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International Development Association

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**MANAGEMENT REPORT AND RECOMMENDATION**  
**IN RESPONSE TO THE**  
**INSPECTION PANEL INVESTIGATION REPORT**

**INDEPENDENT STATE OF PAPUA NEW GUINEA**  
**SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT**  
**(IDA Credit 4374-PNG)**

**October 31, 2011**

**MANAGEMENT REPORT AND RECOMMENDATION  
IN RESPONSE TO THE INSPECTION PANEL INVESTIGATION REPORT  
OF THE  
INDEPENDENT STATE OF PAPUA NEW GUINEA  
SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT  
(IDA CREDIT NO. 4374-PNG)**

Pursuant to paragraph 23 of the Resolution Establishing the Inspection Panel (IBRD Resolution 93-10 and IDA Resolution 93-6), attached for consideration by Executive Directors is Management's Report and Recommendation in response to the findings set out in the Investigation Report No. 64458-PG dated September 19, 2011, of the Inspection Panel on the captioned Project (Independent State of Papua New Guinea Smallholder Agriculture Development Project, IDA Credit No. 4374-PNG).

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**INDEPENDENT STATE OF PAPUA NEW GUINEA  
SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT  
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## **ABBREVIATIONS AND ACRONYMS**

BA	Beneficiaries Assessment
BP	Bank Procedures
CELCOR	Center for Environmental Law and Community Rights
CLUA	Clan Land Usage Agreement
DEC	Department of Environment and Conservation
EA	Environmental Assessment
FFB	Fresh Fruit Bunch
FIRR	Financial Internal Rate of Return
ICCC	Independent Consumer and Competition Commission
IDA	International Development Association
IPN	Inspection Panel
OMS	Operational Manual Statement
OP	Operational Policy
OPIC	Oil Palm Industry Corporation
PAD	Project Appraisal Document
PIM	Project Implementation Manual
PNG OPRA	PNG Oil Palm Research Association
PNG	Papua New Guinea
RMTF	Road Maintenance Trust Fund
RSPO	Roundtable on Sustainable Palm Oil
SA	Social Assessment
SADP	Smallholder Agriculture Development Project
VOP	Village Oil Palm

### **Currency Unit = Papua New Guinea Kina (PGK)**

US\$1 = PGK 2.139

PGK 1 = US\$0.443

(as of October 22, 2011)

## EXECUTIVE SUMMARY

### *The Project*

In 2007, the World Bank approved an IDA Specific Investment Credit of US\$27.5 million equivalent for the Independent State of 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 palm oil production industry. Designed to be implemented in Oro and West New Britain provinces over five years, the SADP has garnered strong demand and support from oil palm smallholders in the Project areas.

PNG's palm oil industry contributes substantially to rural incomes in the country. Agriculture is the single most important source of cash income for rural households in PNG, and oil palm currently provides smallholder farmers with very favorable returns to their land and labor, compared to other cash crops such as cocoa and coffee. The palm oil industry is second only to the public service in terms of formal employment, with around 23,000 people working for the milling companies. In addition, approximately 18,500 smallholders supply the mills with fruit. Palm oil has become the dominant contributor to PNG's agricultural foreign exchange earnings, representing 56 percent of agricultural export values in 2010.

The existing palm oil companies in PNG have been global leaders in promoting sustainable practices in the sector, and most of the industry is currently certified under the Roundtable on Sustainable Palm Oil (RSPO). The SADP is designed, through its focus on roads and access, to continue to provide benefits to the local population in an environmentally and socially sustainable manner.

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 the Oil Palm Industry Corporation (OPIC), the implementing agency; and for the smallholder sector, through training, research and studies.

The Project was approved by the Board in December 2007 and became effective in January 2009. Due to a long delay in establishing the Project management capacity, implementation of the Project activities did not begin until 2010.

### *The Request for Inspection*

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"). They alleged that the Project would not reduce poverty nor enable smallholders to improve their living standards. They further claimed that the local communities had not been properly consulted and that key information was not available in local languages. Moreover, they

claimed that the roads to be rehabilitated under this Project would not be sustainable. They also alleged that the environmental assessments prepared under the Project failed to identify critical impacts stemming from the Project.

### ***The Panel's Findings***

As major project activities had not yet been started on the ground at time of the Inspection, the Panel has primarily focused on the design, planning and appraisal phases of the Project. The Panel found areas of compliance and areas of non-compliance. Specifically:

- ***Information Disclosure, Consultation, and Broad Community Support.*** In the Panel's view the analysis in the Social and Beneficiaries Assessments of the legal and institutional framework of customary law, leadership, decision-making and dispute-resolution processes, and the gathering of baseline information on indigenous communities, fell short of requirements, which may have affected the consultation process. The Panel found that relevant information was not provided prior to consultations in a culturally appropriate manner, form, and language and that Project documents did not contain information documenting how broad community support was reached.
- ***Poverty and Livelihood Impacts.*** The Panel found the Project in compliance with the Bank's Policy on Poverty Reduction (OP 1.00), but not in compliance with the Indigenous Peoples Policy (OP 4.10), as far as ensuring that Indigenous Peoples receive culturally appropriate economic and social benefits from the Project. In particular, the Panel found that the Project does not promote savings mechanisms or measures for smallholder income diversification. In the Panel's view the Project design did not respond to the significant differences among Project areas. Further, the milling companies' institutional and financial viability was not reviewed.
- ***Environmental Impacts.*** The Panel found that the Project was mainly in compliance with the Policy on Environmental Assessment (OP 4.01). The Panel found that the inclusion of environmental management and mitigation tools and the reliability of sources used in the Environmental Assessment comply with OP 4.01. The Panel agreed with Management that the agreed Palm Oil Mill Effluent Management Action Plan from the effluent study addresses the potential adverse impact from mill effluents. The Panel found that the Project complied with OP/BP 4.04 on Natural Habitats and with the objective of OP/BP 4.36 on Forests.
- ***Institutional Sustainability.*** The Panel concluded that establishing a system for the regular maintenance of the road network is critical for smallholders and the industry. The Panel found that Management left the design of the road maintenance system to the implementation phase, and did not fully assess smallholder ability to pay their proposed contribution. The Project includes a capacity development component for OPIC, in compliance with policy requirements. The Panel found compliance with OP 13.05 on Supervision.

### ***Management's Response and Recommendations***

***Management appreciates the Panel's finding of broad concurrence with Bank policies and procedures applicable to the Project***, which includes OP 1.00 (Poverty Reduction), OP 4.01 (Environmental Assessment), OP 4.04 (Natural Habitats), OP 4.36 (Forests) and OP 13.05 (Project Supervision). Management further notes the Panel's conclusion that the Project is an effective response to poverty reduction, and that the Project as designed includes provisions to avoid conversion or degradation of critical forest areas and habitats. Management acknowledges the Panel's observations on specific instances of non-compliance during Project design, and offers the following comments and responses to address the findings.

***The World Bank has been engaged in the oil palm sector in PNG for over 40 years and Bank investments in the sector in PNG have had a positive impact on the local economy and on rural livelihoods.*** Management believes that the Bank's continued engagement in the oil palm sector in PNG will contribute to poverty reduction in an environmentally sustainable manner.

***Management believes that the SADP continues to be an appropriate vehicle to support rural development in PNG, and is designed to provide economic benefits to the local population while avoiding deforestation and risks to critical habitats.*** In Management's view the SADP, through its focus on roads and access, will provide important benefits to smallholders and communities in the Project areas, both within and outside the oil palm sector. The SADP will improve access to critical social services and markets for all smallholders and communities, enabling them to engage in a wider range of income earning activities, thereby diversifying their incomes and reducing poverty.

***Management notes that many aspects of the harm alleged by the Requesters do not arise from the SADP. Management is concerned that the Project has become a vehicle for raising broader issues concerning the oil palm sector in PNG and internationally.*** As stated in the Panel Report "[...] much of the harm claimed by the Requesters relates to the consequences of smallholder oil palm production during the past decades, with or without World Bank involvement, and Requesters' fear that such harm may continue to emanate from the SADP." Management concurs with the Panel that the Project has also become a vehicle for raising, and seeking mitigation of, a number of long standing adverse impacts that existed prior to the Project and that are unrelated to the SADP. ***Management believes that this position concerning alleged harm, together with the limited implementation of SADP activities to date, would indicate that it is difficult to identify material adverse effects arising in connection with the Project, as required by the 1999 Clarification of the Inspection Panel Resolution.***

***A key issue raised by the Panel Report, in the context of the inspection of the SADP, is the application of the Bank's Indigenous Peoples Policy (OP 4.10).*** In Management's view, the Panel Report raises general issues on the application of OP 4.10, which Management feels need to be addressed in this Report.

***Management believes it is important to recall that the Bank's Indigenous Peoples Policy is the product of an extensive consultative process that engaged both Indigenous Peoples and the Board. Management is fully committed to applying this policy as intended by the Board.*** Management notes that with respect to the key

requirements of OP 4.10 – the social assessment, the consultation process, and the Indigenous Peoples Plan – the policy requires that ***“the level of detail necessary to meet the requirements [...] is proportional to the complexity of the proposed project and commensurate with the nature and scale of the proposed project’s potential effects on the Indigenous Peoples, whether adverse or positive”***. Management believes that the emphasis in OP 4.10 on conducting an analysis that is proportional to the nature and scale of the potential project impacts and developing project documents that are pragmatic is a fundamental and valuable feature of the Indigenous Peoples Policy, which reflects the reality of Bank operations and project development, and needs to be preserved.

***In Management’s view, the analysis conducted for the SADP was responsive to the scale of impacts arising in a project of this nature, and was sufficient to inform appropriate mitigation measures and provide culturally appropriate benefits.*** The Project engaged two leading scholars specializing in Papua New Guinea and the oil palm sector. Management believes that the level of detail regarding the legal and institutional framework of customary law, leadership, decision making and dispute resolution, and the baseline data contained in the Project documents is appropriate for the Project, generally consistent with what had been done in the past, both in PNG and elsewhere, and is indicative of what will be required of projects going forward. ***Accordingly, Management believes that the analysis conducted was consistent with the requirements of OP 4.10.***

***In light of the Panel’s finding regarding consultations, Management notes that ongoing consultations are now being undertaken for all major activities under the Project and are documented.*** During the last year, more than 20 general field day consultations were held, and over 75 additional consultations were held to obtain voluntary agreement from communities for road repair. Approximately 80 other meetings were held at the request of villagers and clan leaders to discuss additional matters.

***Management has taken seriously the concerns raised in the Request for Inspection including issues that Management had already identified and addressed.*** Through ongoing implementation support for the SADP, Management continues to provide support to OPIC to ensure that the concerns related to the consultation process, specifically proper documentation, are addressed. SADP’s grievance redress mechanism has been strengthened. Management has also allocated significant resources to provide timely implementation support, and to assist OPIC with enhancing its capacity for safeguards compliance.

### ***Action Plan***

***Management had acknowledged the Panel’s observations on specific instances of non-compliance already in its 2010 Response and had identified several actions for improvement which have already been undertaken.***

In response to the Panel Report, Management commits in going forward with Project implementation to undertake the following actions:

- Management will assist OPIC in developing a Consultation Framework and ensuring that it is implemented across the three Project areas;



- Management will continue to support OPIC in improving the documentation of consultations during implementation;
- Management will continue to closely support and monitor the implementation of the Effluent Action Plan; and
- Management will verify that adequate consultations are conducted and documented as part of the RMTF study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial burden to the smallholders.

### ***Special Issues***

***Management takes note of the Panel Report, chapter 7 on systemic issues, which appears to relate neither to non-compliance, nor to harm or potential harm in connection with the SADP but which rather takes an evaluative approach in reviewing the SADP.*** Management notes that the Panel Report discusses a number of issues that relate neither to harm nor to potential harm stemming from the SADP, while the 1999 Clarification of the Resolution requires that “*The Panel will discuss in its written report only those material adverse effects, alleged in the request, that have totally or partially resulted from serious Bank failure of compliance with its policies and procedures.*”

The Panel Report in particular notes that the Social Assessment identified potential adverse and positive effects of SADP in accordance with OP 4.10, but adds that this identification “*may* have been more thorough.” Management is not aware of such qualifications of compliance in the Policy and hence is unable to respond as it considers the matter to be compliant with Bank Policy, as stated by the Panel.

The Panel Report further recommends that clearer guidelines for Bank OP 4.10 should be developed, for projects where a self-standing Indigenous Peoples Plan is not warranted. Management does not see the need for such guidelines, as it believes that the current provisions of the policy adequately address this situation.

The Panel Report looks at *The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector* and suggests providing input for a follow-up to this Framework on the basis of its investigation of SADP. Management feels that a discussion of the Framework, which has been endorsed by the Board, goes well beyond the scope of the compliance review of the SADP.



## **I. INTRODUCTION**

1. On December 17, 2009, the Inspection Panel registered a Request for Inspection, IPN Request RQ 09/10 (hereafter referred to as “the Request”), concerning the Papua New Guinea (PNG) Smallholder Agriculture Development Project (“SADP” or “the Project”) financed by the International Development Association (IDA). The Request for Inspection was submitted by the Ahora/Kakandetta Pressure Group, affected customary land owners from Oro province and smallholders in one of the three Project areas (the “Requesters”). The Requesters asked that their identities be kept confidential and that the Center for Environmental Law and Community Rights (CELCOR), a nongovernmental organization from Papua New Guinea, act as their designated representative.
2. The Executive Directors and the President of IDA were notified by the Panel of receipt of the Request. Management responded to the claims in the Request on February 8, 2010.
3. In its Report to the Board, the Panel found the Request eligible and recommended that the Executive Directors authorize an investigation. The investigation was authorized by the Executive Directors on March 25, 2010.
4. On September 19, 2011, the Panel issued its Report outlining the findings of the investigation. Management appreciates the Panel’s presentation of its findings. This Report, responding to the findings of the Panel, is organized in five sections. Section II provides a summary of the Project. Section III presents the findings and recommendations of the Panel. Section IV discusses key issues and Management’s response. Section V presents Management’s Action Plan in response to the Panel’s findings, and Section VI contains the conclusion. The Panel’s findings, along with Management’s responses, are described in detail in Annex 1. Annex 2 includes a summary of consultations undertaken so far during implementation. Annex 3 provides a description of the SADP grievance procedures and Annex 4 contains the Palm Oil Mill Effluent Action Plan. Maps 1-3 show the Project areas.

## **II. THE PROJECT**

5. In 2007, the World Bank approved an IDA Specific Investment Credit of US\$27.5 million equivalent for the 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, the SADP has garnered strong demand and support from oil palm smallholders in the Project areas (see Maps).
6. The SADP has three components: (a) smallholder productivity enhancement including: the infill planting of new smallholder village oil palm (VOP) 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 the Oil Palm Industry Corporation (OPIC), the implementing agency, and for the smallholder sector, through training, research and studies.

7. Although the Project was approved by the Board in December 2007, the main Project activities (including road reconstruction and maintenance and infill planting) will only commence later this year due to delays in signing the Credit, achieving effectiveness and starting up implementation.

8. The ***Project Development Objective*** 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.

9. ***Implementation Arrangements.*** OPIC is responsible for overall Project implementation. Component 1 (Smallholder Productivity Enhancement) is to be managed by OPIC, while infill planting of oil palm and smallholder productivity enhancement activities will be implemented by OPIC with the support of PNG Oil Palm Research Association (PNG OPRA) and the milling companies.<sup>1</sup> A Project Steering Committee (PSC), chaired by the Secretary of the Department of National Planning and Monitoring, and comprising representatives from the Departments of Treasury, Agriculture and Livestock, Environment and Conservation, Works, Provincial and Local Government Affairs, and Community Development; Provincial Governments; and the PNG Sustainable Development Program, oversees Project implementation and provides guidance on policy matters and quality control for annual work programs and budgets.

10. ***Project Status.*** The Project became effective on January 28, 2009. After the establishment of OPIC's Project management structure a Project Coordinator and a Procurement Specialist commenced work in October/November 2009. The Mid-Term Review in September 2010 provided an opportunity to identify and address key constraints to Project implementation. Since the Mid-Term Review, OPIC has made significant progress in strengthening its capacity, procuring equipment, preparing tenders for civil works, and making arrangements to start the main field activities, including road works and infilling planting, which are expected to commence before the end of 2011.

11. The Government of PNG plans to request IDA to restructure the Project with the aim of addressing the shortfall in counterpart funds, by increasing IDA cost sharing within the current IDA Credit. The restructuring would also include a one year extension of the Project closing date to December 31, 2013. This is currently under consideration.

12. As part of the restructuring, Component 2 will be replaced by a new sub-component under Component 1 with the aim of financing the upgrading of existing basic community infrastructure in OPIC stations, to serve the needs of both oil palm growers and non-oil palm growers in the communities. The list of priority community infrastructure to be upgraded would be established by OPIC based on detailed consultations with oil palm growers in the Project areas.

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<sup>1</sup> New Britain Palm Oil Ltd., Hargy Oil Palms Ltd, and Kula Palm Oil Ltd (trading as Higaturu Oil Palms and largely owned by New Britain Palm Oil).

### III. FINDINGS AND RECOMMENDATIONS OF THE PANEL

13. The Panel's findings are organized according to the main claims of the Requesters:

- *Information Disclosure, Consultation, and Broad Community Support*
- *Poverty and Livelihood Impacts*
- *Environmental Impacts*
- *Institutional Sustainability*

14. **Relevant Bank Policies.** The Panel assessed the Bank's compliance with the following Operational Policies and Procedures:

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 10.04	Economic Evaluation of Investment Operations
OP 13.05	Project Supervision
OMS 2.20	Project Appraisal

15. *As no major Project activities had been initiated, the investigation focused on the design, planning and appraisal phases of the SADP.* Moreover, although the Project covers three areas in the two provinces of Oro and West New Britain, the Panel investigation focused "primarily on the Project area in Oro province, as the Requesters are from Oro province."<sup>2</sup>

16. The Panel found areas of compliance and areas of non-compliance. Specifically:

- *Information Disclosure, Consultation, and Broad Community Support.* In the Panel's view the analysis in the Social and Beneficiaries Assessments of the legal and institutional framework of customary law, leadership, decision-making and dispute-resolution processes and the gathering of baseline information on indigenous communities fell short of requirements, which may have affected the

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<sup>2</sup> Investigation Report, Paragraph 66.

consultation process. The Panel found that relevant information was not provided prior to consultations in a culturally appropriate manner, form, and language and that Project documents did not contain information documenting how broad community support was reached.

- *Poverty and Livelihood Impacts.* The Panel found the Project in compliance with Bank Policy on Poverty Reduction, but not in compliance with the Indigenous Peoples Policy, as far as ensuring that Indigenous Peoples receive culturally appropriate economic and social benefits from the Project, in particular, because the Project does not promote savings mechanisms or measures for smallholder income diversification. In the Panel's view, Project design did not respond to the significant differences among Project areas. Further, the milling companies' institutional and financial viability was not reviewed.
- *Environmental Impacts.* The Panel found that the Project was substantially in compliance with the Policy on Environmental Assessment (EA), except that information shared with stakeholders during consultations for the EA was in verbal form. The EA documents had not been disclosed in the local language and the EA did not include sufficient analysis on the issue of palm oil mill effluents. Management agreed with the lack of adequate analysis in the EA on effluents and commissioned an Effluent Study in response. A Palm Oil Mill Effluent Management Action Plan has been developed, which once implemented will bring the Project into compliance with OP 4.01. The Panel found that the Project complied with OP 4.04 on Natural Habitats and with the objective of OP 4.36 on Forests.
- *Institutional Sustainability.* The Panel concluded that establishing a system for the regular maintenance of the road network was critical. The Panel found that the Project left the design of the Road Maintenance Trust Funds (RMTFs) to the implementation phase, and did not fully assess the ability of the various stakeholders to contribute to the RMTFs.

#### IV. MANAGEMENT RESPONSE TO THE FINDINGS

##### **The Rationale for the Bank's Involvement in the Palm Oil Sector in PNG**

17. *Management believes that the SADP continues to be an appropriate vehicle to support rural development in PNG. In Management's view the SADP, through its focus on roads and access, will provide important benefits to all smallholders in the Project areas, both within and outside the oil palm sector.*

18. *The World Bank has been engaged in the oil palm sector in PNG for over forty years, commencing with an economic study in 1965 followed by five investment*

***operations from 1968 to the present.***<sup>3</sup> World Bank investments in the oil palm sector in PNG have had an overall positive impact on the local economy and on rural livelihoods in the major oil palm Nucleus Estate Schemes in PNG. Management believes that the Bank's continued engagement in the oil palm sector will contribute to poverty reduction in an environmentally sustainable manner.<sup>4</sup>

19. ***When the Bank re-engaged in PNG in 2005, 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, the Bank limited its support to smallholders in already existing oil palm schemes, with a focus on improving income opportunities for such smallholders through increased productivity and improved rural access roads in the scheme areas.

20. ***PNG's palm oil industry contributes substantially to rural incomes in the country.*** At current prices, oil palm provides smallholders with very favorable returns to their land and labor, compared to other cash crops such as cocoa and coffee. The industry is second only to the public service in terms of formal employment, with around 23,000 people working for the 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 56 percent of agricultural export values in 2010.

21. ***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 will be invested in rehabilitating existing rural roads. Better roads improve access to critical social services and markets for all smallholders (i.e., not just those involved in oil palm) enabling them to engage in a wider range of income earning activities, thereby diversifying their incomes and reducing poverty.

### **Separating the Alleged Harm from SADP from the Broader Palm Oil Discussion**

22. ***Management notes that many aspects of the harm alleged by the Requesters do not arise from the SADP.*** Management is concerned that the Project has become a vehicle for raising broader issues concerning the oil palm sector in PNG and

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<sup>3</sup> New Britain Smallholder Development Project (1969–1976); Popondetta Smallholder Oil Palm Development Project (1976–1984), Nucleus Estate and Smallholder (Milne Bay) Project (1985–1992), Oro Smallholder Oil Palm Development Project (1992–2001) and the SADP (2007–present).

<sup>4</sup> The Implementation Completion Report (ICR) for the Oro Smallholder Oil Palm Development Project, which closed in 2001, concluded that the Oro project had been successful in increasing oil palm production and palm oil exports and noted the significant employment and income benefits to smallholders. Further, the ICR noted that “apart from the specified objectives, the project has had more generalized benefits in the province of Oro. With the major increase in cash income from palm fruit deliveries, consumer demand has substantially increased over the project period. The cash income from palm fruit has provided diversification of income and more secure household economies. The establishment of oil palm has not decreased the capacity for food crop production. The “mama lus frut” scheme is allowing women in households to earn their own income, thereby encouraging better nutrition and family welfare (Page 5).” The ICR reports an overall Economic Rate of Return (ERR) of 10.7 percent while noting that several direct and indirect benefits were not quantified as part of the economic analysis. The ERR of the earlier Popondetta Smallholder Oil Palm Development Project in Oro, which closed in 1984, was calculated as 12.7 percent.

internationally. As stated in the Panel Report,<sup>5</sup> *“much of the harm claimed by the Requesters relates to the consequences of smallholder oil palm production during the past decades, with or without World Bank involvement, and Requesters’ fear that such harm may continue to emanate from the SADP.”*

23. The SADP was proposed in conjunction with existing and long standing oil palm activities within the Project area, and Management believes that the design of the SADP addresses a number of the key concerns that have been raised with regard to the sector at large. Management maintains that the Project has become a vehicle for raising, and seeking mitigation of a number of long standing adverse impacts that existed prior to the Project and that are unrelated to the SADP.<sup>6</sup> This, in itself, has made preparation and implementation of the Project difficult.

24. As recognized by the Panel, implementation of SADP activities on the ground is still limited, which makes the identification of material adverse effects associated with the Project complex. The 1999 Clarification gives guidance on the difficult task of assessing material adverse effect. It states: *“For assessing material adverse effect, the without-project situation should be used as the base case for comparison, taking into account what baseline information may be available. Non-accomplishments and unfulfilled expectations that do not generate a material deterioration compared to the without-project situation will not be considered as a material adverse effect for this purpose. As the assessment of material adverse effect in the context of the complex reality of a specific project can be difficult, the Panel will have to exercise carefully its judgment on these matters, and be guided by Bank policies and procedures where relevant.”*<sup>7</sup>

25. ***Management notes that the Panel Report discusses a number of issues that relate neither to harm nor to potential harm stemming from the SADP.*** The 1999 Clarification of the Resolution requires that the Panel’s report to the Board *“will focus on whether there is a serious Bank failure to observe its operational policies and procedures with respect to project design, appraisal and/or implementation”*. Accordingly, *“The Panel will discuss in its written report only those material adverse effects, alleged in the request, that have totally or partially resulted from serious Bank failure of compliance with its policies and procedures.”*<sup>8</sup>

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<sup>5</sup> Investigation Report, Paragraph 70.

<sup>6</sup> This is particularly well illustrated with respect to saving and loan schemes, an issue raised by the Panel. The Social Assessment states that stakeholders identify three related barriers to savings, and describes these in detail. The SA recognizes that the *“absence of an effective savings mechanism is an important factor explaining the lack of material progress on many oil palm blocks.”* It concludes, *“While the industry has been able to effectively address the issue of savings for farm inputs by deducting loan repayments at source from growers’ payments, the absence of an effective savings mechanism for housing, water supply and other material improvements remains a major barrier to improving living standards.”* It is in this context that the Project is seeking to develop mitigation measures, both through its own measures and in cooperation with other organizations and agencies working in the area. Such cooperation is necessary, given the history and complexity of the issues, and the aim of the Project to ensure that measures will be capable of broad implementation, and sustainable.

<sup>7</sup> 1999 Clarification of the Board’s Second Review of the Inspection Panel, Paragraph 14.

<sup>8</sup> 1999 Clarification of the Board’s Second Review of the Inspection Panel, Paragraph 13.



## Management's View on the Application of and Compliance with OP 4.10

26. ***A key issue raised by the Panel, in the context of the inspection of the SADP, is the application of the Bank's Indigenous Peoples Policy (OP 4.10).*** In Management's view, the Panel Report raises general issues on the application of OP 4.10, which Management feels need to be addressed in this Report.

27. ***Management believes it is important to recall that the Bank's Indigenous Peoples Policy is the product of an extensive consultative process that engaged both Indigenous Peoples and the Board. Management is fully committed to applying this policy as intended by the Board.*** Management notes that with respect to the key requirements of OP 4.10 – the social assessment, the consultation process, and the Indigenous Peoples Plan – the policy requires that ***“the level of detail necessary to meet the requirements [...] is proportional to the complexity of the proposed project and commensurate with the nature and scale of the proposed project's potential effects on the Indigenous Peoples, whether adverse or positive.”***<sup>9</sup> Management believes that the emphasis in OP 4.10 on conducting an analysis that is proportional to the nature and scale of the potential project's effects and developing project documents that are flexible and pragmatic is a fundamental and valuable feature of the Indigenous Peoples Policy, which reflects the reality of Bank operations and project development, and needs to be preserved.<sup>10</sup>

28. ***As recognized by the Panel, the Project engaged two leading scholars specializing in Papua New Guinea, with particular expertise in the oil palm sector and fluent in Tok Pisin.***<sup>11</sup> These consultants, along with their team which included several well known researchers from PNG, were engaged by the Project and spent a considerable period of time conducting field work in the Project areas, and gathering material required for the preparation of the Social Assessment (SA) and the Beneficiaries Assessment (BA).<sup>12</sup> As noted in the SA, the consultants employed a mix of participatory and rapid rural assessment techniques in conducting the SA. Given their extensive experience in the area, the consultants were well placed to assess the potential impacts of the Project and the appropriate level of cultural detail to be included in the SA/BA.

29. ***Management also believes that the level of detail regarding the legal and institutional framework of customary law, leadership, decision making and dispute resolution, and the baseline data contained in the Project documents, are appropriate for the Project.***<sup>13</sup> In Management's view, the analysis conducted was responsive to the

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<sup>9</sup> OP 4.10, Paragraph 7.

<sup>10</sup> The Indigenous Peoples Plan, prepared on the basis of the social assessment and the results of consultation with the affected Indigenous Peoples, should be *“prepared in a flexible and pragmatic manner, and its level of detail varies depending on the specific project and the nature of effects to be addressed” (OP 4.10, Annex B)*. The IPP is required to include a summary of the information contained in the review of the legal and institutional framework and the baseline information.

<sup>11</sup> Investigation Report, Paragraph 163.

<sup>12</sup> The Social Assessment began with a fact-finding workshop conducted jointly with the Environmental Assessment team in Port Moresby on Tuesday, July 18, 2006. From July 19 to August 30, 2006, the Social Assessment field work was carried out at Hoskins and Bialla, West New Britain, and Popondetta, Oro Province.

<sup>13</sup> OP 4.10, Annex A, paragraph 2(a) requires that as part of the social assessment, the review of the legal and institutional framework applicable to the Indigenous Peoples shall be *“on a scale appropriate to the project.”*

scale of impacts arising in a project of this nature, and was sufficient to inform appropriate mitigation measures and provide culturally appropriate benefits.<sup>14</sup> Management further considers that the SA provides a firm basis for mitigation measures to be adapted over time, in response to Project implementation and feedback from affected communities and consultations. Management believes that the level of analysis of these issues contained in the Project documents met the requirements of the policy, was consistent with what had been done in the past, both in PNG and elsewhere, and is indicative of what will be required of Bank projects going forward. ***Accordingly, Management believes that the analysis conducted was consistent with the requirements of OP 4.10.***

30. ***The degree of information provided in the SA on the legal and institutional frameworks related to the main Project activities, which include infill planting of oil palm, access road upgrading, extension services and community grants for basic infrastructure is appropriate for the project and consistent with the requirements of OP 4.10.*** Most native Papua New Guineans have their traditional communities/customary lands somewhere in the country (whether they reside there or not). National legislation, supporting customary and traditional lands, applies equally to all of them. This situation is significantly different from the situation where an ethnic minority may not have any legislation supporting their customary land claims. The SA assesses the customary land tenure in the three Project locations. The SA recognizes that “Village Oil Palm (VOP) blocks on village land are governed by the principles of customary land tenure with clan leaders controlling the allocation of land for export cash crops. Clan agreements to the planting of individual oil palm holdings are either informal social contracts or are as outlined in Clan Land Usage Agreements (CLUA).” The SA also includes a detailed assessment of land tenure conflicts between customary landowners and outside migrants who do not have access to clan land and provides recommendations on appropriate instruments to resolve these conflicts and strengthen the tenure rights of growers on non-clan land.

## **Response to Selected Findings by the Panel**

### ***A. Information Disclosure, Consultation, and Broad Community Support***

31. ***As previously acknowledged in the 2010 Response, Management recognizes that there was limited formal documentation of the consultations undertaken during Project preparation.*** Community engagement on the objectives of this Project began in 2000, towards the end of the World Bank-funded Oro Smallholder Oil Palm Development Project.<sup>15</sup> Information on the Project has been provided in many forms. Following the strong oral tradition in the country, information on the Project during its preparation was mainly provided verbally through radio shows (culturally appropriate given the low levels of literacy), OPIC field days and during meetings and focus group discussions undertaken for the SA, EA and related studies. The SA, the EA, and related

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<sup>14</sup> Refer to the assessment of customary land tenure in the three Project locations in the SA. See Annex 1, Item 1

<sup>15</sup> Refer to Summary of Consultations provided in Annex 2 of the 2010 Management Response.

documents were publicly disclosed prior to appraisal as required by the Bank's disclosure policies.<sup>16</sup>

32. ***Consultations have taken place during implementation, starting with the Project launch in March 2009. Ongoing consultations are being undertaken for all major activities under the Project, including infilling and road works.*** During the last year, more than 20 general field day consultations were held, and over 75 additional consultations were held to obtain voluntary agreement from communities for road repairs. Grievance forms exist and have been explained in the local communities. Approximately 80 other meetings were held at the request of villagers and clan leaders to discuss matters such as infill planting, CLUA forms, etc.<sup>17</sup> This is in addition to a large number of impromptu consultations on Project issues between OPIC extension officers and smallholders. OPIC has been improving its documentation of consultations and Management continues to advise OPIC on ways of further strengthening this documentation.

33. ***Management agrees that there was limited documentation of broad community support. Nevertheless, Management 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.*** There has been consistent demand, expressed formally and informally, by the beneficiary communities for the benefits of the Project and, if anything, a frustration that these cannot be greater and delivered sooner and on a broader scale. As implementation progresses, the Project has gathered a variety of formal and informal evidence that demonstrates continued community support for the Project.<sup>18</sup>

34. ***In Management's view, substantial relevant information (baseline and otherwise) was and is continuing to be collected, which has appropriately informed Project design at different stages and which will facilitate monitoring and evaluation of key Project objectives (see Annex 1, Item 2).*** A broader analysis of the constraints to and opportunities for increased smallholder production was carried out in the SA. While the SA recognizes and discusses the different ethnic groups, ethnicity was not considered as significant a factor in terms of explaining key constraints faced by the smallholders as other factors such as gender and tenure security. A variety of "sub-groups" have been identified in the SA depending on the level of vulnerability, land tenure arrangements, etc. Specific recommendations have been presented for each group.

35. Following the 2010 Response documents have been made available in the Project areas in Tok Pisin along with the executive summaries of the SA and the EA and more

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<sup>16</sup> The safeguards documents were made available, in English, in Port Moresby and Washington, on February 22, 2007.

<sup>17</sup> See Annex 2 for a summary of consultations held so far during implementation.

<sup>18</sup> This includes agreements from more than 2,900 smallholders to the planned 2011 road works, more than 1,000 applications for infill planting in Popondetta, and letters of support for the Project from the Popondetta and Bialla Growers Associations which together represent about 9,000 growers.

recently the Effluent Study. The availability of the translated documents has been widely announced on OPIC's radio program.<sup>19</sup>

36. ***Management has taken seriously the many concerns raised in the Request for Inspection and the issues that Management subsequently identified while preparing its 2010 Response.*** Through ongoing implementation support for the SADP, Management continues to provide support to OPIC to ensure that the concerns related to the consultation process, and specifically proper documentation, are addressed during implementation. Management believes that these measures, together with the implementation of the strengthened SADP grievance mechanism (see Annex 3), address the shortcomings identified in the consultation process.<sup>20</sup>

37. Management has allocated significant resources to provide implementation support to OPIC and strengthen OPIC's capacity to ensure safeguards compliance. To date, more than 70 OPIC officers have participated in safeguards training provided by the Bank. A number of OPIC staff have also participated in fiduciary training (procurement and financial management). SADP's supervision expenditures are significantly above the Pacific region's average.<sup>21</sup>

#### *B. Poverty and Livelihood Impacts*

38. ***Management notes the Panel's conclusion that the "Project is fundamentally designed to increase the income of smallholder oil palm producers who choose to participate in the Project" and that the Project complies with the Bank Policy on Poverty Reduction, OP 1.00.***

39. ***Management believes that the Project design has suitable provisions to respond to observed differences in productivity and profitability across the three Project areas and is consistent with OP 4.10 and OMS 2.20 in this regard.*** Specifically, sub-component 1c (agricultural extension services) includes provision for recruitment of an Extension Specialist to work with each of the three OPIC Field Offices in the Project areas to develop and implement awareness and education programs for smallholders and improve the effectiveness of extension service delivery (see Annex 1, Item 11). Due to the importance of participatory approaches in developing and improving extension services, the specifics of the extension activities were not set out in the Project documents. Management believes that this approach is consistent with OMS 2.20, which states that "Flexibility is particularly important for projects in which the implementation process cannot be determined in advance with great precision (e.g., rural development and family planning projects)."

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<sup>19</sup> There are regular radio shows held in each Project area that cover agriculture ("toktok didiman") and are used by OPIC to discuss issues of importance relating to the Project, and to announce disclosure of Project documentation locally.

<sup>20</sup> Management enquired about the operation of the grievance redress mechanism during the recent mission and was informed that to date there have been no SADP-related grievances. Most of the grievances registered with OPIC are with regard to late pick-up of fruit or under-weighting by the truck drivers and are unrelated to the Project.

<sup>21</sup> In FY10 and FY11 SADP's supervision expenditures were about 3 times the average project supervision expenditure for the Pacific.

40. ***Management did not consider it relevant to review the corporate governance of the milling companies since the companies were not going to be directly implementing Project activities, nor are they considered Project beneficiaries. Management notes, however, that the companies had a long track record in the sector in PNG, some of them are publicly listed and there was no reason for Management to question their financial capacity.*** The SADP BA identified the milling companies as an important stakeholder group and provided an overview of the three main companies operating in the SADP Project areas. In the context of SADP, the participating milling companies are facilitating the infill loan program.<sup>22</sup> The other activities noted by the Panel (collecting and milling fruit, and paying growers for the fruit delivered to the mills) are all regular activities of the companies and are not specific to the SADP.

41. ***Management did not undertake a separate financial analysis of the plantations owned by the milling companies (company estates) or the companies' milling operations.*** In the course of preparing the Project, Management verified that the milling companies had the milling capacity to process the additional fruit that would be produced by the Project. It is Management's view that the financial analysis undertaken for the SADP was in accordance with the requirements of OMS 2.20 and OP 10.40.<sup>23</sup> As elaborated in the Project Appraisal Document (PAD), a financial management risk assessment was undertaken and mitigation measures identified, as relevant. The intended beneficiaries of the Project are the smallholder oil palm growers and not the milling companies. Hence in accordance with OMS 2.20, the economic and financial analysis for the Project focused on the impacts on the intended beneficiaries of the Project (see Annex 1, Item 11).

42. ***Management takes seriously the various social issues that could be exacerbated with increased oil palm incomes and the injection of more cash in the Project areas and confirms that provisions for supporting income diversification activities and identifying effective savings mechanisms, important recommendations from the SA, were incorporated in the Project design, as referenced in the Project Implementation Manual (PIM, Table 2.1, p. 13).*** Management would like to clarify that strategies are being developed under the Project to improve the financial literacy of growers and encourage income and employment diversification, including small business and employment-oriented skills training. The implementation of these activities is in the early

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<sup>22</sup> Under the infill program, loan agreements will be executed between PNG Microfinance Limited and individual smallholder growers to finance infill planting. The milling companies will provide seedlings, fertilizer, tools, and chemicals as recommended by OPIC and will invoice PNG Microfinance Limited for all services and material. The milling companies will collect loan repayments as a deduction from the payment made to the infill participants for oil palm fruit delivered to the milling companies and forward the loan repayments on to PNG Microfinance.

<sup>23</sup> As stated in OMS 2.20, "the purpose of the financial appraisal by the Bank is to ensure the financial viability of the project and sound financial management of the project agencies, thereby promoting sustainable development in the borrowing country and protecting the Bank's own accountability and financial standing." OMS 2.20 further states that, "the financial appraisal always includes a review of the reliability of the project's financing plan and of the adequacy of the accounting and auditing arrangements. In addition, the financial appraisal *may* include consideration of some or all of the following: project profitability; the financial effect on the intended beneficiaries; the impact on the government budget; the financial management capability of the implementing agencies and the need for any technical assistance; the appropriateness of financial autonomy given to the project agencies and the need for any organizational changes; the adequacy of the proposed standards of financial performance to be achieved during project implementation and operation; and recommendations for loan covenants covering financial performance."

stages, and will continue through the extension services being provided by the Project (see Annex 1, Item 12).

*C. Environmental Impacts*

43. ***With regard to the Requesters' allegation concerning deforestation and conversion of land, Management notes the Panel's finding that the Project as designed includes provisions to prevent conversion or degradation of critical forest areas or related critical habitats. The Panel finds Management to be in compliance with OP/BP 4.04 and the objective of OP/BP 4.36 in this respect.***

44. ***Management concurs with the Panel's findings that the inclusion of environmental management and mitigation tools and the reliability of sources used in the EA comply with OP 4.01.*** Management also notes the Panel's finding that the stated intention of the Project is to support an expansion of the total area under oil palm through infilling along the existing road network and that the term "infilling" has not been used to deliberately obfuscate oil palm expansion as alleged by the Requesters.

45. ***With respect to biological pollution, Management agrees with the Panel's finding that the agreed Palm Oil Mill Effluent Management Action Plan provided in the Effluent Study addresses the issue of potential negative effects from mill effluents and, when implemented will bring the Project into compliance with OP 4.01.*** This Action Plan is being implemented and Management confirms that it will continue to closely support and monitor its implementation.

*D. Institutional Sustainability (Road Maintenance Trust Funds)*

46. ***Developing a sustainable financing mechanism for maintenance of provincial access roads is critical to ensuring achievement of the Project objectives.*** The Project proposes a new arrangement for sustainable financing of road maintenance, in the form of RMTFs, to ensure that SADP investments in road reconstruction and maintenance are sustained beyond the life of the Project. Initial analysis of the financial feasibility of the RMTFs included an analysis of cost sharing options and funding mechanisms (see Annex 1, Item 18).

47. ***The final design study of the RMTFs is to be undertaken as part of Project implementation as it became clear that it would be difficult to reach agreement on a funding mechanism for road maintenance (involving the introduction of a new levy) without the roads first being rehabilitated.*** This recognition led to the deliberate decision to carry out a detailed RMTF design study during Project implementation. Management believes that deferring the final design of the RMTFs to implementation is aligned with OMS 2.20. In Management's view, stakeholders will only commit to a sustainable financing arrangement for maintaining the smallholder roads once the roads have been upgraded to a reasonable condition. Once this is done, accurate costs of maintenance can be estimated and cost sharing arrangements can be discussed and finalized. The need for

upgrading the roads prior to finalizing arrangements for the RMTFs is also noted by the Panel.<sup>24</sup>

48. ***Management reiterates that there was never a risk of a new road maintenance levy being unilaterally imposed on the smallholders without proper discussion and consultation leading to their agreement.*** Management notes that the issue of the RMTFs had been extensively discussed with the growers associations and other stakeholders during preparation (see Annex 1, Item 18).

49. ***The RMTF study is expected to begin by early 2012 and extensive consultations will be undertaken as part of the study.*** These consultations will include the growers associations and the broader grower community and specifically encourage the participation of women who are underrepresented in the associations. As per the Project Agreement, the RMTF study will be reviewed by the Bank and other stakeholders and comments will be taken into account.

50. ***Management does not believe that the overall profits of the milling companies should have been considered in estimating cost sharing arrangements for the RMTFs. The RMTFs were proposed to fund maintenance of the rural access roads mainly serving smallholders and not the roads serving the estates or plantations operated by the companies.*** The company plantations are served by plantation roads, which are already financed and maintained by the milling companies.

51. ***Given the preliminary nature of the proposed cost sharing arrangements, Management believes that the level of analysis undertaken during preparation on the RMTFs was consistent with the requirements of OMS 2.20.*** The impact of improved road conditions on reducing the wear and tear on the road fleet was taken into consideration in the economic analysis for the Project (PAD, Annex 9, tables 5-8) and savings due to reduced wear and tear of the road fleet were estimated. These estimates indicate significant costs savings are likely to result from the improved road conditions (see Annex 1, Item 18).<sup>25</sup>

52. ***Management shares concerns regarding the impact of implementation delays on establishing a sustainable financing mechanism for road maintenance.*** During the most recent Implementation Support and Restructuring mission, the Bank discussed possible measures to address the required road maintenance, in light of the delayed RMTF design study. To partly mitigate the risk of a delay in implementing the outcome of this study, it has been proposed that the Project procure three graders, one for each

<sup>24</sup> The Panel notes that during its discussions with smallholders the general consensus was "...Smallholders want to see some visible sign that roads are being improved before they would consider any sort of levy..." paragraph 470.

<sup>25</sup> The analysis undertaken during preparation indicated an 80 percent savings on repairs of the road fleet and 50 percent savings on depreciation. It did not include benefits from fuel, time, safety and environmental improvements as a result of improving the roads. The estimates were based on HDM-4, Volume 7: Modeling Road User and Environmental Effects in HDM-4, Bennett C.R. and Greenwood I.D., PIARC and the World Bank, 2001. HDM-4 (highway design and management) applies to the design and rehabilitation of sealed roads and it was recognized that the benefits of rehabilitating gravel roads would exceed the percentages used in HDM-4.

Project area, which should allow the parts of the smallholder road networks that are in fair or good condition, to receive maintenance on an annual basis.<sup>26</sup>

## SPECIAL ISSUES

53. *Management notes that the Panel Report in chapter 7 discusses a number of issues that relate neither to harm nor to potential harm stemming from the SADP*, while the 1999 Clarification of the Resolution requires that, “*The Panel will discuss in its written report only those material adverse effects, alleged in the request, that have totally or partially resulted from serious Bank failure of compliance with its policies and procedures.*”<sup>27</sup> Instead, the Panel Report in this chapter takes a rather evaluative approach in reviewing the SADP. Nevertheless, Management offers the following observations.

54. The Panel Report notes that though the SA *identified potential adverse and positive effects of SADP in accordance with OP 4.10*, this identification “*may have been more thorough.*”<sup>28</sup> Management is not aware of such qualifications of compliance in the Policy and hence is unable to respond as it considers the matter to be compliant with Bank Policy, as stated by the Panel.

55. The Panel Report<sup>29</sup> recommends that clearer guidelines for OP 4.10 should be developed for (a) projects where a self-standing Indigenous Peoples Plan is not warranted and (b) to make OP 4.10 operational in PNG. As stated earlier, Management does not see the need for such guidelines, as it is Management’s view that the current provisions of the policy adequately address this situation.

56. The Panel Report<sup>30</sup> looks at *The World Bank Group Framework and IFC Strategy for Engagement in the Palm Oil Sector*.<sup>31</sup> The Panel Report suggests input for a follow-up to this Framework on the basis of its investigation of SADP. Management wishes to point out that a discussion of the Framework, which has been endorsed by the Board, goes well beyond the scope of the compliance review of the SADP.

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<sup>26</sup> Under this proposal, the graders would be available in early 2013 for routine maintenance of the smallholder road network that are in fair or good condition. The proposed arrangements are based on the long, successful experience with the two graders donated to OPIC by the European Union about fifteen years ago. It is proposed that OPIC would own the graders and OPIC’s Infrastructure Department would manage their work program in coordination with the Local Planning Committee in each area. The milling companies have agreed in principle that they would operate and maintain the graders, using their own funds. The RMTF study would take into account the availability of the three graders owned by OPIC in formulating its recommendations for sustainable road maintenance.

<sup>27</sup> The 1999 Clarification of the Resolution requires that the Panel’s report to the Board “*will focus on whether there is a serious Bank failure to observe its operational policies and procedures with respect to project design, appraisal and/or implementation*”. Accordingly, the “*The Panel will discuss in its written report only those material adverse effects, alleged in the request, that have totally or partially resulted from serious Bank failure of compliance with its policies and procedures*”.

<sup>28</sup> Investigation Report, Page 148, box (d)

<sup>29</sup> Investigation Report, Paragraphs 528 and 531.

<sup>30</sup> Investigation Report, Paragraphs 541 – 545.

<sup>31</sup> <http://www.ifc.org/ifcext/agriconsultation.nsf/Content/KeyDocuments>



## V. MANAGEMENT'S ACTION PLAN IN RESPONSE TO THE FINDINGS

57. *In its 2010 Response, Management recognized several areas for improvement:*

(a) no documents had been translated into local languages; (b) documentation of the consultation process should have been more detailed and complete; and (c) there was insufficient detail in the Environmental Assessment on the matter of effluents. Since the 2010 Response, relevant documents have been translated into Tok Pisin by OPIC and have been made available in the Project areas. An Effluent Study<sup>32</sup> covering all the mills in the Project areas was completed and a Palm Oil Mill Effluent Management Action Plan prepared on the basis of the study's findings. Management has also provided support to OPIC to strengthen the consultation process and documentation of consultations during implementation.

58. Management also committed to undertake a number of other measures including:

- Ensuring that inconsistencies between the PIM and the Environmental Management Plan with regard to the Oil Palm Planting Approval Form were addressed by OPIC.
- Ensuring an explicit sign-off by environment and land officers on the Oil Palm Planting Approval Form.
- Providing guidance to OPIC to further strengthen the consultation process for major activities during implementation, and assisting OPIC with preparing clear guidelines for consultations and obtaining and documenting community support for the demand-driven components of the Project.
- Providing support to OPIC to ensure: (a) that the design of the RMTFs is done in a consultative way with the objective of ensuring sustainability; (b) that the process of collecting and analyzing data and revising the Fresh Fruit Bunch (FFB) pricing formula continues to involve smallholders, through their representatives, and OPIC as well as the milling companies; (c) 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 the PNG Sustainable Development Program; (d) that adequate provisions are made for the independent social and environmental audits; and (e) that the grievance mechanisms under the Project are strengthened.

59. *Management confirms that all the actions mentioned above have been undertaken.*

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<sup>32</sup> Papua New Guinea Smallholder Agriculture Development Project "Effluent" Study ([http://siteresources.worldbank.org/INTPAPUANEWGUINEA/Resources/Effluent\\_Study.pdf](http://siteresources.worldbank.org/INTPAPUANEWGUINEA/Resources/Effluent_Study.pdf)).

60. In response to the Panel's Report Management commits in going forward with Project implementation to undertake the following actions:

Table 1. Proposed Management Action Plan	
ISSUE	ACTION
<b>Information Disclosure, Consultation, and Broad Community Support</b>	
Consultation Framework	Management will assist OPIC in developing a Consultation Framework and ensuring that it is implemented across the three Project areas
Documentation of Consultations	Management will continue to support OPIC in improving the documentation of consultations during implementation
<b>Environment</b>	
Palm Oil Mill Effluent Management Action Plan	Management will continue to closely support and monitor the implementation of the Effluent Action Plan
<b>Institutional Sustainability</b>	
RMTFs	Management will verify that adequate consultations are conducted as part of the RMTF study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial burden to the smallholders.

## VI. CONCLUSION

61. Management believes that the Bank has made every effort to apply its policies and procedures in the context of the Project. Management believes that the proposed Action Plan addresses the Panel's concerns.

62. Management believes that the SADP continues to be an appropriate vehicle to support rural development in PNG. In Management's view the SADP, through its focus on roads and access, will deliver critical benefits to all smallholders in the Project areas, both within and outside the oil palm sector. The World Bank has been engaged in the oil palm sector in PNG for over forty years and Bank investments in the sector in PNG have had an overall positive impact on the local economy and on rural livelihoods. Management continues to believe that the Bank's engagement in the oil palm sector in PNG will contribute to poverty reduction in an environmentally sustainable manner.

**ANNEX 1**  
**FINDINGS, COMMENTS AND ACTIONS**

No.	Issue / Finding	OP	Comment/Action
<b>Information Disclosure, Consultation and Broad Community Support</b>			
1.	<p><b>Socioeconomic and Cultural Fact Finding</b>  <b>Review of Legal and Institutional Frameworks</b>  <b>Applicable to Indigenous Peoples</b></p> <p>The Panel finds that the analysis of the legal and institutional framework of customary law, leadership, decision-making and dispute-resolution processes, and the variations (if any) of these practices among different ethnic groups, fell short of the requirements of Annex A of OP 4.10, and thus did not comply with Bank Policy.</p>	OP 4.10	<p><b>Comment:</b> It is Management's opinion that the degree of information provided in the SA on the legal and institutional frameworks which are relevant to the main activities supported under the Project (road upgrading, infill planting of oil palm, provision of extension services and grants for small-scale community infrastructure and training) is appropriate and meets the requirements of OP 4.10. Land tenure and asset ownership are the key Project issues where understanding of customary law, leadership, decision-making and dispute-resolution processes is essential. In Management's view, the SA does a thorough job in assessing these issues in the local context and in the context of the main activities supported under the Project.</p> <p>With respect to key policy requirements, OP 4.10 states that "<b><i>the level of detail necessary to meet the requirements [...] is proportional to the complexity of the proposed project and commensurate with the nature and scale of the proposed project's potential effects on the Indigenous Peoples, whether adverse or positive</i></b>".<sup>1</sup></p> <p>Key to the operationalization of these requirements was the engagement of qualified social specialists with extensive expertise with the groups living in the Project areas. As recognized by the Panel, the SA and the BA were undertaken by "two leading scholars specializing in PNG, with particular expertise in the oil palm sector and fluent in Tok Pisin." They and their team were also fluent in other languages and dialects to support discussions when needed. Given their unique background, the social scientists were well able to assess the relevance of information and the appropriate level of cultural detail to be included in the SA.</p> <p>The SA recognizes that "Village Oil Palm (VOP) blocks on village land are governed by the principles of customary land tenure with clan leaders controlling the allocation of land for export cash crops. Clan agreements to the planting of individual oil palm holdings are either informal social contracts or are outlined in Clan Land Usage Agreements (CLUA). A CLUA is a signed agreement between a clan and an individual acknowledging the latter's right under native law and custom to have access to the land to plant oil palm and receive the produce and resultant income of the palms for the life of the individual." The SA includes an assessment of land tenure conflicts between customary landowners and other growers and provides recommendations on appropriate instruments to resolve these conflicts and strengthen the tenure rights of growers on non-clan land.</p> <p>The SADP Resettlement Policy Framework, also prepared by the authors of the SA, includes provisions for settlement of land-related disputes that are in alignment with customary leadership and dispute resolution practices.</p> <p>Most native Papua New Guineans have their traditional communities/customary lands somewhere in the country (whether they reside there or not). National legislation, supporting customary and traditional lands, applies equally to all of them. The PNG National Constitution guarantees respect for customary laws and customary land rights, and a constitutional mandate of Papua New Guinea to</p>

<sup>1</sup> OP 4.10, Paragraph 7.

No.	Issue / Finding	OP	Comment/Action
			<p>adopt Papua New Guinean ways in the pursuit of development. These references are to be found in the preamble of the National Constitution as part of the National Goals and Directive Principles. This situation is significantly different from one where an ethnic minority may not have any legislation supporting its customary land claims.</p> <p>The SA team recognized the most relevant ethnic, linguistic and cultural differences that might apply at the level of beneficiary, non-migrant communities (i.e., the customary land owners). They also identified a range of intra-community issues relevant to achieving the Project development objectives in the Project areas. Among different ethnic communities in the Project areas, there are many commonalities in areas relevant to the Project. Sub-group issues such as the vulnerability of women, lack of tenure security or lack of access to clan land were deemed highly relevant to the Project scope and consequently received the greatest attention.</p> <p><b>Action:</b> No action required.</p>
2.	<p><b>Gathering Baseline Information</b></p> <p>The Panel could not find adequate evidence and information in the Social or Beneficiaries Assessments to support the conclusion about the relative homogeneity of various affected indigenous groups. It is the Panel's view that a more thorough treatment of the extent to which different communities rely on alternative livelihood sources (e.g., cash crops, gardens for home and local market, fishing, hunting), as well as maps delineating the areas inhabited by different ethno-linguistic groups, would have been helpful and appropriate.</p> <p>The Panel is of the view that a more thorough analysis of the characteristics of the various Project-affected ethnic groups, especially with regard to key issues affecting the Project (e.g., land tenure and inheritance, customary decision-making processes, practices regarding food gardens) should have been included in the Social and Beneficiaries Assessments before concluding that these groups were "<i>relatively homogenous</i>." The absence of key baseline information is a shortcoming of these assessments, which the Panel finds not to be in compliance with OP 4.10.</p>		<p><b>Comment:</b> In Management's opinion, substantial relevant information (baseline and otherwise) was and is continuing to be collected, which has appropriately informed Project design at different stages and which will facilitate monitoring and evaluation of key Project objectives.</p> <p>In many ways, the local communities and the migrants in the Land Settlement Schemes now share significant commonalities in key areas affecting the Project. Nevertheless, differences have not been ignored and are discussed in both the SA and BA.</p> <p>The differences that were covered include: contrasts between patrilineal and matrilineal societies (highland migrants and local communities) as well as how these cultural dimensions have changed as a result of the introduction of cash crops (including oil palm) and the cash economy. The Project areas have experienced rapid change and there has been considerable contact/intermarriage between the different groups over time. Project documents clearly recognized that smallholders are not homogenous and a variety of "sub-groups" within communities have been identified depending on the level of vulnerability, land-tenure arrangements, etc.</p> <p>By providing specific recommendations for each group, the SA has taken care to not only look at differences between ethnic groups, but ones within the same group. A broader analysis of the constraints to and opportunities for increased smallholder production has been carried out. The different ethnic groups have been recognized and discussed, but ethnicity was not considered as significant a factor in terms of explaining key constraints faced by the smallholders as compared to other factors.</p> <p>The SA gathered qualitative and quantitative information through survey interviews, workshops, and focus groups with key beneficiaries in all three Project areas and provided detailed guidance to carry out a baseline survey. A strong focus was put on understanding local community needs and increasing participation in the Project in order to develop the basis for the assessment in the SA.</p> <p>It is Management's view that the SA gave appropriate attention to such key issues in the communities as inheritance, land tenure, and subsistence and income generating strategies relevant to the</p>

No.	Issue / Finding	OP	Comment/Action
			<p>objectives of the Project and different groups.</p> <p>A separate baseline study was completed for Component 2 (Local Governance and Community Participation) of the SADP in November 2009. A more comprehensive baseline survey was also included in the Project design. The SA provided detailed guidance on the information that should be collected as part of this broader baseline study which was to have been completed during the early stages of implementation. There have been significant delays in recruiting consultants for this work as this consultancy had to be advertised three times in order to identify qualified consultants. The contract for the comprehensive baseline survey, which forms part of a monitoring and evaluation consultancy, is expected to be awarded by November 2011.</p> <p><b>Action:</b> No action required.</p>
3.	<p><b>Identification of Project Stakeholders and Elaboration of a Consultation Process with Indigenous Peoples</b></p> <p>The Social Assessment identifies various stakeholder categories to be consulted, although not in terms of specific indigenous communities.</p> <p>The Panel finds that the Social and Beneficiaries Assessments elaborate a consultation process to be conducted at each stage of the Project as required by OP 4.10. However, the Panel finds that the Consultation Framework is not culturally appropriate given the shortcomings in the review of the legal and institutional framework and gathering of baseline information on indigenous communities, and therefore does not comply with OP 4.10.</p>		<p><b>Comment:</b> It is Management's view that consultations, both during preparation and implementation, have been conducted in a culturally appropriate manner.</p> <p>The SA carefully distinguishes among a variety of stakeholders, and much of this analysis focuses on land tenure and/or access to land. In this context more emphasis is put on vulnerable groups within all communities (women, youth, the elderly, and caretakers) than on differences between ethnic, linguistic and cultural groups. Ethnic and cultural differences are fully recognized in the SA and several sections discuss these in detail. This information is culturally relevant for considering ways to provide appropriate services to beneficiaries and, therefore, is also relevant to the Project.</p> <p>Management recognizes that the SA fell short in not explicitly describing a Consultation Framework under that heading. During implementation, however, specific consultation procedures have been developed for key activities (such as for the 2011 road works consultations) and Management believes that these consultations have been undertaken in a culturally appropriate manner.</p> <p>Consultations are being conducted by OPIC officers who themselves are Indigenous People, living in the Project areas. Because the OPIC officers come from the same or similar communities, they are aware of what is, or is not, culturally appropriate (this is not the case of a dominant majority imposing inappropriate community engagement on an ethnic minority). There is no evidence to indicate that OPIC officers have conducted consultations in culturally inappropriate ways.</p> <p>During implementation agreement must be given to various project activities, including improvements of access roads and assistance with smallholder infill planting. Smallholders participating in infill planting are required to be in possession of a CLUA for the block of land being proposed for infill planting. In VOP areas, smallholders that provide agreement to have their roads repaired must do so in the presence of their clan leaders. Clan leaders must also sign off to provide agreement to the proposed road works.</p> <p>Management acknowledges that OPIC officers' capacity to properly document formal and informal consultations needs to be improved. Management has supported and continues to support OPIC in strengthening its capacity to undertake and document consultations. OPIC has recently recruited a Communications Officer to further improve and strengthen its communications in this regard.</p>

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			<p><b>Action:</b> The Bank will provide support to assist OPIC in developing an overall Consultation Framework and ensuring that it is implemented across the three Project areas.</p>
4.	<p><b>Assessment of Effects of the Project on Indigenous Peoples</b> The Panel finds that the Social Assessment identified potential adverse and positive effects of SADP in accordance with OP 4.10. However, it is the Panel's view that, had the legal and institutional framework been analysed in full, including conducting and providing robust baseline information and carrying out an adequate consultation process, the identification of potential adverse and positive effects may have been more thorough.</p>		<p><b>Comment:</b> Management concurs with the Panel's view that the SA identified potential adverse and positive effects of SADP in accordance with OP 4.10.</p> <p><b>Action:</b> No action required.</p>
5.	<p><b>Identification of Measures to Avoid Adverse Effects and Ensure that Indigenous People Receive Culturally Appropriate Benefits</b> The Panel finds that the Social Assessment does identify some measures to avoid, minimize, and mitigate adverse effects and to ensure that indigenous people receive culturally-appropriate benefits under the Project. However, consultations with the relevant stakeholders about the adequacy and appropriateness of the proposed Project design were not carried out in compliance with Bank policy.</p>		<p><b>Comment:</b> Management agrees that the SA identifies measures to avoid, minimize, and mitigate adverse effects and to ensure that Indigenous People receive culturally-appropriate benefits under the Project. Management believes that the Project design reflects the concerns of the beneficiaries.</p> <p>The Panel notes that, "Adequate consultations and literature review would likely have resulted in greater attention to the importance of non-cash crop gardening and could also have identified ways to mitigate the problems associated with cash payments in the Oro region (paragraph 189)." Management believes that the SA/BA paid due attention to the importance of food gardens and, as acknowledged by the Panel, there are measures to ensure that food gardens are not converted to oil palm under the infill program unless smallholders have adequate land. Management maintains that the main objective of increasing income from oil palm, the principal cash crop in the Project areas, remains important and culturally valid for the beneficiary communities.</p> <p>The Project is primarily a smallholder oil palm project. As noted in the PAD, it was felt that a Project focusing on food crops would be difficult to implement due to transport and marketing obstacles and the long period of time that would be required to establish appropriate extension services. These factors would essentially require a completely different project rather than the one that was being designed.</p> <p>Food insecurity is not a major concern in the Project areas. As noted in the SA "most Land Settlement Scheme (LSS) and VOP smallholders grow sufficient food to meet most of their food requirements." The SA does however recognize that declining access to gardening land and a greater reliance on food purchases has the potential to undermine food security on the Land Settlement Schemes, particular in cases where families on Land Settlement Scheme blocks have planted their full blocks with oil palm. These households would become vulnerable if palm oil prices were to plummet, if road conditions deteriorated to the point where roads</p>

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			<p>become regularly impassable to fruit collection trucks and if the State, private companies or customary landowners tighten access to garden land. PNG OPRA is currently undertaking a study to improve food security and marketing opportunities among smallholders residing on the Land Settlement Schemes which includes investigating the optimal planting arrangements for oil palm to facilitate intercropping of food crops.</p> <p>OPIC field staff (all of whom are themselves Indigenous People) have the primary responsibility for undertaking consultations during implementation (including field days, formal and informal meetings, radio programs etc.). OPIC officers have lived in the Project areas for years, are not outsiders to the local culture and know how to relate in a culturally appropriate way with the local communities.</p> <p>Management agrees with the need for improved documentation of consultations and the need for continuing/ongoing consultation (formal and informal).</p> <p><b>Action:</b> The Bank will continue to support OPIC in improving documentation of consultations.</p>
6.	<p><b>Free, Prior and Informed Consultation</b>  <b>Documentation of Consultation Process</b>            Although the Beneficiaries Assessment proposes a framework, which is also included as an annex in the Project Implementation Manual (PIM) that emphasizes the importance of consultation including with smallholders at each stage of project preparation and implementation, the Panel could not find evidence that such a framework was elaborated on and applied at each stage of Project preparation and implementation.            For example, according to the PAD, the Project intended originally to include both oil palm infilling and replanting but there was a shift resulting in exclusive support for infilling. The Panel finds no record of consultation concerning the Project's removal of replanting as a component, despite the apparent interest in replanting expressed by the groups consulted early on in the Project cycle.            The Panel finds that the absence of consultation with</p>		<p><b>Comment:</b> As previously acknowledged in the 2010 Response, Management recognizes that there was limited formal documentation of the consultations undertaken during Project preparation. See Item 3 above regarding the Consultation Framework.</p> <p>Community engagement on the objectives of this Project began in 2000, towards the end of the World Bank-funded Oro Smallholder Oil Palm Development Project.<sup>2</sup> Information on the Project has been provided in many forms. Following the strong oral tradition in the country, information on the Project during its preparation was mainly provided verbally through radio shows (culturally appropriate given the low levels of literacy), OPIC field days and during meetings and focus group discussions undertaken for the SA, EA and related studies. The SA, the EA, and related documents were publicly disclosed prior to appraisal as required by Bank policies.<sup>3</sup> Consultation has been free and Management has not identified any signs of coercion, intimidation or undue pressure in relation to the community consultation process.</p> <p>Consultations during implementation started with the Project launch in March 2009 and are being undertaken for all major activities under the Project, including infilling and road works. When directly affected persons are asked if they wish to voluntarily give their agreement for the Project benefits to proceed on their lands (as has been the case in the consultations undertaken and documented for the 2011 road works program), the overwhelming sentiment is "yes." See Annex 2 for a summary of consultations undertaken during implementation.</p> <p>With regard to the shift in emphasis from infill planting and replanting to only infill planting, Management would like to clarify that there was no shift in emphasis but only a change in financing arrangements. During Project identification, financing for both replanting and infill was considered under SADP. The May 2006 Aide Memoire indicated that during further preparation and pre-appraisal, there would be a need to assess whether smallholders required Project assistance for replanting in addition to support from the milling companies. Subsequently the milling companies indicated that they would</p>

<sup>2</sup> Refer to Summary of Consultations provided in Annex 2 of the 2010 Management Response.

<sup>3</sup> The safeguards documents were made available, in English, in Port Moresby and Washington, on February 22, 2007.

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	smallholders on the change in Project design signified by the shift in Project emphasis from both infilling and replanting to only infilling, did not comply with OP 4.10.		<p>continue to support replanting under their regular programs and hence there was no need to allocate IDA funds for replanting. The shift in financing arrangements for replanting was communicated during the February 2007 appraisal, but Management agrees that these changes could have been more broadly communicated to smallholders.</p> <p>The Panel also notes that "New Britain Palm Oil Group, which took over the management of Higaturu Oil Palm Limited in Oro province in April 2010, has reservations about the infilling program and is giving priority in allocating seedlings and other supplies to replanting rather than infilling under the Memorandum of Agreement for Infilling Credit Component." Management wishes to clarify that the takeover of Higaturu Oil Palms by New Britain Palm Oil, Ltd. could not have been foreseen in 2007 when the Project was approved. Furthermore, Higaturu Oil Palms has recently indicated that it has shifted its position regarding infilling and would support infilling in Oro.</p> <p><b>Action:</b> No action required.</p>
7.	<p><b>Consultation with Customary Leaders</b></p> <p>The Panel could not find evidence in Project documents that the consultations, when conducted, specifically sought the input of clan leaders other than the ones represented in the modern leadership groups (particularly Local Level Groups).</p>		<p><b>Comment:</b> The SA authors talked to numerous clan leaders during preparation. Clan leaders were involved in key focus groups. Management agrees, however, that there is a lack of documentation that specifically indicates that the inputs of clan leaders were sought in consultations during preparation.</p> <p>It is important to note that the authors of the SA/BA made an attempt to speak with a diverse cross section of the communities, not just clan leaders. Over reliance on information from traditional leaders can also pose problems. According to the authors of the SA, sometimes the clan leaders themselves are accused by the community of leasing out clan land without proper consultation. Because of this, widespread community consultation was undertaken to include a diversity of community representation.</p> <p>OPIC's consultations during implementation have involved clan leaders and this has been documented. For example, the consultations on the 2011 road works program have required clan leaders to explicitly sign off on the road works forms in VOP areas. The infill program also requires a CLUA which must be signed by clan leaders.</p> <p><b>Action:</b> The Bank will continue to provide guidance to OPIC to systematically improve documentation of consultations.</p>
8.	<p><b>Sharing of Information in Appropriate Form and Language</b></p> <p>The Panel finds that none of the documentation associated with the Environmental Assessment indicates whether any relevant material was provided in a timely manner prior to consultation and in a form and language understandable and accessible to the groups being consulted, as required by OP 4.01. Furthermore, while the EA and related documentation were publicly disclosed in Port Moresby and Washington on</p>		<p><b>Comment:</b> In the Management Response to the Request for Inspection, Management acknowledged that the requirements of OP 4.01 (Environmental Assessment) were not fully met, in that the only information shared with stakeholders during consultations for the EA was in verbal form, and that the EA documents had been disclosed only in English in the Project areas, not in Tok Pisin. Following the strong oral tradition in the country, as also recognized by the Panel, the consultations with smallholders for the EA and related studies were conducted verbally in Tok Pisin.</p> <p>As per Management's commitment in the Response, the Bank has ensured that key documents (including a summary of the EA) were translated and made available in the Project areas and that OPIC radio programs have communicated key aspects of the Project to smallholders. Now that Project activities are being implemented more targeted and meaningful consultations in Tok Pisin and other appropriate languages are being undertaken for the road works and as part of the ongoing infill planting application and approval process.</p>



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	<p>February 22, 2007, and while formal notification to the public announcing where the documents were disclosed was published by OPIC in the press on the same day, the documents were made available only in English, and not in a form and language understandable and accessible to the groups being consulted. This does not comply with the free, prior, and informed consultation requirement of OP 4.10.</p> <p>The Panel thus finds significant shortcomings in the consultation process. In particular, Management failed to provide relevant information prior to consultations in a culturally appropriate manner, form, and language. This does not comply with OP 4.10 and OP 4.01.</p>		<p>These discussions include the substantial issues raised in the EA: such as impacts, mitigation and grievance mechanisms.</p> <p><b>Action:</b> No action required.</p>
9.	<p><b>Evidence of Broad Community Support</b></p> <p>The Panel was unable to find in Project documents, including the Social and Beneficiaries Assessments, any information documenting how broad community support was reached. The Panel finds that this is not in compliance with OP 4.10.</p>		<p><b>Comment:</b> Management agrees that there was limited documentation of explicit broad community support. Nevertheless, 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.</p> <p>There has been consistent demand, expressed formally and informally, by the beneficiary communities for the benefits of the Project and, if anything, a frustration that these cannot be greater and delivered sooner.</p> <p>Management is aware that unrealistic expectations from beneficiaries can also pose risks to the Project and has sought to address this proactively starting from discussions during the SA consultations and continuing with the Communications Strategy that OPIC is in the process of implementing. In Management's opinion, expecting and desiring more than the Project can deliver is quite different from opposing the Project objectives of increasing local incomes for oil palm smallholders.</p> <p>As mentioned in Item 3 above, during implementation, agreement must be given to various Project activities, including improvements of community roads and assistance with smallholder infill planting.</p> <p>Local support for the Project continues to be documented. Ongoing consultations are being undertaken for all major activities under the Project, including infilling and road works (see Annex 2). During the last year, more than 20 general field day consultations were held, and over 75 additional consultations were held to obtain voluntary agreement from communities for road repairs. Grievance forms exist and have been explained in the local communities. Approximately 80 other meetings were held at the request of villagers and clan leaders to discuss matters such as infill planting, CLUA forms, etc. This is in addition to a large number of impromptu consultations on Project issues between OPIC extension officers and growers.</p>

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			<p>Management has provided support to OPIC to help strengthen its grievance redress mechanism, its guidelines for consultations and its communication strategy.</p> <p><b>Action:</b> No action required.</p>
<b>Poverty and Livelihood Impacts</b>			
10.	<p><b>Poverty Reduction</b> The Panel finds that the Project aims at increasing the income of smallholders and thus complies with Bank Policy on Poverty Reduction OP 1.00.</p>		<p><b>Comment:</b> Management concurs with the Panel's finding.</p> <p><b>Action:</b> No action required.</p>
11.	<p><b>Economic Assessment and Analysis of Profitability</b> It is the Panel's view that the Project design should have made provisions to respond to the differences among the Project areas, so that the smallholders receive appropriate economic, social, and cultural benefits from the Project. The Panel finds this not to be in compliance with OMS 2.20 and OP 4.10. Considering the decades of work supported by the Bank in the oil palm sector in Papua New Guinea, in partnership with oil palm companies, and the companies' important role in implementing the Project and their direct impact on smallholder income, the Panel finds that Management did not conduct appropriate due diligence of the companies' institutional and financial viability. The Panel finds this not to be in compliance with OMS 2.20 and OP 10.04.</p>		<p><b>Comment:</b> Management believes that the Project design has suitable provisions to respond to observed differences in productivity and profitability across the three Project areas and is consistent with OP 4.10 and OMS 2.20 in this regard.</p> <p>Sub-component 1c (agricultural extension services) includes appropriate provisions to ensure that the Project responds to differences in productivity across Project areas. This sub-component includes the provision of a consultant experienced in designing and managing extension programs. The Project design allows for the Extension Specialist to work with each of the OPIC Project Offices to develop and implement awareness and education programs for smallholders and to improve the effectiveness of extension services. The specific approaches that will be needed in the three Project locations were not set out in the Project documents. This was intentional as Management recognized the importance of a participatory approach to improving extension services. Further, Management maintains that this is consistent with OMS 2.20, which states that "Flexibility is particularly important for projects in which the implementation process cannot be determined in advance with great precision (e.g., rural development and family planning projects)."</p> <p>The SADP Extension Specialist commenced his assignment in late June 2011. OPIC is now undertaking a reorganization exercise to increase harvesting rates and address productivity issues. The reorganization is being done in a participatory manner involving the growers associations and the milling companies and in a manner that ensures that OPIC staff takes ownership of the reorganization. Under the proposed reorganization OPIC Divisional Field Offices will become responsible for their operational budgets, and production levels in each division will determine the budget available to the Divisional Field Offices to manage their extension activities. The proposed reorganization, which will officially be implemented from January 2012, also aims to improve the coordination between the milling companies' smallholder affairs departments and the growers associations. Management would also like to clarify that approaches to improving productivity, including with regard to fertilizer application and FFB collection schedules, are developed separately in each Project area in close coordination with the milling companies, PNG OPRA, the growers associations and under the overall coordination of the Local Planning Committees.</p> <p>There are several other aspects of Project design that respond to differences across the Project locations that will have an impact on smallholder incomes and productivity. Sub-component 1b (Road works) of SADP includes the provision of a road maintenance plant in the Biella Project area. The need for the plant was identified at appraisal since the circumstances in Biella required specific</p>

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			<p>arrangements due to its relative isolation and weak local contractor capacity.<sup>4</sup> In Oro a special provision was included for the construction and rehabilitation of 105 km of roads which were left incomplete after the AusAID-funded PNG Incentive Fund project had to be aborted. These roads will serve about 1,000 smallholders who are producing oil palm but who currently do not have adequate road access.</p> <p>Management believes that necessary steps have been taken to ensure sound record keeping and accounting on the infill loans and that the matter does not require a differentiated approach for the three Project areas. Management wishes to clarify that it is aware of previous problems with record keeping in Oro, in relation to housing loans under a scheme promoted by the Rural Development Bank in the early 1980s.<sup>5</sup> To ensure adequate record keeping for the infill loan component of the Project, specific provisions have been included in the Infill Memorandum of Agreement signed on August 15, 2011 between OPIC, PNG Microfinance Limited and the respective milling companies.</p> <p>Management considers that the institutional analysis undertaken during appraisal for the SADP was in accordance with the requirements of OMS 2.2 (paragraphs 26-32).<sup>6</sup> As part of the SADP SA an institutional assessment was undertaken for all organizations/bodies that would have a direct role in implementing activities under the Project. This included local level governments, local community organizations, growers associations, OPIC and PNG OPRA. As OPIC was the main entity responsible for implementation, the Bank assessed OPIC's capacity to implement the Project activities as well as its financial management and procurement capabilities. Similarly, due to their involvement in Component 2, the capacity of local level governments was also assessed.</p> <p>Management did not consider it relevant to review the corporate governance of the milling companies since the companies were not going to be directly implementing Project activities and, moreover, the concerned companies had a long track-record in the sector in PNG and there was no reason for Management to question their financial viability. Some of the existing milling companies in the Project areas are listed in the stock exchange and hence their financial situation is disclosed.</p> <p>In the context of SADP, the milling companies are facilitating the infill loan program but are not responsible for implementing Project activities. Under the infill program, loan agreements will be executed between PNG Microfinance Limited and individual smallholder growers to finance infill planting. The milling companies will provide seedlings, fertilizer, tools, and chemicals as recommended by OPIC and they will invoice PNG Microfinance Limited for all services and</p>

<sup>4</sup> So as to ensure adequate funds were available to cover management, operation and maintenance costs of equipment, the Bialla road maintenance plant was to be procured once financing arrangements for the Road Maintenance Trust Fund were finalized.

<sup>5</sup> See ICR of Oro Smallholder Oil Palm Development Project, page 7, paragraph f.

<sup>6</sup> OMS 2.20 states "Institutional aspects of Bank-financed projects comprise (a) the organizational, managerial, administrative and legal requirements for implementation and operation, and (b) the longer-term institutional development objectives. The latter objectives could either address a broad range of institutional issues of an agency or group of agencies, or issues related to sectoral or sub-sectoral organizational structures, or be limited to certain aspects of the agency's operations." OMS 2.20 also states that "appraisal should, therefore, evaluate how institutional aspects were taken into account in the project design, the alternatives considered, and the reasons for the final proposed design. This requires a review of the implementing agencies, the sector organization, broader institutional conditions (civil service or other employment regulations, budgeting and procurement procedures) which affect the sector, and regional, provincial and local level organizations, if pertinent."

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			<p>material. The milling companies will collect loan repayments as a deduction from the payment made to the infill participants for oil palm fruit delivered to the milling companies and forward the loan repayments on to PNG Microfinance. The other activities noted by the Panel (collecting and milling fruit and paying growers for the fruit delivered to the mills) are all regular activities of the companies and are not specific to the SADP.</p> <p>It is Management's view that the financial analysis undertaken for SADP was consistent with the requirements of OMS 2.20 and OP 10.40.<sup>7</sup> Management did not undertake a separate financial analysis of the plantations owned by the milling companies (company estates) or the companies' milling operations. In the course of preparing the Project, Management verified that the milling companies had the milling capacity to process the additional fruit that would be produced by the Project.</p> <p>The Bank has over 40 years experience in the sector in PNG and has a good understanding of the economics and overall viability of the sector; indeed the overall profitability and attractiveness of the smallholder oil palm production model was confirmed in the Panel Report. In addition, the detailed farm budget models prepared as part of the Project design and appraisal process are based on a solid understanding of costs, prices and marketing arrangements.</p> <p>As elaborated in the PAD, the Financial Internal Rates of Return (FIRRs) for the infill program were computed using farm budgets and the returns were assessed as being robust. The costs of all the inputs provided by the companies were included in the smallholder farm models. The yield profiles and assumptions regarding labor requirements in the farm models were based on the best available information provided by OPIC and PNG OPRA. As mentioned in the PAD, the assumed 2006 Crude Palm Oil price of US\$410/ton was considered to be conservative due to the projected increase in demand for bio-fuels. This has indeed been the case with average Crude Palm Oil prices of US\$901/ton in 2010.<sup>8</sup> The financial analysis was supplemented by a Credit Analysis to assess whether smallholders participating in the infill program could afford the debt that they would incur and whether the loan terms allowed sufficient cash flow after debt repayment for their livelihood requirements and other obligations.</p> <p>Management would like to clarify that the <b>intended beneficiaries</b> of the Project are the smallholder oil palm growers – and not the milling companies – and that the economic and financial analysis for the Project appropriately focused on the impacts on the intended beneficiaries of the Project. Management confirms that, when information on returns to company estates and mills was requested by the Panel, Management recommended that the Panel should</p>

<sup>7</sup> As stated in OMS 2.20, "the purpose of the financial appraisal by the Bank is to ensure the financial viability of the project and sound financial management of the project agencies, thereby promoting sustainable development in the borrowing country and protecting the Bank's own accountability and financial standing." OMS 2.20 further states that, "the financial appraisal always includes a review of the reliability of the project's financing plan and of the adequacy of the accounting and auditing arrangements. In addition, the financial appraisal may include consideration of some or all of the following: project profitability; the financial effect on the intended beneficiaries; the impact on the government budget; the financial management capability of the implementing agencies and the need for any technical assistance; the appropriateness of financial autonomy given to the project agencies and the need for any organizational changes; the adequacy of the proposed standards of financial performance to be achieved during project implementation and operation; and recommendations for loan covenants covering financial performance."

<sup>8</sup> DECPG Commodity Market Review, 12 September, 2011.

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			<p>directly contact the companies for the information since this was confidential information maintained by the companies which neither the Bank nor OPIC had access to. OPIC is a smallholder extension service provider; it does not have access to the companies' proprietary information. Similarly, as the Bank is not funding activities in the mills or on the company estates it would not have access to proprietary information either.</p> <p><b>Action:</b> No action required.</p>
12.	<p><b>Improving Livelihoods: Savings and Income Diversification</b> Savings and income diversification are key measures for avoiding potentially adverse effects on the indigenous communities--as recommended in the Social Assessment. Since the Project did not incorporate measures recommended in the Social Assessment aimed at avoiding and mitigating adverse impacts on indigenous smallholders growing oil palm, the Panel finds that Management did not comply with OP 4.10.</p>		<p><b>Comment:</b> Management would like to clarify that as per the recommendations of the SA, activities to encourage savings and income diversification were considered during Project preparation. As elaborated in Section 5 of the PAD (Alternatives Considered and Reasons for Rejection), it was felt that a project focusing on food crops would be very difficult to implement due to the lack of transport and marketing difficulties and the long duration that would be required to establish appropriate extension services. A livelihoods approach supporting private economic activities at the community level was also discarded as it could have undermined emerging micro-finance institutions in the target areas.</p> <p>While acknowledging that Management considered the establishment of a savings mechanism during the design of SADP, the Panel believes that "Management should have continued to give priority in promoting the importance of identifying effective means of savings."</p> <p>Management would like to clarify that this is in fact being done under the Project. Table 2.1 on p.13 of the PIM describes a range of measures to be undertaken under the Project to improve smallholder welfare. This includes "Strategies to be developed to encourage income and employment diversification in the oil palm scheme areas, including small business and employment-oriented skills training. These should include a focus on opportunities for youth and women."</p> <p>Strategies are being developed under the Project to improve the financial literacy of growers and encourage income and employment diversification, including small business and employment-oriented skills training. The implementation of these activities is in the early stages as the Extension Specialist who is responsible for overseeing implementation of these activities only commenced his assignment in late June 2011. The Skills Development Trust Fund based in Kimbe, West New Britain, is currently assisting the Hoskins and Biella Projects to form women's groups for skills training. This will be expanded to the Popondetta Project soon. In addition, OPIC, together with Project partners, is continuing to explore ways of encouraging savings. Discussions have taken place between OPIC, PNG Sustainable Development Ltd and PNG Microfinance Ltd on the need for suitable savings products in the Project locations.</p> <p>As Management previously noted in the 2010 Response, the upgrading of the smallholder access roads will probably have the greatest impact in terms of facilitating diversification. It is widely recognized that the oil palm access roads have provided the infrastructure necessary for marketing of other cash crops, including cocoa and coffee. Management takes seriously concerns about the negative effects of cash injection and will continue to follow up with OPIC regarding the need to ensure that social issues are addressed as part of OPIC's overall extension strategy.</p> <p><b>Action:</b> No action required.</p>
<b>Environmental Impacts</b>			

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13.	<b>Adequacy of the Environmental Assessment</b> The Panel did not identify any unreliable sources in the Environmental Assessment, as the Requesters claimed, nor did it receive from the Requesters any specific examples of such sources. Through a provision for biannual independent environmental and social audits added to the PIM, Management has also opened itself up to constructive comment from stakeholders. The Panel finds that the inclusion of environmental management and mitigation tools and the reliability of sources used in the Environmental Assessment comply with OP 4.01.		<b>Comment:</b> Management concurs with the Panel's findings.  <b>Action:</b> No action required.
14.	<b>"Infilling" versus "Expansion" and its Consequences</b> It is the view of the Panel that the term infilling has not been used by Management to deliberately obfuscate oil palm expansion. The Panel notes the Requesters' concern is not only about the environmental impact of infill planting but also its livelihood impacts if infill blocks were developed in areas that <i>"provide economic and social services"</i> . The revised Infill Planting Approval Form of May 2011, however, does not allow conversion of subsistence gardens into infill blocks if these gardens are the only ones available to the applicant.		<b>Comment:</b> Management concurs with the Panel's findings.  <b>Action:</b> No action required.
15.	<b>Land Erosion, Topsoil Depletion and Siltation</b> The Panel finds that the Project includes mitigation measures related to land erosion, topsoil depletion, and siltation and complies with OP 4.01.		<b>Comment:</b> Management concurs with the Panel's findings.  <b>Action:</b> No action required.
16.	<b>Chemical and Biological Pollution of Waterways</b> It is the Panel's view that		<b>Comment:</b> Management concurs with the Panel's findings.  Management had agreed to supplement the EA with an Effluent

No.	Issue / Finding	OP	Comment/Action
	<p>Management recognizes the potential for chemical pollution associated with oil palm development and has taken all reasonable steps in the design of the Project to ensure that any adverse impacts from fertilizer runoff are minimized. The Panel finds that these measures comply with OP 4.01.</p> <p>The Panel agrees with Management's view that the lack of adequate analysis of impacts from mill effluent does not comply with OP 4.01. The Panel notes and appreciates that the Agreed Action Plan provided in the Effluent Study addresses the issue of potential negative effects from mill effluent and, when implemented, could bring the Project into compliance with OP 4.01. Given the challenges in implementing environmental regulations in Papua New Guinea, as noted in the Effluent Study, the Panel notes that Management should have undertaken the study much sooner.</p>		<p>Study (2010 Management Response, paragraph 129). The Effluent Study has now been completed and the report has been disclosed.<sup>9</sup> As a result of the Effluent Study, a Palm Oil Mill Effluent Management Action Plan was developed and agreed to. This Action Plan is now being implemented.</p> <p><b>Action:</b> Management will continue to closely support and monitor the implementation of the Action Plan.</p>
17.	<p><b>Risk of Deforestation of High Conservation Value Forests</b></p> <p>The Panel finds that the Project's approach in its design to building the capacity of OPIC extension staff conforms to the requirements of OP 4.04 on Natural Habitats.</p> <p>It is the Panel's view that Management did not fully comply with OP 4.36 in ensuring that the Borrower provided the Bank with an assessment of the adequacy of land use allocations for the management, conservation, and sustainable development of forests which includes an inventory of critical forest areas. Nevertheless, Management has included measures in the Project to prevent conversion or degradation of critical forest areas or related critical</p>		<p><b>Comment:</b> Management concurs with the Panel's findings that the requirements of OP 4.04 and the objectives of OP 4.36 were met.</p> <p>BP 4.36 (Forests) recognizes that an inventory of critical forest areas "is undertaken at a spatial scale that is ecologically, socially and culturally appropriate for the forest area in which the project is located." In the 2010 Response, Management noted that 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 Infill Planting Approval Form being used under the SADP explicitly exclude sensitive sites and provide explicit criteria against which every proposed site must be evaluated. Management noted that this assessment approach under the Project is consistent with BP 4.36, paragraph 4. 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. Under an ongoing project between the World Bank and the European Space Agency GIS maps showing the different classifications of vegetation cover in the three Project areas are being produced.</p> <p>OPIC has updated the Infill Planting Approval Form and the Project Implementation Manual and is in the process of recruiting Environmental and Social Auditors.</p>

<sup>9</sup> Papua New Guinea Smallholder Agriculture Development Project "Effluent" Study ([http://siteresources.worldbank.org/INTPAPUANEWGUINEA/Resources/Effluent\\_Study.pdf](http://siteresources.worldbank.org/INTPAPUANEWGUINEA/Resources/Effluent_Study.pdf)).

No.	Issue / Finding	OP	Comment/Action
	habitats; the Panel finds Management to be in compliance with the objective of OP 4.36 in this respect.		<b>Action:</b> No action required.
<b>Institutional Sustainability</b>			
18.	<b>Road Maintenance Trust Fund (RMTF)</b> The Panel finds that Management failed to comply with OMS 2.20 by leaving the design of this essential element of the Project, critical to ensuring the achievement of Project objectives, to the Project's implementation. The Panel finds that Management's proposal of 25% contribution by the smallholders to the RMTF was arrived at without fully assessing smallholders' ability to pay, and most importantly without consultation with the smallholders.		<p><b>Comment:</b> Management agrees that developing a sustainable financing mechanism for road maintenance is critical to ensuring achievement of the Project objectives.</p> <p>As Management previously noted (2010 Management Response, paragraph 96) it became apparent during Project preparation that it would be difficult to reach agreement with the growers on a funding mechanism for road maintenance involving the introduction of a new levy without the roads first being rehabilitated. This assessment led to the deliberate decision during appraisal to carry out a detailed RMTF design study during the Project implementation period.</p> <p>Management believes that deferring the final design of the RMTFs to the implementation phase is aligned with OMS 2.20. Management believes that the only way stakeholders will commit to any type of sustainable financing arrangement for maintaining the smallholder roads is to first upgrade the roads to a reasonable condition. Only then can accurate costs of maintenance be estimated and cost sharing arrangements discussed and finalized.</p> <p>Management reiterates that there was never a risk of a new road maintenance levy being unilaterally imposed on the smallholders without proper discussion and consultation leading to their agreement. In the 2010 Response Management noted that the issue of the RMTFs had been extensively discussed with the growers associations and other stakeholders during preparation, although Management agreed that there could have been broader consultation within the grower community. Some evidence of the consultations is reflected in a letter to the World Bank dated February 9, 2004 from the executive members of the Bialla Oil Palm Growers Association (2010 Response, paragraph 95). Management agrees that if there had been broader outreach on this issue it could have helped avoid some of the misconceptions about the arrangements of the RMTFs and allay some of the concerns in the wider grower community. It was always planned that further consultations with the smallholders would take place as part of the RMTF design study (2010 Response, paragraph 97).</p> <p>The RMTF study is expected to begin by early 2012 and extensive consultations will be undertaken as part of the study. These consultations will include the growers associations and the broader grower community and specifically encourage the participation of women who are underrepresented in the associations. A thorough analysis of routine and non-routine maintenance costs, savings in transport costs, and the willingness and ability of smallholders and other stakeholders to contribute to road maintenance costs will be undertaken as part of the detailed study.</p> <p>Given the preliminary nature of the proposed cost sharing arrangements, Management believes that the level of analysis undertaken during preparation on the RMTs was sufficient and in compliance with OMS 2.20.</p> <p>The preliminary analysis for the RMTFs undertaken during preparation indicated that even if smallholders paid an additional levy for the road maintenance, it would still be profitable for them to</p>



No.	Issue / Finding	OP	Comment/Action
			<p>participate in new infill planting or replanting. As elaborated in Annex 9 of the PAD (paragraph 11 and Tables 2 and 4), estimates of the road maintenance levy (PGK 5-6/ton) were incorporated into the financial analysis by including the levy in the computation of the smallholder farm gate financial prices. Even with the inclusion of the road maintenance levy, the estimates of the FIRR indicated that infill planting was highly profitable, with FIRRs ranging from 22 to 27 percent, depending on the Project area.</p> <p>The model presented in Table 2, Annex 9 of the PAD indicates that contributions to the road maintenance levy in Oro would reduce average annual net incomes by about 8 percent; everything else being equal. However, it would be reasonable to assume that better road maintenance would actually reduce transportation costs due to less wear and tear on the fruit trucks. A mere 10 percent reduction in transport costs (due to better road maintenance and the road levy) would increase the FIRR from 22 to 23 percent and average annual net incomes would be 5 percent higher than the base case in Oro.</p> <p>The impact of improved road conditions on reducing the wear and tear on the road fleet was taken into consideration in the economic analysis for the Project<sup>10</sup> and savings due to this reduction were estimated. These estimates indicate significant costs savings are likely to result from the improved road conditions.<sup>11</sup> For example, the estimates based on information in Tables 2 and 5 in Annex 9 of the PAD indicate that improved road conditions could reduce transportation costs by about PGK 10/ton in Hoskins.<sup>12</sup></p> <p>The 25 percent contribution to the fund from the growers was only a proposal, based on preliminary discussions with growers and other stakeholders. The even 25 percent split that was proposed between smallholders and the milling companies reflected the equal sharing of benefits between growers and the companies.<sup>13</sup></p> <p>Management does not believe that the overall profits of the milling companies should have been considered in estimating cost sharing arrangements for the RMTF. The RMTFs were proposed to fund maintenance of the rural access roads primarily serving smallholders and not the roads serving the estates or plantations operated by the companies. The company plantations are served by plantation roads which are already financed and maintained by the milling companies.</p>

<sup>10</sup> PAD, Annex 9, tables 5 -8

<sup>11</sup> The analysis undertaken during preparation indicated an 80 percent savings on repairs of the road fleet and 50 percent savings on depreciation. It did not include benefits from fuel, time, safety and environmental improvements as a result of improving the roads. The estimates were based on HDM-4, Volume 7: Modeling Road User and Environmental Effects in HDM-4, Bennett C.R. and Greenwood I.D., PIARC and the World Bank, 2001. HDM-4 applies to the design and rehabilitation of sealed roads and it was recognized that the benefits of rehabilitating gravel roads would exceed the percentages used in HDM-4.

<sup>12</sup> Over 27 years the total savings in Hoskins (based on 2006 prices) would be PGK 26.8 million (this is the sum of row 3 in Table 5). Total estimated area of infill planting in Hoskins was 3,500 ha and assuming an average yield of 16 tons/ha based on the yield profile for Hoskins presented in Table 1; the total incremental production in Hoskins due to infill planting would be approximately 1.3 million tons. Incremental production due to productivity improvements was also estimated to be about 1.3 million tons (this is the sum of row 2a in Table 5). This translates into a savings of PGK 10.3/ton.

<sup>13</sup> As per the existing FFB price formula, the payout ratio to growers is 57 percent. At the time of the last price review (2001) the payout ratio was calculated to be 59 percent and at that payout ratio, profits from smallholder fruit were shared equally, 50/50, between the millers and the growers. The milling companies, however, questioned the data used by the consultants to calculate smallholder costs of production and only agreed to an increase of the payout ratio to 57 percent for the smallholder. At a payout ratio of 57 percent the growers are earning a little less than half of the profits from the fruit they supply. However, that is based on the 2001 cost structure and may be materially different now.

No.	Issue / Finding	OP	Comment/Action
			<p>Management shares concerns regarding the impact of implementation delays on establishing a sustainable financing mechanism for road maintenance. During the most recent Implementation Support and Restructuring mission, the Bank discussed possible measures to address the required road maintenance, in light of the delayed RMTF design study. To partly mitigate the risk of a delay in implementing the outcome of this study, it has been proposed that the Project procure three graders, one for each Project area, which should allow the parts of the smallholder road networks that are in fair or good condition, to receive maintenance on an annual basis. Under this proposal, the graders would be available in early 2013 for routine maintenance of the smallholder road network that are in fair or good condition. The proposed arrangements are based on the long, successful experience with the two graders donated to OPIC by the European Union about fifteen years ago. It is proposed that OPIC would own the graders and OPIC's Infrastructure Department would manage their work program in coordination with the Local Planning Committee in each area. The milling companies have agreed in principle that they would operate and maintain the graders, using their own funds. The RMTF study would take into account the availability of the three graders owned by OPIC in formulating its recommendations for sustainable road maintenance.</p> <p>Management also shares concerns with regard to the delay of the FFB price review. The last price review was conducted in 2001 under the previous World Bank funded Oro Smallholder Oil Palm Development Project. The terms of reference for the FFB price review to be funded under the SADP included an update of the price formula and the introduction of annual audits to provide growers with independent verification that the pricing formula is being correctly applied and that they are getting a fair price. Progress with the FFB price review has been stalled since OPIC received notification from the PNG Independent Consumer and Competition Commission (ICCC) alleging contravention of the ICCC Act if OPIC goes forward with study. The matter is now pending resolution by the Department of Agriculture and Livestock and the ICCC. It is hoped that this issue will be resolved soon and that the study may commence after the 2012 elections.</p> <p><b>Action:</b> The Bank will verify that adequate consultations are conducted as part of the RMTF study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial burden to the smallholders.</p>
19.	<p><b>OPIC Extension Activities</b> The Panel appreciates that, within the limits of Management's staffing structure in support of this Project, Management complied with the requirements of OP 13.05 on Project Supervision, paragraph 2b, namely, <i>"Identify problems promptly as they arise during implementation and recommend to the borrower"</i></p>		<p><b>Comment:</b> Management concurs with the Panel's findings.</p> <p><b>Action:</b> No action required.</p>

No.	Issue / Finding	OP	Comment/Action
	<p><i>ways to resolve them.”</i>                      However, as the Bank shifts from supervision to “implementation support”, it becomes even more incumbent upon Management to increase its own capacity to promptly identify problems with a view towards their early resolution, especially in situations where there are major capacity issues in the main implementing agency.</p>		

**ANNEX 2**  
**SUMMARY OF SADP CONSULTATIONS HELD DURING IMPLEMENTATION**  
**Popondetta Project**

Activity	Year			Purpose	Documentation s Exists	
	2009	2010	2011		Yes	No
Field Days		6	3	<ul style="list-style-type: none"> <li>Field days are used to share various types of information with growers including on agronomic practices, available financing services, HIV/AIDS and other social issues etc. Field days also provide a forum for sharing information on SADP and for responding to questions on the Project.</li> <li>During field days SADP grievance procedures are explained in Tok Pisin and forms are displayed.</li> </ul>		✓
Radio Shows are aired weekly and have a wide coverage since most families have radios			22	<ul style="list-style-type: none"> <li>The radio programs address various issues related to growing oil palm. Information on SADP is also provided on these programs periodically.</li> <li>January 3-14, 2011, announcements were made twice a day on the availability of SADP Project Documents (English and Tok Pisin).</li> </ul>	✓	
Consultations to discuss and obtain agreement for road works			30	<ul style="list-style-type: none"> <li>Consultations were completed for 27 roads included in the 2011 spot improvements program and agreement was received from 1,144 people. Voluntary agreement is required from every block holder that will be potentially affected by the SADP road works.</li> <li>Consultations were completed for 3 "In-complete roads" in Oro and agreement received from 241 people.</li> <li>5-6 Grievance Forms are handed out to those who can read English during road consultations and the forms/procedures are explained in Tok Pisin.</li> </ul>	✓	
Grievance Forms explained and distributed			30	<ul style="list-style-type: none"> <li>Consultations held with village leaders and signatories.</li> <li>Grievances received by OPIC so far have been to do with normal OPIC/milling company matters (e.g., fruit not picked up on time, etc.). To date, no SADP-related grievances have been registered in Popondetta.</li> </ul>	✓	
SADP informal consultations with staff about Project when in field			Numerous	This includes people asking OPIC extension officers for information on SADP; Kokoda and Oro Bay Local Level Government Presidents have enquired about the commencement of road works on numerous occasions.		✓
Other Informal meetings			27	Meetings with Local Level Government Presidents and District Administrators to sign the consent forms; SADP and the purpose of the consent forms were explained.	✓	
Initial consultations on infill screening			6	Initial screening process conducted.	✓	

Hoskins Project						
Activity	Year			Purpose	Documentation Exists	
	2009	2010	2011		Yes	No
Field Days/farmer training/demonstration	On-going			Held weekly at various locations every Tuesday, regular training conducted in association with PNG OPRA and milling companies on all aspects of block management and how to maintain high productivity. Information on SADP is provided during the field days.		✓
Radio Shows	On-going			Held weekly every Tuesday at 2:00pm. The program airs a variety of shows from panel discussions to awareness programs. Participation from all stakeholders including OPIC, PNG OPRA, milling companies, PNG Microfinance Limited and the smallholder growers. Information on SADP has been shared on the radio programs.	✓	
Consultation to discuss and obtain agreement for road works			28	Road consultation and meetings held between March and May 2011, attended by 1,055 people. 42 consent forms signed. Grievance forms are handed out to leaders who can read English during road consultations. Grievance forms have also been explained verbally in Tok Pisin and translated copies will be distributed shortly.	✓	
Initial consultations on infill screening			46	Initial screening process conducted	✓	

Bialla Project						
Activity	Year			Purpose	Documentations Exists	
	2009	2010	2011		Yes	No
Field Days		8	11	Attended by 1,150 farmers covering block upkeep, SADP, RSPO, banking services (PNG Microfinance Limited, Bank South Pacific, East New Britain Savings & Loan Society) and health	✓	
Radio Shows		35	40 (planned)	The Bialla Oil Palm Desk Program is conducted weekly on Thursdays at 8:30pm. Shows include pre-recorded role plays; information sharing; announcement of meeting dates for field days and road consultations; and awareness on infill. Planting programs and availability of SADP Project documents are announced.	✓	
Consultations to discuss and obtain agreement for road works			20	Consultations attended by and agreement received from 473 people. Grievance forms are handed out to those who can read English and forms and procedures are explained verbally in Tok Pisin.	✓	
Initial consultations on infill screening			30	Initial screening process conducted	✓	

**ANNEX 3**

**OPIC SADP Grievance Procedure**



## Oil Palm Industry Corporation

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### **Smallholder Agriculture Development Project**

**IDA Credit No. 4374 Project ID No: 079140**

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### **OPIC STANDARD OPERATING PROCEDURE 1.001**

#### **GRIEVANCE PROCEDURE**

1. Recognizing that the majority of OPIC clients are smallholder oil palm growers, in this SOP we refer to "Growers". The procedure, however, applies equally to any aggrieved party that has a legitimate complaint relating to OPIC operations.
2. Growers may lodge grievances at Divisional offices or at the Project Base Office during operating hours from 07:30am to 16:30pm from Monday to Friday.
3. The grievance process will be explained to the Grower. He/she may be provided with oral and printed information on the grievance process (in graphic form showing the steps in the grievance process).
4. The grievance is entered into the Manual Grievance Register at the respective office by the Registers Clerk or any OPIC Manager, Extension Officer or Office Staff.
5. When a grievance is registered, the person reporting the grievance should receive a receipt indicating that they have lodged a grievance, the unique case number for the grievance and the period within which they may expect a response.
6. OPIC aims to resolve all grievances within seven days. If a grievance at divisional level is not resolved within seven days responsibility for the case will be transferred to Project Base Office and the Grower will be advised that his/her case has been transferred.
7. All registered grievances that have been outstanding for more than thirty days will be notified to OPIC Secretariat (General Secretary) on a monthly basis.
8. Once each week details from the Divisional Manual Register will be transmitted to the Project Base Electronic Register (PBER) for archival and analysis purposes.
9. Grievances originating at Project Base and grievances transferred from Divisional Offices should be entered into the PBER on a daily basis by the Registers Clerk (RC).
10. The PBER will include:
  - a. Growers first and last names, Block number and mobile contact
  - b. A description of the nature of the grievance
  - c. How the original grievance was received by OPIC
  - d. The full name of the recorder
  - e. The organization the grievance is being referred to
  - f. The date of the referral
  - g. The First and Last names of individuals that grievances are referred to, including their titles
  - h. Record of corrective actions

- i. Dates of OPIC action / dates of SHA action
  - j. Dates and format of feedback to complainant and any response from the complainant
  - k. Date of closure of grievance
  - l. Details of the closure of the grievance
11. Feed back is given to the Divisions through internal mail and to the Grower by mobile phone and/ or letter.
12. Grievances must often be referred to the milling company's Smallholder Affairs Department (SHA). The prime concern of OPIC staff is that Growers are not shunted back and forth between SHA and OPIC. Any grievance that needs to be referred to SHA more than once will immediately be given a higher priority and responsibility for the grievance will move up the OPIC management structure.
13. The procedure for grievances transferred to SHA:
- a. The grievance must be emailed or hand delivered to SHA within one day by the RC.
  - b. SHA records the grievance on a parallel Register.
  - c. Actions on all referred grievances from OPIC are returned by email to the RC.
  - d. RC records action(s) by SHA and the date of the action in the PBER.
  - e. RC informs grower of action taken by SHA.
  - f. If the grievance is not resolved within two weeks of the transfer of the grievance to SHA the Project Manager will be notified to consult with the SHA Manager.
14. All pending grievances must be constantly followed-up.
- a. The RC has primary responsibility for ensuring all grievances are closed as quickly as possible.
  - b. A committee chaired by the Project Manager will meet quarterly to review grievances received, closed, and pending. Minutes will be recorded and forwarded to the OPIC General Secretary.
  - c. If the grower is not satisfied with actions or experiences significant delays to the resolution of his grievance (more than 4 weeks), he/she has the right to;
    - i. Raise the grievance directly at a higher level; OPIC Secretariat and/or;
    - ii. Pursue other methods of grievance redressal (such as the legal system).
15. There is a need for regular feedback to the grower on how the complaint is being addressed. This should be done by phone/letter as appropriate and at least weekly.
16. Special procedures for grievances regarding SADP in-fill planting and SADP road works relating to land disputes including destruction of gardens or economic trees, and/or other land related disputes.
- a. A complaint should be lodged with OPIC. OPIC will take steps to resolve the complaint as per the normal grievance procedure.
  - b. If it is appropriate, OPIC will arrange a meeting to be held within the community to discuss the complaint. The meeting will be based on customary practices in the local area, depending on the complaint.
  - c. During the meeting, chiefs, elders, and clan leaders discuss and recommend solutions.
  - d. If the grievance cannot be resolved through discussion then the complainant should be advised to pursue the matter through other customary and legal channels. The grievance will be closed in the OPIC register with a notation that the matter was not resolved. SADP work will normally be suspended at locations where there is an outstanding land dispute.





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### **OPIC STANDARD OPERATING PROCEDURE 1.001**

#### **(Rot Blong Bihainim insait Long OPIC 1.001)**

##### **Rot Bilong Stretim Hevi**

1. Luksave long planti ol lilik welpam growa wokbung wantaim OPIC olsem na mipela kolim ol Growa. Tasol dispel rot long bihainim em blong olgeta lain bel hevi wantaim wok bilong OPIC.
2. Growa husat igat belhevi iken toksave long tok inglis ol kolim "Divisional Offices" o Project Base Office insait long taim blong wok 7: 30 long moning igo inap long 4:30 long apinun.
3. Rot long bihainim long autim belhevi bai mipela toksave. Man o meri husat igat belhevi long wok bilong OPIC iken raitim long pepa or outim long maus na bihainim rot bilong autim hevi.
4. Belhevi ol bringim ikam bai rait igo insait long wanpela lista bilong ol dispel lain: Opis bilong man bilong kisim ol lista, o olgeta menesa bilong OPIC, o ol wokman bilong OPIC long ol opis na insait long fam.
5. Taim wanpela bringim bel hevi ikam, bai ol wokman long opis imas raitim long list na givim wanpela toksave o risit wantaim namba na wanem taim bai ol harim bekim long belhevi bilong ol.
6. OPIC wok hat long stretim belhevi insait long seven pela de. Sapos wanpela bel hevi ol lain long rigenol opis ino stretim insait long sevenpela de, orait bai OPIC kisim igo long het opis. Ol opis wokman bai tok save olsem hevi bilong ol go long het opis.
7. Sapos sapela belhevi ol ino stretim insait long wanpela mun, bai ol toksave long Bikpela Het Opis bilong OPIC olgeta mun.
8. Long olgeta wik, bai ol kisim olgeta lista insait long "Divisional Manual Register" igo long Het Opis bilong Projek long luksave na lukautim gut.
9. Ol belhevi kamap long we projek stap na kisim igo long het opis, wokman lukautim lista (PBER) imas putim igo insait long de em kisim ripot.
10. Ol samting stap insait long lista I olsem:
  - a. Nem bilong growa na nem bilong papa bilong em, namba bilong blok, na mobile namba
  - b. Liklik toksave long hevi bilong en
  - c. Toksave liklik hausat OPIC opis kisim belhevi ripot long nambawan taim
  - d. Man husat wok long lista imas raitim nem bilong em yet na nem bilong papa bilong em
  - e. Nem bilong kompani ol bel hevi long en
  - f. De ol kisim bel hevi na mekim ripot
  - g. Nem bilong em yet na nem bilong papa long man o meri ol bel hevi long en na tu nem bilong wok ol holim olsem menesa, o suvavaisa or ti boi kain olsem.

- h. Putim insait long lista tu sapos ol ibin stretim hevi
  - i. De OPIC stretim hevi/de SHA stretim hevi
  - j. De na we OPIC bekim belhevi blong ol husat kisim belhevi ikam. Na ol bekim ol kisim long husat bringim belhevi
  - k. *De ol stretim hevi*
  - l. Raitim olgeta tok insait long belhevi
11. Tok ol bekim imas igo long ol Divisen email insait long wokples na ol Growa long mobile fon o pas.
12. Ol belhevi imas go long Small Holder Affairs Department (SHA) bilong ol miling kompani. Bikpela samting bilong OPIC wokman noken ol ol pusim growa igo ikam namel long Smallholder Affairs Depatmen na OPIC. Sapos wanpela belhevi imas go long SHA moa long tupelo taim orait dispela bai kamap bikpela long ai bilong OPIC na bosman bai traim long stretim.
13. Rot blong karim belhevi igo long SHA.
- a. Ol husat igat belhevi imas salim pas long email or karim ol yet igo long SHA behain long mekim toksave na man go pas long raitim belhevi go daun long pepa.
  - b. SHA raitim belhevi igo daun long buk
  - c. Bekim blong belhevi long OPIC bai ol toksave long husat go pas long raitim long pepa
  - d. Ol lain go pas long raitim bai raitim wok igo pas wantaim SHA na de ol stretim hevi long PBER.
  - e. Man go pas long raitim ripot bai toksave long wok SHA mekim long stretim hevi
  - f. Sapos ol ino stretim hevi insait long tupela wik bihain long ol karim hevi igo long SHA, bai ol tok save long bos bilong projek long totok wantaim meneja bilong SHA.
14. Ol imas sekim klostu klostu ol Hevi ol ino stretim yet.
- a. Em wok bilong man go pas long raitim ol ripot long luksave na stretim ol hevi kwik taim.
  - b. Wanpela komiti we projek meneja stap siaman imas bung long olget fopela mun long harim na stretim hevi. Ol imas raitim ripot na salim igo long Seketeri bilong OPIC.
  - c. Sapos wanpela hevi stap longpela taim na growa ino ammams long belhevi we ol ino stretim hariap insait long fopela wik, em igat rait long:
    - i. Igat rait long karim hevi igo long ol bikpela bos long OPIC
    - ii. Bihainim narapela rot long stretim hevi
15. Imas igat toksave igo long ol growa husat ol wok long stretim ol belhevi. Ol imas raitim toksave long wanwan wilk na kopi bai stap long fael bilong ol long opis klostu long ol growa. Ol wokman imas toksave long growa long telefon (sapos ol inap) long igo kisim pas bilong ol long opis. Na tu ol imas toksave liklik wanem samting rait istap insait long dispel pas.
16. Igat rot long bihainim long stretim hevi long SADP planim welpam arere long rot na ol SADP stretim rot nat bagarapim gaden diwai o ol arapela hevi.
- a. Ol imas toksave long dispela belhevi wantaim OPIC. OPIC bai traim long bihainim rot bilong stretim ol hevi.
  - b. Sapos I orait long komuniti OPIC bai traim long sindaun wantaim komuniti na stretim hevi. Bai ol bihainim pasin bilong ples long stretim ol hevi.
  - c. Long taim bilong bung, ol lida long ples bai pasim tingting na toksave long disisen ol wokim long stretim hevi.
  - d. Sapos ol ino inap stretim hevi long ples, ol lain husat igat belhevi imas karim igo long kot o ol arapela we long ples long stretim hevi. Bai ol ratim igo insait long OPIC buk olsem dispel hevi ino stretim yet. SADP bai pasim wok sapos hevi long garun ol ino stretim yet.

**ANNEX 4**  
**PNG SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT (SADP)**  
**PALM OIL MILL EFFLUENT MANAGEMENT**  
**AGREED ACTION PLAN**

Item	Action	Target Completion Date	Responsibility
1	<p>Obtain commitment in writing from the project area milling companies to: (i) establish baseline information for each project area mill, and (ii) conduct one follow-up environmental audit of these mills. Depending on the results of the follow-up audit and the perceived efficacy of the concurrent RSPO surveillance audits, additional follow-up audits will be considered.</p> <p>The baseline information for each project area mill will be established by:</p> <ul style="list-style-type: none"> <li>(i) Determining whether or not the mill is currently under compliance with the selected wastewater discharge criteria to surface water and land;</li> <li>(ii) Collecting and assessing the design and operating performance information for mill process wastewater treatment plants (WWTP) (generally effluent ponds but may include land application and secondary [polishing] treatment plants) at each project area mill;</li> <li>(iii) Projecting the increase in mill capacity utilization of the fresh fruit bunches (FFB) generated from the subject SADP and milling company's business expansion, and assessing the impacts on the mill and its WWTP as well as the quality of the mill's final effluent;</li> <li>(iv) Predicting the compliance of the final effluent with the selected discharge criteria as well as the impacts on the receptor (e.g. surface water);</li> <li>(v) Identifying the specific mitigation measures to bring the effluent into compliance with the selected discharge criteria and potential adverse environmental and human health impacts;</li> <li>(vi) Recommending an implementation schedule for each of the mitigation measures, and seeking agreement with the milling company on the implementation schedule; and</li> <li>(vii) Reporting the established baseline information.<sup>14</sup></li> </ul>	Commitment has been obtained from milling companies	DEC will be responsible for supervision of qualified consultants to establish the baseline information and undertake the audit as part of the SADP Environmental and Social Audit consultancy. The consultancy will be funded under the SADP Project and the SADP Project Coordinator would oversee procurement and financial management
	<p>The follow-up environmental audit will include:</p> <ul style="list-style-type: none"> <li>(i) Reviewing the compliance of palm oil mill effluent with the existing discharge</li> </ul>	Initiate actions by August 30, 2011	DEC and representatives of the milling companies

<sup>14</sup> If the baseline audit report is viewed as containing any commercially confidential information relating to a manufacturing or industrial process or trade secret used in carrying on or operating any particular undertaking or equipment or information of the milling companies, or of a financial nature, this information may be excluded from the publicly disclosed baseline audit report provided there is a determination by the PNG Department of Environment and Conservation (DEC) that the information is confidential, and said determination is consistent with the World Bank policy on Access to Information.

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	<p>standards as per the Environmental Code of Practice Papua New Guinea Oil Palm Processing Industry and the “draft” updated standards once available;</p> <p>(ii) Monitoring the implementation progress of the mitigation measures; and</p> <p>(iii) Reporting the audit findings.<sup>15</sup></p> <p>Use the results of the baseline information and the environmental audit to inform the World Bank (WB) management, Oil Palm Industry Corporation (OPIC), the SADP Project Steering Committee, and the Government (Department of National Planning and Monitoring (DNPM), and Department of Environment and Conservation (DEC)) on what the real risks are for the project (in contrast to the perceived risks) and the assessed efficacy of the Company mitigation programs.</p>	March 31, 2012 (Baseline completion)	WB and DEC
2	<p>Undertake specific measures at the following mills that have been identified to present high environmental risks: (i) Sangara Mill owned by Kula Palm Oil, (ii) Hargy and Navo Mills owned by Hargy Oil Palm Ltd., and (iii) Mosa Mill owned by New Britain Palm Oil (NBPOL). The following actions will be taken:</p> <p>(i) <u>At Sangara Mill</u>: Obtain commitment in writing from Kula Palm Oil regarding the timetable for undertaking its investigation of POME treatment and site drainage. Progress will be assessed as part of the follow-up environmental audits.</p> <p>(ii) <u>At Hargy and Navo Mills</u>: Obtain commitment in writing from Hargy Oil Palm Ltd. regarding the timetable for implementing actions to improve pond performance. Progress will be assessed as part of the follow-up environmental audit.</p> <p>(iii) <u>At the Mosa Mill</u>: Obtain commitment in writing from New Britain Palm Oil (NBPOL) for undertaking an investigation regarding cooling pond overflows into discharge channels and implementing relevant mitigation measures according to an agreed-upon schedule. Progress will be assessed as part of the follow-up environmental audit.</p>	Commitment has been obtained from milling companies	OPIC
3	Assist Government (DEC) and industry to produce an updated Draft PNG Code of Practice for the Palm Oil [Processing] Industry, which will be used as the basis for regulation, to improve the quality and scope of effluent-related environmental monitoring, provide greater guidance on the design and operation of palm oil	Initiate actions by September 30, 2011	DEC, representatives of the milling companies and WB

<sup>15</sup> If the follow-up audit report is viewed as containing any commercially confidential information relating to a manufacturing or industrial process or trade secret used in carrying on or operating any particular undertaking or equipment or information of the milling companies, or of a financial nature, this information may be excluded from the publicly disclosed audit report provided there is a determination by the PNG Department of Environment and Conservation (DEC) that the information is confidential, and said determination is consistent with the World Bank policy on Access to Information.

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	<p>wastewater treatment systems in PNG, and better define “targets” and “limits” for discharge of treated palm oil wastewater to surface waters and land. In particular, the following will be established: (i) “draft” updated standards for palm oil wastewater discharge to surface waters and land, and (ii) the associated monitoring (sampling or split-sampling, sample preservation and chain-of-custody, analytical methods with quality assurance/quality procedures), recordkeeping, and reporting requirements to the Department and Environment Conservation (DEC). The “draft” updated discharge standards and monitoring and other requirements will be based on the PNG Environmental Code and draw on other international standards including World Health Organization (WHO) guidelines and the World Bank Group Environmental Health and Safety guidelines.</p> <p>SADP includes provisions for technical assistance/studies on sector issues through which DEC can be supported</p>		









