World Bank Group Note on Alcohol Beverages:
Report on Public Consultation
February 7, 2001

This Report provides detail from the 6-month consultation period on the World Bank Group Note on Alcohol Beverages.¹

**External Reactions.** A total of six (6) comments were received.² Three of them relate to specific investment opportunities and were answered accordingly by IFC’s relevant Regional Departments. The other three comments concern the Note itself and were answered by the WBG task force on alcohol:

(i) Question on investments in companies with a production of alcohol as a by-product.
(ii) General comments.
(iii) Request for explanation on World Bank activities in Kazakhstan and Uzbekistan.

**Conclusion and Next Steps.** Responses to date have been few, and have not required modification of the Note. However, Management will continue to listen to clients’ and others’ views on the subject. As agreed at the January 5, 2000 CODE meeting, there will be a further review of the Bank Group’s involvement in this sector under the clarified guidelines in two to three years, when IBRD, IFC, and MIGA will report to CODE on transactions undertaken under the approach as formulated in the Note.

---

² The comments and responses are listed in the attached annexes. The responses themselves have already been posted on the IFC, MIGA and World Bank external websites.
Comment No 1:

From: "Frans de Graaff" <nethsa@yahoo.com> on 09/17/2000 08:11 PM ZE2

Please respond to "Frans de Graaff" <nethsa@yahoo.com>

To: <alcohol_team@worldbank.org>
Subject: Investment in Grapes and Wine Production

Dear Sir,

I am glad I spotted an opportunity to comment on the IFC's refusal to even look at my investment proposal, because it was alcohol related.

In April of this year I had my business plan ready for the redevelopment of my farming estate "Blijdschap" in the Cape Province of South Africa. I found out by E-mail whom to contact in my region, [name of IFC staff member omitted], and phoned him. He did not even give me a chance to fully explain myself or show him my business plan, when he heard that the redevelopment included the establishment of a winery. "That's alcohol related and the IFC finds that dirty business", he explained. I phoned him back with the proposition just to look at the vineyard and social/environmental part of the project. "No, that would be cheating", he said, "after all an alcohol related product, wine, is going to be the end-result". My obvious next question was: "Who in the IFC is so against a good glass of wine?" Answer: "Certain people in the World Bank." Well, that leaves one to think and be very disappointed in an organisation to which I (indirectly) pay contributions through tax money. Why, I ask myself, is wine making such a bad thing that it is put on par with weapons, gambling and prostitution?

I also wish to let you know what someone like myself thinks is behind the whole fracas. Within the membership of the World Bank are a number of countries that forbid the use of alcoholic beverages. Not to offend them has led to this ruling. But [they] know the difference between using and making alcoholic beverages very well, because in a number of these member countries, grapes are grown for the specific intention of making wine, and in many instances wine is actually made in these countries. I am pretty disappointed (softly said) about your attitude towards entrepreneurs like me.

Yours faithfully,

Frans L.U. de Graaff

PS: I would be pleased to see your reply and your official policy i.r.o. wine farms.
Total investment $ 2.3 million
**WBG Response:**

IFC’s local office in South Africa is following up on Mr. de Graaff’s comments, reviewing the rationale for the lack of IFC interest in this project. A copy of the letter to Mr. de Graaff is included below:

“Dear Mr. de Graaff:

I am responding to your e-mail sent in connection with the World Bank Group Note on Alcohol Beverages which was posted on the World Bank Group’s external web site from May - October 2000.

Your comments on the Note on Alcoholic Beverages itself have been noted and will be included in our summary report on external reactions. From your e-mail, it also appears that you require some additional feedback regarding the reasons for IFC’s decision not to consider your specific project proposal, which I will attempt to provide below.

IFC each year receives multiple project proposals for the establishment or expansion of wineries in the Western Cape Province. It has been the policy of our South African field office not to consider such proposals unless (i) there are some unusual social development aspects (other than employment and housing) or (ii) the project is related to the privatization of state assets. Given the stringency of this exception test, IFC has to-date not processed a single winery project in South Africa, despite significant deal flow in that area. In fact, IFC’s worldwide investment portfolio does not include a single direct winery investment, even though we have been involved on the advisory side as mentioned in the Note on Alcoholic Beverages.

It is within this policy context that we were not able to consider your initial project proposal any further. However, should you still feel that certain unique aspects of your project have not been duly considered, I would encourage you to please submit your business plan with a clear outline of the project's expected social impacts and compatibility with the criteria outlined in the Note on Alcoholic Beverages.

Sincerely”
Comment No 2:

From: "Caroline Zuniga" <Caroline.Zuniga@deginvest.de> on 07/27/2000 06:38 PM ZE2
To: <alcohol_team@worldbank.org>
cc: "Armin Albert" <Armin.Albert@deginvest.de>, "Isabel Thywissen" <Isabel.Thywissen@deginvest.de>, <mriddle@ifc.org>
Subject: Alcohol Policy

Dear Colleagues:

With great interest I have gone through the draft of the Alcohol Policy of the World Bank Group and I will gladly provide you with some feedback from DEG’s side regarding the policy. As DEG always strives to work with partners which are able to meet internationally recognized best-practice - such as World Bank Standards - we are already carefully reviewing the degree by which DEG may integrate this policy into its own business.

However, there is one particular issue that I am missing in the policy and that is some reference to the case of companies that are not directly in the business of producing distilled alcohol, but where alcohol is a by-product such as in the sugar industry.

I would greatly appreciate some feedback on your thoughts regarding this issue.

Best regards,

Caroline Zuniga
Environmental Specialist
Environment Department
DEG- Deutsche Investitions- und EntwicklungsGesellschaft mbH
Telefon: +49 221 4986 563

WBG Response:

Thank you for your interest in this subject.

Indeed, some agribusiness activities may be engaged in the production of alcohol products, even though their primary activity is clearly not alcohol-related. An example is sugar processing, which results in the production of molasses as a by-product. Molasses can be processed into alcohol through fermentation for various uses, including fuel, medicinal, industrial or human consumption.

In the spirit of the WBG Note on Alcohol Beverages, IFC intends to consider these projects on a case-by-case basis. When the production of alcohol is not directed toward the production of alcoholic beverages for human consumption, the project will be evaluated according to standard IFC practice. When part of the production is directed toward alcoholic beverages and the proposed investment is likely to increase that production, IFC will evaluate the project according to the criteria listed in the WBG Note on Alcohol Beverages.
Comment No 3:  

17 October 2000

Dr. Mariam Claeson  
Principal Public Health Specialist  
Health, Nutrition and Population  
Human Development Network  
The World Bank  
Washington, DC

Dear Mariam,

I am responding to your request for additional comments on the World Bank Group Note on Alcohol Beverages. I am assuming that, once you have had the opportunity to review all the comments you will have received, you will be revising the Note and issuing it in a more formal way. If, at that time, you are still interested in organizing the debate/briefing session that you described to me, I can confirm that I remain willing to participate.

Let me begin by congratulating you on a balanced and clearly expressed document. I know that many different perspectives had to be reconciled in achieving the current draft and I think that you have done an excellent job at melding these into a coherent whole.

I was particularly pleased to note the repeated emphasis on drinking patterns as an important determinant of both negative and positive drinking outcomes (see, for example, 2.2, 2.5 and 6.1). As you are aware, three of ICAP’s publications (Drinking Patterns and Their Consequences, Grant and Litvak, 1997; Alcohol and Emerging Markets: Patterns Problems and Responses, Grant, 1998; and Drinking Occasions: Comparative Perspectives on Alcohol and Culture, Heath, 2000) address this issue directly. There is now broad consensus within the scientific community that drinking patterns are a more useful indicator than is level of consumption alone.

In this context, I was disappointed to see that two references remained in the text (3.1 and 5.4) to a correlation between per capita consumption and problem levels, although acknowledging that causality has not been well established. I feel these references are somewhat anachronistic.

The general conclusion with respect to the Bank Group policy is well articulated in 9.2, with reasoned arguments in 8.2 and 8.3 to support it. I was also pleased to see the clear distinction drawn between alcohol and tobacco in 5.6.

However, when you argue in 9.1 that alcohol is a “special commodity”, it may be worth acknowledging that this is, in part, because its moderate consumption is associated with physiological and psychological benefits, at least for some categories of drinkers. It is its potential for both benefits and harms that makes alcohol “special” rather than just its contribution to development versus its potential for harm. You are also somewhat conservative in your assessment of alcohol’s cardioprotective effects (2.1, 5.3 and Annex 5), which have now been shown to extend to some other disease categories too.
There are three further specific issues, where I think the Note may be a little inconsistent. The first relates to the fetal alcohol syndrome, which is mentioned in 5.1 as “the main cause of mental retardation in some population groups”. Without in any way seeking to diminish the importance of this condition or to minimize efforts to prevent it, I wonder whether the number of cases in absolute terms justifies quite such a prominent mention, compared to many other, more common chronic conditions.

Secondly, in 3.3 and 5.5, distilled spirits are singled out as being inherently more “dangerous” than either beer or wine. Although spirits clearly represent a more concentrated form of alcohol than either of the other beverage categories, the evidence clearly indicates that it is the alcohol itself which has the potential for harm (or benefit) rather than the form in which it is consumed.

In 5.2 and Annex 4, you discuss the percentage of GBD attributable to alcohol. Although you may already be familiar with it, I am enclosing a copy of a letter which I wrote in January of last year to Dave Ballands of IFC on this topic. Murray and Lopez themselves caution against over-reliance on these percentages.

On the other hand, I was pleased to note your skepticism regarding some cost-estimation studies (7.1). At ICAP, we have tried to review methodological problems in such studies and to suggest possible ways of linking cost-estimation more closely to drinking patterns. I enclose a copy of the report we have produced on this topic.

Finally, given the attention paid in the Note to artisanal production (2.6, 4.5 and 9.4) you may be interested to learn that ICAP has recently begun a study on this topic. Data have already been gathered in Tanzania, Zambia and Zimbabwe and we have now commissioned parallel studies in India, Mexico and Russia. We expect to be convening a meeting to review the results of the studies in Moscow next September, hosted by the Russian Ministry of Health. Please let me know if you would be interested in participating in this meeting, since it could have important implications for the policies of the Bank Group on this topic.

I do hope that these comments are of some use to you in finalizing the document. I look forward to hearing from you again at an appropriate point in this process.

Warm personal regards,

Marcus Grant
President
International Center for Alcohol Policies
Washington, DC

WBG Response:

Thank you for your careful review of the Alcohol Note and for the issues you have raised.
(i) We are in agreement that drinking pattern is a useful indicator and we describe different drinking patterns in the Note. In addition, there are consistent findings indicating that overall consumption levels are associated with levels of alcohol-related problems (3.1 and 5.4). We can provide the references if needed and we do not think that this consistent finding contradicts the broad consensus on the role of drinking patterns as a more useful indicator, especially given the lack of reliable aggregate consumption data.

(ii) Fetal alcohol syndrome (5.1) is listed among adverse health and social consequences because it is the main cause of mental retardation in some population groups and it is an example of a problem of market failure and externalities -- the consequence of drinking during pregnancy is borne by the newborn child. The magnitude of the problem is probably larger than reported to date since this is often a problem that goes unreported in the developing world (PAHO, Institute of Medicine). We agree that there are many other alcohol-related problems that contribute a larger share of the disease burden, and the note reflects that.

(iii) As noted above in (i), we agree that it is the alcohol itself and not the form in which it is consumed that is of significance. We mention that "the consequences of alcohol are less affected by the type... than by the pattern" (5.5). Available literature underlines the importance of culture (and individual behavior) in drinking patterns, and notes the consequences of binge drinking in association with distilled spirits. We find no compelling evidence to suggest that the WBG change its current praxis with regards to distilled spirits. The WBG has never invested in projects or guaranteed investments leading primarily to the production of distilled spirits. It does not intend to change that stance.

(iv) We agree in the note on the role of the artisanal production.
Comment No. 4:

From: Effaheap@aol.com on 10/14/2000 02:15 PM  
To: alcohol_team@worldbank.org  
Subject: Comments on World Bank Groups’ Note on Alcohol Beverages from Dr Simon Heap

Dear Sir,

I read with interest the World Bank’s Note on Alcohol Beverages. It is a subject of importance and which I feel qualified to speak of, being an academic writer on liquor in historical and contemporary times in Africa, particularly Nigeria.

Preventing the formation of heavy drinking cultures in the 21st century is a burdensome task. It requires positive measures to preclude the need for people’s widespread involvement in alcohol production and consumption. There are 3 policy trajectories that could provide much needed diversion and lessen alcohol’s hold on certain national economies: employment expansion (to reduce the supplies) public education about alcohol’s effects (to dampen demand) [what’s the World Bank’s connections with WHO?] alternative leisure and recreational lifestyles to drinking. (to also dampen demand)

In Africa, and probably elsewhere, the expanding cottage industry alcohol production represents an expedient income-generating activity to secure economic survival in the face of adverse times. It can only be tackled if and when donor agencies and African governments begin to seriously address African labour redundancy. This would require reskilling, training and national infrastructural programmes and policies to attract inward investment. You [the World Bank] and other donors are now focusing on poverty alleviation. This is good and helpful, but not sufficient. Welfare measures cannot substitute for the more fundamental need to find viable alternative forms of livelihood for vast numbers of the continents displaced and soon-to-be displaced labour force. I am conducting research presently into Civil Society in Central Asia, and so noted the annex 1 figures for Kazakhstan and Uzbekistan with interest. How much of those large sums is disbursed indirectly through NGO programmes? Once again, going solely through government sources, inhibits your policy to get at the grassroots.

A great of favourable comment is placed on the recent finding that moderate alcohol consumption positively reduces cardiovascular problems. This is highly contested: the teetotalers’ ‘odd’ lifestyles make such a connection not as conclusive as it first appears.

Yours sincerely,

Dr. Simon Heap


Simon's new book: NGOs Engaging With Business (Oxford: INTRAC, 2000) £15.95, To order contact: <c.blaxall@intrac.org>

**WBG Response:**

*Thank you for your interest in this subject. With regard to your specific question on Annex 1 of the Alcohol Note, the projects in Kazakhstan and Uzbekistan did not channel any funds through NGO programs.*
Fax to Alcohol Team, World Bank Fax. Number: 001-202-522-3742

Dear Sir:

I send you a short R&D progress information from our national research projects and companies in case of any interest. Our university research teams and companies intend to develop direct alcohol fueled fuel cells operated at intermediate temperatures (300 to 600°C) for transportation and other applications. This proposed target is based on our unique advanced ceramic composite materials (patented) and intermediate temperature solid oxide fuel cell technology. The proposed project/target has significant importance for environment and society with high impacts.

Especially from this year based on our research and unique advantages: materials and technology for intermediate temperature solid oxide fuel cells (ITSOFCs) (patented), we have established a research and technology development company in Sweden and ITSOFC manufacturing company in China. Thus an important strategy and issue to our future success is the financial support.

Sincerely Yours,

Bin Zhu, 00-07-17, Stockholm

1:e.forskare (Senior researcher), Docent (Associate professor)
Royal Institute of Technology, Stockholm, Sweden
Tel: 46-8-7908241; Fax: 46-8-108579

Representative:
Goeta Technology Developer International, Solna, Sweden
Goeta SOFCell Ltd. (Hefei), China
Our recent research breakthrough on novel ceramic composite materials (CCM), creates a super functional material that have a high ionic conductivity, 0.01 to 1 Scm between 300 to 600C, and super Performance for intermediate temperature solid oxide fuel Cells (ITSOFCs, 300 to 600C). ITSOFCs have a number of advantages over other fuel cell systems, especially, suitable for alcohol fuelled fuel cells based on the unique internal reforming process, thus operated at high efficiency and low expenses, which are strongly developed in recent years.

Using these new CCMs as the electrolytes, we have successfully developed ITSOFCs operated between 300 to 1500 mAcm$^{-2}$ (200 to 700 mWcm$^{-2}$) in presence of hydrogen as the fuel continuously at 400 - 600C. The constant operation with the power output around 600 mWcm$^{-2}$ under 1000 mAcm$^{-2}$ was demonstrated. Using alcohol as fuels directly fed into the ITSOFCs the fuel cell devices showed the voltage of 0.95V, 0.91V and 0.78V for the methanol, ethanol and acetone, respectively. These direct alcohol fuel cells were operated under 300 to 450 mAcm$^{-2}$ (180 to 280 mWcm$^{-2}$) at 600C with a peak power density around 330 mWcm$^{-2}$ and 300 mWcm$^{-2}$ for the methanol and ethanol fuel cells, respectively. The performance of the alcohol fuelled ITSOFCs are being improved by developing suitable catalysts. For example, very recently the copper-based oxides were found to be very active for the direct alcohol ITSOFCs. The copper-based material additives in the electrodes or in the anode chamber can significantly promote, the electrode reaction for methanol and ethanol, and improve the DMSOFCs (direct methanol SOFCs) and DESOFCs (direct ethanol SOFCs) performances. The progress shows the possibility to rural these novel DMSOFCs and DESOFCs as low as at 350 to 500C with preferable performances for vehicle applications. With no doubt the intermediate temperature operation provides benefit, for the alcohol fuel cells, especially in terms of low catalyst cost, better electrode reaction and overall system efficiencies.

Next five years will be a critical time to determine the success of fuel cell technology entering the market. Does the future electrical vehicle market belong to the polymer electrolyte fuel cell (PEFC) technology, the hottest fuel cell technology today? Our advanced ITSOFCs are

- The need for competitive price ratios and a valid fuelling infrastructure for commercialization.
- Combining the advantages from the conventional fuel cell system to develop a Universal system - operated for any fuels and used for any applications with guaranteed advanced fuel cell performance.

Our new ITSOFCs have demonstrated high performance suitable for all present fuels and all infrastructure options and are also very cost-efficient.
As the core technology, composite ceramic materials and ITSOFCs, inventor and developer, the author has been invited to give a lecture on Advanced ceramic fuel cells for 21st century power generation and application in

F-CELLS WEEK

This year’s premier European event on the commercialization of core F-Cells technologies for the fuelling industry
Conference 17th - 19th October 2000
The Holiday Inn, London

Attached information about the proposal:

Zhu BIN


Position (Title) and appointments/awards.- 1; forskare (Senior researcher), docent (Associate professor) in Department of Chemical Engineering & Technology, Royal Institute of Technology (KTH). The guest (honor) professor for USTC, Shangdong Inst. of Tech. and Jilin Univ. of Tech., China, One of "2000 Outstanding Scientists of 20th Century, Cambridge, England; and awarded the 2nd prize in Solid State Ionics for young researchers competition at 6th Eurocon. On Solid State Ionics, September, 99, Italy. Chinese national "Nature Science Award" in 1989.

Doc. Zhu has extensive research and project leading experience since 1996, from the leadership of the STINT (the Swedish foundation of international cooperation and highly education) novel solid state fuel cell project (96:059:2), 96-07.-98.07, to currently leading a number of research projects on new advanced CFCs: materials and technology as regards both fundamental and applied areas, which are supported by NUTEK (the Swedish Board for Technical and Industrial Development), TFR (the Swedish Research Council for Engineering Sciences), CTS (Carl Tryggers Stiftelse for Veterskaplig Forskning), and STEM (Swedish National Energy Administration). On the other hand, Zhu is co-supervising the research on advanced ceramic fuel cells in several research teams and Ph. D. students in China supported by NSFC (National Natural Science Foundation of China) and Ministry of Science and Technology of China (MOST). A strong research framework based on the long time period national and international cooperation has been established involving many universities and institutes.

Zhu is currently leading also the Sino-Swedish bilateral cooperation project on fuel cell research under NUTEK - MOST umbrella. Zhu has been appointed by a number of Chinese universities and institute as the guest (honour) professor. As an expert and Swedish scientist, Zhu has involved exchange and cooperation with China through United Nation's program, NFR (Swedish Natural Science Research Council) - NSFC and KVA (the Swedish Royal Academy of Sciences) - CAS (Chinese Academy of Sciences) bilateral cooperation agreements. Zhu has been invited many times by international and European conferences for lectures and subject review.
Since this year based on Zhu's research and unique patented advantages—materials and technology for ITSOFCs, Zhu has established a research and technology development company in Sweden and ITSOFC manufacturing company in China.

**WBG Response:**

Thank you for your interest and for the information on research into alcohol fueled cells.

The World Bank Group Note on Alcohol Beverages does not preclude investments in projects involving the production of industrial grade alcohol for use in fuel cells or other fuel cell related projects.

IFC does not finance research and development activities. Nevertheless, the potential for fuel cells in developing countries cannot be ignored. To this end, IFC’s Environmental Projects Unit is currently undertaking a Global Environment Facility (GEF)-funded study to review the market prospects for fuel cells for distributed generation (stationary) applications in developing countries. This study is due to be completed in the summer of 2001 and will form the basis for a GEF financing initiative to accelerate the commercial adoption of fuel cells for distributed generation applications in developing countries.
Comment No. 6:
From: "Kayak Ltd" <lmandrusyak@kayak.kiev.ua> on 07/25/2000 10:46 AM ZE4
To: <alcohol_team@worldbank.org>
Subject: investment project

Dear Sirs !

I'm a President & CEO "Kayak" LTD Lyubomyr Mandrusyak.

"KAYAK" is a privately-owned, limited liability company engaged in the production and marketing of mineral water, over 15 varieties of soft drinks and varieties of alcoholic beverages. The mineral water is supplied from the company’s own artesian well located on site of the production facilities.

We are looking for Partners and Investments.

The company’s production plant and head office are located at

29 Naberezhno-Luhova Street
04080 Kyiv, Ukraine

Tel.: (380)-44-463-59-79
Fax: (380)-44-430-47-81
E-mail: KAYAK@carrier.kiev.ua
URL: www.kayak.kiev.ua

I'd like You to visit our business site on the web : www.kayak.kiev.ua

Sincerely Yours,

President & CEO "Kayak" LTD Lyubomyr Mandrusyak.

WBG Response:

The request for IFC engagement was sent to the Corporation’s representative in Kiev, who reviewed the request according to standard IFC procedures, and responded directly to the project sponsor.