

JAMES W. ADAMS
Vice President
East Asia and Pacific Region

May 12, 2010

Ms. Natalie L. Bridgeman, Esq.
Executive Director
Accountability Counsel
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Dear Ms. Bridgeman:

Thank-you for your letter dated April 21, 2010 regarding the Papua New Guinea Smallholder Agriculture Development Project (SADP).

As you point out in your letter, in the process of preparing the Management Response to Request for Inspection Panel Review of the SADP, Management identified three areas where the Bank was not fully compliant with its policies and procedures. This pertains to the translation of documents into the local language (*Tok Pisin*); the recognition that documentation of the consultation process should have been more detailed and complete; and that the Environmental Assessment should have included additional information on the ability of the milling companies in the Project areas to adequately treat the increase in effluent anticipated due to an increase in production of oil palm fruit under the SADP.

Let me assure you that the Bank is fully committed to ensuring compliance with its safeguards policies and procedures. As the project is still in the early stages of implementation, the Bank, working with the government, is taking immediate steps to address the areas for improvement identified in the Management Response. Based on discussions with the Bank, the Oil Palm Industry Corporation (the project implementing agency) has agreed to translate the Executive Summaries of the Environmental Assessment and the Social Assessment into *Tok Pisin* and disseminate these in the Project areas by July 1, 2010. The Bank is also making arrangements to undertake further study on the issue of effluents. The effluent study will be completed by August 31, 2010 and will be disclosed to the public with an Executive Summary in *Tok Pisin*. Its completion is expected ahead of commencement of any infill planting of oil palm under the SADP and thereby in time for implementation of mitigation measures, if any are called for by the study. Infilling – which will allow for oil palm to be developed on vacant blocks of land (each about 2 hectares) along existing access roads within existing oil palm growing areas – is not anticipated to start before September/October, 2010.

With regards to the consultations on the road maintenance levy that you raise in your letter, the detailed design of the Road Maintenance Trust Funds (RMTFs) was expected to be undertaken during the implementation of the Project as per the Project Agreement. Based on recent discussions with the Bank, the Oil Palm Industry Corporation (OPIC) remains fully committed to ensuring that this study is undertaken in a consultative manner. Once the consultants for the RMTF design study are recruited, OPIC will facilitate a number of workshops in Port Moresby and the Project areas to ensure that stakeholders have an opportunity to provide input into the study. The RMTF study is expected to commence towards the end of the calendar year.

In your letter you refer to the findings of the Bank's Quality Assurance Group's 2008 learning review for Papua New Guinea, Timor Leste and the Pacific Islands which indicated that the preparation process for the SADP would have benefited from a more complete preparation of the arrangements for the operation of the RMTFs and finalization of the Terms of Reference (TOR) for the consultancies under the Project. As the Accountability Council and CELCOR are aware, poor road conditions in the Project areas are a critical livelihood concern of smallholders. Many smallholder blocks are currently cut off due to washed out bridges and roads, resulting in a loss of employment and incomes and preventing smallholders from accessing vital services. Finding a sustainable solution for financing road maintenance in the SADP Project areas was identified as a priority during preparation. However, during preparation the growers associations clearly indicated that access roads would need to be reconstructed or rehabilitated to a state where they can be maintained before growers would accept the introduction of the proposed new road maintenance levy. As explained in the Management Response, the Bank assessed that reaching this stage, where the roads are rehabilitated to a state where they can be maintained, would take a minimum of two years. Considering these factors and the best interest of the community, the decision was made to include the detailed design of the RMTFs as part of project implementation.

During the project preparation stage, draft Terms of Reference (TOR) are prepared for studies to be undertaken during implementation. The TORs are subsequently revised and finalized during implementation by the borrower/implementing agency with the Bank reviewing the TORs in the process of providing procurement "no-objections" on the Request for Proposals. This approach leaves room for flexibility in responding to changing situations on the ground during implementation. In this respect, the arrangements for the RMTF design study under the SADP are consistent with the Bank's policies and procedures.

As you are aware the Management Response is prepared during the Eligibility Phase of the Inspection Panel process; the Eligibility Phase is not an Investigation Phase. The Panel has subsequently recommended that an investigation be carried out on the issues raised by the Requesters. This recommendation was endorsed by our Board of Executive Directors on March 25, 2010.

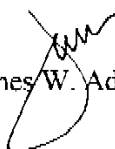
Given that no infill planting of oil palm will take place under the project till after the results of the effluent study are available, there are no grounds for withholding

disbursements for the Project at this time. The Bank's support for the Project will continue as per the terms of the Financing and Project Agreements for the SADP and will be reviewed once the findings of the effluent study are available and prior to commencement of infill planting.

I would like to reassure you that the Bank is fully committed to environmentally and socially sustainable development outcomes and is taking the issues raised by CELCOR in the Request for Inspection very seriously. The new World Bank Group oil palm strategy is expected to be prepared by the end of July, 2010. Once this strategy has been prepared, the SADP will also be reviewed in the context of the new strategy and changes will be made to the Project, if required.

Thank you for your continued interest in this project.

Sincerely,


James W. Adams

cc: Mr. Robert B. Zoellick, President, The World Bank;
World Bank Board of Directors;
World Bank Inspection Panel;
Mr. Damine Ase, Executive Director, CELCOR