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News Release

## World Bank Board of Executive Directors Considers Inspection Panel Report on Papua New Guinea: Smallholder Agriculture Development Project

**WASHINGTON, December 16, 2011** - The World Bank's Board of Executive Directors met on Tuesday to discuss the Inspection Panel investigation into the Smallholder Agriculture Development Project (SADP) and the report by World Bank Management responding to its findings. The Board approved the Management Action Plan in response to the Panel's findings and welcomed actions set forth in Annex 1 to the Management Report and Recommendation that address the Requesters' concerns.

The World Bank approved SADP in 2007 as a response to smallholder farmer demands. It was conceived because agriculture is the single most important source of cash income for rural households in Papua New Guinea, and oil palm provides small farmers with favorable returns compared to other cash crops.

The Project aims to improve community participation in local development while increasing revenue flow from the already established local oil palm production industry. A large part of Project funds will be invested in rehabilitating existing rural roads. Better roads 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. The Project is being implemented in Oro and West New Britain provinces over five years. To protect forests and biodiversity SADP will work only in existing oil palm areas, with planting restricted to vacant blocks of land alongside access roads.

The Panel investigation responded to a Request from a group of smallholders in Oro Province who believe that the Bank has failed to comply with several of its Operational Policies and Procedures and fear that these failures are likely to cause adverse impacts. They are concerned that decades of oil palm production have not reduced poverty nor improved their living standards. The Requesters are further concerned about inadequate consultation with community members and lack of disclosure of documents in local language, and fear that smallholders will have to pay an extra levy to support the Road Maintenance Trust Fund, which will reduce their income even further.

*"One of the great strengths of the Inspection Panel process is that it helps give voice to project-affected people, by bringing their concerns to the highest decision-making levels of the World Bank" said **Roberto Lenton, Chairperson of the Inspection Panel**. "There is a need to fully address the concerns of the affected peoples and there are opportunities to ensure that the implementation phase takes full account of the Panel report's analysis and findings, and addresses remaining concerns."*

*"This Project will improve the lives of people in Papua New Guinea by making a positive contribution to strengthen the local economy and help reduce poverty while protecting critical habitats," said **Ferid Belhaj, World Bank Country Director for Papua New Guinea**.*

The Panel found that the consultation process fell short of policy requirements because Management failed to provide relevant information prior to consultation in a culturally appropriate manner, form, and language

to achieve broad community support for the Project. The Panel found that while the Project aims to increase the income of smallholders, in compliance with Bank Policy on Poverty Reduction, it was not in full compliance with the Indigenous Peoples Policy and did not include critical means of improving smallholder livelihoods.

The Panel agreed with Management's view that establishing a system for the regular maintenance of the road network is critical for smallholders and the industry. During the Board meeting Management clarified that the Road Maintenance Trust Fund will be designed through a broad consultative process which will take into account willingness and ability to pay of all stakeholders.

While appreciating the Requesters claims on environmental harm given the history of past oil palm production, the Panel found the Project to be mainly in compliance with the Bank's Policy on Environmental Assessment, except for the issue of mill effluents. The Panel appreciated that the Agreed Action Plan provided in the July 2011 Effluent Study addresses the issue of potential negative effects from mill effluent and, when implemented, could bring the Project into compliance.

Management noted that several smallholders and the government had expressed strong support for the Project and that the Association representing 6,000 smallholders has written a letter supporting the Project. Since the Request was filed, Management has responded by providing all of the relevant documentation to the community in Tok Pisin. Management pointed out that the Project does include elements that address income diversification. The World Bank has learned from the Inspection Panel process, and recognized areas for improvement. Management has, and will continue to take actions, including ensuring proper documentation of consultations and translation of relevant documents into Tok Pisin, the local language. The Inspection Panel process has also helped to inform the implementation of the Effluent Management Action Plan. Management expressed its firm commitment to maximize benefits from the Project. Management agreed to report back to the Board on the implementation of the actions presented in the Action Plan and Annex 1 of the Management Report during Project implementation.

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**The Inspection Panel** was established by identical Resolutions of the Boards of Executive Directors of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in 1993. In response to complaints from project-affected communities, the Inspection Panel is an independent, "bottom-up" accountability and recourse mechanism that investigates IBRD/IDA financed projects to determine whether the Bank has complied with its operational policies and procedures (including social and environmental safeguards), and to address related issues of harm.

*For the complete Inspection Panel Investigation Report and World Bank Management Report and Recommendation in response to the Inspection Panel Report, please visit the Inspection Panel website at [www.inspectionpanel.org](http://www.inspectionpanel.org)*

*For more information about the Smallholder Agriculture Development Project, please visit <http://go.worldbank.org/JJ3P9YBK40>*

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