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# The World Bank's Duty in PNG

Actions Needed to Prevent a Worsening of Poverty and Environmental Degradation from the Smallholder Agricultural Development Project

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### **The SADP Project**

In December 2007, the World Bank's Board of Directors approved a USD 27.5 million loan for the Smallholder Agricultural Development Project ("SADP" or the "Project"). The USD 69 million Project aims to expand oil palm production and reorganize the road levy system in three areas of Papua New Guinea ("PNG") and consists of three components. Component 1 of the Project addresses infilling, road reconstruction, creation of a road maintenance trust fund and training for the implementing agency. Component 2 provides social development grants to community groups with the SADP project areas. Component 3 provides technical support to the implementing agency and establishes a monitoring and evaluation system.



### **Economic, Social and Environmental Harm from SADP**

In December 2009, smallholders from Oro Province filed a complaint with the World Bank Inspection Panel requesting an investigation of SADP.<sup>1</sup> The claimants argued and maintain today that the project violates World Bank policy by failing to consult with locally affected people about the project and by failing to gain their consent. As indigenous people, the smallholders have the human right to free, prior, informed consent before such a project is developed - such consent was not requested nor gained in this case. Any consultation that did occur was vastly insufficient.

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<sup>1</sup> The smallholders are receiving assistance in the Inspection Panel complaint process from CELCOR and Accountability Counsel, the authors of this report. This report is written from the direct perspective of the smallholders, based on our regular communication with them.

In addition, the claimants have serious concerns regarding economic, social and environmental problems with the Project. The PNG-based smallholders raised concerns that the Project will:

- limit economic opportunity such that community members will be forced to farm palm oil, even though it has not, and likely will not, increase their standard of living;
- cause water pollution and degrade forests;
- be unsustainable; and
- force growers to contribute to road maintenance, which increases economic hardship.



The PNG smallholders have maintained that SADP violates the World Bank's Indigenous Peoples Policy, Environmental Assessment Policy, Natural Habitats Policy, Forests Policy, Disclosure Policy and Investment Lending Policy. Contrary to the Bank's mission of alleviating poverty, SADP has been designed and is being implemented in a manner that exacerbates poverty for smallholders in PNG who already live at the margins.

### **Inspection Panel Findings, Management Admissions and Policy Violations**

In March 2010, the Inspection Panel publicly released its Eligibility Report on SADP and Bank Management's Response. The Panel recommended conducting a full investigation of the Bank's investment in palm oil in PNG – a recommendation that the World Bank's Board of Directors approved.

Bank Management's Response to the complaint during the eligibility assessment included admission of several Bank policy violations, including that: documentation of the consultation process should have been more detailed and complete; documents should have been made available in local languages; consultation should have been broader; and that the Environment Assessment (EA) was not sufficiently detailed in regard to the impact of increased effluent due to Project activities.

In September 2010, the Inspection Panel conducted a two-week formal investigation of the complaint. We expect the Panel's forthcoming Investigation Report to include findings of:

- **Environmental Non-Compliance:** In violation of Bank policy, approval and implementation of SADP began before publication of a detailed effluent study. Bank Management itself admitted that the Effluent Study, which was finally published in July

2011, was not conclusive and that “further in-depth technical analysis of each mill’s capability to treat liquid waste” was needed (Effluent Study, p. i).<sup>2</sup> When the Effluent Study was released to the smallholders, it demonstrated that there is still a lack of understanding of SADP’s impacts on the environment and served as further evidence that Bank Management had designed and begun implementation of a Project without regard to environmental impacts. Regarding deforestation, the Project documentation failed to include necessary land use maps or screening criteria required by Bank policy to help ensure that deforested areas will not be approved for infilling.



- **Non-Compliance with the Disclosure and Consultation Requirements of the Indigenous Peoples Policy:** Bank Management went forward with SADP without having a clear understanding of who the Project beneficiaries are in Oro Province. Consultations were not conducted in a culturally appropriate, gender inclusive way. Therefore, Project design failed to take into account the views of the very people the Project purportedly aims to serve.
- **Social Assessment Failures:** SADP does not adequately address livelihood improvement. First, it limits economic opportunities by forcing smallholders to farm palm oil to the exclusion of other crops or activities. Second, even if SADP succeeds in enhancing income, it does not include any mechanisms for helping smallholders use their enhanced income to improve their livelihoods. Particularly for people only just transitioning to a cash economy, cash in hand is not equal to the ability to use that cash in a culturally appropriate way. The social assessment identified some measures that could have helped improve livelihoods, but the Project did not incorporate those recommendations.

<sup>2</sup> For a detailed analysis of the deficiencies of the July 25, 2011 Effluent Report, see “An Environmental Due Diligence Failure: A Critique of the Palm Oil Mill Effluent Study of July 25, 2011 Related to Inspection Panel Request No. RQ09/10, Smallholder Agriculture Development Project (SADP).”

- **Violations regarding the Road Maintenance Trust Fund:** While there is a need for a sustainable mechanism to ensure that roads are built and maintained, the proposal for how to fund that mechanism should not have been developed without studying who can pay for road maintenance and how much they can pay. As currently proposed, smallholders are the only stakeholders from whom a contribution to the fund can be guaranteed because if they do not pay, deductions can be made from their pay. There is no mechanism in the current proposal to ensure that the milling companies and the government pay their share, creating a risk that the burden of the fund will be placed disproportionately on the smallholders. This is a problem repeated from past Bank projects in this same region and for these same roads.

### Steps Required to Bring SADP Into Compliance

We call on the World Bank Board of Directors to take immediate steps to halt implementation



of elements of SADP causing harm and to ensure that any future implementation of SADP comply with Bank Policy. In this case, Bank Management has a duty to consult with the requesters who brought the complaint regarding steps that can be taken to address policy non-compliance, but so far has failed to do so.<sup>3</sup> While not a substitute for direct consultation, the following is a list of steps required for the Bank to achieve compliance with its own policies:

#### **Environmental Compliance**

- A comprehensive environmental assessment should be conducted, including land use mapping and a detailed, technical analysis of the environmental and health impacts of increased effluent.

<sup>3</sup> Consistent with past consultation failures, Bank Management contacted CELCOR on October 31, 2011 to set up a meeting with no notice, no materials shared in advance, and no proposed agenda. This was the very day the Management Response to the Inspection Panel Report and accompanying Action Plan was due. The Management Response must include consultation with the requesters, but based on Management's current failures, at a minimum, the consultation will be extremely tardy. See World Bank, 1999 Clarification of the Board's Second Review of the Inspection Panel at ¶15, available at <http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/1999ClarificationoftheBoard.pdf> (last accessed November 1, 2011).



- Land use maps must be transparent and have a system developed for monitoring to ensure that they are followed. To our knowledge, the smallholders and milling companies currently have no maps of the Project area.
- Through land use mapping and monitoring, OPIC should identify and record land that should not be converted to oil palm, so that if a block is denied one year, it cannot be made eligible the next through logging of primary forest or destruction of subsistence gardens.
- A high forest conservation value inventory should be conducted prior to new plantings to protect against deforestation.
- Appropriate screening criteria should be set to ensure that forested land and land used for subsistence gardens are not classified as suitable for oil palm development.
- Incentives for officers of the implementing agency, the Oil Palm Industry Corporation (“OPIC”), should be changed to discourage misclassification of land.

### **Consultation, Disclosure and Auditing**

- All Project information should be provided in the language spoken by the people in impacted communities.
- Implementation of SADP should be suspended until culturally appropriate, gender inclusive consultations take place and the input from those consultations is incorporated into Project design. Furthermore, the Bank must seek consent from indigenous people affected by the Project.
- Ongoing consultations with the affected communities should be conducted regarding all relevant aspects of the Project moving forward.
- The Project should provide for regular auditing of OPIC with input from smallholders to ensure OPIC's accountability.
- The Project should ensure that OPIC function and be funded independently and in the public interest as a government entity, not as institution compromised by the milling companies that currently support OPIC's financing.

### **Poverty Reduction**

- A strategy for poverty reduction in the Project areas should be developed in consultation with those affected, including provision of other economic livelihood options such as support to plant other agricultural products and to use intercropping.
- A plan should be developed to ensure



adequate available lots for the economic and social needs of the communities. In particular, measures should be taken to ensure that land used for subsistence farming and food gardens is not infilled.

- Loans should be extended to existing smallholders who want to replant on under-capacity lots. Milling companies have expressed interest in increasing capacity of current lots and have expressed disinterest in participating with SADP under its current design.
- Social development grants should be distributed to community groups within the SADP project areas, as promised in Component 2. Component 2 should be developed in consultation with the smallholders (who currently are unaware of what if anything it entails) and should minimally assist smallholders with access to existing government benefit programs that are currently burdensome and difficult to use.
- A seat for a smallholder representative should be created in the Palm Oil Producers Association (POPA), which sets the price for the fresh fruit bunches.



### **Road Maintenance Trust Fund**

- Alternative ways to raise money for the fund should be investigated that do not involve contributions from smallholders.
- Mechanisms should be put in place to ensure that the milling companies and the government pay their share for road upkeep.
- Any levy on smallholders for road construction and maintenance should be tied to their ability to pay, taking into account other levies, fees and taxes that they must pay already. Any levy on smallholders should be capped at a percent of their overall profit for a particular harvest.

### **Project Sustainability**

- SADP should be amended to ensure that OPIC extension officers are funded sustainably. These officers provide beneficial support services to the smallholders, but lack institutional capacity.

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