforts to address deforestation and climate change.

Culprits: Deforestation Industries

Although some of the industries linked to deforestation such as plantation crops and logging have the potential to be managed sustainably, IFIs have pressed developing countries to chase export and foreign investment dollars to the detriment of people and the surrounding environment. As a result, these industries have been subject to abuse by pirate operators and unmonitored, exploitative foreign investors.

1 Deforestation refers to the over-clearing of forested areas, which includes land clearing, forest fires and peat land degradation. Deforestation may be undertaken either to harvest trees and forest products or gain access to land. The term denotes a level of land clearing that is unsustainable, as it prohibits forest or land rejuvenation.
See: Regional Office for Asia and the Pacific Asia Pacific Forestry Commission: Development of National-Level Criteria and Indicators for the Sustainable Management of Dry Forests of Asia: Workshop Report United Nations Food and Agriculture Organisation, 1999 accessed at http://www.fao.org/docrep/003/x6896e/x6896e0e.html

2 James R. Kahn and Judith A. McDonald "Third World Debt and Tropical Deforestation" Ecological Economics 12 (1995) pp. 103 - 123

Illegal Logging and Corruption

Illegal logging[3] is a major problem in many developing countries. Exact figures are difficult to obtain, but according to the OECD illegal logging is thought to comprise more than 10 per cent of the total global timber trade. This represents approximately $15 billion annually in actual trade, including lost revenue and taxes for developing nations.[4]

Illegal logging operatives commonly disregard logging restrictions, leading to deforestation, landslides and erosion in protected areas. Landowners are far less likely to receive any compensation for environmental degradation than they are to have their land completely exploited and destroyed at the hands of criminal operators.

Even more worrying is the ripple effect that illegal logging creates in the industry as a whole. Ignoring sustainable practice guidelines allows forest pirates to cut corners with their overheads, maximising their profits whilst lowering prices. Illegal logging then undercuts global market prices, encouraging legitimate companies to adopt unscrupulous practices in order to stay viable.[5]

Even where there is legislation that would protect against illegal operations, in many countries there is endemic corruption spanning from government through to law enforcement agencies. Politicians and police who are in the pocket of criminal logging agencies have a vested interest in allowing these activities to continue, thus impeding domestic efforts to stamp out illegal forestry activities.[6]

Recently, the international community and IFIs stated their commitment to stamping out illegal logging.[7] However, as will be examined in detail later in this section, this commitment is contradicted by IFI policy that continues to drive developing nations to lower restrictions on foreign investors and reduce government spending. Such measures create the perfect climate for illegal loggers to operate.

Palm Oil

By 2012, palm oil is estimated to be the worlds most produced, consumed and traded edible oil.[8] Harvested from the fruit and seeds of the oil palm plant, it is economical to produce, solid at room temperature (making it easy to transport), and inexpensive to buy. Widely used for domestic cooking and as an ingredient in commercial food production, in recent years it has been targeted for use as a biodiesel and is, as such, increasingly marketed as a means to decrease net carbon emissions. This has made expansion of the oil palm industry particularly appealing to industrialised countries wishing to meet Kyoto demands.

Most of the world's oil palm is grown in the Asia Pacific region. Indonesia and Malaysia hold 89 per cent of global oil palm exports and account for 83 per cent of total palm oil production,[9] while in Papua New Guinea oil palm is the third largest export crop.[10] For debtor countries in the Asia Pacific, the increasing popularity of palm oil has had significant influence on shaping their development future.

The potential benefits of expanded oil palm use are substantially offset by the massive levels of deforestation, land and water degradation that result from its production. It is cheaper and quicker to establish plantations on newly deforested areas, as opposed to rejuvenating 'second hand' agricultural land such as rice paddies.[11] Chemicals used to promote higher crop yields poison the soil and ground water. Refuse from processing the palm fruit into oil has impacted significantly on the viability of water sources.[12] Not only does this have implications for the quality of life of those living in oil palm producing areas, it also makes rejuvenation of forest areas near impossible once plantations have been established.[13]

3 Generally defined as the breaking of laws on harvesting, processing and transporting timber or wood products.

4 OECD, OECD Environmental Outlook. OECD Publishing, 2001 pp.122

5 World Bank Sustainable Development Network Strengthening Forest Law Enforcement and Governance, World Bank, Washington, August 2006 pp. xi

6 Ibid.

7 Strategies outlined by the World Bank and by Australia as a regional leader in the Asia Pacific will be detailed in Chapter 3 of this report.

8 Rob Galstra, Eric Wakker and Richert Wolfgang, Oil Palm Plantations and Deforestation in Indonesia. What role do Europe and Germany play? World Wildlife Foundation, 2002.

9 Galstra, Wakker and Wolfgang. Oil Palm Plantations and Deforestation in Indonesia. What role do Europe and Germany play?

10 Embassy of Papua New Guinea to the Americas, Agriculture, accessed from http://www.pngembassy.org/agriculture.html

11 Ellie Brown and Michel F Jacobson, Cruel oil: How Palm Oil Harms Health, Rainforest & Wildlife. Center for Science in the Public Interest, 2005.

12 Eric Wakker, Greasy Palms: The Social and ecological impacts of large-scale oil palm plantation development in Southeast Asia. Friends of the Earth, 2005. pp. 25

13 Brown and Jacobson, Cruel oil: How Palm Oil Harms Health, Rainforest & Wildlife.

Consequences: Deforestation and Climate Change

Deforestation has vastly damaging impacts on the quality of life for local communities and their environment. Equally detrimental are the environmental consequences experienced globally as a result of deforestation. We argue that these consequences are the direct result of international financial bodies coercing developing nations to preference financial debts over long-term environmental stability.

Increased levels of carbon dioxide in the atmosphere is one of the major causes of climate change – a hot topic as rising sea levels, unseasonable flooding, desertification and drought threaten quality of life across the planet.

Deforestation dangerously increases carbon dioxide emissions in three ways:

The loss of carbon sinks

Plants absorb carbon dioxide through photosynthesis, and release the gas when plant matter decomposes or is burnt. Rainforests and peat bogs (wetland areas that accumulate dead plant material) are moist environments where a relatively low level of decomposition occurs. Forests are therefore known as natural "carbon sinks", able to store greater amounts of carbon than they produce. For this reason, forests are crucial to lowering the levels of carbon dioxide in the atmosphere.

Expansion of oil palm and logging activities destroys these areas at an unsustainable rate, leaving the world bereft of large tracts of its most efficient atmospheric filters.

The method of land clearing

After selective logging has occurred, fires are often lit to clear the remaining land. Not only does this destroy carbon sinks and the biodiversity that they house, but the plant matter that is burnt also emits significant levels of carbon dioxide.

The destruction of peat bogs

Peat bog areas are increasingly being developed for palm oil plantations. Peat bogs store massive amounts of carbon stock: more than thirty times the amount found above ground in normal rainforests.[14] Due to the amount of water present and the lack of oxygen, the dead plant matter in bogs fails to decompose, stopping carbon from being released into the atmosphere. When peat bogs are drained for the development of palm oil plantations and timber industry expansion, the dry peat has contact with air and begins to decompose, releasing carbon into the atmosphere. Further, when these areas are dried out they become prone to fires, which again accelerate carbon emissions.[15]

14 Wetlands International. Peat land degradation fuels Climate Change: An Unrecognised and Alarming Source of Greenhouse Gases. www.wetlands.org, 2006.

15 Hooijer, Silvius, Wosten, and Page, PEAT-CO2, Assessment of CO2 emissions from drained peat lands in SE Asia. Delft Hydraulics report Q3943, 2006

Causality: IFI policies and deforestation

What are IFIs?

International financial institutions were founded by wealthy nations of the world as instruments through which to act against global economic instability, and to promote economic growth and thereby foster prosperity in developing countries.[16] The three most significant IFIs in the Asia Pacific are the World Bank, the ADB (Asian Development Bank), and the IMF (International Monetary Fund).

All three institutions have great influence over development in the region, but have very distinct roles and identities. The World Bank and ADB are MDBs (multilateral development banks), which provide financing through loans and small grants. These amounts are to fund service provision, technical advice, projects and policy restructure administered under the guise of poverty reduction through economic growth and stable governance.[17]

Governance of MDBs is structured such that power is relative to financial contribution. As such, the richest states are able to mandate MDB activities. Due to the level of control these institutions exercise over developing nations, this effectively means that the world's wealthiest economies are able to dictate the operations, development and future directions of the poorest.[18]

The IMF does not have a specific development mandate, but holds great sway over the governance of developing countries. It was created to regulate the global economy, ensuring that participant economies are facilitating market conditions that are conducive to international growth and stability. In order to avoid or redress economic downturn, it provides loans to developing or depressed economies, contingent on substantial macroeconomic policy reform.[19]

IFI policies

Since the 1980s, operations of the World Bank and the IMF have become increasingly intertwined. Jointly planned SAPs (structural adjustment programs) have led to projects funded by the World Bank geared toward meeting the loan condition requirements of the IMF. SAPs require the liberalisation of financial and capital markets, including tariff reductions to reduce barriers to foreign investment; privatisation of state enterprises; currency devaluation; wage constraint and rapid curtailing of government spending on areas such as health, education, environmental protection and food security.

These strict austerity measures are indicative of the paradigm from which these agencies operate, framing poverty and development predominately in economic terms. Accordingly, SAP loan conditions are almost entirely focused on restructuring government activities through free trade conditions to produce an environment conducive to economic growth. Proponents of this neo-liberal structure claim that, through a "trickle-down" effect, the promotion of country revenue benefits the entire population since the increased government income will be invested in social and environmental infrastructure.[20] The negative human and environmental impacts of SAPs are seen as short-term necessities under this paradigm, and they would be redressed once the economy works its way to long-term prosperity.

However, these supposed "short-term" upsets have been the catalyst for significant and on-going hardship for people affected by World Bank/IMF programs.[21] Affected populations are left worse off than before "development" took place.[22]

16 Joseph Stiglitz, Globalization and its Discontents Penguin Books, London, 2002

17 Ibid.

18 Ibid.

19 Stiglitz, Globalization and its Discontents

20 World Bank, World Bank Group Private Sector Development Strategy Implementation Progress Report, 2003. <http://rru.worldbank.org/Documents/PapersLinks/WBG_PSD_Implementation_Progress_Report_June_2003.pdf>

21 Stiglitz, Globalization and its Discontents

22 Gilbert Rist, The History of Development: From Western Origins to Global Faith, London, Zed Books, 1997.

Forcing deforestation

Many developing countries are cash poor but resource rich, with exploitable mineral deposits, valuable forest products and arable land that can be used for export crops. However, there is often a dearth of locally owned industry operators able to capitalise on these potential sources of export gain and, as such, IFI interventions are geared toward encouraging foreign companies to take part in local industries so as to hasten the inflow of export-generated income.

This rushed approach to establishing industry has led to devastating environmental and social effects. Companies are invited to operate in industries that are recognised to pose environmental risk, and in countries that are often without the necessary legislative or law enforcement infrastructure to protect land and people.[23]

Even when these industrial ventures are carried out by operators that are independently monitored – such as those contracted by the lending institutions themselves – deforestation is almost inevitable. Although projects embarked upon by IFIs are preceded by environmental and social feasibility studies, the 'costs' that may be incurred in these sectors are metered against prospective, quantifiable financial gain.

Money is often welcomed – and needed – in affected areas. However, NGOs and community members report that income from large-scale development projects is seldom matched by financial management training that would allow gains to bring about sustainable and positive change to the communities.[24] Moreover, it is rarely adequate compensation for loss of land tenure, land and water productivity, and biodiversity that are products of deforestation and industrialisation.

As noted, much of the development or economic assistance provided by IFIs is distributed as loans. Even in situations where projects or programs have not been successful in bettering a country's development situation, recipient nations are obligated to repay lending institutions with interest. Payment of these debts necessarily takes money away from the public sector, and fledgling or depressed economies are likely to have insufficient funding available to provide adequate environmental protection or social services. Being called on to service debts not only forces governments to channel money away from already struggling public needs areas, but also increases the need for expedited export industry growth and the unscrupulous foreign operators this attracts.

23 The Forests Dialogue Practical Actions to Combat Illegal Logging TFD Review Number 2, 2005 accessed from: http://research.yale.edu/gisf/assets/pdf/tfd/logging/TFD%20Illegal%20Logging.pdf

24 Tim Anderson, "Valuing Customary Land in Papua New Guinea," Pacific Economic Bulletin 21, no. 1 (2006).

Case Studies

The following case studies from Indonesia and Papua New Guinea join together these issues, using research drawn predominately from civil society organisation reports, and data from World Bank, IMF and ADB and IFI member governments. Through an analysis of these sources, we show how the IFI rhetoric of economic progress and interventionist policies is transformed into devastating deforestation and its ensuing consequences.

The case studies - with their close proximity, similar climate and environments - have experienced IFI intervention in many of the same industries. This report will focus on two of the most significant industries with regard to deforestation: oil palm plantations and processing, and logging.

Part II The Past

Case Study: Indonesia

Indonesia has the world's third largest area of tropical forest,[25] and is second only to Brazil in terms of the diverse range of plants and animals that its forests house.[26] Indonesia's forested area is crucial to bio-diversity, fundamental to the livelihoods of millions of Indonesians, and accounts for 24 billion tons of carbon stock.[27]

Since 1990, Indonesia's carbon emissions have grown by 49.4 per cent.[28] Indonesia is now the third largest greenhouse gas emitter in the world, behind only the USA and burgeoning industrial giant China.[29] A World Bank report entitled *Indonesia and Climate Change* states that most of Indonesia's emissions are caused by carbon released through deforestation.[30] This is based on the fact that 90 per cent of all of Indonesia's greenhouse gas emissions come from the forestry and agriculture sectors,[31] and 75 per cent of emissions from the forestry sector are caused by deforestation.[32]

Since 2000, 19.12 million hectares of Indonesian forest has been cleared, predominantly for commercial use. Of this amount, 2.72 million ha was cleared in 2006 alone.[33]

The beginning of IFI involvement

International financial institutions have been party to creating Indonesian economic policies since 1966 – the year that marked the beginning of the brutal 32-year reign of President Suharto in Indonesia.

Indonesia's first structural adjustment loan from the IMF contained conditions that reversed the nationalisation measures undertaken by the previous Sukarno government. To facilitate this aim of greater economic liberalism a number of measures were introduced, including policies that limited government expenditure to just 10 per cent of national income. Moreover, in order to increase export income and therefore government revenue, legislation was introduced allowing the Government to take full control of one of Indonesia's most lucrative resources: the forests.

The timber boom

In 1967, the Indonesian Government established the Basic Forestry Law, which legally established state ownership over forest resources stating, *"All forest within the territory of the Republic of Indonesia is administered by the state".*[34]

This gave the GoI (Government of Indonesia) sweeping control of over 143 million hectares of what became classified as 'public forest land'. Despite having lived off the forest for generations, rights of customary landowners were superseded by the state, and access to forest resources by commercial enterprise was opened. It was now legal for the GoI to embark on a national development policy that used export financing to address foreign debts. A key plank of this policy was exploitation of the Indonesian rainforest.

During the timber boom of the 1970s, well-connected foreign companies set up in Indonesia, allowing it to become the world's biggest raw log exporter. In 1978, Indonesian timber exports accounted for half the worlds total and timber became the second biggest source of national revenue after oil and gas for the Indonesian economy.[35]

25 World Bank, "Sustaining Indonesia's Forests: Strategy for the World Bank," Forestry Strategy 2006-2009 May 2007 <http://sitereso urces.worldbank.org/INTINDONESIA/Resources/Publication/280016-1152870963030/IDForestStrategy.pdf?resourceurlname=IDForestStrategy.pdf>

26 Greenpeace. Indonesia's forests in crisis. Greenpeace, 2004 <http://www.greenpeace.org/international/press/reports/indonesia-s-forests-in-crisis>

27 Department for International Development. Executive Summary: Indonesia and Climate Change. World Bank, 2007.

28 World Bank. Little Green Data Book 2007, The World Bank, 2007. <http://sitereso urces.worldbank.org/INTEEI/936214-1146251511077/21329572/LGDB2007.pdf>

29 Department for International Development. Executive Summary: Indonesia and Climate Change.

30 Ibid.

31 Ibid.

32 Ibid.

33 Walhi. Illegal and Destructive Logging WALHI, 2004. http://www.eng.walhi.or.id/kampanye/hutan/jeda/logging_info/

34 Government of Indonesia. The Law of the Republic of Indonesia Number 41 Year 1999 on Forestry. Republic of Indonesia, 1999. < http://www.dephut.go.id/INFORMASI/UNDANG2/uu/Law_4199.htm>

35 World Trade Organisation General Agreement on Tariffs and Trade: 1979 Consultation under article XVIII:12(b) with Indonesia http://www.wto.org/gatt_docs/English/SULPDF/90390054.pdf

The breakdown of centralised state authority, encouraged as part of the IMF's denationalising policy, provided a breeding-ground for corruption. This, coupled with almost non-existent law enforcement, led to a dramatic increase in the uncontrolled exploitation of forests. Demand for pulp and paper in the 1980s saw the GoI establish policies supporting high levels of investment by foreign private sector. Malaysian businesses crowded the pulp and paper sector during this period, taking advantage of lax laws.[36]

The expansion of this industry since has created a level of demand that cannot be met by any sustainable forest management system. Under the rule of Suharto, forest resources were appropriated and divided between family and business partners, concentrating power in the hands of a few.[37] This fostered the emergence of regional timber barons and organised crime syndicates who were often assisted by the military and police, the legacy of which is seen in illegal logging activity today.

The debt crisis and deforestation

Indonesia's debt crisis began with imprudent foreign lending to the Suharto regime, but continued even after the fall of his regime because of assistance needed during the economic crisis that ravaged the Indonesian economy from 1997.

During the crisis, rapid devaluation of the Indonesian Rupiah coincided with a 13.2 per cent decrease in GDP (gross domestic product) over a short period. In order to stabilise the economy, the IMF offered a US$43 billion 'rescue package', which required widespread budget cuts, privatisation of state assets, and revenue raising through increased exploitation of natural resources.[38]

This 'package' contained conditions that had important effects on natural resource use – and abuse. In order to prevent destruction of national parks, forest fires, illegal logging, and threats to endangered species, environmental programs required sustained monitoring and management. However, state-run environmental protection measures became victim to public spending cuts that were driven by IMF austerity measures, leaving forest resources vulnerable to pirate operators.[39]

Problems associated with lack of environmental monitoring were exacerbated by specific conditions listed in Indonesia's Letter of Intent,[40] which indicated that log and oil palm production would intensify as the country worked to encourage greater foreign investment:

"Point 37: Export taxes on logs, sawn timber, rattan and minerals will be reduced to a maximum of 10 percent ad valorem... the government will eliminate all types of export restrictions by the end of three years.

Point 39: Another pressing need in the current circumstances is to encourage foreign investment. As part of this process, the government has removed restrictions on foreign investment in palm oil plantations on February 1, 1998."[41]

The requirements for lower restrictions suited the needs of international finance whilst perpetuating the conditions responsible for rapid deforestation. Under IMF pressure, the Indonesian government lifted a 10-year ban on the export of raw, unfinished logs in 1998 (see Point 37). The aim was to generate increased foreign investment and economic growth.

The push toward log exports unintentionally led to a rapid decline in domestic supply, which exacerbated the illegal logging that continues to the present day. By the end of the 1990s the rate of forest exploitation had become unsustainable.[42] Annual demand for wood to operate Indonesia's pulp mills, wood factories, and saw mills was more than double the sustainable logging rate. Over the past decade, reports from civil society organisations and even the World Bank itself have continued to show that illegal logging in Indonesia remains both widespread and systemic.[43]

36 Peter Dauvergne The Politics of Deforestation in Indonesia. Pacific Affairs, Vol. 66, No. 4. (Winter, 1993-1994), pp. 497-518.

37 United Nations Development Program World Resources 2005: The Wealth of the Poor: Managing Resources to Fight Poverty UNDP 2005 pp. 65

38 David Richardson Asian Financial Crisis: Indonesia. Parliament of Australia, 1998. <http://www.aph.gov.au/library/pubs/CIB/1997-98/98cib23.htm#Indonesia>

39 NRMP. 1999. Analysis of Natural Resource Impacts of Indonesia's Financial Crisis. (Briefing on a Study Commissioned by Deputy V of BAPPENAS, with updates through the third quarter of 1998.) 28 January 1999. Jakarta, Indonesia: Natural Resources Management Project.

40 A Letter of Intent (LoI) describes the policies that the debtor intends to implement in the context of its request for financial support from the IMF. It covers the basic economic strategies to be financed by the IMF and contains some conditions pertaining to forest management.

41 International Monetary Fund Indonesia's Memorandum of Economic and Financial Policies, IMF January 15, 1998 Letter of Intent. www.imf.org/external/np/loi/011598.htm

42 Christopher Barr, 'Banking on Sustainability: A critical Assessment of the World Banks Structural Adjustment Programs and Indonesia's Timber Sector'. Draft manuscript prepared for the World Wildlife Fund and CIFOR, September 1999.

43 Indonesia-UK Tropical Forestry Management Programme Illegal Logging in Indonesia. No. EC/99/03. United Nations Development Program World Resources 2005: The Wealth of the Poor: Managing Resources to Fight Poverty; World Bank Combating Illegal Logging and Corruption in the Forestry Sector Environment Matters, 2006 http://siteresources.worldbank.org/

By insisting on the removal of 'export quotas and punitive taxes', the IMF also buttressed the palm oil boom. As part of its 'rescue package' the IMF ordered all formal and informal barriers to investment in palm oil be removed within 3 months (point 39). The result was a rapid spread of oil palm plantations, seemingly without thought for the consequences that the necessary rampant deforestation would incur.[44]

State-owned logging companies diversified into the oil palm sector, forming joint ventures with plantation companies. In many instances, companies took land without consultation or adequate compensation.[45] By the end of 1998, the estimated area planted with oil palm plantations had reached 2.5 million hectares.[46]

Much of these new developments took place on what had previously been peat bogs, which, as noted in the previous chapter of this report, are critical carbon sink environments. The development of peat land for agricultural use is a relatively new venture, and as the degradation of peat bogs continues, more environmental impacts are being discovered. Nonetheless, palm oil companies have 50 per cent of their new industry planned in peat bog areas and 27 percent of timber extraction and palm oil industry is currently conducted on these areas.[47] A total of 14 per cent of peat bog areas in Indonesia are used for palm oil production alone.[48]

IMF-driven export forestry activity has also caused the spread of forest fires. Conversion of rainforest to palm oil plantations requires widespread land clearing, and the cheapest way to establish the plantations is to clear-cut and burn what remains.

In 1997/8, man-made fires devastated Indonesia and its neighbours. Testimonies from NGOs on the ground told how the purposefully lit fires were the work of Indonesian and Malaysian timber companies clearing land for palm oil plantations.[49] Nearly ten million hectares of land were destroyed in fires, much of which was irreplaceable rainforest.[50] Further, the 1997/98 fires contributed to 22 per cent of the worlds carbon dioxide emissions for that year[51] (an increase of approximately 40 per cent).[52]

Conclusion

Successive Indonesian governments, and most particularly the notoriously corrupt Suharto regime, bear culpability for the current poor state of Indonesia's forests.

However, it is clear that interventions pushing Indonesia into a forestry-export dominated economy are a key cause of deforestation. As a result of tunnel-visioned economic policy, industrial operatives were able to act with near impunity, opening the door for illegal operators to infiltrate the forestry sector. Piracy has pushed market prices down, leading even legal companies to cut costs through disregard for sustainable practices and environmental guidelines in order to stay competitive.

44 Telepak/EIA. The Final Cut. Telepak and EIA report, 1999.

45 Peter Dauvergne. The Politics of Deforestation in Indonesia. pp. 509-511.

46 Down To Earth. Forests, People and Rights Down To Earth Special Report June 2002. <http://dte.gn.apc.org/srf1.htm>

47 Wetlands International. Tropical peat swamp destruction fuels climate change Wetlands International Fact Sheet 2006.

48 Ibid.

49 Stephanie Fried IMF and World Bank Lending in the Indonesian Crisis: Environmental and Human Rights Concerns. Environmental Defense, Testimony before the Committee on International Relations, US House of Representatives, May 7, 1998.

50 Galstra, Wakker, and Wolfgang. "Oil Palm Plantations and Deforestation in Indonesia. What role do Europe and Germany play?" pp. 12)

51 National Development Planning Agency Indonesia: Planning for Fire Prevention and Drought Management, Bureau of Marine, Aerospace, Environment, Science and Technology, 1999. http://209.225.62.100/Documents/Reports/Fire_Prevention_Drought_Mgt/chap_02.pdf

52 Michael Richardson. "Indonesian peat fires stoke rise of pollution". International Herald Tribune 13 December 2002, http://www.iht.com/articles/2002/12/13/fires.php

Case Study: Papua New Guinea

Deforestation in PNG

Deforestation in Papua New Guinea is less advanced than in Indonesia, with an estimated 75 per cent of its original forest cover remaining intact.[53] However, in the last decade of the twentieth century, forest cover declined by 4 per cent.[54] It is estimated that if deforestation continues at this rate, all of the available 7.5 million hectares of productive forest in Papua New Guinea will be destroyed within ten years.[55]

IFIs: Enabling destruction

In 1989, a World Bank/IMF policy team designed Papua New Guinea's first structural adjustment program and both institutions have since been instrumental in promoting export-led development and increased foreign investment through conditional lending. This approach has directly contributed to increases in damaging deforestation practices in Papua New Guinea.

Both the Papua New Guinean constitution and the *Forestry Act 1991* contain progressive dictums that maintain the importance of environmental sustainability and the inter-relationships between land and community.[56] Since allowing interventions from IFIs to take place, the Government of Papua New Guinea has been under constant pressure to legislate changes that would make the quantifiable, commodity value of land and forests take precedence over the customary environmental, social and cultural values.

Historically, this has seen large-scale, high return projects by foreign logging companies actively encouraged.[57] Conditions in structural adjustment measures introduced in 1998 included a reduction in tax on log exports from 33 per cent to 0.5 per cent.[58]

Tariffs on other forest products were also drastically cut, which together made the PNG market look much more appealing to overseas buyers. These measures proved disastrous for PNG's forests, as companies took advantage of the incentives and embarked on a decade of indiscriminate logging.[59]

The World Bank estimates that approximately 70 per cent of PNG's total forest production is illegal.[60] However, NGO networks suggest that this is a conservative estimate when one incorporates levels of forested land taken from landowners by force or deception as well as illicit activities by pirate operators.

A 2006 report from the Australian Conservation Foundation and Papua New Guinean environmental advocacy group CELCoR (Centre for Environmental Law and Community Rights) explains how the general expansion of logging activity in PNG has resulted in human rights abuses against local landowners. Papua New Guineans have been coerced into signing land transfer agreements at gunpoint or even shot at as they made attempts to protect land from logging expansion.[61] While it is the drive of unscrupulous companies for increased profits that is behind these acts, lack of Government monitoring has allowed it to continue, due in large part to SAP-induced reductions in public spending.

53 The land supports over 20 000 plant species and 700 mammal species (PNG Country Assistance Evaluation, World Bank 2000). It has been estimated that 5-7% of the world's species of plants and terrestrial life forms are found in PNG (Wasting Our Heritage, PNG Eco-Forestry Forum 2006). This mega diversity is central to the livelihood of 86% of its 5 million population who rely on the forests for food, medicines and clean water (Executive Summary - PNG Environment Monitor 2002)

54 UN Food and Agriculture (FAO) statistics

55 T. Barnett 1990. The Barnett Report. The Asia-Pacific Action Group. Hobart.

56 Government of Papua New Guinea. "Papua New Guinea Consolidated Legislation: Constitution of the Independent State Of Papua New Guinea". University of the South Pacific, 1998.

57 Ben Scott, Re-Imagining Papua New Guinea, Lowry Institute for International Policy, 2005.

58 IMF Indonesia: Letter of Intent 13 November 1998 accessed at http://www.imf.org/external/np/loi/1113a98.htm

59 World Rainforest Movement. 'PNG tax breaks favor forest destruction'. www.wrm.org.uy/bulletin/20/PapuaNG.html

60 World Bank Report, Strengthening Forest Law Enforcement and Governance: Addressing a systemic constraint to sustainable development, accessed at www.forest-trends.org/documents/meetings/washington_2007/Presentations/T.%20Oksanen%20-%20World%20Bank.ppt

61 Australian Conservation Foundation and the Centre for Environmental Law and Community Rights Bulldozing Progress: Human Rights Abuses and Corruption in Papua New Guinea's Large Scale Logging Industry pp. 24-25

Land mobilisation and deforestation

The issue of land and access to it is central to debates around deforestation and development in Papua New Guinea. Land and resources are not traditionally viewed as exchangeable commodities in PNG. The complex systems of ownership provide environmental, food and resource security as well as a foundation that supports social order.[62]

The complexity and varied nature of land tenure across PNG has made privatisation very difficult in many areas. This is seen as a barrier to development by IFIs, since without land that can be bought and sold under uniform, recognisable regulation, it is difficult for private investors to acquire sites to establish industry.

Nonetheless, there are growing examples of community industry demonstrating how customary tenure is not necessarily prohibitive to the undertaking of commercial operations. For example, sustainable forestry and small-scale export agriculture ventures such as coffee and vanilla plantations have proved successful for villages in areas otherwise earmarked for large-scale logging or oil palm industry expansion and therefore potential deforestation.[63]

Such locally-run projects represent a sustainable mix of Melanesian and globalised systems that provide great benefit to Papua New Guineans, and demonstrate that capital growth and more traditional economics need not be viewed as mutually exclusive.[64] However, as yet these projects are not sufficiently widespread or advanced to produce the kind of revenue needed to satisfy IFIs and service Papua New Guinea's debt.

Accordingly, in 2001, the IMF and World Bank attempted to push through plans for a land registration and privatisation scheme. All land would be registered under private ownership frameworks, allowing it to be easily sold or leased, effectively abolishing customary tenure. It was touted as an "opportunity" for rural people to gain greater access to finances.

The move, however, prompted popular dissent. Landowners across the country protested against their homes, livelihood and security being taken away for the sake of Government income. In Port Moresby, the country's capital, a peaceful demonstration escalated into violence when police shot and killed several protestors. In the wake of this controversy, the IMF and World Bank withdrew immediate mobilisation plans.

However, expansion of oil palm through IFI interventions has provided more insidious means of allowing industry access to customary lands, undermining the safeguards that traditional systems provide against deforestation.

ADB, Oil Palm and deforestation

The ADB (Asian Development Bank) has significant influence in Papua New Guinea. From 1971 until 2002, ADB provided US $855 million to PNG, distributed between 56 loans.[65] Much of this funding has been directed toward supporting private growth in the agricultural sector, which has effectively translated to financing the expansion of oil palm.

ADB development plans are framed in terms of a desire to bring the 'rural poor' into the cash economy. The Bank proposes to do this by following the IFI orthodoxy of building participation in commodity agriculture, which will supposedly provide a boost to the national economy through higher employment and consumer and private industry growth.

62 Anderson, Valuing Customary Land in Papua New Guinea

63 S. Lusby Field notes taken at Oro Landowners Forum, July 2006

64 Jim Fingleton, "Is Papua New Guinea viable without customary groups?" Pacific Economic Bulletin Volume 19(2) November 2004

65 Lee Tan ADB and Shareholders Agriculture Projects in PNG ACF Briefing Paper 2004

The growing popularity of oil palm has become a major element of the development agenda for the ADB and Government of Papua New Guinea.[66] Although their growth strategies seek to build local participation, oil palm industry is still reliant on external investments to get up and running.

The ADB pushes smallholder schemes whereby landowners are loaned by palm oil companies and IFIs the products (such as seedlings and fertilisers) that are needed to establish plantations. Landowners are then required to repay creditors the loan amount plus interest with a percentage of their crop yield.[67]

This is problematic because although the palm oil industry is lucrative for multinational companies that refine and export the product, it provides minimal return for farmers. Growing oil palm fruit is high risk, involves heavy labour, and income is completely vulnerable to fluctuations in the price of palm oil on commodity markets.[68] Under the smallholder schemes, companies are cushioned from the risk of farming, while local landowners are excluded from the profits of exporting.

Compounding these social costs is the environmental destruction. Establishing plantations destroys forests, while chemical fertilizers that are used and needed to maximise crop returns poisons land and water, thus effectively denying future opportunities for regeneration. This prohibits landowners from returning to previous means of supporting themselves or venturing into more sustainable and appropriate agro-business away from monocropping.

Although the ADB claims its agriculture strategies are pro-poor, profits from the palm oil industry are distributed unfairly. As such, multinational companies are the real beneficiaries, with landowners left worse off than before and providing questionable development returns. Nonetheless, although it has not gone where it is most needed, revenue from palm oil is guaranteed, making the industry a safe investment for IFIs wishing to recover loans.

Coerced compliance

Although external debt as a proportion of GDP has fallen in the past 4 years, at $1,801 million, it requires a third of national expenditure to service.[69] As such, the Papua New Guinean economy has continued to be highly dependent on export earnings and is subject to the financial leverage of multilateral lending institutions. This situation shows no signs of abating.

For a fragile economy such as PNG, risks associated with non-compliance to SAP agreements are very real. Loss of liquidity funding from the IMF could expose the country to hyperinflation, exacerbated poverty and civil unrest.[70] Further, although loans from development banks have been used for and are conditional on the expansion of industries that cause deforestation, they have also been used to fund much needed infrastructure. For the Government of Papua New Guinea, the risk of losing overseas money is ample incentive to maintain the status quo established by the IFIs.

However, in 1999 the World Bank agreed to loan the Government of Papua New Guinea $90 million, to be used for promotion of better governance in the forestry sector. This money was conditional on a comprehensive review of the industry including permits, operators and the forestry act, which were to be completed or close to completion by 2001. Due to opposition from politicians and forestry operators, these conditions were not met, but the World Bank nevertheless disbursed the final loan amount. According to civil society groups, this is a damning indication that the Bank was not taking issues of deforestation and threats to environmental security seriously.[71]

66 Ibid.

67 Ibid.

69 Ibid.

69 Australia Conservation Foundation, Logging in PNG 2004-2007, accessed at www.acfonline.org. au/ default.asp?section_id=152&c=273913

70 Joseph Stiglitz, Globalization and its Discontents Penguin Books, London, 2002

71 Eco-Forestry Forum, PNG Forests and the World Bank Forest Information Factsheet No. 2/2003 accessed from: http://www.ecoforestry.org.pg/ publications/Fact%20Sheet%20on%20PNG%20Forests%20and%20the%20World%20Bank.pdf

Part III Present Trends and Future Plans

IFC and the forests

More recently, IFI intervention in developing countries has been categorised by increased private sector involvement. In particular, the World Bank's private lending arm, IFC (International Financial Corporation), has played an expanding role in the development direction of these countries. The IFC has committed billions of dollars to developing country industries, mostly in the form of loans.[72]

While the IFC is profit driven, its operations are purportedly framed by the same development vision and focus on poverty reduction as the World Bank. The IFC mission,

"...is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives...We earn a profit while contributing to sustainable development supporting our private sector clients while remaining fully accountable to our shareholders."[73]

However as with the World Bank, the altruistic intent expressed in this mission statement does not necessarily translate into positive outcomes for the people affected by IFC funded projects.

IFC and Palm Oil

The IFC claims to invest predominately in small-scale private businesses with a view to assisting a diversified private sector to develop. Nonetheless, research published in *Broken Promises,* a collaborative environmental NGO report on World Bank involvement in forestry, suggests otherwise. The report shows that the IFC has invested in some of the largest oil palm operators in Indonesia, including PT Astra and Verdaine. One of its biggest investments is with the Wilmar Group, a Malaysian company that is the largest refiner and exporter of crude palm oil in Indonesia.[74]

Despite having previously received loans from commercial banks, the IFC granted a $33.3 million guarantee to Wilmar in order to ensure the company's loans from banks for the purchase of palm oil fruit.[75]

Given the size and profitability of the consortium, it may reasonably be suggested that there are worthier recipients of assistance from the IFC than Wilmar. More worrying, however, is the lack of enforceable regulation or conditions attached to the loan, suggesting that this arm of the World Bank doesn't care where its money goes – so long as it comes back.

72 IFC IFC Annual Report 2004 – Adding Value to Private Sector Investment 2004, accessed from http://www.ifc.org/ifcext/annualreport.nsf/Content/ar2004

73 IFC IFC Annual Report 2006 – Increasing Impact 2006 accessed from http://www.ifc.org/AR2006

74 Down to Earth, Investing in disaster: The IFC and palm oil plantations in Indonesia in Broken Promises, Rainforest Foundation 2003

75 Ibid.

The IFC evaluates environmental sustainability through a rating system that categorises projects according to the potential damage they will cause to the environment.[76] Their investments with Wilmar have been rated "C", which means the project has 'minimal or no adverse environmental impacts.'[77] A 'C' rating means that the IFC does not have to monitor or enforce any regulations concerning the company's operations. That is, the IFC assess a projected outcome, and then fail to follow up, examine or monitor the realities of the project once it is operational. There is no guarantee that the project will remain environmentally sustainable, and there is minimal risk of repercussion for the implementing company if it does not.[78]

Broken Promises reports that NGO investigations in areas where Wilmar operates have raised worrying concerns. They allege that the Wilmar Group are guilty of illegal land clearing practices, exercising force and violence to get local people off their land, human rights violations and water pollution, all done with the assistance of IFC funding. The IFC response was to deny supporting the expansion of oil palm plantations while standing by the Wilmar group by calling the report "incomplete and inaccurate.[79]

It is true that the IFC funding was not explicitly for oil palm plantations, although *Broken Promises* reports that there is evidence of Wilmar's financial involvement in Indonesian consortiums.[80] Nonetheless, there is a growing body of research to illustrate that plantations are not the only environmentally and socially damaging aspect of the oil palm industry. Refineries produce vast amounts of waste, poison land and water sources, and in turn facilitate the spread of respiratory and skin disease in communities living nearby.[81]

Despite attempts from the IFC to distance themselves from allegations made against Wilmar, the evidence is clear. The Corporation chose to invest in a company involved in expanding an industry that it has tacitly recognised to be environmentally sensitive, through its statement expressing lack of support for oil palm expansion. Having provided funds and acknowledged the potential danger, the IFC formally ignored the risks and ceased engagement in any further monitoring of the Wilmar Groups operations. As such, the IFC has shown itself to be another mechanism through which international financial institutions actively support deforestation industries.

IFIs and Carbon Trading

Carbon trading has emerged as the most popular market response to climate change over the past decade. This is a mechanism whereby big polluters (either governments or business) can offset their emissions by supporting sustainable development projects in developing countries. In theory, carbon trading ensures that buyers are punished for their emissions, whilst sellers are rewarded.

Carbon trading is included in the Kyoto Protocol as part of the Clean Development Mechanism (CDM). Traditionally, this has covered investment in renewable energy sectors as well as reforestation and aforestation projects in developing countries.[82] However, forest conservation is excluded from CDM, ignoring the role that existing forests play in the carbon cycle and the significance that forest destruction has on global carbon dioxide levels.

Currently, the clearing and burning of rainforests, particularly in the tropics, is thought to contribute 20-25 per cent of annual global carbon dioxide emissions.[83] There have therefore been strong calls to include conservation of forests under the CDM carbon trading instruments, which proponents are calling avoided deforestation (AD).

76 The IFC has also invested in environmentally damaging projects in the mining industry. To read more, see: http://www.mpi.org.au/campaigns/financing/std_ifc/

77 Down to Earth, Investing in disaster: The IFC and palm oil plantations in Indonesia in Broken Promises pp. 26

78 Down to Earth, Investing in disaster: The IFC and palm oil plantations in Indonesia in Broken Promises pp. 27

79 Ibid. pp. 28

80 Ibid. pp. 27-28

81 Ben Cole and John Craven Impacts of Oil Palm Activities in the Kokoda and Popondetta catchments CELCoR February-March 2006 http://www.celcor.org.pg/image/eia.pdf

82 Paulo Moutinho, M. Santili, S. Schwartzman and L. Rodrigues, Why ignore Tropical Deforestation? A proposal for including forest conservation in the Kyoto Protocol Joanneum Research REDD Workshop May 2006 accessed at http://www.joanneum.at/REDD/Moutinho_et_al.pdf

83 IPCC, 2000. Land use, land-use change and forestry. Cambridge, UK.

World Bank and Avoided Deforestation

The World Bank has positioned itself as the lead agency on AD. It has proposed a *Forest Carbon Partnership Facility* (FCPF) as part of its new NGO and private sector led mega-fund, the Global Forest Alliance, which is scheduled to start operations in early 2008.[84]

During the past six months, governments from Indonesia, Brazil, Papua New Guinea, Costa Rica and Democratic Republic of Congo have engaged in discussions with the World Bank regarding its proposal to adopt a $250 million system of economic incentives to encourage developing countries to reduce deforestation emissions. In these countries, the majority of emissions stem from industrial land use, and in particular deforestation. As such, a reduction in deforestation rates could not only lead to potential monetary incentives, but also significant cuts in global carbon emissions.

However, despite AD's current popularity, many have voiced concerns about the potentially negative effects FCPFs may have in developing countries. Primarily, critics are fearful that FCPFs may be interventionist in practice due to their "top-down" and restrictive foundations. Non-participatory at a grass-roots level, FCPFs may adversely effect indigenous populations as local land rights could be over looked by a state able to cordon off areas from human activity for the cultivation of carbon stocks. Potentially "anti-people" models of forest conservation (typified by evictions and expropriations) may be pursued in order to protect lucrative carbon reservoirs.[85]

Further, FCPFs, (like carbon credits in general) allow rich countries to continue "polluting as usual" whilst curtailing developing countries activities. On one hand FCPFs claim to protect forests for the benefit of the globe. However, unless adequate compensation is provided for developing countries, to counter losses incurred by limitations to their forestry sectors (a major source of income), developing countries may suffer further.

Until FCPFs are fully implemented in developing countries, the precise nuances of their impacts cannot be known. However, what Jubilee speculates is that until a departure from outdated and economic-centric notions of development occurs, FCPFs will perpetuate uneven north-south relations, impinging further on the sovereignty of poor nations.[86] Further more without consideration of the root causes of deforestation – for example poverty, corruption and unsustainable debt – FCPFs pose a short term and inadequate fix for an ongoing and deeply systemic problem.

84 Tom Griffiths Seeing RED? 'Avoided Deforestation' and the rights of Indigenous Peoples and local communities Forest Peoples Program 2007

85 Ibid.

86 Ibid.

Part IV Recommendations

Jubilee Australia calls for international financial institutions and the wealthy governments that mandate their actions to recognise and accept responsibility for deforestation.

As this report has shown, economic-led development pushed by these institutions is not only ineffective in eliciting positive development gains, but has also been devastating to some of the world's most important forests and the people whose survival depends on them.

Clearly, it is local populations who are most immediately affected. As examples from Papua New Guinea and Indonesia demonstrate, allowing industries that pose risk of environmental damage to operate without proper monitoring has caused irreversible levels of deforestation. This in turn has caused land and water degradation, soil erosion, social upheaval, and loss of livelihood and traditional homes.

However, the known importance of Asia Pacific forests to the carbon cycle makes it abundantly clear that the quality of life of the whole world is contingent on the preservation of these environments.

IFI and partner nations have responded to such projections of global risk with programs geared toward preventing further deforestation and redressing existing damage. However although these programs are to be applauded as a positive first step, they are not enough.

Jubilee Australia contends that poor industry practice and illegal forestry activity are just part of the problem. At the root of deforestation in Asia Pacific is the fundamental power imbalance which for too long has seen pursuit of money by global, domestic and industrial powers take precedence over the well being of people and environments.

It is past time for this to change.

To this end, Jubilee Australia recommends a number of initial responses:

- Investigate industries that cause deforestation:

IFIs should sponsor comprehensive domestic and regional investigations into palm oil and logging industries, to be carried out by independent consultants. This should be done in partnership with governments, and perhaps more importantly with communities in order to ensure a pro-poor perspective on the deforestation issue.

- Facilitate down-sizing of unsustainable industry

The countries investigated in this report have immense resource wealth and sustainable agricultural industry potential. In pushing countries too quickly toward commodity export-led economies, IFIs have caused these countries to squander prospective, sustainable sources of wealth.

Jubilee Australia advocates a shift toward more appropriate and community driven forestry and agriculture practices. We applaud the World Bank and AusAID's consideration of this in recent strategy publications. However, we note that this rhetoric needs to be matched by a power shift that allows communities to take control – not IFI development 'experts' - in future agricultural and forestry development. Further, moves toward community-led industry should be coupled with deceleration of unsustainable industry.

We contend that all further developments by IFIs in Asia Pacific should have a primary focus on environmental and human security as a means to on-going economic prosperity.

- Take action against consumers of illicit goods

If IFIs are serious about their commitment to stamp out deforestation, they must continue to advocate for ethical consumption of forest products worldwide. Although Jubilee Australia recognises and commends efforts to this end that have already been taken by development banks, we also note that more needs to be done.

We recommend that IFIs incorporate financial incentives for ethical industry compliance into any further structural adjustment interventions. Further, we call on governments and international financial institutions to provide non-financial incentive by consistently and publicly naming multinational companies that are known perpetrators or enablers of deforestation. This also will provide much needed support to civil society public advocacy programs and will encourage ethical consumption alongside ethical production.

Acronyms

AD	Avoided deforestation
ADB	Asian Development Bank
GDP	Gross Domestic Product
GNI	Gross National Income
GoI	Government of Indonesia
GoPNG	Government of Papua New Guinea
IFI	International Financial Institution
IMF	International Monetary Fund
MDB	Multilateral Development Bank
OECD	Organisation for Economic Cooperation and Development
PNG	Papua New Guinea