

**MANAGEMENT RESPONSE TO  
REQUEST FOR INSPECTION PANEL REVIEW OF THE  
PAPUA NEW GUINEA SMALLHOLDER AGRICULTURE DEVELOPMENT  
PROJECT (IDA 43740-PNG)**

Management has reviewed the Request for Inspection of the Papua New Guinea Smallholder Agriculture Development Project (IDA Credit 43740-PNG), received by the Inspection Panel on December 8, 2009 and registered on December 17, 2009 (RQ09/10). Management has prepared the following response.



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## **CURRENCY EQUIVALENTS**

**Exchange Rate Effective as of January 24, 2010**

**US\$ 1 = 2.58 Kina**

**US\$ 1 = 0.64 SDR**

**Fiscal Year**

**January 1 - December 31**

## **Units of Measure**

ha    hectares  
km    kilometers  
mt    metric tons

## **ABBREVIATIONS AND ACRONYMS**

ARDSF	Agricultural Research and Development Support Facility
AusAID	Australian Agency for International Development
BOD	Biological Oxygen Demand
BSI	British Standards Institute
CAS	Country Assistance Strategy
CBO	Community-based Organization
CDD	Community Driven Development
CDS	Community Development Scheme
CELCOR	Center for Environmental Law and Community Rights
CIF	Cost, Insurance and Freight
CPO	Crude Palm Oil
CWG	Commodities Working Group
DEC	Department of Environment and Conservation
DNPM	Department of National Planning and Monitoring
EA	Environmental Assessment
EMP	Environmental Management Plan
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
EU	European Union
FFBs	Fresh Fruit Bunches
FOB	Free on Board
FRR	Financial Rate of Return
GDP	Gross Domestic Product
GoPNG	Government of Papua New Guinea
HCVF	High Conservation Value Forests
HIV/AIDS	Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IPN	Inspection Panel
LLG	Local Level Government

LSS	Land Settlement Scheme
M&E	Monitoring and Evaluation
MFL	PNG Microfinance Ltd
MLFS	Mama Lus Frut Scheme
NES	Nucleus Estate and Smallholder Schemes
NGO	Nongovernmental organization
NZAID	New Zealand International Aid and Development Agency
OPIC	Oil Palm Industry Corporation
OPID	Oil Palm Infrastructure Development Unit
PAD	Project Appraisal Document
PIM	Project Implementation Manual
PKE	Palm Kernel Expeller Oil
PKO	Palm Kernel Oil
PNG	Papua New Guinea
PNGOPRA	PNG Oil Palm Research Association
PNGSDP	PNG Sustainable Development Program
PPAP	Productive Partnerships in Agriculture Project
PSC	Project Steering Committee
QABB	Queen Alexandra's Birdwing Butterfly
RMTF	Road Maintenance Trust Funds
RSPO	Roundtable on Sustainable Palm Oil
SADP	Smallholder Agriculture Development Project
SDR	Special Drawing Right
SSCs	Smallholder Steering Committees
TOR	Terms of Reference
TRPs	Timber Rights Purchase agreements
VAT	Value-added Tax
VOP	Village Oil Palm
WNB	West New Britain

## EXECUTIVE SUMMARY

### PNG SADP – A Rural Development Project

In 2007, the World Bank approved an IDA Specific Investment Credit of US\$27.5 million equivalent for the Papua New Guinea (PNG) Smallholder Agriculture Development Project (SADP), which aims to improve community participation in local development while increasing revenue flow from the already established local oil palm production industry. Designed to be implemented in Oro and West New Britain provinces over five years,<sup>1</sup> The SADP has garnered strong demand and support from oil palm smallholders in the Project areas.<sup>2</sup>

The SADP has three components: (a) smallholder productivity enhancement including: the infill planting of new smallholder village oil palm along existing access roads; upgrading of provincial access roads and establishment of sustainable financing for road maintenance; and strengthening of oil palm extension services; (b) local governance and community participation, which supports the improved provision of local services and infrastructure through participatory processes; and (c) Project management and institutional support for Oil Palm Industry Corporation (OPIC), the implementing agency; and for the smallholder sector, through training, research and studies.

Although the Project was approved by the Board in December 2007, the main Project activities (including road reconstruction and maintenance and infill planting) have not yet commenced due to delays in signing the Credit, achieving effectiveness and starting up implementation.

### Why Oil Palm?

When the Bank re-engaged in PNG in 2005,<sup>3</sup> oil palm was identified as the best vehicle for an investment project to improve rural livelihoods. Considering the environmental issues associated with the development of new oil palm areas, IDA limited its support to smallholders in already existing oil palm schemes, with a focus on improving productivity and rural access roads in the scheme areas.

PNG's palm oil industry, while representing only one percent of global production, contributes substantially to rural incomes in the country. At current prices, oil palm provides smallholders with very favorable returns to their land and labor (K2,793/ha and K130/day

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<sup>1</sup> Total Project costs are US\$68.8 million, financed by the IDA Credit; US\$10.2 m from the PNG Sustainable Development Program (PNGSDP); US\$18.1 m from the National and Local Government; and US\$13.0 m from palm oil milling companies and smallholders.

<sup>2</sup> Investments in smallholder productivity enhancement under the Project are limited to the country's three largest NES – Hoskins and Bialla in West New Britain and Popondetta in Oro Province. The component on local governance and community participation supports activities for both oil palm and non-oil palm smallholders in Ijivitari and Sohe districts in Oro Province and the Talasea district in West New Britain.

<sup>3</sup> World Bank activity in PNG was temporarily halted following suspension of the Forestry Conservation Project in August 2003, and resumed following the Annual Meetings in 2005.

worked), compared to other cash crops such as cocoa (K1,136/ha and K21/day worked) and coffee (K2,058/ha and K13/day worked). The industry is second only to the public service in terms of formal employment, with around 16,000 people working for the six milling companies. Approximately 18,500 smallholders supply the mills with fruit. Palm oil has become the dominant contributor to PNG's agricultural foreign exchange earnings, representing 43.2 percent of agricultural export values in 2008.

The SADP is designed to continue to provide economic benefits to the local population while avoiding deforestation and risks to critical habitats. Environmental and social sustainability has become a priority for the palm oil industry in PNG; most of the industry is currently certified under the Roundtable on Sustainable Palm Oil (RSPO). The majority of Project funds (70 percent) will be invested in reconstructing existing rural roads.<sup>4</sup> Better roads improve access to critical social services and markets for all smallholders (not just those involved in oil palm) enabling them to engage in a wider range of income earning activities, diversify their incomes and reduce poverty.

### **World Bank Group Strategy for Oil Palm**

In November 2009, the World Bank announced that no new public sector investments in oil palm development would be made until a new comprehensive World Bank Group strategy for oil palm investment is in place. This followed an earlier announcement along similar lines by the International Finance Corporation (IFC) in September 2009. This moratorium did not apply to the SADP as the Project was already effective and its design is meant to address the multiple social and environmental concerns that have been raised with regards to the sector at large. However, this will be reviewed in the context of the new oil palm strategy and changes made if required.

### **Inspection Panel Request**

Management believes that the Bank has made diligent efforts to apply its policies and procedures and to pursue its mission statement in the context of this Project. Following is a brief overview of key issues raised by the Requesters, and Management's response.

***The Requesters suggest that the Project will not reduce poverty and that despite the significant investments that have been made in the industry "oil palm has done little to provide material improvement in smallholders' lives."***

Investments in the oil palm industry in PNG have had an overall positive impact on rural welfare and the SADP is designed to continue to provide benefits to the local population in an environmentally and socially sustainable manner. The coexistence of high cash incomes and relatively poor living standards, as noted by the Requesters, is not confined to oil palm smallholders or areas with oil palm production supported under the SADP. This is a much broader issue. PNG is experiencing its longest uninterrupted period of econom-

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<sup>4</sup> The remaining 30 percent of Project funds are allocated for oil palm infilling (11 percent), extension services (5 percent), local governance and community development activities (5 percent) and Project management and institutional strengthening (9 percent).

ic growth since independence in 1975. While growth is taking place across many sectors, there has not been an equivalent increase in service delivery or in quality-of-life outcomes. In the rural areas, high consumptive expenditures, a lack of effective savings mechanisms, and significant social and traditional obligations placed upon smallholders contribute to poor living conditions. This is compounded by mixed performance of government in rural service delivery (education, health, and infrastructure).

OPIC, the milling companies and the PNG Oil Palm Research Association (PNGOPRA) are working to address the many socio-economic factors affecting living conditions among smallholder households through various initiatives (such as the Mama Lus Frut Scheme, which provides an income stream for women on smallholder oil palm blocks). These initiatives, together with the SADP's pilot community driven component on improved provision of local services and infrastructure, and the activities to improve smallholder productivity, are expected to help reduce poverty in the Project areas.

***The Requesters suggest that little or no information disclosure and consultation prior to Project approval has led to a number of unsustainable Project decisions and that “the Bank has failed to assess broad community support and that indeed such support does not exist among the communities and peoples impacted by the project.” The Requesters also state, “It is unclear if adequate and complete records of the consultations have been kept.”***

Management maintains that free, prior and informed consultations were undertaken during Project preparation and broad community support for the Project exists in the three oil palm growing areas targeted under the Project. Management strongly believes that the Project design fully reflects the concerns of beneficiaries. Oil palm smallholders in the three Project areas have repeatedly expressed support for the Project.

A Social Assessment was conducted for the Project and extensive consultations were held. More than 550 people were directly consulted including oil palm smallholder households, non-oil palm households directly affected by the Project, local Government representatives, community-based organizations (including women's and youth groups), nongovernmental organizations (NGOs), church groups and oil palm organizations (including oil palm growers associations). Participants in the consultations were provided information on the proposed Project verbally in Tok Pisin and/or English, depending on the audience. The Social Assessment and Beneficiaries Assessment thoroughly document the consultation findings, although Management agrees that the consultation process should have been better documented. Management acknowledges that key documents were not translated into Tok Pisin.

Management does not agree with the Requesters' view that “claimants had no opportunity to provide their input into the scope, purpose and activities under the Project.” Since January 2004, the Bank has been engaged with groups opposed to oil palm cultivation in PNG. Throughout Project preparation, the Bank engaged with these NGOs, predominantly with the Requesters. The Requesters participated in consultations for both the Social and Environmental Assessments. Relevant issues raised by the Requesters and other



NGOs were investigated during Project preparation and led to modifications in the Project's design.

The requirements in the Indigenous Peoples Policy (OP 4.10) of "free, prior and informed consultation" leading to "broad community support" do not mean that a project cannot proceed unless there is unanimity of views or support, or the receipt of consent from all affected individuals or groups, contrary to what has been implied by the Requesters. In fact OP 4.10 makes it clear that free, prior and informed consultation leading to broad community support does not constitute a veto right for individuals or groups.

***It is the Requesters' view that "SADP will cause environmental damage" and that the Project's Environmental Assessment (EA) does not use reliable information, lacks an assessment of effluent treatment and does not provide mitigation measures for Project impacts on high conservation value forests.***

The EA and its associated documents include appropriate and effective mitigation strategies for potential environmental impacts. Management acknowledges that the requirements of OP 4.01 (Environmental Assessment) were not fully met, in that there was insufficient detail in the EA on the matter of effluents and the only information shared with stakeholders during consultations for the EA was in verbal form. A thorough analysis of the impact of increased effluents due to Project activities will be undertaken, in addition to monitoring ISO14001 and RPSO certification of the milling companies. In Management's view, the Project's design includes adequate measures to minimize and manage risks of deforestation, consistent with Bank policy requirements. The Project also incorporates measures to avoid risks to critical habitats.

A thorough screening mechanism has been put in place for infill planting under the Project. No planting will take place in primary forest areas or on blocks that have been logged since November 2005, as per RSPO requirements. OPIC officers have received training in identifying primary and High Conservation Value Forest areas and will receive further training under the Project. Environmental officers for each of the Project areas are being recruited by OPIC. In addition to supervision by IDA, bi-annual independent social and environmental audits are to be financed under the Project to ensure compliance with social and environmental safeguards.

***Finally, the Requesters also expressed concerns about the sustainability of the Project, particularly with regard to the Road Maintenance Trust Funds (RMTFs) and the activities of OPIC extension officers.***

As elaborated in the Project Appraisal Document, the high risks related to the RMTFs were recognized, and measures to mitigate these risks were identified and included in Project design. These measures will be implemented as part of the Project. The RMTFs will be designed in a consultative manner, with the objective of ensuring sustainability. Weaknesses in OPIC's extension capacity were also noted in the Project Appraisal Document and several activities are funded under the Project to strengthen OPIC's capacity.



## I. INTRODUCTION

1. On December 17, 2009, the Inspection Panel registered a Request for Inspection, IPN Request RQ09/10 (hereafter referred to as “the Request”), concerning the Papua New Guinea (PNG) Smallholder Agriculture Development Project (IDA Credit 43740-PNG) financed by the International Development Association (the Bank).

2. **Structure of the Text.** The document contains the following sections: Section II presents the Request; Section III provides Background Information on the oil palm sector in PNG and the Project; Section IV discusses Key Issues; and Section V provides Management’s Response. Annex 1 presents the Requesters’ claims, together with Management’s detailed responses, in table format. Annexes 2-4 include information on consultations, Bank engagement with nongovernmental organizations (NGOs), Project milestones, and a mission timeline.

## II. THE REQUEST

3. The Request for Inspection was submitted by the Center for Environmental Law and Community Rights (CELCOR), acting as a representative of the Ahora/Kakandetta Pressure Group, other claimants from the Oro Province and affected smallholders within the three Project areas (hereafter referred to as the “Requesters”).

4. Attached to the Request are:

- (i) Correspondence between the World Bank and some of the Requesters;
- (ii) Public petition against the SADP and palm oil development;
- (iii) Open letter to the World Bank signed by some of the Requesters, available at  
[http://www.wrm.org.uy/countries/Support\\_to\\_Papua\\_New\\_Guniea.html](http://www.wrm.org.uy/countries/Support_to_Papua_New_Guniea.html);  
and
- (iv) Photocopies of photographs from Oro Province.

5. The letter dated July 28, 2008 is included in the Requesters’ package; however, the Bank cannot locate this letter in its files. The Bank is also unable to locate in its files a copy of the open (undated) letter to the World Bank included in the Request and posted on the website :[http://www.wrm.org.uy/countries/Support\\_to\\_Papua\\_New\\_Guniea.html](http://www.wrm.org.uy/countries/Support_to_Papua_New_Guniea.html)

6. No further materials were received by Management in support of the Request.

7. The Request contains claims that the Panel has indicated may constitute violations by the Bank of various provisions of its policies and procedures, including the following:

- OP 1.00, Poverty Reduction
- OP/BP 4.01, Environmental Assessment
- OP/BP 4.10, Indigenous Peoples
- OP/BP 4.36, Forests
- OP/BP 4.04, Natural Habitats
- OP/BP 10.00, Investment Lending
- OP/BP 13.05, Project Supervision
- OMS 2.20, Project Appraisal.

### III. PROJECT BACKGROUND

8. The Project is financed in part by an IDA Specific Investment Credit of SDR 17.7 million (US\$27.5 million equivalent), which was approved by the Board of Directors of IDA on December 18, 2007 and became effective on January 28, 2009. On September 17, 2009, the first disbursement of SDR 463,601.61 (US\$728,448 equivalent) was made to the implementing agency's Designated Account.

#### PROJECT CONTEXT

##### Oil Palm in Papua New Guinea's Economy

9. *Approximately 5.6 million people in PNG (85 percent of the population) live in rural areas and depend on agriculture for food production and income generation.* The sector (agriculture, forestry and fishing) currently accounts for 32 percent of Gross Domestic Product (GDP) and 19.4 percent of PNG's export earnings. The majority of food consumed in the country is produced through subsistence agriculture, which forms the largest part of the sector.<sup>5</sup> PNG's rural population also derives most of its cash income from the sale of agricultural commodities.<sup>6</sup> In addition to the sale of food crops, a number of important cash crops contribute to rural incomes, including Arabica coffee, betel nut, cocoa, copra, oil palm, tobacco, and other minor products such as vanilla, rubber, balsa and tea.

10. *Palm oil has become the dominant contributor to PNG's agricultural foreign exchange earnings, with steady growth during the past three decades, and rapid acceleration over the last five years.*<sup>7</sup> This shift has come about as growth in the production of oil palm has outpaced cocoa and coffee, the country's other top agricultural export commodities, and as international palm oil prices have risen.<sup>8</sup> During the period from 1981 to 1990, palm oil represented an average of 13 percent of agricultural export values. For the period 2005–2007, this had jumped to 35.1 percent, not including palm oil by-

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<sup>5</sup> Bourke, R.M. and Harwood, T. (eds) (2009). Food and Agriculture in Papua New Guinea. ANU E Press, The Australian National University, Canberra.

<sup>6</sup> Ibid.

<sup>7</sup> Palm oil is produced from the fruit of the oil palm.

<sup>8</sup> For the period 1975 to 2005, oil palm production in PNG grew at an average annual rate of 10.2 percent, while coffee production grew by 1.9 percent and cocoa, by 1.3 percent.

products. As of 2008, palm oil represented 43.2 percent of agricultural export values. According to estimates in the 2010 Budget, this trend is expected to continue for at least the next five years, with palm oil comprising 53.3 percent of agricultural export values by 2014, as well as 42.9 percent of all agricultural, forestry and fishing exports.<sup>9</sup>

11. ***The palm oil industry is second only to the public service sector in total employees, with around 16,000 people working for the six milling companies.*** In addition, approximately 18,500 growers are engaged in supplying the mills with oil palm Fresh Fruit Bunches (FFBs), the primary unit of measure for oil palm sales between the farm and mill. With an estimated ten extended family members per smallholder block and five family members per company employee, the oil palm sector directly benefits approximately 265,000 people or 4.7 percent of PNG's rural population.<sup>10</sup> The industry also contributes to employment in the large number of businesses and support services that depend upon it.

12. ***There are six oil palm project areas in PNG and production includes both smallholder and plantation production.*** In 2008, the Hoskins project area accounted for 44.7 percent of the area under production, followed by Popondetta (17.3 percent), Bialla (16.8 percent), Milne Bay (10 percent), New Ireland (6.1 percent) and Ramu (5.1 percent). Smallholder production accounts for about 42 percent of the area under oil palm (134,240 ha) and 35 percent of FFB production (2.1 million mt).<sup>1112</sup> Between 2003 and 2008, oil palm area in PNG grew by 18 percent, with a 22 percent growth in smallholder area compared to 13 percent in the plantation sector.

13. ***Despite its importance to the national economy, PNG's palm oil industry is small by global standards, representing only 1 percent of palm oil (the commodity) production.*** In 2006, Indonesia and Malaysia accounted for 87 percent of palm oil production, with Nigeria, Thailand and Colombia accounting for another 2 percent each. Indonesia, the leading global producer of palm oil, more than tripled its production from 1997 to 2007, at which point it was growing oil palm on 6.3 million hectares. In 2008, PNG was growing oil palm on 2 percent of the land used in Indonesia.

14. ***Oil palm provides among the highest returns for smallholders in terms of income per hectare and per day worked in PNG's agricultural sector.*** Thanks to yields that are among the highest in the world, oil palm is PNG's most efficient agricultural industry. At current prices, oil palm provides smallholders with very favorable returns to their land and labor (K2,793/ha and K130/day worked), compared to other cash crops such as cocoa (K1,136/ha and K21/day worked) and coffee (K2,058/ha and K13/day worked).

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<sup>9</sup> In 2008, palm oil represented 33.8 percent of this broader set of exports.

<sup>10</sup> More than 85 percent of PNG's smallholder oil palm blocks (about 16,500 blocks) will be covered under the SADP.

<sup>11</sup> Data as of 2008, from PNG Oil Palm Research Association (PNGOPRA).

<sup>12</sup> Yields in the plantation sector are almost 40 percent higher than in the smallholder sector (17.9 tons/ha compared to 12.9 tons/ha).

## The Evolution of Oil Palm Schemes and World Bank Involvement

15. *Different types of oil palm schemes have evolved over time in PNG, driven largely by efforts to expand participation in the cash economy within rural areas as well as provide greater access to land.* The concept of a nucleus estate and smallholder scheme (NES) was first commercialized in 1967 with the creation of New Britain Palm Oil Development Limited, a joint venture between the Administration of the Territory of Papua and New Guinea and Harrisons and Crosfield, an experienced plantation company. Oil palm development was encouraged by the World Bank through an economic report published in 1965, and followed by the first IDA Credit to the Territory (US\$1.5 million), in 1968, to settle 580 smallholders and to develop 4,640 acres of oil palm.<sup>13</sup> This scheme was implemented as a part of the colonial administration's land settlement program, to open up land for voluntary resettlement of rural people from overpopulated areas. The first *Land Settlement Scheme (LSS)* was set up in Hoskins, West New Britain (WNB), with 6.6 hectare blocks bought from customary owners and leased to block-holders for a period of 99 years.

16. *The next form of smallholder oil palm development to emerge was the Village Oil Palm (VOP) system which encouraged local villagers to plant 2 or 4 hectare blocks of oil palm on customary land.* In the case of VOPs, block-holders sign a Customary Land Usage Agreement providing them with security of tenure and usage rights of the land. The first VOPs were established in Hoskins in the 1970s, but were slow to develop, until the Asian Development Bank provided support in 1986, catalyzing VOP activity.

17. *In 1976, a US\$12 million loan from the International Bank for Reconstruction and Development (IBRD), the Popondetta Smallholder Oil Palm Development Project, provided financing for the establishment of a new oil palm scheme in Popondetta, Oro Province.* The introduction of a new oil palm project in this area followed a failed attempt to establish a cocoa scheme, which was begun in the 1950s and 1960s but suffered from a high incidence of pests and diseases for which no effective control was available. In addition to the creation of LSS blocks, VOP blocks were also developed, not only on customary land (as in Hoskins), but on Land Tenure Conversion blocks, blocks converted from cocoa to oil palm production. At the close of the project in 1984, VOP blocks were found to be less productive than LSS blocks, mainly due to reduced labor availability resulting from the time farmers spent attending to community social obligations. The Economic Rate of Return (ERR) for the project was calculated as 12.7 percent.<sup>14</sup> As an illustration of smallholder recognition of the economic benefits of growing oil palm, an advertisement for 10 additional oil palm blocks in the National Gazette at the time of the project audit (1987) drew more than 450 applications.

18. *In 1985, the Bank approved a US\$27.6 million loan from IBRD for the Nucleus Estate and Smallholder Project in Milne Bay, one of the least developed provinces in*

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<sup>13</sup> The Economic Development Report for the Territory of Papua and New Guinea, International Bank for Reconstruction and Development, (1965); Economic Mission, (1967).

<sup>14</sup> The ERR of 12.7 percent was slightly lower than the 14 percent ERR estimated at appraisal, mainly due to increased production costs.

*the country.* The funds were used to help establish a combined oil palm and cocoa scheme for mainly estate/plantation farming (3,700 hectares for oil palm and 750 for cocoa) as well as a more limited number of VOP smallholder blocks (1,000 hectares). Nucleus estate cocoa development was abandoned by the project due to the damaging effects of a disease associated with higher than anticipated rainfall. Due to the volatility in the international palm oil market, the overall returns to project investments in the nucleus estate company were negative, leading to recommendations in the Project Completion Report that were highly cautious in terms of future World Bank investment in oil palm estates.

19. *With the approval of a US\$27 million loan for the Oro Smallholder Development Project, in 1993, the Bank focused its strategy for support to oil palm in PNG on poverty reduction, aiming primarily to generate income for smallholder farmers.* During the project period, 1992 to 2001, the project exceeded its original target of 6,000 hectares of oil palm planting by 1,840 hectares, mainly due to high demand among smallholders for planting oil palm on new blocks. The newly formed Oil Palm Industry Corporation (OPIC), which was established in 1992 to provide extension services to oil palm smallholders, was instrumental in the implementation of the project, taking the lead in promoting, organizing and supervising the smallholder planting program.<sup>15</sup> Compared to new planting, the replanting component of the project was far less successful, planting less than half (1,374) of the targeted number of hectares (3,000). The poor performance of the replanting program was attributable to a number of factors, perhaps the most striking of which was the reluctance of immigrant LSS smallholders to replant due to their concern that this might antagonize local, traditional landowners who had mobilized a campaign in the early 1990s called “Oro for Oro,” which aimed to force settlers to leave the area. The Project’s ICR reports an overall ERR of 10.7 percent and notes that several direct and indirect benefits were not quantified as part of the economic analysis.<sup>16</sup> The ICR goes on to state that “when these additional benefits are considered, the economic consequences of the project support the Satisfactory rating for project accomplishments.”

**Table 1: World Bank Oil Palm Projects in Papua New Guinea**

<b>Project Title</b>	<b>Project Period</b>
New Britain Smallholder Development Project	1969 – 1973 (Phase 1) 1970 – 1976 (Phase 2)
Popondetta Smallholder Oil Palm Development Project	1976 – 1984
Nucleus Estate and Smallholder (Milne Bay) Project	1985 – 1992
Oro Smallholder Development Project	1992 – 2001
Smallholder Agriculture Development Project	2007 – Present

<sup>15</sup> Agricultural extension services to smallholders were initially under the management of the Department of Agriculture and Livestock (DAL). In 1992, OPIC was established as a quasi government agency, as part of the Government’s corporatization and agricultural reform policies.

<sup>16</sup> The ICR notes that “apart from the specified objectives, the project has had more generalized benefits in the province of Oro. With the major increase in cash incomes from palm fruit deliveries, consumer demand has substantially increased over the project period. A national supermarket chain has been attracted to Popondetta, the provincial capital. Annual movement of containers at the wharf increased by 30 percent from 1997 to 2000 (all merchandise comes by sea).”

20. ***The Government of Papua New Guinea (GoPNG) has positioned oil palm as a high priority within its National Agriculture Development Plan, 2007–2016.*** One of the eight priority areas specified in the Plan is: “Tree and industrial crops development.” To increase the productivity and production of the various crops, this section of the Plan lists a set of activities including: “rehabilitation of plantations, planting of new plantations /farms, promotion of nucleus estates where feasible, organizing farmers into cooperatives for production and marketing purposes, promote access to credit and markets and encourage down-stream processing where feasible.” The National Agriculture Development Plan is situated within the GoPNG’s broader Medium Term Development Strategy (2005-2010) which prioritizes export-driven economic growth, rural development and poverty reduction.

21. ***The Smallholder Agriculture Development Project (SADP) supports GoPNG’s priorities through its focus on improving productivity and performance in the oil palm sector.*** At the time of its approval (and continuing to this day), the Project was fully consistent with IDA’s goals (of good governance; export-driven economic growth; and poverty reduction and improved living standards) as stated in the March 2005 Interim Strategy Note.<sup>17</sup> It also remains fully consistent with the Country Assistance Strategy (CAS) for PNG for FY08-FY11.<sup>18</sup> Other donor funding to the oil palm sub-sector is modest and focused mostly on agricultural research and the capacity of research and extension organizations.<sup>19</sup> The Australian Agency for International Development (AusAID) is helping to build the capacity of OPIC through its Agricultural Research and Development Support Facility (ARDSF) and research grants to the PNG Oil Palm Research Association (PNGOPRA).

22. ***In November 2009, the World Bank announced that no new public sector investments in oil palm development would be made until a new comprehensive World Bank Group strategy for oil palm investment is in place; this moratorium on new investments did not apply to the SADP as the Project was already effective and its design is meant to address the multiple social and environmental concerns that have been raised with regard to the industry at large.*** In August 2009, World Bank President, Robert Zoellick, announced the suspension of new investments in oil palm by the International Finance Corporation (IFC), the Bank’s private sector investment arm, until a new comprehensive strategy for oil palm investment is in place. This action was sparked by

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<sup>17</sup> ISN-Report No. 3790-PG, March 18, 2005.

<sup>18</sup> With an overarching objective of poverty reduction, the CAS consists of two pillars: (a) promoting and maintaining sound economic and natural resource management; and (b) improving livelihoods and service delivery, especially for the rural poor. The SADP contributes to the second CAS pillar by improving rural livelihoods and promoting sustainable growth.

<sup>19</sup> The Government’s Public Investment Program for 2010-2014 only identifies four projects under the Ministry of Agriculture and Livestock. One is the upcoming Productive Partnerships in Agriculture Project (PPAP) to be financed by the World Bank, and the other three are projects to: strengthen the National Department of Agriculture and Livestock’s ability to support smallholder families (AusAID and NZAID); promote smallholder rice production; and reduce exotic and endemic pests and diseases of food crops and livestock. The ADB is supporting nucleus agro-enterprises and agricultural studies. The European Union, United Nations Development Programme and NZAID are also supporting research and extension work in agriculture.



complaints from civil society groups in Indonesia regarding IFC's investment in the Wilmar Group, a large, multi-national conglomerate which holds around 435,000 hectares of oil palm plantations and 25 mills in Indonesia, Malaysia and Singapore. To ensure that all new oil palm investments by the World Bank Group would be guided by this strategy this suspension was extended to cover new public sector investments as well. Once the new oil palm strategy has been prepared, the SADP will be reviewed in the context of the new strategy and changes will be made to the Project, if required.

23. ***Environmental and social sustainability is a priority for the palm oil industry in PNG and major investments have been made by the industry over the last several years, demonstrating its commitment to sustainability.*** In 2005, all palm oil milling companies in PNG had achieved ISO14001 accreditation. ISO14001 is an international standard for environmental management and a framework for lessening a company's footprint on the environment. ISO14001 accreditation is independently audited and the certification authority conducts regular annual compliance audits. In 2006 the palm oil industry in PNG committed to a more comprehensive system as a model for ensuring sustainable production of palm oil, namely the Roundtable on Sustainable Palm Oil (RSPO). The RSPO is a global coalition of industry, NGOs, financial institutions, environmental and conservation groups, retailers and consumer product companies that have come together since 2004 to develop a structured way forward for the production and use of sustainable oil palm. PNG has been a lead player in this process.

24. ***All existing palm oil companies in PNG have commenced or completed registration for certification under the RSPO.***<sup>20</sup> RSPO consists of a number of social and environmental Principles and Criteria which must be strictly followed. Smallholders must also be certified under RSPO as smallholder FFB are processed by the certified milling companies. Under the SADP, the strict screening processes for infill planting contained within the Environmental Management Plan (EMP) and the Infill Planting Sub-Manual are RSPO compliant.<sup>21</sup> OPIC and the companies have been working together to train individual block holders in the Principles and Criteria of RSPO, and the three smallholder schemes covered by the SADP have made considerable progress. For example, OPIC Hoskins started training and awareness in 2005, and a baseline survey was carried out in 2007. The Hoskins scheme was audited by the British Standards Institute (BSI) Team in September 2009; and the findings were very favorable. The smallholders at Bialla are due for audit later this year and those at Popondetta are also well along the certification process.

25. ***With a long history of engagement in the oil palm subsector, the World Bank's country portfolio will soon expand its support to the agriculture sector to include cocoa and coffee through the Productive Partnerships in Agriculture Project (PPAP).*** The

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<sup>20</sup> At present, two of the three milling companies operating in the SADP Project areas (Hargy Oil Palms Ltd and New Britain Palm Oil) are RSPO certified, and the third (Higaturu Oil Palms) is awaiting the results of an audit completed in late 2009.

<sup>21</sup> Although the Oil Palm Planting Approval Form developed during SADP preparation complies with RSPO, it will need to be revised slightly for clarification purposes and to correct typographical and technical errors.

Bank's investments in oil palm, cocoa and coffee all focus on increasing smallholder incomes through improved farming practices, increasing access to the benefits of sustainable farming approaches (namely market premiums), and improving road conditions to facilitate market access. The ongoing Road Maintenance and Reconstruction Project complements rural road repair under the SADP, and eventually under the PPAP, by improving main transport routes linking the areas of oil palm production (WNB and Oro Province) and one of the main cocoa producing areas (East New Britain) to ports for faster access to export markets.

## PROJECT DESCRIPTION

26. ***The SADP was designed to support the GoPNG's Medium-Term Development Strategy 2005-2010.*** The Project concept is to increase and sustain agricultural output and productivity in smallholder oil palm production in the country's three largest NES,<sup>22</sup> while addressing the needs of rural communities in the Project areas through supporting a community driven development (CDD) based approach. The Project design benefited from the long association of the Bank with the oil palm subsector and incorporated the lessons drawn from earlier investments, and particularly from the Oro Smallholder Oil Palm Development Project, which closed in 2001.

27. ***The Project Development Objective*** specified in the Project Appraisal Document (PAD) is to increase, in a sustainable manner, the level of involvement of targeted communities in their local development through measures aimed at increasing oil palm revenue and local participation.

28. ***Project Components.*** The Project is designed to be implemented in two provinces (Oro and WNB) over five years and has three components (Financing Agreement Schedule 1, PAD page 5 and PAD Annex 4):<sup>23</sup>

- ***Component 1: Smallholder Productivity Enhancement (Total cost US\$59.2 million, of which IDA US\$18.9 million).*** The component is designed to support: (a) infill planting of up to 9,000 ha of oil palm on smallholder blocks (about 2 ha each) along existing provincial access roads in the three NES areas;<sup>24</sup> (b) the reconstruction and maintenance of provincial access roads, the construction of related bridges, and the design and establishment of Road Maintenance Trust Funds (RMTFs) to provide a sustainable financing mechanism for road maintenance;<sup>25</sup>

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<sup>22</sup> Hoskins and Bialla in West New Britain, Popondetta in Oro Province.

<sup>23</sup> In the Financing Agreement these components are described as "Part 1, Part 2, Part 3" For the sake of clarity this Response will use the PAD terminology, i.e., "component."

<sup>24</sup> Infilling refers to new blocks of oil palm being planted between established blocks of oil palm along existing access roads in the NES areas.

<sup>25</sup> The Requesters argue that the general organization and operations of the RMTFs have already been drafted. While it is true that Annex 4 to the PAD (paragraphs 28 to 31) describes the general principles pertaining to the organization and operations of the RMTFs, Schedule 1 of the Financing Agreement only refers to supporting "the design of Road Maintenance Trust Funds," clearly indicating that the RMTF mechanism is still in a draft form.

- and (c) the upgrading of oil palm extension services to smallholders to generate and disseminate productivity improvements.<sup>26</sup>
- *Component 2: Local Governance and Community Participation (Total cost US\$3.1 million, of which IDA US\$3.0 million).* The component is designed to test mechanisms aimed at supporting the improved provision of local services and infrastructure in three districts<sup>27</sup> of the two Project provinces through participatory processes (CDD). The component is to be implemented in five Local Level Governments (LLGs) during the first two years (Phase 1); and after an external evaluation, is to be expanded to all fifteen LLGs in the three Project districts in year 3 (Phase 2).
  - *Component 3: Project Management and Institutional Support (Total cost US\$6.5 million, of which IDA US\$5.6 million).* The component is designed to support: (a) the strengthening of OPIC's capacity to manage the Project and to provide extension services to growers;<sup>28</sup> (b) the management of Component 2, through the contracting of a management agency by OPIC; and (c) the strengthening of the smallholder oil palm sector (growers associations and PNGOPRA), and the financing of studies (FFB price formula review and design of RMTFs) and overseas master courses.

29. The Requesters allege that infill planting is a “deceptive term” and that it falls “within the definition of expansion.” The terminology of infill planting has been used consistently in all Project documentation to refer to planting of oil palm along existing access roads in PNG's three largest NES. It is very clear from all the Project documentation that the SADP will support an expansion in oil palm area of up to 9,000 hectares on smallholder VOP blocks. The average infill block is about two hectares in size. The terminology of infilling was used to clarify that there will be no expansion of oil palm area beyond that already covered by existing access roads in the three NES areas. Infilling improves overall production efficiency by maximizing use of existing infrastructure and increasing delivery of FFB in existing oil palm scheme areas. Infilling responds to smallholder demand and enables consolidation of production in an existing oil palm scheme area thereby avoiding the potential environmental impacts associated with developing new scheme areas for oil palm production. The Requesters also claim that “the loan will not extend to replanting, excluding existing smallholders from accessing the facility.” In fact, the milling companies have agreed to continue their support for the replanting pro-

<sup>26</sup> The Requesters imply that SADP will not support activities to promote productivity on existing oil palm blocks. This is a misconception – the SADP does include specific activities focusing on improving productivity on both infill blocks as well as existing blocks.

<sup>27</sup> Ijivitari and Sohe districts in Oro Province; and Talasea district in West New Britain Province.

<sup>28</sup> The Requesters state that it is unclear what the training of OPIC officers will entail. While the content of the envisaged training program has not yet been developed, Annex 4 to the PAD indicates: (a) in paragraph 37, that the Project will provide a consultant extension specialist who will train extension and key staff in OPIC in designing and managing extension programs that respond to production constraints; and (b) in paragraph 39, that OPIC will train staff for land-related issues, gender issues, general welfare and HIV/AIDS.

gram into the Project period and beyond by financing the associated smallholder loans themselves (PAD, Annex 4, paragraph 9).

30. *The financial and economic analysis undertaken for the SADP at appraisal indicated that the Project represented a good investment for PNG and its people.* The ERRs for the Hoskins, Bialla and Oro scheme areas are 18.3 percent, 13.2 percent and 17.2 percent, respectively. The overall Project ERR is 16.7 percent. Smallholder financial rates of return (FRRs) and income generation from participation in the Project would be substantial. The FRRs for smallholders in Hoskins, Bialla and Oro schemes were 27 percent, 24 percent, and 22 percent, respectively at appraisal, and represent higher rates of return than alternative smallholder investment opportunities. A sensitivity analysis indicated that the Project's ERR is robust.<sup>29</sup>

### Costs and Financiers

**Table 2: Project Financing Plan at Appraisal (US\$ million)**

Source	Local	Foreign	Total
International Development Association	17.9	9.6	27.5
Borrower	7.4	0.0	7.4
PNG Sustainable Development Program	9.7	0.5	10.2
Provincial Government WNB Province	6.2	1.0	7.2
Provincial Government Oro Province	3.0	0.5	3.5
Smallholders	5.0	2.3	7.3
Palm Oil Milling Companies	5.0	0.7	5.7
<b>Total</b>	<b>54.2</b>	<b>14.6</b>	<b>68.8</b>

31. *Project Coordination and Oversight.* OPIC is responsible for overall Project implementation. Component 1 (Smallholder Productivity Enhancement) is to be managed by the OPIC head office in Port Moresby and implemented by its offices in the Project areas. OPIC will implement the infill planting of oil palm and smallholder productivity enhancement activities with the support of the milling companies and PNGOPRA. A Management Agency is to be contracted by the GoPNG, through OPIC, to provide management services for the implementation of Component 2 (Local Governance and Community Participation). The Management Agency will be responsible for setting up Local Coordination Teams at the provincial level; selecting and contracting consultants and service providers to carry out all capacity building activities; carrying out M&E activities for Component 2; transferring the grants and managing the grant accounts at the LLG levels; and transferring funds for subproject activities. Component 3 (Project Management and Institutional Support) will also be managed by OPIC. A Project Steering Committee (PSC) has been established to oversee Project implementation, provide guidance on policy matters and quality control for annual work programs and budgets and to facilitate critical decisions for the implementation of various components. The PSC will be chaired

<sup>29</sup> In 2006 palm oil prices were US\$478/mt, compared to US\$683/mt in 2009. In real terms this translates into a 34 percent increase in palm oil prices between 2006 (time of Appraisal) and 2009. Increases in input prices have been more modest. Future price projections indicate continued strong prospects.

by the Secretary of the Department of National Planning and Monitoring (DNPM) and will comprise representatives from Government departments and agencies, including the Departments of Treasury, Agriculture and Livestock, Environment and Conservation, Works, Provincial and Local Government Affairs, Community Development; Provincial Governments; and the PNG Sustainable Development Program (PNGSDP).

32. ***The Project was considered to be a “high risk” undertaking at appraisal.*** The Project was understood to be ambitious because it sought to address the critical issue of poorly maintained agricultural access roads—which affect not only the oil palm sector, but also all rural areas in PNG—through introducing an innovative, user pay based funding mechanism for effective road maintenance. The weak institutional capacity was recognized and several conditions of effectiveness to address this weakness were made part of the Project. These included: (a) the execution of the Subsidiary Agreement between the GoPNG and OPIC; (b) the execution of the Co-financing Agreement among GoPNG, PNGSDP and OPIC; (c) the establishment of the PSC with composition acceptable to IDA; (d) the adoption of (i) the PIM, including the EMP and the Resettlement Policy Framework by GoPNG and OPIC; and (ii) the Smallholder Oil Palm Infill Planting Sub-Manual and the Road Reconstruction Sub-Manual by PNGSDP; and (e) the establishment and staffing of the OPIC Project Office.

33. ***The PAD Critical Risks assessment (Section C, paragraph 5) rated the overall risk as “substantial.”*** The Critical Risks matrix of the PAD identifies three risks that are directly relevant to this Response. These risks relate to the road reconstruction and maintenance activities to be carried out under the SADP and are: (a) that Provincial Governments may not provide the required funding for road maintenance; (b) that there could be leakage from the RMTFs due to the design of fund flow arrangements; and (c) that there may be an insufficient number of local contractors with the capacity to perform work in the Project areas. The identified risks relating to the RMTF financing arrangements will be addressed through the detailed design of the RMTFs, which is expected to start in 2010, while road works implementation arrangements will take into account the actual local contracting capacity.

34. ***The PAD, however, failed to identify the risk of slow implementation start-up including the time needed to establish OPIC’s project management capacity.*** Two years after the approval of the Credit by the Board in December 2007, key Project activities including road reconstruction and maintenance, infill planting and provision of local services and infrastructure through CDD have not commenced, and are only expected to start around the third quarter of 2010 (see Project implementation status below).

35. ***In the first half of 2008 a Quality Assurance Group (QAG) learning review for PNG, Timor-Leste and the Pacific Islands was conducted to help address outstanding quality concerns and to improve portfolio management.*** The overall findings for the SADP were that the Project reflects the type of operation appropriate and essential for the fragile states of the Pacific Region. Specifically, the review highlighted: (a) there was good sector knowledge and prior implementation experience that the Bank’s Independent Evaluation Group (IEG) had rated as Satisfactory; (b) the Project contains important innovation in the form of a RMTF and a small but important CDD-type activity for com-

munities outside the Project area; and (c) the Project design also addressed three shortcomings noted by the IEG review of the previous project: (i) that road maintenance funding had not been assured; (ii) that fertilizer use was low and productivity was sub-optimal; (iii) that monitoring and evaluation (M&E) systems under the Project were weak. However, the QAG found that the preparation process, accelerated by the window of opportunity to resume lending, 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.

36. ***Project chronology.*** After the closure of the Oro Smallholder Oil Palm Development Project in December 2001, a Bank identification mission visited PNG in November 2002, and Project preparation was scheduled to start in mid-2003. However, Project processing was delayed because of the long suspension of the Bank-funded Forestry Conservation Project in PNG (suspended from September 2003 until its subsequent cancellation in June 2005) (see the SADP timeline in Annex 4).<sup>30</sup> From August 2003 to September 2005, a number of Bank technical visits took place for the SADP and some technical background studies were commissioned. However, the main preparation activities funded under the Project's PHRD project preparation grant approved in February 2004 (e.g., the Environmental Assessment (EA), the Social Assessment, the Project Implementation Plan and technical studies) could not proceed as all Project preparation activities in PNG were put on hold during the suspension of the Forestry Conservation Project. Supervision and technical missions were allowed to proceed. The full preparation effort only resumed after the 2005 Annual Meetings when the official restart of Project preparation was agreed with GoPNG. Based on the track record of previous World Bank investments in the oil palm sector in PNG, the SADP provided a vehicle for the Bank to rapidly re-engage in the country after the temporary halt of activities.

37. ***Preparation of the Social and Environmental Assessments by the Borrower commenced in June 2006 and preparation of the Project Implementation Manual (PIM) started in December 2006.*** On February 20, 2007 OPIC formally submitted the revised Social and Environmental Assessments and related documents to the Bank. The documents were made available in the PNG Project Information Center (PIC) and in the Bank's InfoShop on February 22, 2007. The formal notification to the general public announcing the locations where the documents were disclosed was published by OPIC in the Papua New Guinean press on February 22, 2007. The EA and Environmental and Social Management Framework (ESMF) were subsequently modified based on safeguard clearance recommendations on March 4, 2007 and April 23, 2007, respectively.<sup>31</sup> The Resettlement Policy Framework and the EMP were formally approved by the National Executive Council on June 21, 2007. Following appraisal in February 2007, Negotiations

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<sup>30</sup> See World Bank Report No. 36503 – Note on Cancelled Operation for the PNG Forestry and Conservation Project.

<sup>31</sup> Key changes incorporated in the Environmental Assessment were: (a) clarification of the World Bank Safeguard Policies triggered by SADP and how they were incorporated into the EA; (b) provision of illustrative maps to show the Project areas; (c) clarification of the mills' capacities for the increased production and pollution control facilities that could result from SADP; (d) description of requirements for inclusion of a Pest Management Plan in the EA; and (e) inclusion of more social aspects in the ESMF.

were completed in October 2007. The Project was approved by the Board in December 2007, but the Credit was only signed in July 2008. GoPNG confirmed the adoption of the finalized PIM in August 2008, and the Credit was declared effective in January 2009. The Project launch workshops took place in March 2009.

## STATUS OF IMPLEMENTATION

38. ***The Project's main achievements.*** Due to implementation delays the main activities under the Project have not yet commenced. The main achievement to date is that emergency assistance was provided in Oro Province to address the impact of the November 2007 tropical cyclone that devastated large parts of the infrastructure there.<sup>32</sup> The impact on the smallholder oil palm sector caused by the cyclone was significant. After the immediate emergency work, around 2,000 ha (about 15 per cent of the total mature smallholder oil palm area accessible prior to the cyclone) still remained without access to transport. One thousand grower households were affected, in addition to other community members that depend on these roads. During this period, growers were trying to transport some of their harvest to the closest accessible roads using wheelbarrows so that they could deliver their fruit to the milling company; many grower households lost their regular source of income. This situation also affected OPIC's revenue base (which relies on fees from delivered fruit) and its ability to deliver services and ongoing road maintenance.

39. ***On the request of the Provincial and National Governments, adjustments were made to the SADP to assist Oro Province.*** Restoring access to areas that had been cut off from roads since November 2007 was a priority. A preliminary assessment of the damage in April/May 2008 by a Bank mission established that about K2 million would be required to undertake the most important repairs. However, due to delays in achieving the conditions of Project effectiveness, as well as the requirement under the Financing Agreement of having a Project Engineering Unit in place before IDA funds could be used to finance civil works, it was not possible to use IDA funds to support an emergency response. Alternative funding options were discussed and agreed to with the Project's co-financier, PNGSDP, and the implementing agency (OPIC), which helped finance the most important repairs. To that end, the following arrangements were reached, which accelerated the start of the emergency works:

- About K2 million of the earmarked PNGSDP funds for Oro roads (corresponding to the cost of reconstructing approximately 30 km of minor access roads) would be used to finance the repairs of the damaged river crossings, thus avoiding restrictions using IDA funds;

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<sup>32</sup> During this cyclone nearly 90 percent of all bridges, culverts and causeways along the national level road were washed away or destroyed. Priority activities focused on road restoration and bridge construction work between Oro Bay, Popondetta and Kokoda. The provincial road network has received little to no attention and therefore reconstruction has been slow. Similarly to the provincial level road network, the damage to the oil palm access roads, which in part are also provincial roads or provincial level access roads, were generally isolated to the river and creek crossings (i.e., mainly culvert washouts and destroyed wet crossings).

- Thirty km of minor access roads (equivalent to about K2 million), out of the 105 km of access roads to be reconstructed under PNGSDP funding, would be financed by IDA funds once the Project becomes effective. The remaining 75 km of road works would remain funded by PNGSDP;
- The necessary damage assessment, scoping, design, costing, and documentation of the river crossings repair works was completed with support of a Technical Assistance Grant from IDA; and
- Tendering of the contracts took place after signing the Project Financing Agreement between PNGSDP and the Oro Provincial Government.

40. ***To date almost all emergency road repairs in response to the cyclone have been completed; these repairs were funded by the Project's co-financier, PNGSDP.*** About 90 percent of the works, which commenced in March 2009, have been completed and smallholder blocks have regained access for their FFB collection. The remaining works are expected to be completed very soon. A QAG review for the Technical Assistance Grant provided through the Pacific Facility Grant to coordinate the work and make adjustments to the SADP design for the Oro emergency work highlighted that this work had several strong aspects: (a) Government owned this task; (b) the Bank responded in a timely manner; and (c) although faced with a crisis, time was taken to consult with nongovernmental stakeholders, including the Rural Industries Council, smallholder oil palm growers, oil palm milling company representatives, and civil works contractors.

41. ***Implementation progress and status of implementation.*** Overall Project implementation has started slowly since the Project launch workshops in March 2009, mainly due to the complex process of establishing OPIC project management capacity. Substantial progress, however, has been achieved in the following areas: Oro emergency road repair program (see above), infilling component, mobilization of Project funds, and preparatory arrangements for OPIC capacity building. Details are as follows:

- ***Project Funds Released into OPIC's Accounts.*** An advance of K2 million was transferred by IDA into OPIC's Designated Account in September 2009, to finance IDA's share of eligible Project expenditures. Although these funds have been released into OPIC's account, they are not available to finance civil works expenditures and community development grants until IDA receives official notice that the agreed related specific conditions of disbursement<sup>33</sup> have been met. IDA has not yet received any withdrawal applications.<sup>34</sup> OPIC has also received into its account a total of K2 million in two payments (K200,000 and K1,800,000)

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<sup>33</sup> IDA funds cannot be used to finance either civil works, until the Road Engineering Unit is established by OPIC, or community development grants, until the Management Agency is contracted by OPIC for management of the Project's Component 2.

<sup>34</sup> The main expenditures to date under the Project have been for establishing the OPIC office and recruiting Project staff.



from Treasury, to finance the Project's Government counterpart fund requirements in 2009.

- *Arrangements Underway for Infilling Component Start-Up.* On September 28, 2009, PNGSDP disbursed K8.9 million to PNG Microfinance Ltd (MFL) to finance the Project's infilling component for smallholder oil palm in the three Project areas. However, before the funds can be made available to smallholders, the detailed on-lending mechanisms need to be finalized. A Project Financing Agreement is currently under preparation that outlines an agreement between MFL, OPIC and each of the milling companies, clarifying the roles and responsibilities of each party in implementing the infilling, as well as the detailed on-lending terms and conditions. PNGSDP has prepared a draft agreement which it has circulated for review and clearance to each of the parties and IDA, with the aim of finalizing the agreements in the next two to three months.
- *Capacity Established in OPIC.* A procurement officer was recruited by OPIC for its head office in Port Moresby and is in post since June 2009. After a long delay, the international Procurement Specialist and the SADP Coordinator recruited by OPIC took up their posts at the end of 2009.

42. ***The Bank conducted two supervision missions since the Credit was declared effective in January 2009:*** (a) in March 2009, to launch the Project and assist the implementing agency (OPIC) with the preparation of Project start-up activities; and (b) in September/October 2009, to review the progress of implementation since the Project launch in March 2009. Both missions were staffed with a broad skill mix<sup>35</sup> and had discussions with all stakeholders in the three Project areas, including Government officials, milling companies, growers representatives, NGOs, and local communities. In addition, a technical mission was undertaken in July 2009 to follow up on the Oro road emergency work and assist OPIC with procurement issues. To date three ISRs have been filed. While the first two ISRs rated both the PDO and IP as satisfactory, this rating was downgraded to moderately unsatisfactory after the last mission, in October 2009, to reflect the significant implementation delays and concerns that the PDO will not be achieved during the remaining implementation period.

43. ***The March 2009 mission participated in three Project launch workshops in Port Moresby (March 9, 2009), Popondetta (March 11, 2009) and Kimbe (March 16, 2009).*** The meetings were well attended by representatives of all stakeholders.<sup>36</sup> Ample time was provided for discussions and for responding to questions of participants. Concerns focused on quality of works, making sure that road work contracts would be completed, sustainability of the road maintenance activities, existence of a complaint mechanism,

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<sup>35</sup> The supervision missions consisted of the Task Team Leader (TTL), a Bank social development specialist (in Sept/Oct only), and consultant technical specialists (tree crop specialist/former TTL, road engineer, operations officer and environmental specialist). The local press officer also accompanied the team during the Project launch mission.

<sup>36</sup> Representatives of the Requesters attended the Project launch workshops.

water quality, potential negative environmental impacts and the responsibility for repaying the IDA credit given to GoPNG. All questions were either directly responded to through the presentations made or through the ensuing discussion and clarifications provided by OPIC and mission members. While aspects of the second component of the Project (community development) were not discussed in detail there was a lot of interest and demand expressed for this component. Clarification was also provided in regard to this component.

44. ***Both missions worked closely with OPIC in reviewing implementation progress status, identifying the causes of delay and agreeing on the required key actions to accelerate implementation start-up.*** In particular, the missions focused on the establishment of OPIC project management capacity, the status of financial management arrangements (disbursement and audits), the adjustment of the implementation schedule and funding requirements, the arrangements for starting implementation of the infilling program (including smallholder credit mechanisms and RSPO compliance), and the formulation of a communication strategy for OPIC, including raising awareness of Project objectives and scope.

45. ***There is an urgent need to resolve the OPIC Board nomination process that has been stalled since September 2005 due to difficulties with the appointment of the three oil palm smallholder representatives on the Board.***<sup>37</sup> While the Corporation is operational, the Board needs to be in place for taking key decisions, such as the formal appointment of the current Secretary General, who has been acting since his contract expired in February 2006, the appointment of senior OPIC staff, including the Hoskins and Bialla Project Managers, the review of the FFB pricing formula and of the current levies, the introduction of a future road maintenance levy, and the establishment of the RMTFs. The Minister of Agriculture and Livestock is responsible for appointing the smallholder representatives. The current situation is that the candidates proposed by a former Minister of Agriculture were found to be ineligible for the positions. A revised list of candidates was submitted by the Minister of Agriculture and Livestock to the Public Service Commission for endorsement. Thereafter the appointees will need to be cleared through the National Executive Council (NEC). Regular updates on this process are provided by OPIC and the Bank has highlighted this as a concern during all missions since Project preparation restarted in 2006.

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<sup>37</sup> The OPIC Board consists of the following members or their nominated representatives: (a) the Secretary of DAL; (b) the Secretary of the Department of Finance or the DNPM; (c) the chairperson of the Palm Oil Producers Association (POPA); (d) the chairperson of PNGOPRA; and (e) three grower representatives from separate growers associations. The OPIC Act of 1992 stipulates that five members constitute a quorum for meetings.

## IV. KEY ISSUES

### POVERTY REDUCTION AND ECONOMIC CHOICES

46. ***In their claim of harm caused by the Project, the Requesters allege that “oil palm has not reduced poverty.”*** The Requesters also claim that “despite the significant level of investment, introduction of oil palm has done little to provide material improvement in smallholders’ lives. Living conditions have deteriorated and key indicators of poverty such as housing, access to clean water and health services show life quality has declined (Social Assessment Report, January 2007, page 46). Of the very limited consultations conducted by the World Bank for this project, the majority of oil palm growers were found to still live in houses built from bush materials such as banana leaves, bamboo and tree posts indicating very little material improvement in oil palm growers’ housing. Indeed, even the SADP Social Assessment recognizes that the fall in living standards is paradoxical considering that oil palm smallholders have had a level of cash income significantly above those of other smallholder cash crop producers for a long period of time. (Ibid.)”

47. ***It is Management’s view that investments in the oil palm industry in PNG have had an overall positive impact on rural welfare.*** The SADP is designed to continue to provide benefits to the local population in an environmentally and socially sustainable manner. As mentioned in Section III, the oil palm industry generates significant employment and contributes substantially to rural incomes in the oil palm growing areas. Agriculture is the single most important source of cash income for rural households in PNG, and oil palm currently provides smallholders with higher returns to their land and labor than most other agricultural commodities, and contributes substantially to household incomes. At current prices, the returns to oil palm are about K2,793/ha and K130/day worked; compared to about K1,136/ha and K21/day worked for cocoa and K2,058/ha and K13/day worked for coffee. The annual income of a VOP smallholder with a two hectare oil palm block today is about K5,586. This compares favorably with the income of a full time minimum wage worker (about K3,200) at the prevailing minimum wage of K12.48/day. Moreover, oil palm production requires relatively low labor inputs compared to most other crops. The labor requirement for a two hectare oil palm block is about 43 days per year once the oil palm is into the mature and producing phase. Cash income from oil palm is also much more regular than income from other cash crops. FFB are harvested every two weeks and smallholders receive regular payments for their harvest from the milling companies, normally between one and two weeks after collection of fruit.

48. ***Management recognizes the importance of facilitating income diversification in the oil palm growing areas.*** Income diversification reduces the vulnerability of cash crop producers to international commodity price fluctuations and enables them to better weather unexpected price shocks. Existing data indicate that the livelihoods of oil palm smallholders in the three SADP Project areas are quite diversified and a range of different activities contribute to household incomes for oil palm smallholders. The SADP will support further diversification through investments in improving rural roads and through Component 2 of the Project (Local Governance and Community Participation).

49. ***While intercropping is not currently practiced on oil palm blocks in PNG, mono cropping does not necessarily limit opportunities to diversify household income.***<sup>38</sup> In VOP areas, data indicate that perhaps as many as two-thirds of households grow other cash crops including coffee, cocoa, copra and vanilla, depending on the area.<sup>39</sup> Diversification into cash crops is more limited in LSS areas due to severe land constraints. But LSS smallholders, with more limited access to land, have tended to diversify into small businesses and to seek off farm employment. Food gardens are very important for both VOP and LSS households and these gardens provide most of the household's food. In many cases more labor hours are spent gardening than on oil palm blocks.

50. ***The paradox of relatively high cash incomes of oil palm producers but deteriorating living standards as reflected by some key indicators of poverty such as housing, and access to clean water and health services is not a phenomenon confined to oil palm smallholders or areas with oil palm production in the SADP.*** High consumptive expenditures, a lack of effective savings mechanisms, and the very significant social and traditional obligations that smallholders have to share their incomes with friends and relatives contribute to this phenomenon. The general mixed performance of government in rural service delivery (education, health, and infrastructure) further compounds the situation. The latest data indicate that only 17.3 percent of rural households had access to piped water in their homes or neighborhood, 6.9 percent of rural households were electrified and 43 percent of the population had never attended school.<sup>40</sup>

51. ***This paradox is reflected at the national level as well.*** The past eight years have seen the PNG authorities avoid the historical mistakes of extreme pro-cyclical swings in economic management, and the economy is weathering the impact of the global economic crisis well. However, in economic dialogue the Bank continues to emphasize this para-

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<sup>38</sup> The oil palm can live for 30 years or more; however, its productive life as a farmed crop is determined by its height. When a palm is too tall to harvest effectively its commercial life ends and it is felled and replanted. Oil palm reaches a height that starts to limit harvesting at about 23 years in PNG smallholdings. In the first 3 to 3 1/2 years after planting (before canopy closure), all smallholders grow food crops amongst the immature oil palm. Food crops cannot be grown within a normally planted mature oil palm stand as the oil palm canopy creates too much shade. Most oil palm smallholders have food gardens at the periphery of their oil palm block. There is some concern that some LSS smallholdings have planted all of their available land with oil palm thus depriving themselves of access to land for food gardening. PNGOPRA is starting a research project to look at food security aspects of the smallholder oil palm production system. As part of this research PNGOPRA is exploring possible ways to change the spacing arrangement of oil palm to allow a form of inter-cropping that does not significantly compromise FFB production.

<sup>39</sup> A survey of 300 smallholder households (data cited in the Social Assessment, Table 3.3, p44) on LSS and VOP blocks revealed that in Bialla 43 percent of VOP blockholders also grow cocoa, 14 percent grow copra, 4 percent grow coffee, and 7 percent grow vanilla; in Hoskins, 62 percent of VOP blockholders grow cocoa, 66 percent grow copra, 2 percent grow coffee and 10 percent grow vanilla; in Popondetta, 32 percent of VOP blockholders grow cocoa, 25 percent grow coffee and 7 percent grow rubber. Similar data are also reported in another study of the impact of the Mama Lus Fruit Scheme on poverty, which reports that 72 percent of VOP smallholder and 26 percent of LSS leaseholders grow other cash crops such as coffee, cocoa and copra (Robert Warner and Marcia Bauer, 2002. Mama Lus Fruit Scheme: An Assessment of Poverty Reduction. ACIAR Impact Assessment Series, 20).

<sup>40</sup> PNG National Statistics Office, 2009. *Papua New Guinea Demographic and Health Survey: 2006 National Report*. Port Moresby.

dox: sustained prudent macroeconomic management has brought about the longest uninterrupted period of economic growth (seven years) since PNG's independence in 1975, and the growth is generally broad-based across many sectors, but the country has not seen an equivalent increase in service delivery nor in quality-of-life outcomes.<sup>41</sup>

52. ***Within LSS areas, extreme population pressure on land has also contributed to poor living standards.*** When the LSSs were originally established in the 1970s, these blocks were expected to support a nuclear family. Today as many as three generations may be living on a single LSS block. The mean block population on LSS is estimated as 10 at Popondetta, 15 at Bialla and 20 at Hoskins. On some LSS blocks, each family may earn income from oil palm only several times each year because oil palm production — and the corresponding income — is rotated each month amongst co-resident households. In the months when they are not earning income from oil palm, families are dependent on subsistence production or income from sales of food crops at local markets.

53. ***Oil palm smallholders have better access to finance than most other cash crop farmers in PNG.*** The Requesters correctly point out that poor access to rural finance is a recognized problem in PNG. In this respect, however, oil palm smallholders are better off compared to most other farmers, as the milling companies supply smallholders with farm inputs such as seedlings, fertilizer and tools on credit. Credit extended to smallholders is recouped through the smallholder payroll system with loan repayments from growers' oil palm earnings deducted before payment is made to the smallholder. By deducting the costs of farm inputs advanced to growers, the companies effectively isolate a component of smallholder income from the demands of the traditional economy. Thus, unlike most other export crops in PNG where there is very little investment in farm inputs, oil palm smallholders have ready access to tools and other inputs because of the savings mechanism provided by the companies.

54. ***The Requesters imply that the SADP forces smallholders to grow oil palm and that the Project will force smallholders who wish to access loans for other agricultural purposes to be driven into growing oil palm.*** Participation in infill planting under the SADP is completely demand driven and whether or not VOP smallholders decide to participate in infilling is entirely up to them, as long as their blocks meet the various social and environmental screening criteria for infill planting. Under the SADP, smallholders participating in the infilling sub-component will have access to microfinance. The PNGSDP (a co-financier of the SADP) will provide credit to smallholders through its credit subsidiary PNG Microfinance Ltd. But the fact that credit is available for oil palm infilling does not mean that any smallholder is forced into growing oil palm. Smallholders themselves hold local knowledge on oil palm, specifically the possible returns and family labor requirements as oil palm has been part of the landscape for decades. In deciding whether or not to grow oil palm, this knowledge can inform smallholders' choices.

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<sup>41</sup> The paucity and unreliability of data on household income, expenditures, and poverty across PNG make it extremely difficult to empirically investigate the co-existence of income growth and deteriorating living conditions. To support better analysis, facilitate evidence-based policy making and allow better targeting of development interventions nationwide, the Bank is investing with other donors and GoPNG in a Household Income and Expenditure Survey (HIES) for which data collection is currently 50 percent completed.

55. ***The oil palm industry in PNG, including the milling companies, OPIC and PNGOPRA have been trying to address the multiple socio-economic factors affecting living conditions among smallholder households.*** The SADP further strengthens many of the on-going initiatives and supports additional activities. The range of interventions targeting smallholder welfare is described in the PIM (pp 13 and 14). They include further strengthening of the Mama Lus Frut Scheme; exploring strategies for reducing the financial hardship faced by smallholders during replanting; a comprehensive HIV/AIDs risk assessment for the industry; and exploring options for a voluntary savings and loans scheme building on existing initiatives.

56. ***One particular initiative which is having a very positive impact on overall household welfare, and on women and children in particular, is the Mama Lus Frut Scheme (MLFS).*** The MLFS was introduced by the New Britain Palm Oil Limited in Hoskins in order to increase productivity by increasing the rate of loose fruit collection from smallholder blocks. Collecting loose fruit is considered women's work. The returns from the sale of the fruit collected used to be recorded on the man of the household's payment card (now known as the 'papa card'). As the women would often not receive any money from the fruit they harvested they preferred to spend their time growing vegetables and selling these at the market, where they could keep the returns of their labor. As part of the MLFS scheme, women are now issued with harvest nets and a payment card (referred to as the 'mama card'), which allows them to collect loose fruit, sell it and receive their own separate payment.<sup>42</sup> As documented in the Social Assessment, around 85 percent of the female smallholders in all three SADP Project areas have their own harvesting card. The proportion of smallholder oil palm income paid directly to women varies from 20 to 30 percent across the three Project areas.

57. ***An impact assessment of the MLFS found that although the scheme has only had a modest impact in terms of increasing overall household incomes, it is having a positive impact on families that are close to the poverty line.*** The study also mentions a number of benefits that are not quantified including the fact that women have more cash for expenditures on food and education and are able to start small businesses. Women also have a means to safeguard some of the household income from being spent on social activities by men.<sup>43</sup>

58. ***Seventy percent of the funds under the SADP will be invested in reconstructing 550 km of rural access roads, which will further contribute to household welfare.***<sup>44</sup> Road investments have a significant poverty impact. Better roads help improve access to critical social services, including health and education. Roads and other transport infrastructure also give households better access to markets allowing them to engage in a wider range of income earning activities and diversify their incomes. Activities under the SADP that helped repair damaged roads in the aftermath of the 2007 cyclone Guba in

<sup>42</sup> Robert Warner and Marcia Bauer, 2002. Mama Lus Frut Scheme: An Assessment of Poverty Reduction. ACIAR Impact Assessment Series, 20.

<sup>43</sup> Robert Warner and Marcia Bauer, 2002.

<sup>44</sup> The 550 km of road reconstruction include the 105 km of access roads to be reconstructed under PNGSDP funding (75 km) and IDA funding (30 km).

Oro province have already demonstrated the huge impacts that roads have on household welfare.

59. ***Component 2 of the Project, which focuses on local governance and community participation, will also have an impact on welfare and living standards in the Project areas.*** This pilot component finances small community grants, technical assistance and training for LLGs and communities for various small-scale economic infrastructure and training in livelihood activities. The need for improved water supply and sanitation services was repeatedly identified as a priority in the Social Assessment. This component of the Project enables communities to undertake some of these priority investments through a participatory approach.

60. ***The Requesters believe that the FFB pricing formula is an unfair revenue sharing agreement and that the Project will reinforce the FFB pricing system which in their view favors the milling companies over the smallholders.*** “...Under this scheme, farmers are expected to share their revenues with the company to cover a portion of the company's cost of production. This revenue-sharing takes place even though the farmer is providing all the costs for labor, equipment, seedlings, pesticides and transport (or at least a portion of transport costs) out of his or her own earnings. The processes involved to set the FFB price further cements this relationship.”

61. ***FFB price setting has always been a contentious issue between smallholders and the milling companies.*** The FFB pricing formula is based on an assessment of the relative costs of production of smallholders and milling companies. The payout ratio is calculated as the ratio of the industry average smallholder cost of production per ton of FFB (from the field to the mill gate) to the total industry average cost of production (from the field to saleable palm products ready to ship at the wharf). To arrive at the current payout ratio of 57 percent, a detailed analysis of both smallholder and milling company costs of production was undertaken as part of the 2001 review of the FFB pricing formula. The calculation of smallholder costs of production included all fixed and variable costs including labor costs (for land clearing, planting and maintenance), material costs (including seedlings, fertilizers and equipment), the PNGOPRA levy, the OPIC levy, the FFB transport costs, the Sexava levy,<sup>45</sup> land rent (for all LSS blocks), growers association membership fees, the cost of borrowing (interest payments and bank fees) and the construction costs of smallholder housing.<sup>46</sup> The 2001 FFB pricing review recommended minor amendments to the pricing formula that existed at the time and an increase in the smallholder payout ratio from 55 percent to 59 percent to reflect the respective smallholder and milling company fixed and variable costs of production and the smallholder break-even prices for sales of FFB. The milling companies, however, questioned the data used by the consultants to calculate the smallholder costs of production, and only agreed to an increase of the payout ratio to 57 percent for the smallholders.

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<sup>45</sup> Milling companies carry out centralized control of the sexava hopper, the major pest of oil palm.

<sup>46</sup> See Annex 1 in Burnett and Ellington, November 2001. Review of the Oil Palm Fresh Fruit Bunch Pricing Formula. Final Report Prepared for the Commodities Working Group of the Government of PNG.

62. ***The Requesters state that there is no involvement of smallholders in setting the FFB price.*** The last review of the FFB pricing formula in 2001, sponsored by the Commodities Working Group (CWG) and financed by the World Bank as part of the Oro Smallholder Development Project, involved an independent review by experts and a detailed analysis of both smallholder and milling company costs of production in the calculation of the FFB payout ratio. Various stakeholders including smallholders, representatives of growers associations, milling companies and OPIC staff and managers were consulted and the final payout ratio was agreed to at a meeting of the CWG, chaired by the Secretary for the Department of Agriculture and Livestock.<sup>47</sup>

63. ***All the milling companies follow the FFB pricing formula.*** FFB prices are calculated on a monthly basis and FFB prices are posted on notice boards at the OPIC offices. The published international commodity price, CIF<sup>48</sup> Rotterdam, is the starting point for calculation of the monthly FFB price.<sup>49</sup> To derive the smallholder farmgate price, the Free on Board (FOB) value of palm product per ton is computed after deducting transportation costs. Product – crude palm oil, palm kernel oil and palm kernels (CPO, PKO and PKE) – value per ton is then converted to fruit value (FFB) tonnage using average mill extraction rates. The US\$ value per ton of FFB is converted to Kina per ton using the prevailing exchange rate. The FOB value per ton of FFB may differ among the mills because of a difference in transport costs and a difference in oil extraction rates. The smallholder mill gate price is calculated at 57 percent (the payout ratio) of the total FOB value per FFB ton plus 1 percent VAT. The farmgate price is derived from the smallholder mill gate price by deducting the FFB transport costs from the farmgate to the mill (which differ by mill) and various levies. The levies paid by smallholders are contributions towards research and extension services provided by PNGOPRA and OPIC (the PNGOPRA and OPIC levies, respectively) and the Sexava pest control levy.

64. ***Funds are allocated under the SADP to review and update the existing FFB pricing formula.*** It is likely that there have been significant changes in the industry cost structure since 2001, and an update of the pricing formula is much needed. The FFB review, to be funded under the SADP, will update and revise the methodology and assumptions used in calculating prices and shares between the smallholders and the mills.<sup>50</sup>

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<sup>47</sup> Burnett, D. and D. Ellington, November 2001. Review of the Oil Palm Fresh Fruit Bunch Pricing Formula. Final Report Prepared for the Commodities Working Group of the Government of PNG.

<sup>48</sup> Cost, insurance and freight – a form of uniform delivered pricing in an import or export context where prices are quoted with reference to a port.

<sup>49</sup> See Credit Component and Financial Analysis. Cuddihy, William, November 2006; and Review of the Oil Palm Fresh Fruit Bunch Pricing Formula. Natural Resources Institute and ADS (PNG) Limited, November 2001.

<sup>50</sup> The first review of the FFB pricing formula in PNG was carried out in 1990, and a new formula was introduced in March 1991. In 1996, the Palm Oil Producers Association (POPA) devised a newer formula which was similar to formulas used in other countries and provided better returns to smallholders. The second review of the FFB formula was commissioned by the World Bank in August 1996. This was followed by a third review of the pricing formula in mid-1998. The fourth review, commissioned in 2001 by the World Bank under the Oro Smallholder Oil Palm Development Project used a similar approach to the earlier reviews but introduced a number of refinements in the computation of the smallholder payout ratio primarily to reflect variations in sales costs in different locations.



OPIC is currently in the process of preparing the TOR for the review, which will be conducted in mid-2010.

65. In the Requesters' view the proposed road maintenance levy will further embed "smallholder dependency on the mills and increasing levies, smallholders will be progressively burdened and unable to lift themselves out of poverty."

66. *Although smallholders will face higher costs due to the road maintenance levy, the economic and financial analysis for the SADP indicates that the benefits accruing from the improved roads will outweigh the additional incremental cost.*<sup>51</sup> The PAD (page 36) mentions that the levy for road maintenance would likely range between K4/ton FFB at Hoskins and Bialla and K5.5/ton FFB in Oro, based on the estimated maintenance funding requirements. The final levy amount, however, has not been set and will be calculated when road maintenance activities start, after the roads have been reconstructed.<sup>52</sup> If roads are not maintained and households are unable to transport their FFB to the milling companies, they will be far worse off. Not only will improved roads enable the mills to reach more smallholders, but improved roads may help reduce transport costs as there will be less damage to FFBs and the trucks transporting the fruit. Well maintained roads will also improve access to various services.

#### **FREE, PRIOR AND INFORMED CONSULTATIONS AND BROAD COMMUNITY SUPPORT**

67. The Requesters claim that the Bank failed to assess whether the Borrower had effectively undertaken free, prior and informed consultations resulting in broad community support. They cite the road maintenance levy as one example of an issue where, in their opinion, there was a lack of consultation and where there is "no evidence of broad support among the affected communities for this aspect of the project design, or at least none that has been made available to the claimants." It is the Requesters' view that broad community support does not exist among the communities and the peoples impacted by this Project and that "the peoples of Oro and West New Britain have been unable to engage in the design process of the SADP."

68. *It is Management's view that free, prior and informed consultations resulting in broad community support for the Project were undertaken during Project preparation.* This section describes the process of consultation undertaken by both the GoPNG and the World Bank during preparation and how the Bank verified that the Borrower had obtained broad community support.

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<sup>51</sup> The FRRs on infilling including the road maintenance levy ranged between 22 and 27 percent (see Annex 9 of the PAD). The ERR ranged from 13.2 to 18.3 percent.

<sup>52</sup> The annual maintenance funding requirements in each Project area would be calculated to cover the costs of both routine maintenance activities and anticipated non routine maintenance interventions. The smallholder maintenance levy would then be calculated for each Project area, on the basis of the Provincial Government funding 50 percent of the annual maintenance costs, the milling company 25 percent and the smallholders the remaining 25 percent.

## Consultations

69. ***On October 3, 2002, the GoPNG formally requested the Bank to prepare a project that would consolidate the outcomes of the Oro Smallholder Oil Palm Development Project.*** Following this request, the Bank fielded a mission to PNG from November 18-29, 2002 and the identification and preparation process for the SADP commenced.

70. ***The SADP triggered the Indigenous Peoples Policy OP/BP 4.10, as the vast majority of the population in the Project area is considered indigenous as per Bank policy.*** As a result, it was necessary for the GoPNG to undertake a Social Assessment and a process of free, prior, and informed consultation with affected communities at each stage of the Project, “to fully identify their views and ascertain their broad community support for the project” (OP 4.10 paragraph 6 (b)). Including entire communities in consultations was not practical, therefore GoPNG sought to consult extensively with community members and with organizations representative of diverse community interests. The majority of consultations occurred within the Project area, defined as the districts where Project activities would occur.

71. ***The GoPNG contracted consultants to undertake a Social Assessment.*** The aim of the Social Assessment was to provide guidelines for the design and implementation of a socially sustainable SADP and to formulate socio-economic performance indicators for Project M&E. The Social Assessment also included development of a strategy for consultation with communities during Project implementation (see the Beneficiaries Participation Framework in the Beneficiaries Assessment). The GoPNG hired a team of consultants who had a background in the agricultural sector, had studied oil palm development in PNG and were well-informed about PNG’s socio-economic environment. The team was fluent in Tok Pisin and included Papua New Guinean nationals. The preparation of the Social Assessment commenced in June 2006.

72. ***As part of the Social Assessment, numerous consultations were carried out in Port Moresby and in the three Project areas.*** A fact-finding workshop was held in Port Moresby on July 18, 2006, which included the team conducting the EA. Further field work was carried out for the Social Assessment in the target provinces of Oro and WNB between mid-July and September 2006. In Oro Province, consultations included respondents from 15 towns/villages, which spanned the two districts of the province and five of the eight LLGs (see Maps with locations of consultations). In WNB Province, consultations included respondents from 25 towns/villages, which spanned five out of six LLGs in Talasea district, which is the district where oil palm is grown.

73. ***The consultations involved a wide range of stakeholders.*** One-on-one meetings as well as focus group discussions were held. The Social Assessment indicates that more than 550 people were directly consulted, including oil palm smallholder households and non-oil palm households directly affected by the Project. In addition, consultations with representatives from various groups were held, including those from LLGs in each target region, community-based organizations (CBOs), including women’s and youth groups, NGOs, church groups and industry organizations.

74. ***In addition, representatives of all the relevant growers associations were consulted.*** Representatives of the Bialla Oil Palm Growers Association, Hoskins Oil Palm Growers Association, and Popondetta Oil Palm Growers Association were all consulted. Each growers association is governed by a constitution, representatives of the associations are elected and members pay regular dues. The representation of growers in the growers associations has varied between Project areas and over time.<sup>53</sup>

75. ***While the Social Assessment provided some information on how the consultations were organized, recent discussions with the lead consultants in the context of preparing this response revealed additional information on how consultations were convened and held.*** Consultants identified potential respondents with assistance from OPIC. Focus group meetings with community groups from the two LLGs which formed part of the institutional assessment, included in the Social Assessment, were also arranged with the assistance of OPIC and LLG representatives.

76. The locations for the consultations were selected by the consultants in discussion with OPIC using the following criteria: (a) areas where there was potential for infill planting; (b) areas where stands of oil palm were coming up for replanting or replanting was overdue (mainly LSS blocks); (c) and/or areas where there were disputes over land tenure or replanting (e.g., where people from outside the customary landowning groups had been allocated land for oil palm and these blocks were due for replanting).

77. The consultants started meetings with personal introductions. Then they explained the Project objectives, described the initial Project design, and informed participants that they were interested in finding out the views of community members regarding the proposed SADP. Following the heavily oral tradition in the country, participants were given information on the Project verbally, in Tok Pisin. No Project materials were distributed to participants.

78. ***There is very strong support for the Project in all Project areas and during the consultations people expressed high expectations of what the Project would deliver.*** Many participants were hopeful that the SADP would involve an expansion of access roads and development of new oil palm areas. As also reflected in the Social Assessment, people were hopeful that the SADP would fund housing and water supply—priority concerns in all Project areas. During the consultations, the SADP was described in detail to align people's expectations with what the Project could potentially deliver.

79. ***Community members were familiar with oil palm, as it has been cultivated in the target areas for decades; however, “infilling” was an unfamiliar concept.*** Detailed explanations of the infill component were frequently accompanied by maps, on paper or on the ground, to show how infill planting might proceed and how this might lead to im-

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<sup>53</sup> The participation of growers in the growers associations has varied across time and location. For example, 100 percent of growers in the Bialla scheme area are members of the growers association. But in the last few years there have been problems in the Hoskins Oil Palm Growers Association, which resulted in very limited participation. OPIC has recently helped organize an election of association officers in Hoskins and it is anticipated that grower participation will increase in the coming months.

proved efficiencies in the use of transport and road infrastructure. It was explained that infill planting was voluntary, would only proceed at the discretion of the customary landowners, and would not be permitted on land subject to dispute.

80. ***Smallholders in the Project areas have repeatedly expressed their frustrations with the various delays that have prevented Project activities from being rolled out.*** During the consultations for the Social Assessment, unreliable pickup of FFB was one of the most common areas of dissatisfaction. OPIC, the palm oil milling companies and contract transport came under scathing criticism for what was perceived as very poor pick-up rates and unreliable transport schedules. This often had to do with poor road conditions, although mill breakdowns were sometimes a cause. Smallholders continue to express these frustrations and many are anxious for the Project to start delivering results on the ground.

81. ***The Social Assessment documented concerns about socio-economic issues.*** Concerns were raised about housing and water supply (see Social Assessment, page 46). Land issues were also raised but were particularly important at Popondetta where there has been a history of land disputes. The Beneficiaries Assessment (see below) consolidates the expected benefits and adverse impacts as envisioned by respondents during the consultations. The Beneficiaries Assessment also provides recommendations for maximizing benefits and mitigating adverse impacts.

82. ***The Social Assessment and the Beneficiaries Assessment are the primary records of the free, prior, and informed consultations.*** They include information on:

- ***The results of the consultations with community members.*** The Social Assessment details the experiences and concerns of communities in regards to oil palm and community development. The expected benefits and expected adverse impacts that were articulated during the consultation are summarized in the Beneficiaries Assessment.
- ***Recommendations on how benefits can be maximized and adverse impacts mitigated.*** The Beneficiaries Assessment provides recommendations that were incorporated into Project design, for example:
  - In response to concerns about the increased risk of land disputes: strategies to improve tenure security of Popondetta LSS growers were incorporated into the Project, such as the establishment of a special land forum for LSS growers and customary landowners to resolve disputed LSS leases (which will be under the responsibility of the extension and land officers), and the strengthening of the Lands Section of OPIC in each of the Project areas.
  - To encourage continued consultation: Smallholder Steering Committees (SSCs) will be established in each Project area to play an advisory and decision-making role in Project implementation and management. SSC members will be required to consult with growers on Project implementation and on issues such as the introduction of the proposed road mainten-

ance levy and raising smallholder harvesting rates. The SSC is to have representatives from the grower associations, and reflect the diversity of smallholders in terms of age, gender and type of grower.

- To strengthen household livelihood security: OPIC and PNGOPRA will give more attention to smallholder food security and the importance of gardens during infill and replanting activities.
- *The record of individuals who participated in the consultations.* The Social Assessment provides lists of people and groups consulted with and details on the location and form of the consultations (see Appendix 2-4 for details). However, for reasons of confidentiality—to ensure that participants were comfortable expressing themselves—the records of individuals who participated in focus group discussions were maintained in confidence, and are not printed in the Social Assessment.
- *The results of the extensive literature review that was conducted as part of the Social Assessment.* The Social Assessment details the socio-economic and political context of the Project areas and includes an assessment of the institutions in each of the areas, including local community organizations, NGOs, community and village-based groups, LLGs, oil palm growers associations, and industry bodies. It also includes baseline data from a housing and water survey.

83. ***It is Management's view that together the Social Assessment and the Beneficiaries Assessment thoroughly document the findings of the consultations. Management recognizes that documentation of the consultation process in the Social Assessment should have been more detailed and complete.*** The documents should have elaborated further on several aspects of the consultation process including specifying what information was provided on the Project, how the information was conveyed, and how locations and participants were selected.

84. ***As part of the EA, consultations on the potential environmental impacts of the SADP were undertaken.*** Consultations on environmental concerns related to the SADP began during the review of the Oro Smallholder Development Project in 2001 and the SADP was designed to take into consideration all the points raised in these discussions. OPIC, on behalf of the Government, commissioned independent consultants to prepare an EA, an EMP, an ESMF (for Component 2 on Local Governance and Community Participation) and a study on the Impact of Oil Palm on Freshwater Streams in Oro and WNB Province.

85. ***The EA commenced with a broadly advertised notification of a public meeting in the nation's capital, Port Moresby, and this was followed up with field visits and meetings (including smallholders and representatives of growers associations) in the two SADP affected provinces in July 2006.*** The consulting firm that was hired to undertake the EA, the EMP, the ESMF and the study on the Impact of Oil Palm on Freshwater Streams was familiar with PNG and had a background in the agricultural sector in PNG. As part of the EA the consultant: carried out field inspections of existing and potential

smallholder oil palm areas in Oro and WNB Provinces; convened a stakeholder workshop in Port Moresby (July 2006), together with the team conducting the Social Assessment; and carried out consultations in the field. People consulted included representatives of churches, environmental NGOs, women's organizations, and OPIC. In addition, provincial and district public servants were interviewed. Interviews took place in person or by telephone or email (the EA lists key individuals consulted with in Appendix 2). The consultations with smallholders for the EA and related studies were conducted in Tok Pisin. However, Management acknowledges that the requirements of OP 4.01 were not fully met, in that the only information shared with stakeholders during consultations for the EA was in verbal form.

86. *Additional consultations are planned for various Project activities throughout implementation to ensure informed participation. Following discussion on OPIC's communication strategy during the September/October 2009 mission, OPIC published a media statement on the SADP in a national newspaper.* The media statement provided an update on the Project's activities, reiterating that further consultations would be held throughout the implementation period and providing information on where information could be obtained on the Project. The media statement was published on December 17, 2009.

## **Disclosure**

87. *The Social Assessment, the EA, and related documentation were publicly disclosed.* Specifically, the documents were made available, in English, in Port Moresby and Washington, on February 22, 2007, as noted above in paragraph 37. The formal notification to the general public announcing the locations where the documents were disclosed was published by OPIC in the Papua New Guinean press on the same day. The Resettlement Policy Framework and the Environmental Management Plan were formally approved by the National Executive Council on June 21, 2007.

## **Bank Consultations**

88. *The Bank also carried out consultations during Project identification and preparation (see Annex 2).* The Bank undertook 17 missions between November 2000 (during the supervision of the Oro Smallholder Oil Palm Project) and December 18, 2007 (Bank approval of the SADP). These included several formal Bank missions (identification, preparation, pre-appraisal, and appraisal) and six technical missions, which focused on specific aspects of Project design (e.g., community development and infrastructure). Bank missions included Bank staff and/or Bank consultants. During the Project identification and preparation stage (from November 18, 2002 to February 23, 2007), the Bank undertook consultations in approximately 41 towns/villages in 15 LLG Areas in a total of 5 provinces.

89. *Bank consultations included a wide variety of stakeholders.* Bank consultations included representatives from oil palm growers associations; National, Provincial and Local Level Governments; and NGOs and CBOs (including women's groups, church groups, and youth groups). These consultations focused on the Project design generally

and in some cases (depending on the audience) on specific aspects. For example, since 2001, extensive consultations were held with growers associations on road rehabilitation, mechanisms to ensure sustainable road maintenance, and the proposed RMTF. Meetings were organized with the assistance of OPIC. Extensive consultations were also held with LLG representatives for the design of the component on Local Governance and Community Participation.

90. ***The Bank undertook numerous consultations that focused on environmental issues.*** During Bank missions from 2003 to 2006 further consultations were undertaken with environmental NGOs in particular, including Ecoforestry Forum, the Requesters, and Oro Conservation and Environment Network.<sup>54</sup>

91. ***Bank consultations provided participants with information on the proposed Project in a language that was understood.*** Consultations were prefaced with a Project description. No documentation was provided to participants; however, details of the Project were transmitted orally in English or Tok Pisin depending on the audience. Where Tok Pisin was used it was either directly spoken or translated from English.

92. ***During Bank consultations, input was received from participants and documented.*** Bank consultations were designed to share information on the proposed Project and to solicit input from stakeholders. Participants provided inputs and raised concerns. Where applicable, Project design was adapted. Consultations carried out by the Bank have been documented in field notes, Aide Memoires, and preparation documents.

93. The Requesters cite the road maintenance levy as one example of an issue where, in their opinion, there was a lack of consultation and where there is “no evidence of broad support among the affected communities for this aspect of the project design, or at least none that has been made available to the claimants.”

94. ***The establishment of RMTFs and the introduction of an additional levy for road maintenance have been discussed extensively by the Bank and representatives of the growers associations in all three Project areas, starting from November 2001 and all throughout Project preparation, appraisal and the long process of achieving Project effectiveness.*** OPIC’s managers were also liaising with the growers associations on the subject of the road maintenance levy and were collecting feedback from growers on different levels of levies. Consultation with the growers associations was in recognition of the fact that they are a representative body of the growers and an interlocutor between the growers and other bodies. In addition, in the context of the road maintenance levy they are the group that will be affected.

95. ***Discussions with representatives of the growers associations during preparation indicated that it would be difficult to reach an agreement on the road levy without the roads first being rehabilitated.*** Growers also wanted some assurance that Provincial Government funding for the trust funds would materialize. For instance, on February 9,

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<sup>54</sup> See Annex 3 for a list of meetings between the Bank and NGOs. Meetings between the Bank and NGOs on environmental issues were held on January 31, 2004 and May 25, 2006.

2004, the executive members of the Bialla Oil Palm Growers Association wrote to the Bank, OPIC, the WNB Government, and the milling company to provide their feedback on the proposed introduction of a new road maintenance levy. They stated that “*the issue of growers contributing to fund maintenance cost is seen as an acceptable principle for the overall good of growers and the Bialla oil palm project in general,*” and that “*preliminary indications are that growers will accept contribution of the cost.*” While submitting various proposals and options for the road levy, they also made it clear that the growers would only commit to paying a road levy after the Provincial Government agreed to appropriate funds for maintenance.<sup>55</sup>

96. ***While some of the text of the Project documents may give the impression that the RMTFs are fully designed and complete, this was not the intended message, as the design of the RMTFs was always intended to be finalized through a detailed design study during implementation.***<sup>56</sup> Therefore, consultations with stakeholders on the RMTFs were planned during and after completion of the RMTF design study. This is detailed in the PAD – which indicates that the Project includes a “consultancy to design and process the details of the RMTF instrument” (see PAD page 36, paragraph 30). This was also highlighted during the Project launch events (in the different Project areas and in Port Moresby) in March 2009, which were attended by the Requesters. While the principle of sharing the costs of road maintenance between the Provincial Governments (50 percent), the milling companies (25 percent) and the smallholders (25 percent) constitutes the basis of the understanding reached with the three parties as well as GoPNG, other important aspects, such as the RMTFs’ governance, financial management and operational arrangements, and the level of the smallholder road levy, are still to be designed in detail, discussed and agreed with all stakeholders,<sup>57</sup> During Project 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. The Bank assessed that reaching this stage would take a minimum of two years. Considering these factors, and in an effort to avoid further delays in finalizing preparation and approval of the Project, the decision was made to include the detailed design of the RMTFs as part of Project implementation.

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<sup>55</sup> The Bialla Growers Association has about 3,100 members.

<sup>56</sup> The Request for Inspection states “Although the World Bank maintains that this mechanism is still in concept form and yet to be properly designed, the general organization and operation of the RMTF has been drafted and is described clearly in the project documents.” The Requesters have sought and received clarification about the RMTFs several times, including during a meeting on May 14, 2009 attended by the Bank, PNGOPRA, the Requesters and the International Accountability Project. The issue was discussed again during a meeting between the Bank and the Requesters on October 13, 2009. As documented in the Requesters’ minutes, the Bank informed them that the design of the RMTFs had not been finalized and that further consultations with smallholders would take place as part of the design process (Appendix 3(9) and 3(10) of the Request for Inspection).

<sup>57</sup> The current proposal, to be further discussed, is that a RMTF Board (one for each project area), comprising representatives of the contributors, would govern the use of funds and local OPIC offices would act as the secretariat for each Board. Grower and milling company contributions would be linked to progressive FFB deliveries throughout the year. Since payments would not be available at the start of the year, initial seed capital for the three RMTFs would be funded as a grant by the co-financier of the Project, PNGSDP, provided they are satisfied with the design of the RMTFs.



97. ***Management agrees that there could have been broader consultation within the grower community on the road maintenance levy during preparation. However, Management notes that further consultations are planned as part of the RMTF design study.*** The Beneficiaries Participation Framework prepared as part of the Social Assessment recommended the establishment of SSCs in each Project area to play an advisory and decision making role in Project implementation and management. The concept of the SSCs has been integrated into Project design; they will be responsible for, among other things, consulting with growers on issues including the RMTF and road levy (see page 17 of the SADP PIM Main Document and Table 6.1, page 35 of the Beneficiary Assessment). Local Planning Committees (LPCs), which consist of the OPIC project managers, representatives from the local growers associations, Provincial Government, milling companies, and PNGOPRA, will also play an essential role in endorsing recommendations regarding RMTFs and the road levy.

98. ***Based on a review of the Social Assessment and Beneficiaries Assessment, and the consultations undertaken by the Bank during the long identification and preparation phase of this Project, the Bank ascertained that the Borrower had undertaken free, prior, and informed consultations and had obtained broad community support.*** The consultations provided participants with knowledge of the Project, attendance at the consultations was voluntary, and the consultations occurred prior to the finalization of Project design. The Bank also relied on its long-term engagement with oil palm in the country, an agricultural engagement that has been constantly broadly supported by the large majority of PNG communities. The Bank has been aware that a small group of stakeholders has not been in favor of aspects of the Project; the Bank has consistently sought to engage with them and address their concerns (see below). The Bank also took into consideration calls from communities, made during field visits, for more support for oil palm smallholders. Finally, the Bank considered that the infilling component is voluntary and that approval for participation in infill activities will also require verification and documentation of clan consent through a Customary Land Usage Agreement, indicating broad community support. In addition, the component of the Project on Local Governance and Community Participation which involves both oil palm and non-oil palm households in the Project areas is entirely demand-driven, with communities deciding on key activities that would be funded through a participatory prioritization process.

99. ***Management strongly believes that broad community support for the Project exists in the three oil palm growing areas targeted under the Project and that the Project design reflects the concerns of the beneficiaries.*** The Project design integrates the concerns raised during the Social Assessment and Bank consultations and provides a framework for continued stakeholder engagement during Project implementation as detailed in the Beneficiaries Participation Framework.

100. ***The Requesters claim that broad community support cannot be achieved without consent,*** following international norms and that “the peoples of Oro and WNB have been unable to engage in the design process of the SADP. Specifically, they have not given their consent (much less participated in consultation) to incur an additional financial burden as proposed under the RMTF or for the World Bank to promote new oil palm expansion.”

101. World Bank safeguard policies require the Borrower to conduct meaningful consultations with affected communities, and for both the Bank and the Borrower to disclose information to the public. As the Requesters note, OP 4.10 requires "...a process of free, prior and informed consultation" that "results in broad community support". The policy's references to "free, prior and informed consultation" and "broad community support" are not meant to require unanimity of views or to condition a Bank project on the receipt of consent from all affected individuals or groups. Indeed, OP 4.10, Footnote 4 makes it clear that "It (namely free, prior and informed consultation) **does not constitute a veto right** for individuals or groups." [*Emphasis added*] Broad community support does not mean unanimous support.

### **Engagement with the Requesters and NGOs**

102. *The Bank's first engagement with NGOs regarding the SADP occurred during the November 2002 identification mission, and with the Requesters in January 2004.* Since then, the Bank has proactively engaged with the Requesters' representatives, and representatives of other NGOs; has maintained correspondence with the Requesters; and has reiterated its interest in continuing engagement with the Requesters.

103. *Over the Project preparation period, the Requesters' concerns have ranged from general environmental and social concerns in the early stages of Project preparation to more specific design issues during Project preparation and Bank compliance with environmental and social safeguards in recent months.* (See Annex 3 for details on Bank engagement with NGOs.) Throughout this period many subjects were discussed with the Requesters and other NGOs: from requests for the promotion of other agricultural subsectors such as coffee, cocoa and vanilla to concerns about land disputes in Oro Province, effluents and water quality, and the sharing of information on constraints to community development. The concerns raised by stakeholders, including the Requesters, have been taken very seriously. Relevant issues raised by the Requesters, including water quality, were investigated during Project preparation. In several instances, the Requesters' concerns have led to modifications in the Project's design. For example, the provision of bi-annual independent environmental and social audits was prompted by the repeated concerns expressed by the Requesters on environmental issues. Some of the issues raised by the Requesters have reinforced the findings of the Social Assessment. There have been other cases where the Bank has sought to clarify misunderstandings held by the Requesters and others about the design of the Project.

104. *Consistent in this engagement, however, has been a call to the Bank to halt financing of the SADP citing in particular the infilling component.* In March 2006, the Requesters appealed to the Bank's President to vote against the SADP and in July 2008 the Requesters and other NGOs wrote to the Bank's Executive Directors calling for a no vote on the SADP.<sup>58</sup>

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<sup>58</sup> The July 2008 letter is included in the Requesters' package; however, the Bank cannot locate this letter in its files.

105. ***After the launch of the Project in March 2009, the Requesters' concerns shifted to a focus on Bank compliance with its environmental and social safeguard policies, specifically concerns about the free, prior and informed consultations and how broad community support for the Project was assessed.*** Prior to this, throughout the period of engagement with the Bank and during the Social Assessment, the Requesters did not raise these issues.<sup>59</sup> Once raised, the Bank has been responsive to the Requesters. The Bank has met with the Requesters and other NGO representatives three times since March 2009 and several letters were exchanged between the two entities as follows (also see Annex 3 for details):

- The International Accountability Project requested information from the Bank regarding the consultation process in April and May 2009.
- The Requesters asked for specific information on the application of various environmental and social safeguard policies and the requirement for a process of free, prior, and informed consultation with the affected Indigenous Peoples' communities with regards to the SADP on July 14, 2009.
- The Bank responded to the Requesters' request for information in a letter dated September 3, 2009. The Bank's letter clarified the application of the various safeguard policies in the Project and provided details on the consultation process and disclosure of information.
- The Requesters sent an email to the Disclosure Office (dated September 28, 2009) requesting copies of various documents (11 preparation studies and 8 aide memoires) mentioned in the Bank's correspondence of September 3, 2009.<sup>60</sup>
- The request for specific documents was partly addressed on December 18, 2009, with the delivery of 11 background studies prepared as part of the Project preparation. The 8 Aide Memoires were delivered to the Requesters on January 25, 2010 upon confirmation of Government's consent.<sup>61</sup> The process followed in disclosing the various documents was fully consistent with the Bank's Policy on Disclosure of Information.

106. ***Management acknowledges that the Requesters' request for the Bank to disclose 8 Aide Memoires and 11 identification/background studies could have been addressed more expeditiously.*** The long time-lag in disclosing the documents (which can be disclosed at the Bank's discretion) is the result of the time taken to meet with the Requesters face-to-face to discuss their request and to conduct a careful, legal review of all

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<sup>59</sup> The Requesters' representatives participated in the launch workshop of the Social and Environmental Assessment in Port Moresby and in a consultation in Popondetta.

<sup>60</sup> Email dated September 28, 2009 included in Appendix 3(6) of the Request.

<sup>61</sup> A letter was received from GoPNG on January 22, 2010 stating that Government had no objection to disclosing the aide memoires.

documents to identify any sensitive information before deciding to disclose the background studies and recommending disclosure of the Aide Memoires to the Government.

107. ***The Bank has sought to engage constructively with the Requesters, and other groups, to incorporate their concerns into Project design.*** The Bank has stressed that consultation with the Requesters and other stakeholders will continue throughout Project implementation. The Bank is committed to continued constructive engagement with all stakeholders, including those with quite divergent views.

#### **SUSTAINABILITY OF THE PROJECT**

108. In the Requesters' view, "the SADP is not a sustainable project. The claimants are concerned about the sustainability of two key features of this project, namely the road maintenance fund and the activities of OPIC extension officers. The project is dependent on these elements however both are poorly designed and will not be maintained after project completion."

109. ***Sustainability is a priority in the SADP.*** Road conditions in many smallholder farming areas in Oro province are poor, and this has a significant impact on income due to limited vehicle access for FFB collection. The immediate income loss resulting from farmers' inability to sell ripe FFB before they have deteriorated is multiplied by declines in block productivity that often occur when farmers lose confidence in the collection system and stop investing in fertilizer and replanting of older palm trees.

110. ***Road maintenance is especially challenging given the tropical, high-rainfall climate inherent in oil palm growing areas.*** The situation in Oro province has been exacerbated by the lingering impact of the destruction wrought by cyclone Guba in November 2007. However, it is the absence of an effective institutional arrangement for emergency and routine maintenance of the road network used by smallholder oil palm growers that is at the heart of the current situation. As the Project Completion Report for the previous Bank project in the Oro province highlighted, even the programming of funds for maintenance into provincial budgets is no guarantee that such maintenance will actually take place.

111. ***To ensure that SADP investments in road reconstruction and maintenance are sustained, and that the broader smallholder road network is covered, an institutional arrangement designed just for this purpose, the RMTF, has been included in the Project.*** During preparation, initial analysis of the financial feasibility of the RMTFs was undertaken. This included an analysis of cost sharing options and funding mechanisms. As mentioned earlier, the final design study of the RMTFs will be undertaken as part of Project implementation.

112. ***As the previous Oro project also demonstrated, successful road reconstruction and maintenance depends heavily on strong and clear mechanisms for contracting and contract management.*** It was the poor functioning of these systems that prevented the Oro project from achieving its target of 450 kilometers of roads. Based on these lessons, the SADP has included a Road Engineering Unit in its design, as well as the strengthen-

ing and expansion of OPID (OPIC's infrastructure department). These measures will substantially mitigate the risk of underperformance in the area of road reconstruction.

113. ***Contrary to the Requesters' allegations, PNG taxpayers did not pay for 150 kilometers of roads that were not completed under the previous Oro project, so they will not be paying multiple times for these roads when they are completed.*** As stated in the Project Completion Report for the Oro Smallholder Oil Palm Development Project, only 79 percent of the funds which were to be used for rural/access road repairs were spent, and only 2 percent of the funds allocated for main road repair were spent. Some of these roads have since been repaired using grants from the AusAID PNG Incentive Fund while the reconstruction of the remainder (105 km) will be financed by PNGSDP grants (75 km) and IDA funds (30 km).

114. ***The PAD recognized that OPIC's extension capacity needed to be improved and funds are allocated under the Project to strengthen this capacity.*** The SADP provides direct funding for an extension consultant. The extension consultant will introduce an approach to interaction with smallholders in which effective means of working with groups and communities will be developed and implemented (making more effective use of staff/smallholder ratios), and the focus will be on understanding smallholder values and attitudes so that assistance can be directed to overcome real constraints to improved smallholder welfare and productivity. Funding limitations have been key constraints, but improved smallholder productivity will also contribute to OPIC's financial sustainability.<sup>62</sup> The ARDSF, financed by AusAID, is also providing support to strengthen OPIC's capacity. With ARDSF support, OPIC is in the process of formulating an organizational strategic plan in consultation with a wide range of stakeholders.

115. ***There is no OPIC policy which either rewards or penalizes its staff for newly planted oil palm blocks.*** The Requesters state that "OPIC is a target run organization which measures extension officer productivity by fruit bunch yield and newly planted oil palm blocks. The targets are set out in the OPIC operation manual and are referred to within the SADP PIM – Infilling sub manual on page 2. Officers are evaluated by how much oil palm is planted." The productivity of smallholder oil palm is certainly a high priority for OPIC, and for the SADP, but there is no target-based staff evaluation system in place at OPIC. The only measurement which could be called a "target" is OPIC's efforts to ensure that seedlings are available for those that wish to plant oil palm. For example, in Oro Province there is potential for 800 ha per year over five years as indicated in Table 1 on page 2 of the Infilling Sub-Manual. The seeds need to be ordered and planted by the milling company a year in advance – these figures do not constitute growing targets, but are required to ensure that there are sufficient seedlings available – if the need arises.

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<sup>62</sup> Expectations are that an overall increase in smallholder production through more accessible roads, improved extension services, infilling and yield increases under the SADP, combined with the extensive program of smallholder oil palm replanting that the palm oil milling companies are undertaking, will generate a substantial increase in FFB production and in the associated OPIC levies of K4 per FFB. This will in turn enhance the sustainability of the existing OPIC service system.

## ENVIRONMENTAL IMPACTS

### Effluents

116. The Requesters raise a number of issues with regard to the environmental impacts of the Project. The Requesters believe that the environmental assessments are “particularly poor and miss critical impacts.” According to the Requesters, “Two major gaps in the assessment are lack of reliable sources and an assessment of water effluent. There is also a concern that the mitigation measures outlined in the EMP in regards to preservation of high conservation value forests are inadequate.”

117. *Management agrees that there was insufficient detail in the EA on the matter of effluents. In addition to monitoring of milling company ISO14001 and RPSO certification, a thorough analysis of the impact of increased effluents due to Project activities will be undertaken.*<sup>63</sup> *In Management’s view, the Project’s design includes adequate measures to minimize and manage risks of deforestation of areas of high conservation value.*

118. With regard to the issue of effluent treatment, the Requesters point out that the EA “does not assess mill effluent at all, merely stating that all the mills are ISO140001 certified and therefore have procedures in place to mitigate any potential environmental damage and are regularly audited” and that the “impact of effluent discharge has not been reviewed under the SADP EA despite clear evidence that streams receiving effluent are polluted and complaints by smallholders.” The Requesters also “do not believe Department of Environment and Conservation (DEC) has the ability to monitor the waste water licensing properly and future overflows will occur.”

119. The EA, the EMP and the ESMF identify the potential environmental impacts of the Project and include appropriate and effective mitigation strategies for these.<sup>64</sup> The EA provides data on the volume of effluents and the amount of effluent that is treated and discharged. In the EA, a judgment was made that ISO14001 certification provided assurances of the integrity of milling company environmental management practices and associated controls. In light of the current Request, however, Management agrees that a more comprehensive analysis of the impacts of increased production at the oil palm mills and effluents should have been undertaken in accordance with the requirements of OP/BP 4.01.

120. *A combination of systems is currently in place to mitigate water pollution from effluents discharged by the milling companies.* To demonstrate compliance with the ac-

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<sup>63</sup> Arrangements for this analysis will be discussed with the Borrower during the forthcoming supervision mission in March 2010.

<sup>64</sup> The EA provides detailed information on the potential environmental impacts of the SADP. The EMP identified the environmental issues and impacts that might arise during implementation of the SADP and developed mitigation strategies. The ESMF contains detailed environmental screening procedures for any subprojects that would be considered for further funding under Component 2 (Local Governance and Community Participation) of the Project.

ceptable levels of Biological Oxygen Demand (BOD) specified in the environmental permits issued by the DEC, each milling company operating in the SADP areas maintains daily records of BOD levels in effluent water entering river systems from its treatment facilities. The mills also send water samples to the National Analytical Laboratory in Lae, an independent, commercial lab, as a comparison to their own BOD testing results. To maintain its RSPO and ISO14001 certifications, each mill is subjected to annual audits carried out by independently appointed registered auditors (for the PNG oil palm companies these are SGS and BSI Management Systems). Audits are conducted annually for RSPO and ISO14001. If a major 'corrective action' is identified by the auditors, the company is given seven days to submit a corrective action plan and then a follow-up audit is conducted (usually within six months) before any certificate can be awarded.

**121. *Two out of the three milling companies in the Project areas are RSPO certified; the third is in the process of certification.*** There are three oil palm milling companies in the Project area: Hargy Oil Palms Ltd (HOPL) in Biella; New Britain Palm Oil Ltd (NBPOL) in Hoskins and Higaturu Oil Palms (HOP) in Popondetta. In addition to being RSPO certified, two of the three milling companies (HOPL and NBPOL) in the SADP areas have undergone a certification audit during the last 4 months. Both the July 2008 RSPO Assessment of NBPOL and the April 2009 Assessment of HOPL reviewed records and treatment systems for mill effluent and stormwater discharges as well as the use and condition of riparian buffer zones.<sup>65</sup> The latest HOP report is being completed.

**122. *In addition to the systems described, the SADP has built in the provision of an independent bi-annual environmental audit.*** The audits will include the testing of water for effluent discharge in appropriate areas.

### High Conservation Value Forests

**123. *There are very few areas within the scope of Component 1 of the SADP (smallholder productivity enhancement) which have never been logged. The SADP*** is being implemented in the Talasea District of WNB province and the Ijivitari and Sohe Districts (the whole province) of Oro province. Nearly the whole of WNB has been extensively logged at least once but in many cases several times. There are two major Timber Rights Purchase agreements (TRPs), Kapuluk/Kapuluk Extension and Ania Kapiura covering some 500,000 ha; the parts of the province where there were no TRPs were divided into Local Forest Areas. Even the Garu Wildlife Management Area in WNB was selectively logged in the late 1960s. In Oro province, most of the logging activity to date has been carried out in the hinterland of Oro Bay to Kokoda, under the Kumusi, Saiho, Saiho extension and Girua Haijo TRPs.

**124. *No significant conversion or degradation of critical forest areas or related critical natural habitats is planned under the Project, and in Management's view the Project includes adequate measures (consistent with OP/BP 4.36) to minimize and***

<sup>65</sup> <http://www.nbpol.com.pg/downloads/RSPO%20-%20BSI%20Public%20Summary%20report.pdf> and [http://www.rspo.org/resource\\_centre/Hargy-RSPO-Public-Summary-Report-03May2009.pdf](http://www.rspo.org/resource_centre/Hargy-RSPO-Public-Summary-Report-03May2009.pdf).

***manage risks of deforestation of areas of high conservation value.*** The Project also incorporates measures to avoid risks to critical habitats in line with the requirements of OP/BP 4.04.<sup>66</sup>

125. ***Component 1 of the SADP comprises road reconstruction, maintenance and potential infill plantings along the existing road networks, with comprehensive screening processes in place to ensure that no remaining intact or remnant forests are affected by the Project.*** For Component 2 the screening process detailed in the ESMF also ensures that no subproject will be funded if there are any negative environmental impacts on forests or regenerating forests. Areas for infilling have not been pre-identified as the component is demand driven. The envisaged two hectare blocks for infilling are scattered throughout a very large area and a thorough screening mechanism has been put in place to ensure that each and every block of land that is considered for infilling will undergo a comprehensive assessment of its environmental and social suitability for planting; no planting will take place in primary forest areas or in critical habitats. The social and environmental screening of potential infill plots includes completion of an “Oil Palm Planting Approval Form.” In addition, any VOP block that has been logged since November 2005 will not be eligible for infill planting as per RSPO requirements. All smallholder oil palm areas in the three Project areas are in the process of being certified through the RSPO process that requires High Conservation Value Forests (HCVF) to be mapped. The Wildlife Management Areas in or near the Project areas are also being mapped in the RSPO certification process. PNG’s logging code of practice (in the absence of an oil palm code of practice) and national environmental laws will also be followed.

126. The Requesters highlight the lack of a forest inventory as being a breach of Bank policies as required under BP4.36 (Forests), paragraph 4. BP 4.36 (Forests) refers to an inventory of critical forest areas and not to a forest inventory per se, which is a management tool used to aid harvesting. BP 4.36 recognizes that an inventory of such critical forest areas “*is undertaken at a spatial scale that is ecologically, socially and culturally*

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<sup>66</sup> The provinces in which this Project will be carried out contain a number of critical natural habitats and critical forest areas, most notably the habitats of the Queen Alexandra’s Birdwing Butterfly in Oro Province and many important Wildlife Management Areas (WMAs) and Reserves in West New Britain. The SADP does not extend oil palm development into new and undeveloped areas, but will be restricted to infilling and road reconstruction within existing developed areas to avoid risks to critical natural habitats and forest areas. The site sensitivity classification processes under the Project include screening for high conservation value areas. As elaborated in the EMP, throughout the Project areas there are remnant patches of forest which must be protected against any disturbance as they provide vital wildlife and plant dissemination refuges and corridors. Although some of these remnant forest areas are no more than one or two hectares in size, and may be adjacent to existing oil palm blocks or roads, nevertheless they may be important refuges and must remain undisturbed. Where a new block is to be established a 10 meter wide buffer zone of natural vegetation must be left undisturbed along the boundary between the block and the forest area. Patches of wetland and remnant swamp areas also occur throughout the Project areas and provide important refuges and corridors. These areas must remain undisturbed by any development; they are particularly susceptible to disturbance from changes in water level which may be caused by the construction or renovation of drainage channels in adjacent oil palm blocks or roads. Patches of wetland and remnant swamp areas are also highly susceptible to the effects of sedimentation caused by sediment laden drainage waters. The EMP identified measures to ensure that all new construction or renovation of blocks or roadside drainage channels do not discharge into or cause drainage of any wetland or swamp areas.



*appropriate for the forest area in which the project is located.”* A site specific inventory of critical forest areas will be undertaken through the screening process to be used for all potential blocks proposed for infilling under the SADP. The screening mechanisms provided in the Oil Palm Planting Approval Form being used under the SADP explicitly exclude sensitive sites and provide explicit criteria against which every proposed site must be evaluated. This assessment approach under the Project is consistent with BP 4.36, paragraph 4. OPIC environmental officers together with extension officers will be responsible for undertaking the site sensitivity screening. In addition, bi-annual independent environmental audits will be undertaken which will include monitoring of blocks selected for infilling by OPIC to ensure compliance with social and environmental safeguards.

**127. *OPIC’s extension officers have been trained in identifying primary forest areas; three qualified environmental officers are also being recruited, one for each of the Project areas, and extension officers will be receiving further training under the Project.*** As noted above, the social and environmental screening of potential infill plots includes completion of the Oil Palm Planting Approval Form. The Form has been in use since 2007 in all locations that have OPIC extension officers. OPIC officers have been trained in identifying primary forest areas. This is particularly the case in Oro Province, where Queen Alexandra’s Birdwing Butterfly (QABB) habitat has been a critical issue since 1998 under the Oro Conservation Project (an AusAID funded project); officers there have been receiving regular training in the environmental aspects of infill planting. OPIC extension officers are currently undergoing further training in the principles and criteria that relate to the RSPO, including the identification of High Conservation Value Forests (HCVF) areas. The independent environmental audits under the Project will also include monitoring of blocks selected for infilling by OPIC to ensure compliance with social and environmental safeguards.

**128. *In the context of preparing this response, Management has identified some inconsistencies between the EMP and the PIM in describing the division of labor between OPIC extension officers, the environment officers and the land officers for completing the Oil Palm Planting Approval Form.*** These inconsistencies were also identified by OPIC in the context of RSPO certification audits in December 2009. The Bank will follow up with OPIC to finalize the necessary amendments to Project documentation to clarify the division of labor for the site sensitivity screening. The Requesters quote the EMP stating that “if sites are not identified as sensitive, the environmental officer will not be involved.” The infill manual in the PIM states that both the extension and environmental officer will be involved in the site sensitivity screening. To further ensure all environmental and land related provisions are strictly adhered to, revisions to the Infill Manual to require explicit sign-off by environmental and land officers on the Oil Palm Planting Approval Form will be discussed with OPIC.

## **V. MANAGEMENT’S RESPONSE**

**129.** Management believes that the Bank has made diligent efforts to apply its policies and procedures and to pursue concretely its mission statement in the context of the Project. In Management’s view, the Bank has in all material respects followed the guide-

lines, policies and procedures applicable to the matters raised by the Request. As a result, Management believes that the Requesters' rights or interests have not been adversely affected by a failure of the Bank to implement its policies and procedures. Management recognizes several areas for improvement:

- The review confirms that no documents were translated into local languages. The Bank will ensure that key documents (including a summary of the environmental assessment) are translated and made available in 'user friendly' formats by OPIC in the Project areas and that OPIC radio programs communicate key aspects of the Project to smallholders. Management will discuss with the Government which relevant Project documents should be routinely translated during preparation, either in summary or in full. The Bank will encourage the Borrower to have relevant translated materials made available in the Project areas by July 1, 2010. This will ensure the availability of translated materials prior to commencement of any infill or road reconstruction activities.
- Management recognizes that documentation of the consultation process in the Social Assessment should have been more detailed and complete.
- Management agrees that there was insufficient detail in the EA on the matter of effluents. Based on the review, an analysis of the impact of increased effluents due to Project activities will be undertaken. Arrangements for this analysis will be discussed with the Borrower during the forthcoming supervision mission in March 2010.

130. In light of the concerns raised in the Request, Management will also take the following actions:

- Ensure that inconsistencies between the PIM and the EMP are addressed. Some inconsistencies between the EMP and the PIM in describing the division of labor between OPIC extension officers, the environment officers and the land officers for completing the Oil Palm Planting Approval Form have been identified while preparing this response. Necessary amendments to the Project documents will be discussed with OPIC.
- To further ensure that all environmental and land-related provisions are strictly adhered to, an explicit sign-off by environment and land officers on the Oil Palm Planting Approval Form will be discussed with OPIC.
- Measures to further strengthen the consultation process for major activities during implementation will be discussed with OPIC. These include measures to ensure that the processes for community involvement and obtaining and documenting community support for the demand driven components of the Project are more explicit.
- Inputs will be provided to OPIC to ensure: (i) that the design of the RMTFs is done in a consultative way with the objective of ensuring sustainability; (ii) that

the process of collecting and analyzing data and revising the FFB pricing formula continues to involve smallholders, through their representatives, and OPIC as well as the milling companies; (iii) that provisions in the Road Reconstruction Sub-Manual, the Environmental Management Plan and the Resettlement Policy Framework are reexamined in light of the fact that IDA will be financing some of the incomplete roads in Oro province which were previously to be financed by PNGSDP; (iv) that adequate provisions are made for the independent social and environmental audits; and (v) that the grievance mechanisms under the Project are strengthened.<sup>67</sup>

131. The Requesters' claims, accompanied by Management's detailed responses and suggested actions, are provided in Annex 1.

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<sup>67</sup> The Resettlement Policy Framework of the PIM details grievance mechanisms to address land-related issues. Component 2 on local governance and community participation also includes mechanisms to address grievances. The Bank will discuss with OPIC a more comprehensive grievance mechanism covering all aspects of the Project. This mechanism will have time-bound processes and require the documentation and tracking of outcomes.

## ANNEX 1

### CLAIMS AND RESPONSES

No.	Claim/Issue	Response
	<b>OP/BP 4.10 Indigenous Peoples</b>	
1.	<p>The SADP Integrated Safeguards Data Sheet (16 May 2007), the SADP Project Information Document (23 February 2007) and the SADP Project Appraisal Document (19 November 2007) reference OP/BP 4.10 as an applicable policy that is triggered in this project.</p> <p><i>Consultation and disclosure</i></p> <p>The Bank has breached the Indigenous Peoples' policy by failing to assess whether the borrower has effectively implemented free, prior and informed consultations which have resulted in broad community support (BCS). OP/BP 4.10 states that: "For all projects that are proposed for Bank financing and affect Indigenous Peoples, the Bank requires the borrower to engage in a process of free, prior and informed consultation. The Bank provides project financing only where free, prior, and informed consultation results in broad community support to the project by the affected Indigenous Peoples." (OP 4.10, paragraph 1). The Indigenous Peoples policy (OP/BP 4.10) goes on to state that when ascertaining the extent of BCS, the Bank must pay "particular attention to the social assessment and to the record and outcome of the free, prior, and informed consultation with the affected Indigenous Peoples' communities" (OP 4.10, paragraph 11).</p> <p>Free, prior, and informed consultation with affected Indigenous Peoples' communities "refers to a culturally appropriate and collective decision making process subsequent to meaningful and good faith consultation and informed participation regarding the preparation and implementation of the project" (OP/BP 4.10, n.4).</p> <p>As part of free, prior, and informed consultation, the policy requires the borrower to inform communities of: (a) <i>their rights to such resources under statutory and customary law; (b) the scope and nature of the proposed commercial development and the parties interested or involved in such development; and (c) the potential effects of such development on the Indigenous Peoples' livelihoods, environments, and use of such resources.</i> (OP/BP 4.10, paragraph 18).</p>	<p><b>Response:</b> It is Management's view that free, prior and informed consultations were undertaken during Project preparation and that broad community support for the Project exists in the Project areas.</p> <p>The Borrower conducted a detailed Social Assessment and a Beneficiaries Assessment.<sup>1 2</sup> As documented in these reports, numerous consultations were held to inform the assessments and to elicit feedback from key stakeholders on various Project design choices and activities.</p> <p>Based on a review of these documents, and the consultations undertaken by the Bank during the long identification and preparation phase of this Project, the Bank ascertained that the Borrower had obtained broad community support. The Social Assessment and Beneficiaries Assessment were disclosed in PNG prior to appraisal.</p> <p>The Social Assessment and the Beneficiaries Assessment thoroughly document the findings of the consultations that were held. But Management recognizes that there was insufficient documentation of the consultation process in the Social Assessment. The Social Assessment report does not discuss what information was systematically shared with participants during various consultations, how information was conveyed or how locations and participants were selected. Recent engagement with the consultants who carried out the Social Assessment confirms that participants were informed about the Project's main activities and there was extensive discussion on the infill component and on roads.</p> <p>Additional consultations are also planned for various Project activities throughout implementation to ensure informed participation. Several key sub-components/components in the Project are demand driven, with communities deciding on the specific activities to be funded through a participatory prioritization process.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• The SADP triggered the Indigenous Peoples Policy OP/BP 4.10 as the vast majority of the population in the Project areas is considered indigenous.</li> <li>• As documented in the Social Assessment and Beneficiaries Assessment, a wide range of consultations was held with oil palm smallholder households, non-oil palm communities directly affected by the Project, Local Government institutions, CBOs (including women's and youth groups), NGOs, church groups and oil palm organizations (including oil palm growers associations).</li> <li>• At least 550 people were directly consulted during preparation of the Social Assessment and the Beneficiaries As-</li> </ul>

<sup>1</sup> Curry, G.N., and G. Koczeberski, 2007. *Social Assessment Report for the Smallholder Agriculture Development Project (SADP) Papua New Guinea.* (p. 4). Report to the Oil Palm Industry Corporation.

<sup>2</sup> Curry, G.N. and G. Koczeberski, 2007. *Beneficiaries Assessment Report for the Smallholder Agriculture Development Project, Papua New Guinea.* Report to the Oil Palm Industry Corporation.

No.	Claim/Issue	Response
		<p>assessment through one-on-one interviews and focus group discussions. In Oro Province, consultations included respondents from 15 towns/villages, which spanned both districts and 5 LLGs (see Maps). In WNB Province consultations included respondents from 25 towns/villages, which spanned 5 LLGs in Talasea district. Many of these towns/villages were visited by consultants and in some cases individuals traveled to meet consultants; however, the Social Assessment documentation does not clearly distinguish the location of each meeting. Names of people consulted are included in the Social Assessment, although the names of individuals who participated in the focus group discussions were kept confidential to ensure that participants would be comfortable to express their views freely.</p> <ul style="list-style-type: none"> <li>• Participation in the consultations was voluntary and the format of the consultations was culturally appropriate. All focus group discussions with oil palm smallholders and non-oil palm growing households were held in Tok Pisin.</li> <li>• Groups of smallholders were invited to participate in the consultations by OPIC extension officers. Focus group meetings with community groups from the two LLGs which formed part of the institutional assessment, included in the Social Assessment, were arranged with the assistance of OPIC and LLG representatives (this information is based on recent communication with the consultants that carried out the Social Assessment).</li> <li>• All focus group discussions were prefaced by an overview of the Project and participants were informed that the discussions were being held to elicit their views on Project activities. Project terms were described in a form that was appropriate for the audience. Oil palm has been grown in the Project areas for several decades now and participants were very familiar with oil palm cultivation, although the concept of infilling was not familiar. Infilling was explained in detail with illustrative maps drawn either on the ground or on paper. The voluntary nature of infilling was made clear to participants (this information is based on recent communication with the consultants that carried out the Social Assessment).</li> <li>• The Social Assessment and Beneficiaries assessment were disclosed in PNG prior to appraisal. On February 20, 2007 OPIC formally submitted the revised Social and Environmental Assessments and related documents to the Bank. The documents were made available in the PNG PIC office on February 22, 2007 and in the Bank's InfoShop on the same day. The formal notification to the general public announcing the locations where the documents were disclosed was published by OPIC in the Papua New Guinean press on February 22, 2007. The EA and the ESMF were subsequently modified based on safeguard clearance recommendations on March 4, 2007 and April 23, 2007, respectively.<sup>3</sup> The Resettlement Policy Framework and the</li> </ul>

<sup>3</sup> Key changes incorporated in the Environmental Assessment were: (a) clarification of the World Bank Safeguard Policies triggered by SADP and how they were incorporated into the EA; (b) provision of illustrative maps to show the Project areas; (c) clarification of the mills' capacities for the increased production and pollution control facilities that could result

No.	Claim/Issue	Response
		<p>EMP were formally approved by the National Executive Council on June 21, 2007.</p> <ul style="list-style-type: none"> <li>In addition to the consultations undertaken as part of the Social Assessment, the Bank also undertook consultations with a wide range of stakeholders during the identification and preparation phases of the Project.<sup>4,5</sup> See Item 15 regarding engagement with the Requesters during Project preparation.</li> <li>A Beneficiaries Participation Framework was prepared on the basis of the Social Assessment and outlines ways in which beneficiary communities could participate throughout the Project. Aspects of this Framework have been incorporated into the Project's design.</li> <li>Many key components/activities in the Project are demand driven. For example, the subcomponent on smallholder oil palm infill planting in VOP areas requires interested smallholders to explicitly apply for infilling support and meet criteria for site suitability. Approval for participation in infill activities will also require verification and documentation of clan consent through a Customary Land Usage Agreement. The component on Local Governance and Community Participation is also demand driven, with communities deciding on key activities that would be funded through a participatory prioritization process. For this component, community facilitators will be engaged to ensure that all stakeholders have clear information about the Project and that planning, design and costing of all activities are transparent and accessible to all community members and other stakeholders.<sup>6</sup></li> </ul> <p><b>Management Action:</b></p> <p>Amendments to the PIM will be discussed with OPIC to further strengthen the consultation process for major activities during implementation and ensure that the processes for community involvement, and obtaining and documenting community support, for the demand driven components of the Project, are more explicit.</p>
2.	<p><i>Consultation records.</i> A record of the consultation process should also be maintained as part of the project files.</p> <p>It is unclear if adequate and complete records of the consultations have been kept. Requests from the claimants and CELCOR to the World Bank for records of the consultations to date have not been satisfied. If records of the consultations have been kept, they have not been made publicly available. The SADP Social Assessment lists the names of people consulted in three meetings (in cities in each of the project areas) and the Environmental</p>	<p><b>Response:</b> The consultations undertaken by the Borrower are documented in the Social Assessment and the Beneficiaries Assessment. It is Management's view that together the Social Assessment and the Beneficiaries Assessment adequately document the findings of the consultations. Management recognizes, however, that documentation of the consultation process itself should have been more detailed and complete. While the report describes the methods used to consult with stakeholders and includes a summary of persons consulted, the documents should have elaborated further on several aspects including specifying what information was provided on the Project during the consultations and on how locations and participants were</p>

from SADP; (d) description of requirements for inclusion of a Pest Management Plan in the EA; and (e) inclusion of more social aspects in the ESMF.

<sup>4</sup> See Annex 2, Summary of Consultations.

<sup>5</sup> The Bank undertook 16 missions between November 2000 (supervision of the Oro Smallholder Oil Palm Project) and December 2007 (Bank approval of the SADP) and during these missions consulted with many stakeholders. The Bank consulted with individuals and groups in 41 towns/villages, across 15 LLGs in Oro Province, West New Britain Province, and Milne Bay Province.

<sup>6</sup> Project Implementation Manual for Component 2 on Local Governance and Community Participation.

No.	Claim/Issue	Response
	<p>Assessment provides a brief summary of consultations in the PNG capital, Port Moresby. However, no other records of consultations are available. If these are the only consultation that took place, they are inadequate as not all the claimants had knowledge of the consultations or the opportunity to attend.</p> <p>The failure to maintain and provide access to a clear and complete record of the consultations conducted is itself a violation of WB policy and procedures. Far graver, however, is the evidence that the Bank has failed to assess broad community support and indeed that such support does not exist among the communities and peoples impacted by this project.</p>	<p>selected.</p> <p>Refer to Item 1 above for details on the extent of the consultations and the Bank's assessment of the existence of broad community support.</p> <p>Management disagrees with the Requesters' assertion that there were only three meetings in cities conducted as part of the Social Assessment. As part of the Social Assessment, there were 21 focus group meetings and a large number of one-on-one meetings – see Item 1 above for details on the locations of meetings and the number of persons consulted.</p> <p>The Bank also undertook consultations with a wide range of stakeholders during identification and preparation missions – see Item 1 above. The results of these consultations were noted by Bank staff and are reflected in several discussions and follow-up with the Government. In addition, consultations were also undertaken as part of several preparation studies commissioned during Project preparation. Management acknowledges that the Requesters' request for the Bank to disclose 8 Aide Memoires and 11 identification/background studies could have been addressed more expeditiously. The background studies were shared with the Requesters on December 18, 2009. The 8 Aide Memoires were delivered to the Requesters on January 25, 2010 upon confirmation of Government's consent. The process followed in disclosing the various documents was fully consistent with the Bank's Policy on Disclosure of Information.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• The Beneficiaries Assessment (part of the Social Assessment) has detailed summaries of the stakeholder consultations and findings from the various consultations are also extensively referenced in the text of the Social Assessment.</li> <li>• The Social Assessment and the EA include detailed lists of persons consulted. Appendix 3 of the EA includes a list of the participants that attended the launch workshop for the Social and Environmental Assessments and provides a summary of the social and environmental issues discussed at the meeting.<sup>7</sup></li> <li>• Regarding the Requesters' request for records of the consultations, the Requesters wrote to the Bank enquiring about the application of various environmental and social safeguard policies to the SADP in July 2009. The Requesters also requested specific information on the Bank's requirement for a process of free, prior, and informed consultation with the affected Indigenous Peoples' communities.</li> <li>• The Bank responded to the Requesters' request for information in a letter dated September 3, 2009. The Bank's letter clarified the application of the various safeguard policies in the Project and provided details on the consultation process and disclosure of information. Subsequently, the Requesters sent an email to the Disclosure Office (dated September 28, 2009) requesting copies of various documents mentioned in the Bank's correspondence of September 3, 2009.<sup>8</sup></li> </ul>

<sup>7</sup> Douglas, J. Environmental and Social Assessment of the Smallholder Agriculture Development Project. Workshop report. 18<sup>th</sup> July, 2006.

<sup>8</sup> Email dated September 28, 2009 from Mr. Eddie Tanago, CELCOR.

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		<ul style="list-style-type: none"> <li>• Eleven background studies were delivered to the Requesters on December 18<sup>th</sup>.<sup>9</sup> The long time-lag in disclosing these documents (which can be disclosed at the Bank's discretion) is the result of the time taken to: meet with the Requesters face-to-face to discuss the request; conduct a careful, legal review of all documents to identify any sensitive information before recommending disclosure to Government; and difficulties in scheduling meetings with appropriate Government officials to discuss the request. The 8 Aide Memoires were delivered to the Requesters on January 25, 2010 upon confirmation of Government's consent. The process followed in disclosing the various documents was fully consistent with the Bank's Policy on Disclosure of Information.</li> <li>• As a normal part of implementation, steps will be taken to ensure better documentation of the consultations that will be held during implementation.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>
3.	<p><i>Support for project.</i> The road maintenance levy, as one example, will clearly have an effect on the growers' livelihoods and there is no evidence of broad support among the affected communities for this aspect of the project design, or at least none that has been made available to the claimants. Lack of consultation on this issue, among others, shows that there has not been informed participation. Informed participation should have been realized under a broad community support assessment and failure to undertake such an assessment indicates a serious breach of World Bank policy.</p> <p>Further, indigenous peoples right to development includes the right to determine their own pace of change, consistent with their own vision of development and the right to say no.</p> <p>The peoples of Oro and West New Britain have been unable to engage in the design process of the SADP. Specifically, they have not given their consent (much less participated in consultation) to incur an additional financial burden as proposed under the Road Maintenance Trust Fund or for the World Bank to promote new oil palm expansion. Broad community support cannot be achieved without this consent, following international norms. The project consequently does not comply with the purpose of the Indigenous Peoples' Policy (OP/BP 4.10), which is a breach of World Bank policy.</p> <p>The Inspection Panel has previously considered similar issues in the China Western Poverty Reduction Report.</p>	<p><b>Response:</b> Management does not agree with the Requesters' view that the people of Oro and WNB have been unable to engage in the design process of the SADP.</p> <p>See Item 1 on consultations and broad community support. OP/BP 4.10 stipulates that the Bank provides project financing only where free, prior, and informed consultation results in broad community support to the Project by the affected Indigenous Peoples. As indicated in Item 1 above, Management considers that the affected Indigenous Peoples community broadly supported the Project.</p> <p>Under the Project it is proposed that RMTFs would be set up in each of the three Project areas to provide guaranteed funding for maintenance of smallholder access roads. The design of the RMTFs was not finalized during preparation and a comprehensive study of the RMTF is financed under the Project.</p> <p>The establishment of RMTFs and the introduction of an additional levy for road maintenance have been discussed by the Bank and representatives of the growers associations in all three Project areas, starting from November 2001 and all throughout Project preparation and appraisal.<sup>10</sup> Management agrees that there could have been broader consultation on the road maintenance levy within the grower community during preparation. However, Management notes that further consultations are planned as part of the RMTF design study.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• There are three smallholder oil palm growers associations in the Project areas: Bialla Oil Palm Growers Association; Hoskins Oil Palm Growers Association; and Popondetta Oil Palm Growers Association. Each association is governed by a constitution, representatives of the associations are elected and members pay regular dues.</li> <li>• Throughout Project identification and preparation, the Bank consulted with representatives of growers associations regarding the RMTFs and the road maintenance levy. OPIC's</li> </ul>

<sup>9</sup> See letter from World Bank to Requesters dated December 18<sup>th</sup>, 2009.

<sup>10</sup> The concept of a RMTF for smallholder access roads was first explored in a 2001 study for OPIC funded by the Bank. Ellington, D., 2001. Study of the Smallholder Oil Palm Sector.



No.	Claim/Issue	Response
		<p>managers were also liaising with the growers associations on the subject of the road maintenance levy and were collecting feedback from growers on different levels of levies.<sup>11</sup></p> <ul style="list-style-type: none"> <li>Discussions with these representatives during preparation indicated that it would be difficult to reach an agreement on the road levy without the roads first being rehabilitated. Growers also wanted some assurance that Provincial Government funding for the trust funds would materialize. For instance, on February 9, 2004, the executive members of the Bialla Oil Palm Growers Association wrote to the Bank, OPIC, the WNB Government, and the milling company to provide their feedback on the proposed introduction of a new road maintenance levy. They stated that <i>"the issue of growers contributing to fund maintenance cost is seen as an acceptable principle for the overall good of growers and the Bialla oil palm project in general,"</i> and that <i>"preliminary indications are that growers will accept contribution of the cost."</i> While submitting various proposals and options for the road levy, they also made it clear that the growers would only commit to paying a road levy after the Provincial Government agreed to appropriate funds for maintenance.</li> <li>The design of the RMTFs is to be finalized during implementation. This is detailed in the PAD – which indicates that the Project includes a "consultancy to design and process the details of the RMTF instrument" (see PAD page 36, paragraph 30) – and was highlighted during the Project launch events (in the different Project areas and in Port Moresby) in March 2009. The design of the RMTF was included in the implementation phase of the Project as discussions with key stakeholders had indicated the difficulty of reaching an agreement on the road levy without the roads first being rehabilitated. Furthermore, international experience indicated that it would take close to two years to finalize the design of the RMTFs. Considering these factors, and in an attempt avoid further delaying preparation, the design study was included as part of Project implementation.</li> <li>Some text within the PAD and PIM might give the impression that the details of the RMTFs had been finalized. The Requesters have sought clarification on the issue several times, including during the meeting on May 14, 2009 attended by the Bank, PNGOPRA, the Requesters and the International Accountability Project. The issue was discussed again during a meeting between the Bank and the Requesters on October 13, 2009. As documented in the Requesters' minutes, the Bank informed them that the design of the RMTFs had not been finalized and that further consultations would take place as part of the design process.<sup>12</sup></li> <li>There will be broad consultations with stakeholders on the RMTF and the road levy during the RMTF design study. The Beneficiaries Participation Framework recommended the establishment of SSCs in each Project area to play an advisory and decision making role in Project implementation and management. The concept of the SSCs has been integrated into Project design; they will be responsible for, among other things, consulting with growers on issues in-</li> </ul>

<sup>11</sup> World Bank Aide Memoire, April/May 2006.

<sup>12</sup> Appendix 3(9) and 3(10) of the Request for Inspection.

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		<p>cluding the RMTF and road levy (see page 17 of the SADP PIM Main Document and Table 6.1, page 35 of the Beneficiary Assessment). Local Planning Committees (LPCs), which consist of the OPIC project managers, representatives from the local growers association, Provincial Government, milling company, and PNGOPRA will also play an essential role in endorsing recommendations regarding RMTFs and the road levy.</p> <p><b>Management Action:</b> OPIC is currently preparing the TOR for the RMTFs. The Bank will ensure that there are adequate provisions for consultations during the design of the final arrangements for the trust funds. Amendments to the PIM will be discussed with OPIC to ensure that the processes for community involvement and obtaining and documenting community support for the demand driven components of the Project, and for the design of the RMTF during implementation, are more explicit.</p>
4.	<p><i>Human Rights.</i> With regard to the claimants' human rights, the World Bank has a duty to read the Indigenous Peoples' policy in line with the purpose of the policy, which is to <i>ensure respect for Indigenous Peoples' dignity, human rights and culture.</i> (OP 4.10, paragraph 1)</p> <p>Recognized human rights norms therefore inform the reading of the policy (OP/BP 4.10), particularly the provision that the Bank will finance projects only where free, prior and informed consultation with affected Indigenous Peoples results in their "broad community support". (OP 4.10, paragraph 1).</p> <p>Many international bodies and organizations consider that in addition to other consultation mechanisms, states and private sector parties must obtain the consent of indigenous and tribal peoples to large scale development or investment projects that have a significant impact on rights of use or enjoyment of land or territories:</p> <p>"[f]ree, prior and informed consent is essential for the [protection of] human rights of indigenous peoples in relation to major development projects" U.N., <i>Report of the Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous peoples, Rodolfo Stavenhagen, submitted in accordance with Commission resolution 2001/65 (Fifty ninth session)</i>, U.N. Doc. E/CN.4/2003/90, January 21, 2003, paragraph 66. See also <i>Saramaka People v Suriname</i>, Inter-American Court of Human Rights, Judgment of November 28, 2007 (noting the internationally-recognized right to "free, prior and informed consent"); international Court of Justice, <i>Western Sahara: Advisory Opinion of 16 October 1975</i>, <i>ICJ Reports 1975</i> (same); M. Janis, <i>The International Court of Justice: Advisory Opinion on the Western Sahara</i>, 17 <i>Harv.Int'l L.J.</i> 609, 61 (1976) (same).</p>	<p><b>Response:</b> World Bank safeguard policies require the Borrower to conduct meaningful consultations with affected communities, and for both the Bank and the Borrower to disclose information to the public. As the Requesters note, OP 4.10 requires "...a process of free, prior and informed consultation" that "results in broad community support."</p> <p>The policy's references to "free, prior and informed consultation" and "broad community support" are not meant to require unanimity of views or to condition a Bank project on the receipt of consent from <u>all</u> affected individuals or groups. Indeed, OP 4.10, Footnote 4 makes it clear that "It (namely free, prior and informed consultation) <b>does not constitute a veto right</b> for individuals or groups." [<i>Emphasis added</i>]</p> <p>Free, prior, and informed consultation with the affected Indigenous Peoples communities is clearly defined under the Bank's policy as "a culturally appropriate and <i>collective decision-making process</i> subsequent to <i>meaningful and good faith consultation</i> and <i>informed participation</i> regarding the preparation and implementation of the project." [<i>Emphasis added</i>] Because each group or subgroup of stakeholders may have legitimate perceptions, needs, claims and concerns, from a sociological perspective, it is not meaningful to assign greater or lesser weight to the legitimacy of the views of a particular group. By the same token, it is inappropriate to assign veto power or authority over a project to any one group or subgroup among stakeholders. Broad community support does not mean unanimous support.</p> <p><b>Management Action:</b> No action necessary.</p>
5.	<p><i>International Commitments</i></p> <p>The Bank must also ensure that its projects do not contravene the borrower's international human rights commitments. OMS 2.20 requires that a</p>	<p><b>Response:</b> The Request raises issues related to PNG's international obligations under the International Covenant on Economic, Social and Cultural Rights. The Request also states that based upon OMS 2.20, "Project Appraisal," the Bank is respon-</p>

No.	Claim/Issue	Response
	<p>"project's possible effects on the country's environment and on the health and well-being of its people must be considered at an early stage... Should international agreements exist that are applicable to the project and area, such as those involving the use of international waters, the Bank should be satisfied that the project plan is consistent with the terms of the agreements." (OMS 2.20, paragraph 24).</p> <p>The Papua New Guinean Government signed the International Covenant on Economic, Social and Cultural Rights (ICESCR) on 8 July 2008.</p> <p>Under Article 11 of the ICESCR, state parties who have signed the Covenant recognize the right of everyone to an adequate standard of living, including adequate food, clothing and housing, and to the continuous improvement of living conditions. Actions taken to realize this right must be based on free consent:</p> <p>The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent. (Article 11, International Covenant on Economic, Social and Cultural Rights).</p> <p>This indicates the Papua New Guinean government will require all development projects, undertaken to improve the standard of living, to be based on free consent. At a minimum, this places an obligation on the Bank to recognize this international obligation in its project documents and request information from the Government of PNG as to the steps taken to ensure that such consent for the project has been freely given.</p>	<p>sible to ensure Bank projects do not contravene the Borrower's human rights commitments under that Covenant. Management does not agree with the Requesters' claim for several reasons.</p> <p>First, neither OMS 2.20 nor any other Bank policy requires the Bank to be responsible for determining whether a Borrower has complied with the Borrower's human rights obligations. However, even if such a requirement could somehow be discerned from OMS 2.20, the type of international agreements to which OMS refers are those such as environmental agreements in which the Bank could be satisfied based on some objective criteria that the agreement is applicable to the Project and area. Thus, the primary reference in OMS 2.20 is to the environment, and it gives as an example, agreements related to international waters. Moreover, by using that example of the environment, OMS 2.20 is then consistent with the subsequent OP 4.01, Environmental Assessment. OP 4.01 is the only Board approved policy that refers to international agreement based "country obligations", and the only agreements to which it refers are environmental agreements (see OP 4.01 paragraph 3).</p> <p>Management also wishes to point out that even if there were an obligation to determine the borrower's compliance with the International Covenant, the Covenant did not become effective at any time during Project preparation and appraisal. It was not signed by PNG until July 2008. Therefore, until July 2008 PNG did not have any obligation to comply with the Covenant and as a result, it would not be possible to find that the Covenant is "applicable to the Project and area."</p> <p>Finally, Management also wishes to address the claim by the Requesters that under Article 11 of the Covenant there was an obligation to determine that there was "consent" from the local community prior to proceeding with the Project. In fact, the consent required under the Covenant Article 11 is consent by governments, not individuals. Thus, Article 11 states that the consent to which it refers is that which forms the basis of "international cooperation". The term "consent" as used in Article 11 refers to the following: "The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent."</p> <p><b>Management Action:</b> No action necessary.</p>
	<b>OP/BP 4.01 Environmental Assessment</b>	
6.	<p><i>Consultation.</i> As a Category B project, the Bank was required to ensure that the borrower "consult[] project-affected groups and local nongovernmental organizations (NGOs) about the project's environmental aspects and takes their views into account." OP 4.01, paragraph 14.</p> <p>As described above, the claimants note that for meaningful consultation to take place between OPIC and the smallholders, as required under the OP 4.01 Environmental Assessment policy, the smallholders must have been provided with relevant material prior to consultation in a "form and</p>	<p><b>Response:</b> Management acknowledges that the only information shared with stakeholders during consultations for the EA was in verbal form. Smallholders and representatives of growers associations were consulted as part of the EA. The consultations with smallholders were held in Tok Pisin.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• The implementing agency, OPIC, on behalf of the Government, commissioned independent consultants to prepare an EA, an EMP, and an ESMF (for Component 2 on Local Governance and Community Participation).</li> <li>• The consultants hired to prepare the EA conducted on-site</li> </ul>

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	<p>language" that is "understandable and accessible," OP 4.01, paragraph 15. This has not occurred. The smallholders have not received any materials, in English or otherwise; nor have they received information in spoken form. Therefore, there was no meaningful consultation as required in OP 4.01.</p>	<p>and follow-up phone call interviews with a range of stakeholders in July 2006.<sup>13</sup></p> <ul style="list-style-type: none"> <li>The Bank also conducted environment-specific consultations during Project preparation, in March-April 2003, October 2004 and April-May 2006.<sup>14</sup> The consultations undertaken by the Bank were held in English and Tok Pisin, depending on the audience. Activities under both Component 1 (Smallholder Productivity Enhancement) and Component 2 (Local Governance and Community Participation) were openly discussed during these meetings, including the potential negative impacts of the Project such as: air pollution, effluents, need for buffer zones, health effects, insufficient road maintenance, etc. Participants also had several opportunities to discuss the Project's environmental aspects.</li> </ul> <p><b>Management Action:</b> Management will ensure that key documents are translated and made available in 'user friendly' formats by OPIC in the Project areas and that OPIC radio programs communicate key aspects of the Project to smallholders. Management will discuss with the Government which relevant Project documents should be routinely translated during preparation, either in summary or in full.</p>
7.	<p><i>(B.4.) Little to no information disclosure and consultation prior to project approval has lead to unsustainable project decisions. One of the major concerns raised by the complainants is the lack of consultation and pre-project approval information provided by OPIC and the World Bank to the communities in the three SADP areas. The communities submitting this claim were involved in very limited consultation and were never consulted on certain project activities. Claimants had no opportunity to provide their input into the scope, purpose and activities under the project.</i></p> <p><i>Importantly, claimants were not consulted about the additional road levy that will be imposed on them under SADP nor were they consulted on the strategy for them to pay for this additional levy through opening additional oil palm blocks. If claimants had been consulted, they would have proposed alternative income generating opportunities and would have negotiated on the new road "user fee."</i></p> <p>The World Bank maintains in correspondence with CELCOR that additional consultation took place prior to 2007 project design phase during annual World Bank missions which contacted stakeholders such as NGOs, church-based organizations, youth organizations and farmers associations. However no records of these consultations have been made publicly available and the consultations that are referred to in annexes of some of</p>	<p><b>Response:</b> See Item 1 with regard to consultations with stakeholders, informed participation, broad community support and disclosure of documents. See Item 2 on consultation records and Item 3 regarding consultations on the road maintenance levy.</p> <p>Management acknowledges that no Project documents were translated into Tok Pisin. However, English language documents were disclosed in PNG. Information on the Project has been shared with smallholders in Tok Pisin during consultations, through the growers associations and through OPIC extension officers.</p> <p>The Requesters' statement that the strategy to pay for the additional road levy is based on opening additional infill planting is not correct. The RMTF and the road levy were formulated around the need to find a solution to the problem of poor maintenance, a key lesson from the previous World Bank project in Oro.</p> <p><b>Management Action:</b> See Management Action in Item 6 above.</p>

<sup>13</sup> See Appendix 2 of the Environmental Assessment.

<sup>14</sup> PNG Smallholder Agriculture Development Project Environmentalist Report, April 2003; Appendix 2 of World Bank Technical Mission, October 3-8, 2004.

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	<p>the SADP documents, do not provide summaries of these meetings. Considering there will be 4,370 new growers and over 15,000 existing growers in the three SADP schemes affected by the project, particularly by the new road maintenance levy, the lack of transparent consultation records calls into question whether there has been achievement of broad community support.</p> <p>The claimants maintain that any consultations the World Bank did undertake were limited and did not refer directly to the project activities. Specifically, the consultations did not allow informed participation.</p> <p>Further, project documents have not been supplied to smallholders or delivered in an accessible format. At the time of the claim, no project documents are available at OPIC project sites, despite an advertisement in the National, dated 22 February 2007, advising that project information be accessible at these sites. Discussions with OPIC project managers also revealed that they were unaware that such materials existed and should be available to the public. In addition, project documents provided at the project launch in March 2009 were disseminated via a CD-ROM, well after project approval and all project decisions had been made.</p> <p>Importantly, information has not been publicly disclosed in a language other than English. While PNG has a wide range of local language, Pidgin is the common language spoken by most, if not all, communities affected by this project. None of the project documents have been translated into Pidgin, in a written or spoken format, or made available to the claimants or other project affected people prior to project approval.</p>	
8.	<p>(B.6 SADP will cause environmental damage)</p> <p>The claimants also have concerns that the World Bank has not complied with environmental safeguard policies. The environmental assessments conducted are particularly poor and miss critical impacts. Two major gaps in the assessment are lack of reliable sources and an assessment of water effluent. There is also a concern that the mitigation measures outlined in the EMP in regards to preservation of high conservation value forests are inadequate.</p> <p><i>Environmental Assessment misses critical impacts</i></p> <p>The SADP Environmental Assessment undertakes an assessment of potential environmental impacts on subsistence resources, soils, surface waters, flora and fauna, air quality and noise. The assessment relies on baseline data collected from a field survey carried out on fresh watercourses in smallholder oil palm block areas, stakeholder consultations and a literature review. The literature review appears to rely heavily on the Environmental Plan applications submitted by the oil palm</p>	<p><b>Response:</b> The EA, EMP and ESMF identify the potential environmental impacts of the Project and include appropriate and effective mitigation strategies for these. The EA provides data on the volume of effluents and the amount of effluent that is treated and discharged. In the EA, a judgment was made that ISO14001 certification provided assurances of the integrity of milling company environmental management practices and associated controls. In light of the current Request, however, Management agrees that a more comprehensive analysis of the impacts of increased production at the oil palm mills and effluents should have been undertaken.</p> <p>While a combination of systems is in place to ensure that water quality is not compromised by effluent discharges from the mills—including mill self-monitoring; independent laboratory verification; international certification audits (ISO14001 and RSPO); DEC monitoring with regard to environmental permits; and the option of independent environmental audits financed under the SADP Project—Management recognizes that the subject needed more thorough treatment in the EA.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• The EA provides detailed information on the potential environmental impacts of the SADP. The EMP identified the en-</li> </ul>

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	<p>developments in Oro and West New Britain and PNG fauna textbooks. Details of other resources are not given; however the assessment does report it utilized institutional knowledge within the Environmental consultants company, gleaned from "years of experience of working in PNG". These sources are inadequate for a reliable environmental assessment of the impact of oil palm and there are many other environmental impacts that have not been assessed.</p> <p>One example of an environmental impact that has not been assessed is the increase in mill effluent on downstream rivers. The PID clearly states that "it will be necessary to review the performance of the existing waste water treatment systems" to assess the capacity of the mills to handle increased flows from the increased number of smallholders and prescribe necessary mitigation measures. However, the assessment does not assess mill effluent at all, merely stating that all the mills are ISO14001 certified and therefore have procedures in place to mitigate any potential environmental damage and are regularly audited. It maintains that wastewater is now properly treated (compared to the 1990's when excessive organic pollution was discharged into local streams). The SADP Freshwater Impacts assessment, however, reports that streams which receive mill effluent are significantly polluted by organic matter (Freshwater Impacts report, page 25).</p> <p>The ability to mitigate the environmental damage is disputed by the claimants who maintain that the liquid effluent ponds impact greatly on the life of the stream and regularly overflow prior to treatment. Effluent treatment systems usually drain effluent through two ponds before releasing it into local streams. The pond system reportedly allows natural bacteria to break down the residual oil and reduce BOD to acceptable standards. However, villagers living along the rivers still complain of skin diseases, respiratory problems, reduction in fish life and bad smells, particularly at the place of effluent discharge. In Oro Province, locals believe that the company only releases the effluent at night to ensure it is washed out to sea by dawn. At times of heavy rainfall when the ponds often overflow, a rusty orange and brown liquid is seen to flow down the river.</p> <p>The impact of effluent discharge has not been reviewed under the SADP Environmental Assessment despite clear evidence that streams receiving effluent are polluted and complaints by smallholders (Environmental Assessment, page 25). Claimants do not believe Department of En-</p>	<p>vironmental issues and impacts that might arise during implementation of the SADP and developed appropriate and effective mitigation strategies for these. The ESMF contains detailed environmental screening procedures for any projects that would be considered for further funding under Component 2 (Local Governance and Community Participation) of the Project.</p> <ul style="list-style-type: none"> <li>• The issue of mill effluents was considered as part of the EA due to the fact that mill throughputs would increase following improvements in oil palm productivity and additional area under production as a result of SADP investments. Because of concerns raised about the impact of oil palm on freshwater streams, a separate study was also commissioned on this issue in addition to the EA. In addressing the issue of effluents, the EA confirmed that the existing mills are ISO14001 certified and have environmental management systems in place to mitigate potential environmental damage. The EA provides data on the volume of effluents and the amount of effluent that is treated and discharged.</li> <li>• To demonstrate compliance with the acceptable levels of BOD specified in the environmental permits issued by DEC, each mill company operating in the SADP Project areas maintains daily records of BOD levels in effluent water entering river systems from its treatment facilities.</li> <li>• The mills also send water samples to the National Analytical Laboratory in Lae, an independent, commercial lab, as a comparison to their own BOD testing results.</li> <li>• To maintain its RSPO and ISO14001 certifications, each mill is subjected to annual audits carried out by independently appointed registered auditors (for the PNG oil palm companies these are SGS and BSI Management Systems). Audits are conducted annually for RSPO and ISO14001. If a major 'corrective action' is identified by the auditors, the company is given seven days to submit a corrective action plan and then a follow-up audit is conducted (usually within six months) before any certificate can be awarded.</li> <li>• There are three oil palm milling companies in the Project area: Hargy Oil Palms Ltd (HOPL) in Bialla; New Britain Palm Oil Ltd (NBPOL) in Hoskins and Higaturu Oil Palms (HOP) in Popondetta. In addition to being RSPO certified, 2 of the 3 milling companies in the SADP areas have undergone a certification audit during the last 4 months.</li> <li>• Both the July 2008 RSPO Assessment of NBPOL and the April 2009 Assessment of HOPL reviewed records and treatment systems for mill effluent and stormwater discharges as well as the use and condition of riparian buffer zones.<sup>15</sup> The latest HOP report is being completed.</li> <li>• As part of the annual renewal process for the environmental permits which each mill holds for the release of water or contaminants into water, the DEC undertakes periodic monitoring.</li> <li>• In addition to the layers of checks and balances described above with regard to the testing of water quality and as-</li> </ul>

<sup>15</sup> <http://www.nbpol.com.pg/downloads/RSPO%20-%20BSI%20Public%20Summary%20report.pdf> and [http://www.rspo.org/resource\\_centre/Hargy-RSPO-Public-Summary-Report-03May2009.pdf](http://www.rspo.org/resource_centre/Hargy-RSPO-Public-Summary-Report-03May2009.pdf).

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	<p>Environment and Conservation has the ability to monitor the waste water licensing properly and future overflows will occur. There is a lack of evidence within the project documents to ensure future impacts will not occur from the increased amount of effluent produced from this project.</p>	<p>assessments of systems for water quality management at each of the mills, the SADP includes provisions for bi-annual independent environmental audits.</p> <ul style="list-style-type: none"> <li>Grievance mechanisms for the Project are being strengthened in the PIM. These measures will provide a mechanism by which communities can channel complaints on a wide range of matters, including environmental concerns. In the event that complaints are received during Project implementation these will be thoroughly investigated. The independent environmental audits will take place on a semi-annual basis. The TOR for the environmental audits will include water quality testing.</li> </ul> <p><b>Management Action:</b> An analysis of the impact of increased effluents due to Project activities will be undertaken.</p>
9.	<p>High risk to deforestation under existing Environmental Management Plan (EMP)</p> <p>Another environmental impact that has not been properly considered is the risk of deforestation of high conservation value forests. The Environmental Assessment, Environmental Management Plan and the Project Implementation Manual (PIM) - Infill Sub-Manual, outline that a site sensitivity survey will be used to restrict deforestation of forested blocks. Only after this survey has been completed will the block be eligible for the credit facility, and oil palm planting. The survey is also intended to assess whether the relocation of household gardens will enter into areas excluded on the same environmental grounds.</p> <p>The implementation of this system however rests with OPIC. Many OPIC officers lack the capacity to classify forests within the correct forest criteria of primary forest, impacted forest, regenerating and non regenerating forest, despite the criteria being clearly described in the survey form. This is aggravated further by OPIC internal targets. OPIC is a target run organization which measures extension officer productivity by fruit bunch yield and newly planted oil palm blocks. The targets are set out in the OPIC operation manual and are referred to within the SADP Project Implementation Manual - Infilling sub manual on page 2. Officers are evaluated by how much oil palm is planted.</p> <p>The SADP attempts to overcome the lack of capacity by allocating an environment officer to each scheme to assess sensitive sites and develop a training program for extension officers, delivered by the Environment consultant/auditor. Given the severe capacity issues affecting OPIC at present, it is unlikely such institutional knowledge will be developed in time for the roll out of new plantings. In addition, extension officers are driven by the amount of oil palm they plant and provide the first assessment of the site (EMP, page 42). If the sites are not identified as sensitive, the environment officer will not be involved. These two factors place forested land at risk of deforestation.</p> <p>The claimants believe a high forest conservation</p>	<p><b>Response:</b> No significant conversion or degradation of critical forest areas or related critical natural habitats is planned under the Project, and in Management's view the Project includes adequate measures (consistent with OP/BP 4.36) to minimize and manage risks of deforestation of areas of high conservation value. The Project also incorporates measures to avoid risks to critical habitats in line with the requirements of OP/BP 4.04.</p> <p>The Requesters highlight the lack of a forest inventory as being a breach of Bank policies as required under BP4.36 (Forests), paragraph 4. BP 4.36 (Forests) refers to an inventory of critical forest areas and not to a forest inventory per se, which is a management tool used to aid harvesting. BP 4.36 recognizes that an inventory of such critical forest areas <i>"is undertaken at a spatial scale that is ecologically, socially and culturally appropriate for the forest area in which the project is located."</i> A site specific inventory of critical forest areas will be undertaken through the screening process to be used for all potential blocks proposed for infilling under the SADP. The screening mechanisms provided in the Oil Palm Planting Approval Form being used under the SADP explicitly exclude sensitive sites and provide explicit criteria against which every proposed site must be evaluated. This assessment approach under the Project is consistent with BP 4.36, paragraph 4. OPIC environmental officers together with extension officers will be responsible for undertaking the site sensitivity screening. In addition, bi-annual independent environmental audits will be undertaken which will include monitoring of blocks selected for infilling by OPIC to ensure compliance with social and environmental safeguards.</p> <p>Management acknowledges that there are some inconsistencies between the EMP and the PIM in describing the division of labor between OPIC extension officers, the environment officers and the land officers for completing the Oil Palm Planting Approval Form. This Form is used for social and environmental screening of potential new infill blocks, as well as for infilling of unplanted areas on existing LSS and VOP Blocks and for replanting where older palms have been felled.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>Areas for infilling have not been pre-identified. The envisaged 2 ha blocks for infilling are scattered throughout a very large area and a thorough screening mechanism has been put in place to ensure that each and every block of land that is considered for infilling will undergo a comprehensive assessment of its environmental and social suitability.</li> </ul>

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	<p>value inventory should be undertaken in the project area prior to new plantings, OPIC should undertake training to ensure extension officers have an adequate knowledge of forest definitions and internal targets be removed to ensure impacts do not occur in valuable habitat. Without such measures in place prior to planting, risk of deforestation is high.</p>	<p>ity for planting.</p> <ul style="list-style-type: none"> <li>• The social and environmental screening of potential infill plots includes completion of the Oil Palm Planting Approval Form.<sup>16</sup> This Form will be modified to ensure compliance with RSPO principles and criteria in early 2010, before any infill plantings are carried out under the SADP. On page 9 of the Form, under the heading of "Vegetation", (1) Primary Forest, it states, "To qualify as primary forest the area must have at least 5 trees per ha measuring greater than 50cm Diameter Breast Height (DBH) and no grasses underneath the canopy for 50m from the forest edge." If these criteria are met, the Form states clearly, "This area is not eligible for planting." The Form also contains two more categories of "impacted forest" and "regenerating forest" which are ineligible for planting with oil palm. The Form has been in use since 2007 in all locations that have OPIC extension officers. Furthermore, any forested areas that have been logged since November 2005 are not permitted to be converted to oil palm under RSPO.</li> <li>• All smallholder oil palm areas in the three Project areas are in the process of being certified through the RSPO process that requires HCVF to be mapped. The Wildlife Management Areas in or near the Project areas are also being mapped in the RSPO certification process. PNG's logging code of practice (in the absence of an oil palm code of practice) and national environmental laws will also be followed.</li> <li>• OPIC officers have been trained in identifying primary forest areas. This is particularly the case in Oro Province, where QABB habitat has been a critical issue; officers there have been receiving regular training in the environmental aspects of infill planting. In addition, 3 qualified environmental officers are being hired by OPIC and will be responsible for the infill environmental screening under the SADP.</li> <li>• OPIC extension officers are currently undergoing further training in the principles and criteria that relate to the RSPO, one of which is the identification of HCVF areas which are not permitted to be converted to oil palm, must be conserved and must have a buffer zone maintained or re-established.</li> <li>• The independent environmental audits will also include monitoring of blocks selected for infilling by OPIC to ensure compliance with social and environmental safeguards.</li> <li>• OPIC is not a "target run" organization. The only measurement which could be called a "target" is OPIC's efforts to ensure that seedlings are available for those that wish to plant oil palm. For example, in Oro Province there is potential for 800 ha per year over five years. The seeds need to be ordered and planted by the milling company a year in advance – these figures do not constitute growing targets, but are required to ensure that there are sufficient seedlings available – if the need arises. There is no OPIC policy which either rewards or penalizes its staff for newly planted oil palm blocks. The productivity of smallholder farming is certainly a high priority for OPIC, and for the SADP, but</li> </ul>

<sup>16</sup> Infill Sub-Manual in PIM.



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		<p>there is no target-based staff evaluation system in place at OPIC.</p> <p><b>Management Action:</b> The need to clarify specific responsibilities of environment and land officers in Project documentation will be discussed with OPIC.</p>
	<b>OP/BP 4.36 Forests</b>	
10.	<p><i>Conversion of critical forest areas.</i> The SADP Integrated Safeguards Data Sheet (16 May 2007), the SADP Project Information Document (23 February 2007), and the SADP Project Appraisal Document (19 November 2007) reference OP/BP 4.36 as an applicable policy that is triggered in this project.</p> <p>According to OP 4.36, the "Bank does not finance projects that in its opinion, would involve significant conversion or degradation of critical forest areas or related critical natural habitats." (OP 4.36, paragraph 5).</p> <p>The use of an implementing agency that contains internal targets to plant oil palm makes it very likely there will be significant conversion of high conservation value forest areas. However, SADP does not put in place an effective mechanism to restrict deforestation of critical forest areas. In this regard, the Bank is in possible violation of its policy on Forest and the potential of this project to cause forest conversion or degradation.</p>	<p><b>Response:</b> See Item 9 above. Strict mitigation measures have been introduced to avoid conversion of critical forest areas.</p>
11.	<p><i>Assessment of critical forest areas</i></p> <p>In addition, BP 4.36 requires that: <i>"During project preparation, the TT ensures that the borrower provides the Bank with an assessment of the adequacy of land use allocations for the management, conservation, and sustainable development of forests, including any additional allocations needed to protect critical forest areas. This assessment provides an inventory of such critical forest areas, and is undertaken at a spatial scale that is ecologically, socially and culturally appropriate for the forest area in which the project is located."</i> (BP 4.36. paragraph 4).</p> <p>The Environmental Assessment provides a weak assessment of critical forest areas and does not provide an inventory. This is in breach of Bank policy.</p>	<p><b>Response:</b> See Items 9 and 10 above. While no specific forest inventory was undertaken during Project preparation, Management considers that there is sufficient assurance through the SADP screening process and independent audits to minimize impacts on critical forest areas (and other sensitive sites). Management believes that it followed the requirements of BP4.36.</p> <p><b>Management Action:</b> No action necessary.</p>
	<b>OP/BP 4.04 Natural Habitat</b>	
12.	<p><i>"In deciding whether to support a project with potential adverse impacts on a natural habitat, the Bank takes into account the borrower's ability to implement the appropriate conservation and mitigation measures. If there are potential institutional capacity problems. The project includes components that develop the capacity national and local institutions for effective environmental planning and management."</i> (OP 4.04, paragraph 6).</p> <p>OPIC is currently unable to correctly implement the planting form described in the project due to</p>	<p><b>Response:</b> Adequate provisions have been made in the Project to ensure OPIC's capacity is strengthened, including with regard to its capacity to implement the EMP, which is designed to ensure that the SADP complies fully with the requirements of environmental and conservation legislation in PNG and with the Bank's environmental safeguards.</p> <p><b>Background:</b> The Project's design includes several provisions to strengthen the environmental management capacity and land section of OPIC. OPIC is recruiting 3 new environment officers and an additional land officer. This will ensure that each of the OPIC field offices in the three Project areas have a dedicated</p>

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	<p>capacity limitations. The SADP Project does not adequately address this lack of capacity through training under Component 3. OPIC's internal targets also threaten appropriate identification of sensitive areas. These two factors combined greatly increase the risk of deforestation. There is currently no check and balance mechanism to ensure new block are properly categorized. It is a breach of World Bank policy that appropriate components to ensure OPIC functions effectively have not been included in the project design.</p>	<p>environment and land officer. The positions were advertised on October 30, 2009 and the selection process is ongoing.<sup>17</sup> The environment and land officers will be on board prior to commencement of any infill-related activities.</p> <p>The Project also includes provisions for an environmental/social auditor who will be recruited to undertake bi-annual field visits to provide an independent assessment of compliance with social and environmental safeguards. The TOR for the independent environmental and social auditor will be revised to ensure adequate inputs for monitoring relevant social and environmental issues.</p> <p>As previously mentioned in Item 9 above, OPIC does not have any internal targets that would threaten the identification of sensitive areas. Every block that is proposed for infill planting will have to go through a careful environmental and social screening process before approval is granted for infilling.</p> <p>The environmental and social audits were put in place to ensure a system of checks and balance in the Project.</p> <p><b>Management Action:</b> To further ensure all environmental and land related provisions are strictly adhered to, revisions to the PIM to require explicit sign-off by environment and land officers on the Oil Palm Planting Approval Form will be discussed with OPIC.</p>
	<b>OP 10.00 Investment Lending</b>	
13.	<p>The Investment Lending policy states that:</p> <p><i>"Investment projects may include any productive sector or activity and may consist of new projects, the rehabilitation of existing facilities, or a combination of both. Each investment project must meet the following criteria: it must</i></p> <p><i>(a) be consistent with the Bank's Articles of Agreement, operational policies in force, and the Country Assistance Strategy; be anchored in country policy/sector analysis; and reflect lessons learned from the Bank's experience;</i></p> <p><i>(b) be economically justified; and</i></p> <p><i>(c) contribute to poverty reduction and sustainable economic growth."</i> (OP 10.00, paragraph 3).</p> <p>The SADP in its current project design is not sustainable and has no additional mechanism to ensure the project will reduce poverty. It does not contribute to poverty reduction and benefits obtained from the SADP will not be maintained after project completion. This is a breach of the Bank's Investment Lending policy and the SADP should not be implemented until a mechanism is incorporated into the project design to ensure that poverty reduction occurs and that OPIC is sustainable.</p>	<p><b>Response:</b> The SADP was part of a QAG learning review in 2008. Overall the assessment of quality at entry was favorable. The review did note, however, that some aspects of Project design would have benefited from more complete preparation, mentioning in particular the RMTFs, QAG also noted that the preparation time was accelerated due to the window of opportunity to resume lending in PNG.</p> <p>Management believes that there was adequate attention to poverty reduction and sustainability in the Project's design.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>In the first half of 2008 a QAG learning review was carried out for PNG, Timor-Leste and the Pacific Islands to help address outstanding quality concerns and to improve portfolio management. The overall findings for the SADP were that the Project reflects the type of operation appropriate and essential for the fragile states of the Pacific Region. Specifically the review highlighted that: (a) there was good sector knowledge and prior implementation experience that IEG had rated as Satisfactory; (b) the Project contained important innovation in the form of a road maintenance trust fund and a small but important CDD-type activity for communities outside the Project area; and (c) the Project design also addressed three shortcomings noted by the IEG review of the previous project: (i) that road maintenance funding had not been assured; (ii) that fertilizer use was low and productivity was sub-optimal; (iii) that M&amp;E systems under the Project were weak. However, the QAG found that the preparation process, accelerated by the window of opportunity to resume lending, would have benefited by a more complete preparation of the arrangements for the operation</li> </ul>

<sup>17</sup> See advertisements in the Post Courier.

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		<p>of the RMTFs and finalization of the TOR for the consultancies under the Project.</p> <ul style="list-style-type: none"> <li>At the time of approval, the Project was fully consistent with IDA's goals as stated in the Interim Strategy Note (ISN – Report No. 31709-PG, March 18, 2005). It is also fully consistent with the CAS for PNG for FY08-FY11. With an overarching objective of poverty reduction, the CAS consists of two pillars: (a) promoting and maintaining sound economic and natural resource management; and (b) improving livelihoods and service delivery, especially for the rural poor. The SADP contributes to the second CAS pillar by improving rural livelihoods and promoting sustainable growth.</li> <li>The Project design draws extensively on the lessons learned from the Bank's long engagement in the oil palm sector in PNG and in particular from the lessons of the Oro Smallholder Oil Palm Development Project. The ICR of that project noted the importance of giving high priority to institutional and funding arrangements to enable timely construction and subsequent maintenance of rural roads. The emphasis given to rural road maintenance and the inclusion of the RMTF under the SADP was in response to the lessons learned from the previous Oro project.<sup>18</sup></li> <li>A robust economic and financial analysis for the Project was undertaken as part of preparation. The overall Project ERR was estimated to be 16.7 percent. Further, the analysis indicated that FRRs to smallholders participating in the infilling activities ranged between 22 percent and 27 percent, depending on the Project area, which represented a considerably higher rate of return compared to other alternative investments.<sup>19</sup></li> <li>The Project is designed to contribute to poverty reduction in the three Project areas through multiple pathways including: (a) road improvements; (b) raising household incomes of smallholders growing oil palm (on existing oil palm blocks) through improved productivity and lower marketing costs; (c) raising incomes of smallholders planting new oil palm through infilling; (iv) strengthening various sector initiatives focused on improving smallholder welfare (such as the MLFS); and (v) improving access to critical social and economic infrastructure under Component 2 of the Project.</li> <li>Sustainability is a priority in the SADP as reflected in Project design. The proposed RMTF to be established under the Project will ensure sustainability of the investments made in road reconstruction in the Project areas.</li> <li>The Project design also addresses the importance of enhancing the quality, effectiveness and sustainability of research and extension services for the smallholder oil palm sector.</li> <li>The Act establishing OPIC in 1992 only provided government financing for the initial five-year start-up period. Sustainable financing of OPIC was mainly provided for via a levy on smallholders of K4 per FFB. While it is not specified</li> </ul>

<sup>18</sup> World Bank, 2002. Implementation Completion Report for the Oro Smallholder Oil Palm Development Project (Report No. 24332).

<sup>19</sup> See Annex 9 of the Project Appraisal Document.

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		<p>in the OPIC Act, the milling companies have also decided to voluntarily match the funds generated by the smallholder levy. This funding scheme has not been adjusted to reflect the actual cost of high quality extension services.</p> <ul style="list-style-type: none"> <li>Support provided through the ARDSF, financed by AusAID is examining the financial and institutional capacity needs of OPIC.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>
	<b>OP 13.05 Project Supervision</b>	
14.	<p>Operational Policy 13.05 requires that the World Bank:</p> <p><i>“(a) ascertain whether the borrower is carrying out the project with due diligence to achieve its development objectives in conformity with the legal agreements;</i></p> <p><i>(b) identify problems promptly as they arise during implementation and recommend to the borrower ways to resolve them;</i></p> <p><i>(c) recommend changes in project concept or design, as appropriate, as the project evolves or circumstances change;</i></p> <p><i>(d) identify the key risks to project sustainability and recommend appropriate risk management strategies and actions to the borrower; and</i></p> <p><i>(e) prepare the Bank’s Implementation Completion Report to account for the use of Bank resources, and to draw lessons to improve the design of future projects, sector and country strategies, and policies.” (OP 13.05, paragraph 2).</i></p> <p>In this case, the World Bank is out of compliance with OP 13.05 in that it both failed to ascertain whether the borrower carried out the project with due diligence based on the lack of consultation with the claimants and failure to obtain their consent, and then failed to identify and promptly correct the problem.</p>	<p><b>Response:</b> As stated with respect to OP/B 4.01, Management considers the consultations conducted to determine broad community support to meet the requirements of the policy. As such, due diligence, in the context in which it is referred to by the Requesters, has been properly applied.</p> <p>Management believes that there has been due diligence in Project supervision.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>The Bank conducted two supervision missions since the Credit was declared effective in January 2009: (a) in March 2009, to launch the Project and assist the implementing agency (OPIC) with the preparation of Project start-up activities; and (b) in September / October 2009, to review the progress of implementation start-up.</li> <li>Both missions were staffed with a broad skill mix and had discussions with all stakeholders in the three Project areas, including Government officials, milling companies, growers’ representatives, NGOs, and local communities. In addition, a technical mission was undertaken in July 2009 to follow up on the Oro road emergency work and assist OPIC with procurement related aspects.</li> <li>Supervision efforts have focused on the establishment of OPIC project management capacity, the status of financial management arrangements (disbursement and audits), the adjustment of the implementation schedule and funding requirements, the arrangements for starting implementation of the infilling program (including smallholder credit mechanisms and RSPO compliance), and the formulation of a communication strategy for OPIC including raising awareness of Project objectives and scope.</li> <li>To date three ISR have been filed to highlight the implementation status of the Project and bring key issues to Management attention. While the first two ISRs rated both PDO and IP as satisfactory, this rating was downgraded to moderately unsatisfactory after the last mission to reflect the significant implementation delays and the concern that the PDO will not be achieved during the remaining implementation period.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>
15.	<p>CELCOR submits this request to the Inspection Panel for review of the SADP based on testimony from landowners about their experience with existing economic, social and environmental problems with oil palm development and in the context of the World Bank Group’s recent suspension of private sector funding to the oil palm sector based on the need to review the social and environmental</p>	<p><b>Response:</b> Issues raised by stakeholders during the formal consultations and various discussions (see Annex 2) over the past years, including the Requesters (see Annex 3), have been taken very seriously throughout Project preparation and during the start-up of Project activities in 2009.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>The concerns raised by stakeholders, including the Requesters, have been considered. Specific examples of how</li> </ul>

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	<p>sustainability of such projects. The claimants asked CELCOR to submit this request for inspection as the SADP project does not resolve existing problems and, instead, threatens to exacerbate them. The claimants and CELCOR maintain that the World Bank has not considered or acted upon complaints already made about the SADP.</p>	<p>issues raised by stakeholders have been incorporated into the SADP include:</p> <ul style="list-style-type: none"> <li>• Provisions have been made for strict environmental and social screening of all plots prior to the commencement of any infill planting activity.</li> <li>• Independent environmental/social audits have also been included to address environmental concerns.</li> <li>• As mentioned under Item 8, because of concerns raised about the impact of oil palm on freshwater streams, a separate study was commissioned on this issue in conjunction with the EA.</li> <li>• One of the key findings of the Social Assessment was that land-related issues, including land disputes and the uncertainty of tenure, are significantly undermining smallholder oil palm productivity (see Chapter 2 of the Social Assessment). As elaborated in the PIM, the Project includes numerous measures to address a range of land issues affecting smallholders. OPIC is also recruiting an additional land officer to ensure each of the Project areas has a dedicated land officer.</li> <li>• The Beneficiaries Assessment made a recommendation on the creation of SSCs. Among the responsibilities of the SSC is to consult with growers on issues including the road maintenance levy. This has been integrated into the Project design (see page 17 of the SADP PIM- Main Document and Table 6.1, page 35 of the Beneficiary Assessment).</li> <li>• Careful consideration has been given to how loan repayments are restructured, drawing on the feedback from the smallholder focus group interviews undertaken as part of the Social Assessment.</li> <li>• Emphasis has been placed on ensuring that extension activities pay attention to a range of socio-cultural, economic and demographic factors that influence smallholder productivity.</li> <li>• A specific focus on gender issues, including the MLFS, will ensure representation of women in the SSCs and in all aspects of Component 2.</li> <li>• At a broader level, the Bank Group extended the suspension on new investments in palm oil to include IBRD and IDA (in addition to the IFC, see footnote 10 in main text) in August 2009. This suspension will remain until a new comprehensive strategy for palm oil investment is in place.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>
16.	<p>(Part D. Contact with the World Bank.) The claimants have raised these issues with the World Bank on numerous occasions in letters, public protest petitions and meetings (see Appendix 3). The details of some of this contact are as follows:</p> <p>Letters to the World Bank:</p> <ol style="list-style-type: none"> <li>1. Letter to the World Bank dated 30 April 2004 from the Ahora/Kakandetta Pressure Group outlining its opposition to the SADP and nomination of CELCOR as its representative;</li> <li>2. Letter to the World Bank dated 30 August</li> </ol>	<p><b>Response:</b> The Bank has sought to engage constructively with the Requesters, and other groups, to incorporate their concerns into Project design. Item 15 above highlights some specific actions taken during Project design to address concerns raised by the Requester and other groups.</p> <p>The Bank has stressed that consultation with the Requesters and other stakeholders will continue throughout Project implementation. The Bank is committed to continued constructive engagement with all stakeholders, including those with quite diverging views.</p> <p>Management notes that in addition to the formal correspondence referred to in Appendix 3 of the Request for Inspection,</p>

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	<p>2004 from the Ahora/Kakandetta Pressure Group asking the World Bank to consider other alternatives to oil palm and only fund "projects planned and initiated by the people".</p> <p>3. Letter to the World Bank dated 14 May 2008 presenting views of stakeholders about the SADP. Unfortunately, CELCOR is unable to provide a copy of this letter due to IT technicalities following a virus attack on the CELCOR network; however, the World Bank should have kept the original.</p> <p>4. Letter to the World Bank dated 28 July 2008 from CELCOR requesting the loan not be approved.</p> <p>5. Letter to the World Bank dated 17 July 2009 following up the meeting between CELCOR and World Bank in May 2009.</p> <p>6. Email to the World Bank dated 28 September 2009 requesting disclosure of project documents relating to consultation records.</p> <p>Public protest petitions against the SADP and oil palm development:</p> <p>7. Protest Petition against the SADP from Oro Province residents signed 2008 - Available at <a href="http://www.wrm.org.uy/countries/Support_to_Papua_New_Guinea.html">http://www.wrm.org.uy/countries/Support_to_Papua_New_Guinea.html</a> [accessed 23 October 2009]</p> <p>8. Protest Petition from Ioma region against Oil Palm published in the Post Courier 2006</p> <p>Meetings:</p> <p>9. CELCOR representatives met with the World Bank on 23 May 2009</p> <p>10. CELCOR representatives met with the World Bank on 13 October 2009</p> <p>In the letters and protest petitions the issues were raised relating to food security, land shortages, environmental impact of oil palm, risk of environmental damage due to ineffective monitoring, lack of improvement of living standards by palm oil development, lack of economic diversification and the inequality that smallholders should pay to fix previous World Bank mistakes.</p> <p>The World Bank stated in a letter to the Ahora/Kakandetta people on 10 June 2004 that "adequate consultation with landowners and other stakeholders would take place to assist in finalizing the design of the project".</p> <p>The World Bank has also responded via letter and email to questions and requests from CELCOR on behalf of the claimants including the following responses:</p> <p>1. Letter dated June 10 2004</p>	<p>the Bank and consultants hired by the Bank have also met on several other occasions to discuss the Requesters' concerns and clarify aspects of Project design. While the Request states that the last correspondence took place on October 13, 2009, the Bank communicated with the Requesters on October 19, 2009 via email advising the Requesters that further time was required to review the various documents for disclosure and that the Bank would communicate with them as soon as a decision was reached. The Requesters were also invited to contact the Country Office in PNG if they required further information while they waited to hear back on the document disclosure issue.</p> <p><b>Management Action:</b> No action necessary.</p>

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	<p>2. Letter dated June 16 2008</p> <p>3. Letter dated September 3 2009</p> <p>4. Email dated September 30 2009</p> <p>5. Email dated October 19 2009</p> <p>However, despite raising these concerns no change has been made to the project design and further consultation has not taken place.</p> <p>There has been no other correspondence between CELCOR and World Bank representatives since the last meeting with the World Bank on 13 October 2009.</p>	
17.	<p>(Part E. Recent Developments). The World Bank stated during the recent meeting with CELCOR that no monies have been disbursed. However, the claimants are aware that planting is intended to begin in April 2010 following an article printed by the Papua New Guinean Post Courier Newspaper in October 2009. The article reported on a cheque handover ceremony where Papua New Guinea Sustainable Development Program, another financial contributor to the SADP project, presented monies to the loan implementer, PNG Microfinance Ltd, for "infilling loans". The World Bank PNG Task Team Leader attended the ceremony (see Appendix 4).</p> <p>The claimants fear that now that a public commitment to commence the project has been made, their concerns have not been listened to, and changes to the project design will not be made. It is critical that broad consultation is undertaken and consent is granted prior to the start of the project.</p> <p>We request the Inspection Panel recommend to the World Bank's Executive Directors that an investigation of these matters be carried out. Furthermore, in making this request for inspection of the project, the claimants ask that the SADP be put on hold until:</p> <ul style="list-style-type: none"> <li>a) poverty reduction is incorporated into the project design;</li> <li>b) other economic livelihood options are presented;</li> <li>c) comprehensive environmental assessment is undertaken, including assessment of effluent treatment and a forest inventory;</li> <li>d) the project design is amended to ensure sustainability of the project;</li> <li>e) proper consultation is undertaken to ensure communities give their free, prior and informed consent to all components of the project</li> </ul>	<p><b>Response:</b> See item 13, regarding how the SADP is designed to contribute to poverty reduction.</p> <p>See Item 8 on the EA and effluent treatment and Item 9 regarding the forest inventory.</p> <p>See Item 13 regarding the sustainability of Project activities.</p> <p>See Items 1 and 3 regarding consultations. See Item 15 regarding the Requesters' concerns and how many of their concerns have been addressed in Project design.</p> <p><b>Management Action:</b> See Items 8 and 9.</p>
	<b>OP/BP 1.00 Poverty Reduction</b>	
18.	<p>(B.3) SADP in its current form will not reduce poverty and will limit economic choices. Under SADP, smallholders will have few opportunities to</p>	<p><b>Response:</b> Management considers that the Project will <i>not</i> limit economic choices in the Project areas, that oil palm smallholders will have ample opportunities to enhance their living stan-</p>

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	<p>enhance their living standards. This is due to several reasons. First, farmers are locked into a dependent relationship with the estate mill, where the companies provide the only access to oil palm markets and collectively set the price for FFB and, therefore, the smallholder's earnings. Under this scheme, farmers are expected to share their revenues with the company to cover a portion of the company's cost of production. This revenue-sharing takes place even though the farmer is providing all the costs for labor, equipment, seedlings, pesticides and transport (or at least a portion of transport costs) out of his or her own earnings.</p> <p>The processes involved to set the FFB price further cements this relationship. The FFB price is set by the palm oil producers association (POPA), made up of representatives from the milling companies. There is no involvement of smallholders or OPIC and there is no legislation to deal with the pricing structure. A government Commodities Working Group reviews the FFB price ratio from time to time and provides recommendations to the POPA. However, these recommendations are not binding and have only been selectively implemented. Indeed, the reviews themselves are also influenced towards company interests as they do not fully consider smallholder inputs, distorting the price ratio in favour of the companies by undervaluing smallholder costs and the value of customary land, while recognizing the commercial salaries and capital depreciation of the oil palm mills. Under this system, smallholders are unable to engage with milling companies or involve themselves in price setting. The SADP project will reinforce smallholders as price takers, dictated to by dominating foreign companies.</p>	<p>dards under the SADP, and that the Project will improve incomes (see Item 19). The SADP aims to improve smallholder oil palm productivity and reduce transport and marketing costs; together this is expected to translate into higher incomes for smallholder oil palm producers.</p> <p>Management concurs that the processes for FFB price setting need to involve all relevant stakeholders. The FFB pricing formula should be reviewed regularly, and funds are allocated under the SADP to review and update the existing FFB pricing formula.</p> <p>The Requesters state that there is no involvement of smallholders in setting the FFB price. The last review of the FFB pricing formula in 2001, sponsored by the CWG and financed by the World Bank, involved an independent review by experts and a detailed analysis of both smallholder and milling company costs of production in the calculation of the payout ratio. Various stakeholders including smallholders, representatives of growers associations, milling companies and OPIC staff and managers were consulted and the final payout ratio was agreed at a meeting of the CWG, chaired by the Secretary for Department of Agriculture and Livestock.<sup>20</sup></p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• A detailed analysis of both smallholder and milling company costs of production was undertaken to determine the payout ratio. The calculation of smallholder costs of production took into account all fixed and variable costs including labor costs (for land clearing, planting and maintenance), material costs (including seedlings, fertilizers and equipment), the PNGOPRA levy, the OPIC levy, the FFB transport costs, the Sexava levy,<sup>21</sup> land rent (for all Land Settlement Scheme Blocks), growers association membership fees, the cost of borrowing (interest payments and bank fees) and the construction costs of housing.<sup>22</sup></li> <li>• The 2001 FFB pricing review recommended minor amendments to the existing pricing formula and an increase in the smallholder payout ratio from 55 percent to 59 percent t. The milling companies, however, questioned the data used by the consultants to calculate the smallholder costs of production, and only agreed to an increase of the payout ratio to 57 percent for the smallholders.</li> <li>• The milling companies (one in each Project area) buy the FFB produced and harvested by the smallholders, process the FFB in their mills, and market and export the palm products consisting of CPO, PKO and PKE. The FFB have to be processed within 48 hours of harvest to ensure the production of high quality palm products.</li> <li>• All the milling companies follow the FFB pricing formula. FFB prices are calculated on a monthly basis. The pub-</li> </ul>

<sup>20</sup> Burnett, D. and D. Ellington, November 2001. Review of the Oil Palm Fresh Fruit Bunch Pricing Formula. Final Report Prepared for the Commodities Working Group of the Government of PNG.

<sup>21</sup> Milling companies carry out centralized control of the sexava hopper, the major pest of oil palm.

<sup>22</sup> See Annex 1 in Burnett and Ellington, November 2001.



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		<p>lished international commodity price, CIF Rotterdam, is the starting point for calculation of the monthly FFB price.<sup>23</sup> To derive the smallholder farmgate price, the FOB value of palm product per ton is computed after deducting transportation costs. Product (CPO, PKO and PKE) value per ton is then converted to fruit value (FFB) tonnage using average mill extraction rates. The US\$ value per ton of FFB is converted to kina per ton using the prevailing exchange rate. The FOB value per ton of FFB may differ among the mills because of a difference in transport costs and a difference in oil extraction rates. The smallholder mill gate price is calculated at 57 percent (the payout ratio) of the total FOB value per FFB ton plus 1 percent VAT. The current payout ratio of 57 percent to smallholders, with the balance of 43 percent accruing to the mill, is based on the cost of production calculation carried out during the 2001 review. The farmgate price is derived from the smallholder mill gate price by deducting the FFB transport costs from the farmgate to the mill (which differ by mill) and various levies. The levies paid by smallholders are contributions towards research and extension services provided by PNGOPRA and OPIC and the Sexava levy for centralized pest control carried out by the mills.</p> <ul style="list-style-type: none"> <li>Funds have been allocated under the SADP to review and update the FFB pricing formula. The aim of the review will be to revise the methodology and assumptions used in calculating prices and shares between the smallholders and the mills. OPIC is currently in the process of preparing the TOR for the review. The review will be conducted in mid-2010.</li> </ul> <p><b>Management Action:</b> No action necessary</p>
19.	<p>Second, in addition to the revenue sharing, smallholders are expected to pay multiple levies for producing oil palm. After the company deducts any loan payments from the farmers' harvest revenues (a typical deduction is 30 percent), the smallholder is still left to pay upwards of 44 percent in levies for state services (that often are not supplied in full or not fully implemented), growers association dues and transport costs.</p>	<p><b>Response:</b> As noted in Item 18, the levies paid by smallholders are contributions towards research and extension services provided by PNGOPRA and OPIC and the Sexava levy for pest control carried out by the mills.</p> <p>Despite the multiple levies paid by smallholders, at current prices the net incremental returns per hectare (K2,793/ha) for oil palm compare very favorably to returns to other cash crops (K1,136/ha for cocoa and K2,058/ha for coffee).</p> <p>A detailed financial analysis of the returns per hectare for infill planting was undertaken as part of Project preparation. The FRRs indicate that infill planting is in fact a very good investment for smallholders.</p> <p>Smallholders participating in infilling will receive seedlings, seedling transport, fertilizer, and small tools for oil palm establishment on credit from the milling companies. A cash flow analysis conducted for OPIC indicates that smallholders' debt service is well within their means.<sup>24</sup></p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>Table 1 in Annex 9 of the PAD provides a detailed analysis of incremental net returns per hectare for infill planting. This</li> </ul>

<sup>23</sup> See Credit Component and Financial Analysis. Cuddihy, William, November 2006 and Review of the Oil Palm Fresh Fruit Bunch Pricing Formula. Natural Resources Institute and ADS (PNG) Limited. November 2001.

<sup>24</sup> Credit Component and Financial Analysis. Papua New Guinea Proposed Smallholder Agriculture Development Project, prepared for OPIC by W. Cuddihy, November 2006.

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		<p>analysis is based on 2006 prices. As the productive life of oil palm trees is about 20 years and there is no productivity in the first three years, the FRRs are calculated over a 23 year period. The FRRs ranged from 22 percent to 27 percent.</p> <ul style="list-style-type: none"> <li>As most smallholders use their own family labor, the cash outlay for oil palm is mainly for material costs. The analysis at appraisal (see Annex 9 of the PAD) indicated that net income from oil palm and from gardening around the immature oil palms excluding labor costs is negative in the first (planting) year because of the high material costs (mainly seedlings and equipment). Once established, smallholder oil palm net incomes (excluding labor) were calculated to average (over the three Project areas) K1,800/2 ha in years 4 to 10 and K5,000/2 ha in years 11 to 23 of production.</li> <li>In 2006 palm oil prices were US\$478/mt, compared to US\$683/mt in 2009. In real terms this translates into a 34 percent increase in palm oil prices between 2006 and 2009. Future price projections indicate continued strong prospects and financial returns are likely to be higher than the estimates made at appraisal.</li> <li>Under the Project, smallholders can borrow up to K1,900/ha for seedlings, seedling transport, fertilizer, and small tools for oil palm establishment. The cash flow analysis conducted for OPIC indicates that a loan of K1,900 at 8 percent interest, with a grace period of 3 years, would take 7 years of monthly repayments to clear the debt with repayments set at 30 percent of the monthly payment amounts due to the grower for FFB sold to the mill. The cash flow analysis indicates that servicing the debt is well within the means of smallholders and allows sufficient cash flow after debt repayment for their livelihood requirements and other obligations.</li> </ul> <p><b>Management Action:</b> No action necessary</p>
20.	<p>Furthermore, under SADP, smallholders will be charged an <i>additional levy</i> to support the Road Maintenance Trust Fund, a fund that will be established to upkeep road networks in the smallholder area. The levy for the RMTF will charge farmers between Kina 3.50 - Kina 6 per tonne of fresh fruit bunches produced at every harvest. According to the SADP Project Appraisal Document (PAD), this levy will be applied to all growers in the smallholder network: "End users of the network in each project area will contribute to this fund." (PAD page 35) By further embedding smallholder dependency on the mills and increasing levies, smallholders will be progressively burdened and unable to lift themselves out of poverty.</p>	<p><b>Response:</b> Although smallholders will face higher costs due to the road maintenance levy, the economic and financial analysis for the SADP indicates that the benefits due to the improved roads will outweigh the additional incremental cost. In the absence of alternate arrangements for maintaining roads, road conditions would probably deteriorate, implying that smallholders would face higher transport costs and incremental net returns would be significantly reduced.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>The amount of the levy for road maintenance has not yet been set. The PAD (page 36) mentions that it would likely range between K4/ton FFB at Hoskins and Bialla and K5.5/ton FFB in Oro, based on the estimated maintenance funding requirements. The amount of the levy will only be determined after the detailed study of the establishment and operation of the RMTF is carried out. Better road maintenance will likely reduce the costs of transport of the smallholder FFB from the farmgate to the mill.</li> <li>The FRRs on infilling including the road maintenance levy ranged between 22 percent and 27 percent (see Annex 9 of the PAD). The ERR ranged from 13.2 percent to 18.3 percent.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>
21.	Economic choices are also limited by this	<b>Response:</b> See items 13, 17, 18 and 19 above.

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	<p>project. Palm oil is promoted as the single primary income generating activity for Indigenous Peoples in the three project areas, forcing smallholders who wish to access loans for other agricultural purposes, to be driven into growing oil palm. This mono-cropping scheme is in direct contradiction with the World Bank's own assessments on the importance of income diversification in the smallholder areas. The SADP Social Assessment found that "income diversification to supplement oil palm incomes is a vital livelihood strategy for smallholders, which also reflects the capacity of smallholders to respond to socio-demographic and economic change." While oil palm clearly dominates the rural economy in the Oro and WNB provinces, most smallholders require supplementary income sources to augment oil palm income and to strengthen livelihood security. As stated above, the nature of oil palm, however, does not allow inter-cropping, therefore takes up precious land for household gardens or other cash crops. The attempt by the project to incorporate small business and employment oriented skills training into extension officers' scope of work under Component 1, does not adequately address the need for economic diversification and will not provide smallholders with a choice in their development.</p> <p>The claimants agree that there is no way for a grower to survive on oil palm revenue alone and all claimants have expressed a preference for livelihood options other than or in addition to oil palm.</p>	<p>Management believes strongly that the Project does not limit economic choices.</p> <p>Existing data indicate that the livelihoods of oil palm smallholders in the three SADP Project areas are quite diversified and a range of different activities contribute to household incomes for oil palm smallholders. The SADP will support further diversification through investments in improving rural roads and through Component 2 of the Project (Local Governance and Community Participation).</p> <p>Oil palm smallholders have better access to finance than most other cash crop farmers in PNG. The Requesters correctly point out that poor access to rural finance is a recognized problem in PNG. In this respect, however, oil palm smallholders are better off compared to most other farmers, as the milling companies supply smallholders with farm inputs such as seedlings, fertilizer and tools on credit. The Project does not in any way force smallholders who wish to access loans for other agricultural purposes to be driven into growing oil palm. Participation in infill planting under the SADP is completely demand driven and whether or not VOP smallholders decide to participate in infilling is entirely up to them, as long as their blocks meets the various social and environmental screening criteria for infill planting. Smallholders themselves hold local knowledge on oil palm, specifically the possible returns and family labor requirements as oil palm has been part of the landscape for decades. In deciding whether or not to grow oil palm, smallholders have access to local resources that can reasonably inform their choices.</p> <p>While intercropping is not currently practiced on oil palm blocks in PNG, mono cropping does not necessarily limit opportunities to diversify household income. In VOP areas, data indicate that perhaps as many as two-thirds of households grow other cash crops including coffee, cocoa, copra and vanilla, depending on the area. LSS smallholders, who are usually more land constrained, have tended to diversify into small businesses and to seek off farm employment.</p> <p>The Project does not incorporate small business and employment oriented skills training into extension officers' scope of work under Component 1.</p> <p><b>Management Action:</b> No action necessary.</p>
22.	<p>(B.7. The project unfairly forces growers and PNG taxpayers to pay for the same road repair multiple times). Under the previous World Bank oil palm loan in the Oro region, over 7,800 hectares was planted, increasing the total area of smallholders to around 13,000 hectares. Promises were made by OPIC to the smallholders that the new road would deliver market access. In return, growers paid off planting loans and PNG taxpayers paid for the construction and maintenance of the roads.</p> <p>At the end of the Oro Expansion project in 2001, approximately 180 km of roads were not constructed and many smallholders were left without road access. This extended into 2005-2006 where many smallholders were left without harvest pickups for 12 months. An additional 400 smallholders were permanently abandoned when 13 roads were declared no go roads (Social As-</p>	<p><b>Response:</b> PNG taxpayers did not pay for 150 kilometers of roads that were not completed under the previous Oro project, so they will not be paying multiple times for these roads when they are completed. As stated in the Project Completion Report for the Oro Smallholder Development Project, only 79 percent of the funds which were to be used for rural/access road repairs were spent, and only 2 percent of the funds allocated for main road repair were spent. Some of these roads have since been repaired using grants from the AusAID PNG Incentive Fund while the reconstruction of the remainder (105 km) will be financed by PNGSDP grants (75 km) and IDA funds (30 km).</p> <p><b>Management Actions:</b> No action necessary.</p>

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	<p>essment, page 45). The continuing poor road conditions and unreliability of harvest pickups have resulted in growing anger amongst growers in the Oro region.</p> <p>Close to 70 percent of the SADP project funds will be spent on road reconstruction and maintenance. The SADP intends to rebuild the entire pavement and drainage structure of 550 km of roads across the 3 SADP areas, amounting to 20 percent of the network. In Oro province, an emergency AusAid fund has been mobilized to construct the left over roads from the previous World Bank project, however under the SADP, the same AusAid funded roads will be upgraded with over 100 km undergoing minor reconstruction.</p> <p>The growers in the Oro region have already been subject to road construction projects that have suffered from inadequate project design. They and other taxpayers should not be expected to pay for the mistakes of previous projects.</p>	
	<b>OMS 2.20 Project Appraisal</b>	
23.	<p>(B.5.) The SADP is not a sustainable project. The claimants are concerned about the sustainability of two key features of this project, namely the road maintenance fund and the activities of OPIC extension officers. The project is dependent on these elements however both are poorly designed and will not be maintained after project completion.</p> <p><i>a) Road maintenance fund mechanism</i></p> <p>One major aim of the SADP project is to ensure the sustainability of smallholders in the oil palm industry in PNG (PID, page 12). One of the key ways identified by the project to establish sustainability is to improve road access.</p> <p>At present, the standard of roads across all three SADP areas are significantly degraded with many smallholders suffering periodic or permanent lack of produce pick up (see pictures in Appendix 2). The lack of road access also affects the standard of health care and education accessible to the smallholders, as well as increasing transport levies, which are incurred to cover the financial cost to transport vehicles and increase as the vehicles require more maintenance to service poorer quality roads.</p> <p>Previous development projects in the oil palm areas of PNG were designed to increase the quality and number of oil palm roads, to better service the oil palm mills' smallholder contributors. In Oro, the previous World Bank Smallholder Oil Palm Development Project from 2001 was designed to construct 80 km of new access roads and 392 km of harvest roads. Lack of proper contractor supervision, limited contractor sophistication, inadequate initial drainage, inadequate culvert capacity with little consideration for headwall protection, inadequate tendering processes and</p>	<p><b>Response:</b> Sustainability is a priority in the Project. Risks related to road reconstruction and maintenance activities included: (a) Provincial Governments may not provide the required funding for road maintenance; (b) there could be leakage from the RMTFs due to the design of fund flow arrangements; and (c) there may be an insufficient number of local contractors with the capacity to perform work in the Project areas. These risks were recognized during appraisal and appropriate risk mitigation measures were identified in the PAD. The identified risks relating to the RMTF financing arrangements will be addressed through the detailed design of the RMTFs, which is expected to start in 2011, while road works implementation arrangements will take into account the actual local contracting capacity.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• The RMTF is a mechanism aimed at guaranteeing the funding of smallholder access road maintenance, through contributions from end-users of the network, including smallholders, milling companies and the Provincial Governments that represent the general population using and benefiting from the access roads. A RMTF will be established for each Project area. This is an innovative approach under the Project and is a response to the urgent need for ensuring sustainability of roads to be reconstructed under the Project.</li> <li>• Based on discussions during Project preparation, it is currently envisaged that an RMTF Board will be formed in each scheme to oversee the RMTF account. Each RMTF Board will comprise representatives of the contributors, and OPIC, which will act as the secretariat for the Board.</li> <li>• The design phase of the RMTF will be crucial to optimize its functioning and will be carried out in close consultation with the various groups directly concerned with payment of user fees as well as other stakeholders. Particular attention will be paid to putting in place the necessary arrangements for the timely payment of contributions by the milling companies, Provincial Governments and smallholders. Such arrangements will also need to ensure that contributors can-</li> </ul>

No.	Claim/Issue	Response
	<p>recruitment of under qualified contractors, however, led to construction of deficient roads and left over 180 km of roads un-constructed. These issues are common to road maintenance in all three project areas.</p> <p>Under SADP, the World Bank is proposing an end user fee pay system, with smallholders funding their infrastructure improvement to a road maintenance trust fund (RMTF) to make the road network more sustainable. <i>In this regard, the people of PNG are paying for the construction and maintenance of the same roads three times: once through the 2001 World Bank loan, second to repay SADP and finally, through a user fee on the smallholder farmers (see Section B.7.).</i></p> <p>It is highly concerning that the road maintenance will again be unsustainable. According to the SADP PAD, page 35, the RMTF will be funded in the following way: 25 percent of the fund will be derived from the Provincial Government, 25 percent from the National Government, 25 percent from the oil palm companies and the final 25 percent from the growers.</p> <p>In order for this to be sustainable all participants need to contribute their allocated funds. There is a high risk however that the Provincial Government will be unable to make their contribution to the fund regularly (PAD risk assessment, page 62). This was recognized early on in the project design and was listed in the PID as one of the largest challenges faced in the previous projects, "the Provincial Government could not be relied on to provide funds for maintenance of the access road network" (PID page 9).</p> <p>The World Bank indicated in discussions with CELCOR that the National Government will underwrite the Provincial Governments' commitments. This has not been disclosed in project documents. Past experience with the PNG government would also suggest otherwise. The PID itself recognizes the national government is slow to appropriate funds (PID, page 6).</p> <p>The claimants also have concerns that the industry will not contribute their funds in a timely manner. The use of fund contributions as a political tool by the milling companies is already a well used tactic. In early.2008, the oil palm companies withheld their voluntary OPIC levy contribution to force the government to establish the National OPIC board. The action indicates that the oil palm companies have the ability to influence the direction of funds and therefore the potential use and spending of the road maintenance fund. Growers, in contrast, are compulsorily required to contribute to the OPIC levy and will be forced to contribute to the road maintenance levy if they wish road access to improve. It was noted in informal discussions with industry representatives that if growers 'chose' not to contribute to the levy, their</p>	<p>not withhold their payment to the RMTF as a leverage to serve other purposes as in the case mentioned by the Requesters when the milling companies temporarily suspended their voluntary contribution to OPIC funding.</p> <ul style="list-style-type: none"> <li>• The sustainability of investments made in road reconstruction/rehabilitation under the Project will depend on the establishment and successful operation of the RMTF. Due to implementation start-up delays (which were largely beyond the control of the Project implementing agency), the study of the design of the RMTF is only expected to start in mid-2010, and the RMTF to be established in 2011. The PNGSDP has signed an Agreement with OPIC, under the SADP, to provide seed capital of US\$1.1 million for the RMTF, subject to the results of the feasibility study, and if the results are satisfactory to PNGSDP.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>

No.	Claim/Issue	Response
	<p>road would not be maintained.</p> <p>The annual contribution rates in the current design of the RMTF are designed to sufficiently cover the costs of anticipated routine and non-routine maintenance by contractors and the oil palm companies. This maintenance mechanism, without contributions from either the provincial, national [governments] or the oil palm companies, will not be sustainable and roads access will decline. The SADP has a high risk of being unsustainable.</p> <p>After not being consulted on this issue, growers will be the first participants forced to pay for the loan and will be the last ones to benefit. If road maintenance is forced to conform to a user pay system then better safety provisions must be put in place to ensure the RMTF is contributed to regularly and a very minimum, it should be made mandatory that oil palm companies contribute to the road fund and the National Government underwrites the Provincial Government's fund commitments.</p>	
24.	<p><i>b) Management by OPIC.</i> Another concern relating to the sustainability of the project is OPIC's limited capacity to deliver appropriate extension services. There is currently one OPIC extension officer for every 400 smallholder farmers in Oro Province, providing far less than adequate support to growers. During the extension officer training under the previous World Bank oil palm project in Oro, the level of extension service sustainability was found to be one officer for every 300 growers. Under the SADP, an additional 7 extension officers will be recruited in Bialla, 3 in Hoskins and 7 in Oro. However, the number of growers will also rise, amounting to almost 1750 in Hoskins, 620 in Bialla and 2000 in Oro. Using the above mentioned standard of sustainability, the ratio of officers to growers clearly remains above 1:300, ensuring that the project will not be viable in the long term and growers will be left with the burden of growing oil palm without any support. Considering that other critical components of the project, such as productivity increase, HIV/AIDS awareness and land tenure strengthening are tightly linked with extension officer activities, these components will suffer and will not achieve their targets.</p>	<p><b>Response:</b> The PAD recognized that OPIC's extension capacity needed to be improved and funds are allocated under the Project to strengthen this capacity.</p> <p><b>Background:</b></p> <ul style="list-style-type: none"> <li>• Under the Project, an extension consultant will be hired. The extension consultant will introduce an approach to interaction with smallholders in which effective means of working with groups and communities will be developed and implemented (making more effective use of staff/smallholder ratios), and the focus will be on understanding smallholder values and attitudes so that assistance can be directed to overcome real constraints to improved smallholder welfare and productivity.</li> <li>• The oil palm industry in PNG generates substantial export earnings, while also enhancing rural incomes and household welfare. However, there are significant differences in performance between the estate sector, which is supported by major private sector investments in oil palm milling companies, and the smallholder sector, with smallholder yields averaging between 50 to 70 percent of estate levels. The extension and research institutions, OPIC and PNGOPRA, are largely funded by grower levies and milling company contributions; funding limitations have been key constraints. Therefore, one of the aims of the Project is to increase smallholder yield per hectare through a reorientation of OPIC's extension program and improved access to production inputs.</li> <li>• Expectations are that an overall increase in smallholder production through more accessible roads, improved extension services, infilling and yield increases under the SADP, combined with the extensive program of smallholder oil palm replanting that the oil palm milling companies are undertaking, will generate a substantial increase in FFB production and in the associated OPIC levies of K4 per FFB. This will in turn enhance the sustainability of the existing OPIC service system.</li> </ul> <p><b>Management Action:</b> No action necessary.</p>



## ANNEX 2

### SUMMARY OF CONSULTATIONS

Date	Event	Location	Attending	Topics raised during meetings
November 24, 2000	Meeting	Oro Province: Popondetta	Oil palm growers association members	<ul style="list-style-type: none"> <li>- Need to update FFB pricing formula (last review in 1999).</li> <li>- Replanting program: needs a 3 year grace period.</li> <li>- Poor road conditions, lack of maintenance.</li> <li>- Road access to oil palm blocks should be a priority.</li> <li>- Revolving funds for nets should be kept in Oro.</li> </ul>
May 11, 2001	Meeting	WNB: Bialla	Oil palm growers association members	<ul style="list-style-type: none"> <li>- FFB pricing formula not transparent to growers.</li> <li>- Smallholders complain about low FFB farmgate prices (K50-60/ton FFB).</li> <li>- Smallholders would like their own mill.</li> <li>- Local people do not fully receive benefits from development.</li> </ul>
November 29, 2001	Meeting	Oro Province: Popondetta	Oil palm growers association members	<ul style="list-style-type: none"> <li>- Would like the Bank to continue supporting smallholder oil palm. "The project funded by the Bank in Oro is a model."</li> <li>- Need to support smallholder replanting. A replanting fund should be considered.</li> <li>- Smallholders would like their own mill.</li> <li>- Until 1996 GoPNG gave funds to OPIC for road maintenance. This arrangement should continue.</li> <li>- Chairman of oil palm growers association will ask growers to consider the introduction of an additional levy (about K2) for road maintenance and the establishment of the RMTF.</li> </ul>
November 21, 2002	Meeting	WNB Province: Hoskins	LLG representatives from Kove, Mosa, Hoskins	<p><b>LLG Kove:</b></p> <ul style="list-style-type: none"> <li>- Main activity is fishing.</li> <li>- Need for ice making and boats.</li> <li>- Plans to establish nursery for cocoa.</li> </ul> <p><b>LLG Mosa:</b></p> <ul style="list-style-type: none"> <li>- Need for road upgrading and maintenance.</li> <li>- Want to develop poultry and vanilla in addition to oil palm.</li> <li>- Contiguous villages wish to develop new oil palm. They would need road access.</li> </ul> <p><b>LLG Hoskins:</b></p> <ul style="list-style-type: none"> <li>- Want to develop cocoa and copra in addition to oil palm.</li> </ul> <p><b>LLG Bialla:</b></p> <ul style="list-style-type: none"> <li>- Problems with copra and vanilla marketing.</li> </ul>
November 21, 2002	Meeting	WNB Province: Hoskins	Various CBOs, church groups, youth groups, women's groups (including: Mosa LLG, Catholic Women Association, Anglican Mothers, Mama Lus Fruit, and United Church Women)	<ul style="list-style-type: none"> <li>- Mama Lus Fruit proceeds go to feeding family, paying for school fees and clothing.</li> <li>- Women would like tools.</li> <li>- Need for credit scheme to be set up and managed by women.</li> <li>- Need for training to develop skills.</li> <li>- Need for a market place.</li> </ul>
November	Meeting	WNB Prov-	Oil palm grower associa-	<i>Hoskins:</i>



Date	Event	Location	Attending	Topics raised during meetings
21, 2002		ince: Hoskins	tions from Hoskins and Bialla	<ul style="list-style-type: none"> <li>- Need access to the back of blocks.</li> </ul> <p><i>Bialla:</i></p> <ul style="list-style-type: none"> <li>- Large population within the blocks.</li> <li>- Need to expand VOP.</li> <li>- Would like own transport facilities.</li> <li>- Need to improve road infrastructure.</li> <li>- Growers would like access to credit, electrification.</li> </ul>
November 21, 2002	Meeting	WNB Province: Hoskins	East New Britain Oil Palm Growers Association, NGOs (including: WNB Poultry Association, Provincial Youth Council, Hoskins Grower Association, Kavugara Development Corporation, Sepik Welfare Association)	<ul style="list-style-type: none"> <li>- VOP extension can alleviate pressure on population.</li> <li>- Any expansion of oil palm must involve the youth. There has been no funding available for youth programs for the last 2-3 years.</li> <li>- Difficult for farmers to access credit.</li> <li>- There is a large population on LSS, but lack of infrastructure (water, electricity, and housing).</li> <li>- There are tensions between settlers and local people.</li> <li>- Need for assistance across sectors.</li> </ul>
November 26, 2002	Meeting	Oro Province: Pondetta	Oil palm growers association	<ul style="list-style-type: none"> <li>- Need for additional milling capacity: difficult to process crop during peak periods.</li> <li>- Want better roads.</li> <li>- Growers would like their own Savings and Loan Associations.</li> <li>- Want to improve health of growers.</li> <li>- Difficult to evacuate in case of emergencies.</li> <li>- GoPNG support to schools and health very low in oil palm areas.</li> </ul>
November 26, 2002	Meeting	Oro Province: Pondetta	Women's groups (including Anglican Mothers Union, Provincial Women Council, Urban Women Council; youth representatives, Provincial Youth Council, Anglican Youth, Oro Smallholders Coffee Growers Association)	<ul style="list-style-type: none"> <li>- Mama Lus Fruit scheme is good for oil palm growers. Used to cover house expenses.</li> <li>- Very little assistance from Government to youth and women.</li> <li>- Women and youth need training and access to credit.</li> <li>- Roads do not reach all oil palm areas.</li> <li>- Oil palm and coffee growers complain about poor infrastructure.</li> <li>- VOP villages do not have good supply of clean water.</li> <li>- Marketing problems for coffee. Need for coffee mill and price subsidies.</li> </ul>
March 4 - April 3, 2003	Meetings (Environmental impact)	Port Moresby; Oro Province; WNB Province; New Ireland Province; Milne Bay Province	Representatives of industry bodies, NGOs, LLGs, and Provincial Administration	<p><i>New Ireland Province:</i></p> <ul style="list-style-type: none"> <li>- Questions regarding the motives of the World Bank in coming to New Ireland.</li> <li>- Concerns that the Bank was conspiring to take over land in PNG.</li> <li>- After concerns were addressed, there was support for upgrading existing roads and for in-filling along existing roads.</li> </ul> <p><i>Milne Bay Province:</i></p> <ul style="list-style-type: none"> <li>- NGO opposition to expansion of oil palm.</li> <li>- Provincial Government in favor of expanding oil</li> </ul>

Date	Event	Location	Attending	Topics raised during meetings
				palm plantations from Alotau to Port Moresby, some 250,000 Ha along the proposed highway.
March 4 – April 3, 2003	Meetings (Access road construction and maintenance)	Oro Province; WNB Province; Milne Bay Province	Representatives from the Department of Works, OPID, engineering consultants, aid agencies, access road users including smallholding growers, representatives of the mills and oil palm companies, OPIC, OPRA and other agricultural producers in the area	<ul style="list-style-type: none"> <li>- Discussions on aspects of access road construction and maintenance including the introduction of a new road maintenance levy.</li> </ul>
March 4 – April 3, 2003	Meetings (Options for the pilot CDD component)	Oro Province: Popondetta; WNB Province: Bialla and Hoskins; Port Moresby	Government officers and staff, donors, NGOs and CBOs.	<ul style="list-style-type: none"> <li>- Discussions regarding options for the pilot CDD component.</li> <li>- Potential partners and service providers identified.</li> </ul>
February 2, 2004	Meeting	WNB Province: Hoskins	Oil palm growers association	<ul style="list-style-type: none"> <li>- Need to train growers.</li> <li>- In LSS replanting program needs to leave some area for food garden.</li> <li>- Need for environmental awareness to avoid farmers clearing area close to rivers.</li> <li>- Need for access roads.</li> <li>- Proposed establishment of Road Maintenance Fund and introduction of a new levy for road maintenance.</li> <li>- Need for awareness campaign before introducing levy for road maintenance.</li> <li>- Priorities are water supply and upgrading classrooms.</li> </ul>
February 3, 2004	Meeting	WNB Province: Bialla	Oil palm growers association	<ul style="list-style-type: none"> <li>- 20 percent of growers have planted 100 percent of their land to oil palm.</li> <li>- Priorities are road repairs and poisoning aged oil palm for replanting.</li> </ul>
June 20 – July 16, 2004	Meetings (Community development)	Port Moresby; WNB Province; New Ireland Province; Oro Province; Milne Bay Province	Officials of National and Provincial Governments, donor agencies, oil palm mill managers, OPIC staff, villagers, NGO and church workers.	<ul style="list-style-type: none"> <li>- Situation analysis for community sector in PNG.</li> <li>- Strategic issues and options for the CDD and HIV/AIDS interventions.</li> <li>- Criteria for province selection and ranking.</li> <li>- Suggested strategies including options for implementation and management, targeting of groups, preferred and ineligible activities and activity management process.</li> </ul>
June 20 – July 16, 2004	Meetings (HIV/AIDS)	Port Moresby; WNB Province:	Representatives from key donor agencies, Government, NGOs, oil palm production compa-	<ul style="list-style-type: none"> <li>- Potential impact of HIV/AIDS for the oil palm industry.</li> <li>- Strategies that contribute to prevention objectives.</li> </ul>

Date	Event	Location	Attending	Topics raised during meetings
		Kimbe; New Irel- and Prov- ince: Ka- vieng	nies, growers and health service providers, and PNG nationals.	<ul style="list-style-type: none"> <li>- Identification of target groups and potential implementation partners and institutions.</li> <li>- Identification of HIV/AIDS related activities for integration in the Project.</li> </ul>
October 3 – 8, 2004	Meetings	Port Mo- resby; Oro Province: Popondetta	Growers association, NGOs, Provincial Admin- istration, DEC, OPIC, smallholders, LLGs, ward committee members	<ul style="list-style-type: none"> <li>- Poverty alleviation policy of WB i.e., concentra- tion by WB on oil palm growers subject to criti- cism.</li> <li>- Width of buffer zones.</li> <li>- Concerns about health risks from black smoke from mill, mill effluent and chemicals used in the field contaminating water supplies.</li> <li>- Some LSS block holders have outstanding rents.</li> <li>- Complaints about slow pick up of harvested FFB.</li> <li>- Increasing demand for new VOP blocks from areas outside current feeder road system.</li> <li>- Number of LSS blocks with caretakers</li> <li>- Fears of water pollution, call for independent audit of water quality.</li> <li>- Claims of health problems associated with the mill and FFB.</li> <li>- Confusion over price received by growers and world market price as seen in the newspapers.</li> <li>- Opposition to oil palm – the Oro Declaration (version seen unsigned).</li> <li>- Lack of dissemination of information on pro- posed SADP.</li> <li>- Accusations of corruption in allocation of road contracts (AusAID Incentive Funds).</li> <li>- Concerns about equivalence of transport costs regardless of distance to mill.</li> <li>- Bad state of roads, no pick up from Aeka Divi- sion for 5 months.</li> <li>- Discussion on development grants from Na- tional Government and ward development plans.</li> <li>- Water supply is a major need.</li> <li>- Request for housing scheme.</li> <li>- Concerns about HIV/AIDS increase associated with increased wealth and prostitution.</li> <li>- Better relationship required between OPIC, DEC and NGOs.</li> </ul>

Date	Event	Location	Attending	Topics raised during meetings
October 3 - 22, 2004	Meetings	Port Moresby; Oro Province; Popondetta, Oro Bay, Kokoda; WNB Province; Bialla	Officials of National and Provincial Governments, donor agencies, oil palm mill managers, and staff of OPIC, LLG staff and managers, villagers, NGO and church workers in Oro and WNB provinces	<ul style="list-style-type: none"> <li>- The identification of suitable NGOs as potential implementation agencies for the CDD component.</li> <li>- The development of a list of eligible and ineligible types of activities for this component. Suggested mechanisms for funding, identification, review, selection, and implementation of CDD activities, including processes for building local level consensus and ensuring the inclusion of marginal, poor, or especially vulnerable groups in Project benefits.</li> <li>- Identifying eligible forms of contribution and assessing the willingness and ability of the targeted beneficiaries to contribute toward these types of CDD activities at the household and/or community level.</li> <li>- Suggested mechanisms for monitoring and evaluation.</li> </ul>
October 20 – November 4, 2005	Meetings	Port Moresby; Oro Province; WNB Province; Morobe Province	Officials of National and Provincial Governments, donor agencies, oil palm mill managers, and OPIC staff; LLG staff and managers, village people, NGO and church workers in Oro and WNB provinces	<ul style="list-style-type: none"> <li>- Analysis of local governance.</li> <li>- Review of organizations that support community development.</li> </ul>
April 26 - May 25, 2006	Meetings	Port Moresby; Oro Province; WNB Province; East New Britain Province	Representatives of donor agencies, NGOs, National Government, Provincial Administration, LLGs, growers associations, OPIC, OPRA, and DEC	<ul style="list-style-type: none"> <li>- Need for study of toxin levels in populations living and working in oil palm areas.</li> <li>- Expansion of oil palm in to new areas.</li> <li>- Economic disbursements from oil palm (e.g., Oro Provincial Gov holds no shares in HOP).</li> <li>- Need to ensure health issues are included in TOR for Social Assessment/EA SADP.</li> <li>- Infill guidelines and eligibility for funding under the SADP.</li> <li>- Demand for new plantings from areas outside current feeder road network (therefore ineligible under the SADP).</li> <li>- Discussion with DEC on revised SADP and implications for Environmental Permit decision.</li> <li>- Discussions on community development initiatives, especially Community Development Schemes (CDS) (AusAID) - operate outside government system.</li> <li>- Disbursement of development funds through District Grants.</li> <li>- DPLGA Sub national initiative.</li> <li>- Need for identification of facilitators for Component 2 at local level.</li> <li>- CDS project (weakness of core group in Popondetta and WNB, process of screening projects).</li> </ul>

Date	Event	Location	Attending	Topics raised during meetings
				<ul style="list-style-type: none"> <li>- Requirement for CBOs to be registered with IPA.</li> <li>- Phase 1 of CDS high performance provinces ran out of funding, Phase 2 was performance based.</li> <li>- Proposal for new CDS project-Democratic Governance Project.</li> <li>- Unsustainable nature of current Provincial and Local Level Government system.</li> </ul>
May 1, 2006	Meeting	WNB: Hoskins	Oil palm growers association	<ul style="list-style-type: none"> <li>- Fertilizer application is a social problem (block owner signs for the loan but proceeds of harvest go to different family members on the block).</li> <li>- Impact of fertilizer application on yield takes about 2 years, but repayment to the milling company within 6 months.</li> <li>- Significant population growth on blocks.</li> <li>- Proposed establishment of Road Maintenance Fund and introduction of a new levy for road maintenance.</li> <li>- Growers need roads, electricity and water supply.</li> <li>- Would like their own Savings &amp; Loan Association.</li> </ul>
May 4, 2006	Meeting	WNB: Hoskins	Women's groups	<ul style="list-style-type: none"> <li>- Shortage of land for food gardens in LSS areas.</li> <li>- Need for a smallholder mill. The Growers Association has met investors.</li> <li>- Irregular harvesting due to poor road conditions.</li> <li>- Need access to credit.</li> <li>- Need for water supply, electricity, community halls, transport.</li> </ul>
May 10, 2006	Meeting	Oro Province: Popondetta	Oil palm growers association	<ul style="list-style-type: none"> <li>- Growers want to replant and infill.</li> <li>- Environmental concerns with pollution.</li> <li>- Problems with road access: some areas were planted with oil palm before the access roads were built.</li> <li>- Proposed establishment of Road Maintenance Fund and introduction of a new levy for road maintenance.</li> <li>- Need for health centers.</li> </ul>
July 18, 2006	Workshop (Fact finding for the Social and Environment Assessment)	Port Moresby	Government, NGOs, Donors, OPIC, ACIAR	<ul style="list-style-type: none"> <li>- Potential social and environmental impacts of the Project.</li> </ul>
July 19–August 30, 2006	Consultations (Social Assessment)	WNB: various villages  Oro Province: vari-	Oil palm smallholders, customary landowners in oil palm growing areas, non-oil palm growers, milling companies, mil-	<ul style="list-style-type: none"> <li>- Detailed summary in the Beneficiaries Assessment Report which includes a summary of expected benefits, possible negative impacts and measures to ensure benefits and mitigate negative impacts for each group of key stake-</li> </ul>

Date	Event	Location	Attending	Topics raised during meetings
		ous villages	ling company transport contractors, oil palm smallholder extension providers, representatives of industry bodies, Provincial Governments, LLGs , NGOs, church groups and CBOs (including youth groups).	holders. - Social Assessment draws extensively on the focus group discussions and interviews. (Explicit references to focus group discussions in the Social Assessment can be found in numerous sections of the Social Assessment including, for example, on pages 19, 24, 36, 38, 41, 44, 45, 46, 50,54,59,65, 67, 77, 83).
July 2006	Consultations (EA)	WNB Province: Kimbe, Hoskins, and Bialla, Oro Province; Port Moresby	Representatives of industry bodies, growers associations, milling companies, civil society (including churches, women groups, and NGOs), LLGs, block-holders and landowners	- No specific documentation/minutes of meetings available on topics discussed in stakeholder consultations.
October 2006	Meetings	WNB: Talasea District – Bialla LLG, Kimbe Urban LLG, Talasea LLG.  Oro Province: Sohe District – Kokoda LLG, Oro Bay LLG, Higaturu LLG, Popondetta Urban LLG	Representatives of sub-national governments	- Structure of sub-national governments. - Sub-national government management processes. - Public financing structures.
October 26, 2006	Workshop (Detailed Project design)	WNB: Kimbe	Representatives from milling companies, OPIC, RIC, DNPM, WNB Provincial Government, and oil palm growers associations	- Presentation of and discussions about proposed detailed Project design, including proposed establishment of RMTF and introduction of new levy for road maintenance.
November 2006	Consultations (Economic analysis)	Port Moresby	OPIC, OPRA, milling companies, FAO, Rural Council, Provincial Government, DNPM, Popondetta Oil Palm Growers Association, ANZ Bank, RDB, Rural Council	- Analysis of smallholder credit, prices and costs.

### ANNEX 3

#### WORLD BANK ENGAGEMENT WITH NGOS

Date and Form (Letter or Meeting)	Sent/Requested by Main Participants (If Meeting)	Date and Response Provided
<b>January 31, 2004</b> Meeting	Requested by the Bank  Bank team, the Environmental Law Center, the People for Melanesians and the Eco Forestry Forum <sup>25</sup>	<ul style="list-style-type: none"> <li>Bank informed NGOs that intensive stakeholder consultation would occur and responded to questions raised during the discussion (mainly focusing on environmental and social aspects).</li> </ul>
<b>April 30, 2004</b> Letter	Requesters to the Bank's PNG Country Director	<b>June 10, 2004</b> Letter <ul style="list-style-type: none"> <li>The Bank indicated the EA would be undertaken and noted that consultation with landowners and other stakeholders would occur.</li> </ul>
<b>August 30, 2004</b> Letter	Requesters to the Bank's PNG Country Director	
<b>Preparation activities resumed after the annual meetings of 2005</b>		
<b>March 15, 2006</b> Letter	Requesters and other NGOs to the President of the Bank	<b>March 21, 2006</b> Letter <ul style="list-style-type: none"> <li>The Bank informed Requesters that the SADP had been reassessed taking into account NGO concerns and mentioned that stakeholder consultations would be undertaken through the Social Assessment and the EA.</li> </ul>
<b>May 25, 2006</b> Meeting	Requested by the Bank  The Bank team, Requesters, and representatives of Conservation International, Gidigoana and other NGOs	<ul style="list-style-type: none"> <li>The Bank informed NGOs that a detailed water quality study had been commissioned and that the community development component would integrate lessons learned from other community development initiatives in PNG.</li> </ul>
<b>April 26, 2007</b> Letter <sup>26</sup>	Conservation International	
<b>May 14, 2008</b> Letter <sup>27</sup>	Requesters	<b>June 16, 2008</b> Letter <ul style="list-style-type: none"> <li>The Bank recommended that the Requesters contact OPIC to present and discuss their recommendations for the Project.</li> </ul>
<b>July 28, 2008</b> Letter <sup>28</sup>	Requesters and other NGOs <sup>29</sup>	

<sup>25</sup> The umbrella organization of local environmental NGOs in PNG.

<sup>26</sup> Unable to confirm whether a response was provided.

<sup>27</sup> This letter was not included in the Requesters' package; however, the Bank has a copy in its files.

<sup>28</sup> This letter has been included in the Requesters' package; however, the Bank cannot locate the letter in its files.

<sup>29</sup> The letter was endorsed by Alotau Environment Ltd., Bismarck-Ramu Group, Conservation Forum, Conservation Melanesia, East New Britain Social Action Group, Environmental Law Center, Greenpeace PNG, Oro Community Environmental Action Network, Osi Tanata Ltd., Bougainville Partner with Melanesians, PNG Eco-Forestry Forum. Note: some of these NGOs (Alotau Environment Ltd., Bismarck-Ramu Group, East New Britain Social Action Group, Osi Tanata Ltd. Bougainville) are outside the Project affected areas.

Date and Form (Letter or Meeting)	Sent/Requested by Main Participants (If Meeting)	Date and Response Provided
<b>March 5, 2009</b> Meetings	Requested by World Bank  The Bank team, the Requesters, and representatives from OCEAN, and WWF	<ul style="list-style-type: none"> <li>The Bank extended invitations to the Project launch.</li> </ul>
<b>March 6, 2009</b> Meeting	Requested by World Bank  The Bank team, Requesters	<ul style="list-style-type: none"> <li>The Bank noted that the Project's complaint mechanisms would be strengthened, periodic audits of water quality would be undertaken, and that packages for road works would be in small contracts to adjust to contractor capacity.</li> </ul>
<b>March 9 &amp; 11, 2009</b> Project launch workshops in POM and Oro Province	Invited by OPIC  Requesters and other NGOs, CBOs and stakeholders in general, including the Government and the donor community	<ul style="list-style-type: none"> <li>The Bank noted that the Project's complaint mechanisms would be strengthened, periodic audits of water quality would be undertaken, and that the infilling would follow strict environmental and social guidelines.</li> </ul>
<b>April 24, 2009</b> E-mail	IAP to the World Bank PNG Country Manager and Country Program Coordinator	<b>April 28, 2009</b> E-mail from TTL <ul style="list-style-type: none"> <li>The Bank provided clarification on the consultation process.</li> </ul>
<b>April 29, 2009</b> E-mail	IAP to TTL	<b>May 1, 2009</b> E-mail from TTL <ul style="list-style-type: none"> <li>Directed IAP to Project documents on the Bank's website.</li> <li>The Bank noted that there had been no money disbursed to government.</li> </ul>
<b>May 5, 2009</b> E-mail	IAP to TTL	<b>May 7, 2009</b> E-mail from TTL <ul style="list-style-type: none"> <li>The Bank provided the link to the Beneficiaries Assessment.</li> <li>The Bank offered to set up meetings with other stakeholders.</li> </ul>
<b>May 8, 2009</b> E-mail	IAP to TTL	<b>May 8, 2009</b> E-mail from TTL <ul style="list-style-type: none"> <li>The Bank suggested names of stakeholders that IAP could meet with.</li> </ul>
<b>May 14, 2009</b> Meeting	Requested by Requesters and IAP  Bank team, IAP, Requesters, and OPRA	<ul style="list-style-type: none"> <li>The Bank shared Project documentation and briefed participants on the coffee and cocoa project under preparation.</li> </ul>
<b>July 14, 2009</b> Email	IAP	<b>August 25, 2009</b> E-mail from TTL advising on delay with responding.
<b>July 14, 2009</b> Letter	Requesters	<b>September 3, 2009</b> Letter from the Bank <ul style="list-style-type: none"> <li>Bank provided clarifications on consultation process, disclosure of information, application of IP policy, application of forest policy, and environmental regulation.</li> <li>The Bank includes list of missions from Project preparation with relevant documents; copy of notice from national</li> </ul>



Date and Form (Letter or Meeting)	Sent/Requested by Main Participants (If Meeting)	Date and Response Provided
		authorities on disclosure; and environmental letter from DEC.
<b>August 11, 2009</b> E-mail	IAP	<b>August 25, 2009</b> E-mail from TTL advising on delay with responding. <b>September 3, 2009</b> E-mail from TTL <ul style="list-style-type: none"> <li>The email responded to questions regarding the RMTF, the road levy, audits of OPIC and the ratio of OPIC officers to growers.</li> </ul>
<b>September 28, 2009</b> E-mail	Requesters to WB Disclosure office	<b>September 30, 2009</b> E-mail <ul style="list-style-type: none"> <li>The Requesters were advised to contact the PIC in Port Moresby.</li> </ul> <b>October 19, 2009 – Email from PNG CM</b> <ul style="list-style-type: none"> <li>The Requesters were informed that the Bank was reviewing their request and would respond once a decision on disclosure had been reached.</li> </ul>
<b>October 13, 2009</b> Video Conference	Requested by the Bank <sup>30</sup>  Bank team, OPIC, and Requesters	<ul style="list-style-type: none"> <li>The Bank indicated that the task team was working with various units to respond to the request for documents without undue delay.</li> </ul>
<b>October 19, 2009</b> E-mail	Bank to Requesters	

<sup>30</sup> Originally a meeting between the Bank and the Requesters was set up in Port Moresby for the week of October 5, 2009. The Requesters asked that the meeting be postponed to the following week. As the Bank team was unable to postpone its departure from Port Moresby, it was agreed to have the meeting by video conference.

## ANNEX 4

### SADP MILESTONES AND MISSION TIMELINE

<b>2000</b>	Nov. 19 – 30, 2000	Oro Smallholder Oil Palm Development Project Supervision Mission
<b>2001</b>	May 6 – 29, 2001	Oro Smallholder Oil Palm Development Project Supervision Mission
	Nov. 25 – Dec. 8, 2001	Oro Smallholder Oil Palm Development Project Supervision Mission
<b>2002</b>	Sept. 22 – Oct. 4, 2002	Scoping mission
	<b>Nov. 18 - 29, 2002</b>	<b>Identification mission</b>
<b>2003</b>	Mar. 4 – Apr. 4, 2003	Detailed identification mission
	June 25, 2003	Concept note review meeting
	July 17, 2003	PID and ISDS to InfoShop
<b>2004</b>	Jan. 28 – Feb. 6, 2004	Technical mission
	June 2004	Technical mission
	Oct. 3-22, 2004	Technical mission
<b>2005</b>	Oct. 20 – Nov. 4, 2005	Identification update mission
<b>2006</b>	Mar. 22 – 24, 2006	Identification follow-up mission
	<b>Apr. 25 – May 26, 2006</b>	<b>Preparation mission</b>
	July 17 – 21, 2006	Technical mission (preparation follow-up mission)
	Oct. 23 – Nov. 16, 2006	Pre-appraisal mission
	Dec. 12, 2006	Project preparation review
<b>2007</b>	Jan. 28 – Feb. 28, 2007	Appraisal mission
	Feb. 22, 2007	Decision meeting, authorization of negotiations
	<b>Feb. 23, 2007</b>	<b>Begin appraisal</b>
	Mar. 1, 2007	Updated PID to InfoShop
	Apr. 2, 2007	Notice of negotiations
	Apr. 30, 2007	Begin negotiations
	May 16, 2007	Updated ISDS to InfoShop
	May 17, 2007	Environmental assessment received by InfoShop
	June 18 to 22, 2007	Technical mission (infrastructure)
	July 31 to Aug. 10, 2007	Technical mission (CDD)
	Oct. 10, 2007	Conclusion of negotiations
	Nov. 5 - 7, 2007	Negotiations follow-up mission
	Nov. 20, 2007	Obtained clearance for Documentation
	<b>Dec. 18, 2007</b>	<b>Bank approval</b>
<b>2008</b>	Feb. 5 - 13, 2008	Technical mission (restructuring re: Oro)
	Apr. 22 - May 14, 2008	Technical mission (restructuring re: Oro)
	July 9, 2008	Signing of Financing Agreement and Project Agreement
	Aug. 5 - 14, 2008	Technical mission (restructuring re: Oro)
	Nov. 30 – Dec. 6, 2008	Effectiveness conditions follow-up mission
<b>2009</b>	<b>Jan. 28, 2009</b>	<b>Project effectiveness</b>
	March 5 - 19, 2009	Project launch mission
	July 26 - 31, 2009	Technical mission (procurement and Oro emergency works)
	Sept. 17 – Oct. 7, 2009	Supervision mission