

**IPN REQUEST RQ 09/10**

**December 17, 2009**

**NOTICE OF REGISTRATION**

**Re: Request for Inspection**

**INDEPENDENT STATE OF PAPUA NEW GUINEA: Smallholder Agriculture  
Development Project (IDA Credit No. 4374-PNG)**

On December 8, 2009, the Inspection Panel (the "Panel") received a Request for Inspection (the "Request") related to the Papua New Guinea: Smallholder Agriculture Development Project (the "Project"). The Request was submitted by an NGO from Papua New Guinea (PNG) called Center for Environmental Law and Community Rights (CELCOR), acting as a representative of the Ahora/Kakandetta Pressure Group, affected customary land owners from the Oro Province and affected smallholders within the three Project areas (the "Requesters"). The Requesters state that they have suffered, and are likely to suffer, serious harm from the design and implementation of the Project. The Requesters have asked that their identities be kept confidential and that CELCOR act as their designated representative.

**The Project**

According to the Financing Agreement, the Project objective is *"to increase, in a sustainable manner, the level of involvement of targeted communities in their local development through increasing oil palm revenue and local participation."*<sup>1</sup>

In this regard, the Project has three components, namely: (Part 1) *smallholder productivity enhancement*, which includes planting of about 9000 hectares of oil palm through in-filling subprojects, road reconstruction and maintenance, and upgrading of 550 kilometers of existing access roads, and provisions of extension services ; (Part 2) *local governance and community participation*, which will support community level development grants and sub-projects; and (Part 3) *project management and institutional support*, which includes capacity building of project entities and support for carrying out project related studies.<sup>2</sup>

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<sup>1</sup> Financing Agreement (Smallholder Agriculture Development Project) between Independent State of Papua New Guinea and International Development Association, Dated July 9, 2008.

<sup>2</sup> Financing Agreement, Schedule 1 (Project Description).

The Project is financed by an IDA Credit in an amount of seventeen million seven hundred thousand Special Drawing Rights (SDR 17,700,000), of about US\$ 27.5 million equivalent.

### **The Request**

According to the Request, the Project was identified in 2003 as a follow-up to the previous World Bank-financed PNG: Oro Smallholder Oil Palm Development Project (1992-2001). However, the Project was put "*on hold*" and preparation did not begin until 2006. The Requesters believe that the Project concept was revised during this period from an oil palm expansion project to an "*infilling*" and road maintenance project.

According to the Requesters, the credit facility under the first component of the Project, which will provide loans to smallholders who wish to plant oil palm adjacent to existing access roads that have no oil palm development, known as '*infilling*', is a "*deceptive term*" and the Project actually is an "*expansion project*". The Requesters claim that the Project "*will extend oil palm onto blocks that currently contain forests, degraded forests and grassland that, despite being located within oil palm blocks, still provide economic and social services for local communities including household gardens.*" The Requesters add that the Project has identified approximately 9,000 hectares of "*vacant*" land for new planting, rather than promoting more productivity on existing blocks.

The Requesters identify an overarching concern with oil palm development. They believe negative impacts are rarely disclosed to smallholders, including (a) land clearance and associated loss of forestland, which has important implications including for erosion, topsoil depletion, and siltation of rivers, (b) chemical and biological pollution of waterways and (c) lack of livelihood benefits to smallholders.

In particular, the Requesters identify the following sets of harm or potential harm which they claim to be caused by the Project:

(1) **Poverty Impacts.** The Requesters state that "*despite the significant level of investment*" by the World Bank in the oil palm industry over the years, these investments "*have done little to provide material improvement in smallholders' lives*". They point to the Social Assessment conducted under the Project which states that "*living conditions have deteriorated and key indicators of poverty such as housing, access to clean water and health services show life quality has declined.*" The Requesters add that the same study "*recognizes that the fall in living standards is paradoxical*" as the cash income of oil palm smallholders is considerably higher than that of other cash crop producing smallholders.

The Requesters claim that under the Project, the farmers will be unable to "*enhance their living standards*" given their "*dependent relationship*" and "*unfair revenue sharing arrangement*" with the estate mill, and that the Project will "*reinforce*" the Fresh Fruit Bunch (FFB) pricing system which, in their view, favors the milling companies over the smallholders. They also believe that promoting oil palm as the "*single primary income generating activity for Indigenous Peoples in the three project areas*" leads to mono-cropping which "*is in direct contradiction with the World Bank's own assessments on the importance of income diversification in the smallholder areas*" and prevents smallholders from using their land for

supplemental income generating activities. Moreover, they state that in addition to the multiple levies smallholders have to pay to produce oil palm, they will have to pay an “*additional levy to support the Road Maintenance Trust Fund*” set up under the Project. Thus, in their view, by “*embedding*” these dependent relationships and raising levies, the Project will not enable smallholders to “*lift themselves out of poverty*”.

(2) **Information Disclosure and Consultation.** The Requesters state that “*World Bank and project sponsor have not consulted with claimants and other locally affected communities*” and “*project information was not broadly disseminated prior to project approval and is still not available, nor was it ever delivered in any language other than English*”. The lack of disclosure of information and consultations in the Project area before Project approval is described by the Requesters as “*one of their major concerns*”. The Requesters add that despite the fact that they are Indigenous People and customary landowners, the World Bank did not provide them with an opportunity to input into the “*scope, purpose and activities*” of the Project, or discuss with them the “*additional road levy that will be imposed on them*” under the Project. They believe consultations may have led to proposals about alternative sources of revenue generation and negotiations on the “*user fee*”. The Requesters state that despite their requests, they have not been provided records of the consultations which the Bank claims it has conducted during the design phase, and that the “*lack of transparent consultation records calls into question whether there has been achievement of broad community support*” for the Project, leading them to conclude that any consultations undertaken were “*limited*” and “*did not allow for informed participation*”.

(3) **Project Sustainability.** The Requesters raise concerns about the sustainability of the Road Maintenance Trust Fund (RMTF) and institutional capacity of Oil Palm Industry Corporation (OPIC), which according to them are the “*two key features of the project*”. They believe both features are poorly designed and will not be maintained once the Project ends. The Requesters state that roads in the Project area are already degraded, and that roads built in the Province by the previous World Bank Oro Smallholder Oil Palm Development Project are in poor condition due to a variety of planning and construction problems. In their view, the roads to be constructed under the Project will not be sustainable because of the unreliability of the required financial contributions from Government agencies and the oil palm industry. The Requesters claim that another issue likely to hamper sustainability is the limited capacity of OPIC and a skewed extension officer-grower ratio which will prevent the delivery of effective extension services and make the Project unviable.

Moreover, the Requesters add that PNG taxpayers, by paying for the roads built by the previous World Bank project, then for this Project, and finally by paying user fees, will effectively be paying for the same roads thrice. The Request states that under the previous World Bank Oro Smallholder Oil Palm Development Project “*approximately 180 km of roads were not constructed and many smallholders were left without road access.*” The Request also notes an emergency AusAid fund which was mobilized to construct the “*left over*” roads from the Oro project. They claim that the Project will upgrade the same AusAid funded roads with over 100 km undergoing minor reconstruction.

(4) **Environmental Impacts.** The Requesters state that the “*environmental assessments conducted are particularly poor and miss critical impacts*”, such as the impact of effluent discharge on rivers, fish, and people. They also believe the Environmental Assessment has

"major gaps" as it does not use reliable sources of information, lacks an assessment of effluent treatment, and does not provide mitigation measures for Project impacts on high value forests. With regards to high value forests, the Requesters believe the Project poses a risk of deforestation in high value forests because of the use of a "site sensitivity survey" by the OPIC which seeks to guide OPIC officers to classify forest land suitable for oil palm planting, and the setting of internal palm oil planting targets. The Requesters believe deforestation will occur because "OPIC officers lack the capacity to classify forests" correctly according to the site survey criteria and because of an incentive system which evaluates them according to how much oil palm is planted. The Requesters propose a number of measures to prevent deforestation, including undertaking a high value forest inventory before new planting begins.

In summary, the Requesters claim that the Project "violates" several World Bank policies and will: (a) limit their economic opportunities and pressure them to produce oil palm even though they believe oil palm farming will not raise their standard of living, (b) cause water pollution, (c) cause forest degradation, (d) be unsustainable and ineffective, and (e) cause additional economic hardship by requiring growers to pay for road maintenance fees.

The Requesters note that they have raised their concerns with World Bank on a number of occasions, and attach a list of correspondence to demonstrate this, but state they "have not received any satisfactory response on how the project will ensure that the potential harms listed above will be prevented".

Moreover, the Requesters ask that the Project be put on hold until: "(a) poverty reduction is incorporated into the project design; (b) other economic livelihood options are presented; (c) a comprehensive environmental assessment is undertaken, including assessment of effluent treatment and forest inventory; (d) the project design is changed to ensure project sustainability, and (i) proper consultation is undertaken to ensure communities give their free, prior and informed consent to all components of the project".

The Requesters ask the Inspection Panel to recommend to the Board of Executive Directors that an investigation into the matters described in the Request for Inspection be carried out.

The above claims may constitute, *inter alia*, non-compliance by the Bank with various provisions of 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 10.00	Investment Lending
OP/BP 13.05	Project Supervision
OMS 2.20	Project Appraisal

In accordance with paragraph 17 of the Panel's Operating Procedures (the "Operating Procedures"), I am notifying you that I have, on December 17, 2009, which is also the date of the dispatch of this notice, registered this Request in the Inspection Panel Register. Please note that

the Panel's registration is an administrative procedure and it implies no judgment whatsoever concerning the merits of the Request for Inspection.

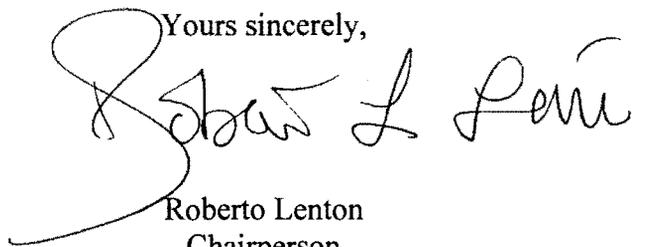
Until further notice, all communications with the Requesters in connection with the Request will be sent to Mr. Damien Ase, as the representative of the Requesters.

As provided in paragraph 18 of the IDA Resolution that established the Panel ('Resolution'), paragraphs 2 and 8 of the "*Conclusions of the Board's Second Review of the Inspection Panel*" (the "1999 Clarifications"), and paragraph 18(d) of the Operating Procedures, Bank Management must provide the Panel, no later than January 22, 2010 with written evidence that it has complied, or intends to comply, with the Bank's relevant policies and procedures in relation to the above-referenced Project. The subject matter that Management must deal with in a response to the Request is set out in paragraphs 3 and 4 of the 1999 Clarifications.

After receiving the Management response, the Panel will, as outlined in the 1999 Clarifications and as provided by paragraph 19 of the Resolution, "*determine whether the Request meets the eligibility criteria set out in paragraphs 12 to 14 [of the Resolution] and shall make a recommendation to the Executive Directors as to whether the matter should be investigated.*"

The Request has been assigned IPN Request Number RQ 09/10.

Yours sincerely,

A handwritten signature in cursive script that reads "Roberto Lenton". The signature is written in black ink and is positioned above the printed name and title.

Roberto Lenton  
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