

The World Bank and forestry in PNG

Report for Rimbunan Hijau (PNG) Group



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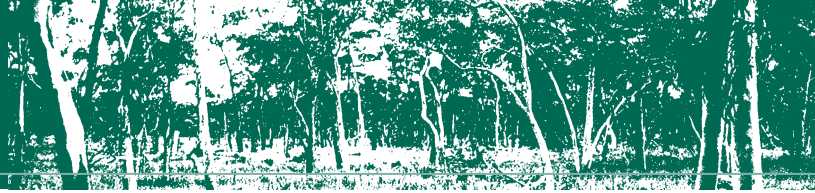


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Acronyms

CEO	Chief Executive Officer
CTF	Conservation Trust Fund
FCP	Forestry and Conservation Project
GEF	Global Environment Fund
GOPNG	Government of Papua New Guinea
GPAL	Governance Promotion Adjustment Loan
ILG	Incorporated Land Group
IRT	Independent Review Team
ITTO	International Tropical Timber Organization
LDIU	Landowner Decision Organization Unit
NGO	Nongovernmental organisation
OEC	Office of Environment and Conservation
OED	World Bank Operations Evaluation Department
PNG	Papua New Guinea
WWF	World Wide Fund for Nature



1. Introduction

The sustainable potential of Papua New Guinea's forestry endowment is not being maximized. The reasons need to be understood if they are to be addressed. This note provides background on the World Bank's recent forestry relationship with Papua New Guinea (PNG).

The World Bank uses the conditions attached to its loans to encourage borrowing member governments to modify policies and institutional arrangements it believes are hindering economic growth. The Bank's proposed Forestry and Conservation Project (FCP) in PNG is a useful case study with which to assess its recent relationship with PNG on forestry.

2. The World Bank's relationships with Green NGOs

The World Bank formed an Alliance for Forest Conservation and Sustainable Use (Alliance) with the World Wide Fund for Nature (WWF) in April 1998, which was renewed in 2005. In its *Annual Report 1999* the goal of the Alliance was stated as being 'a significantly reduced rate of loss and degradation of all forest types'.¹ (Former) World Bank President Wolfensohn and WWF Director General Martin have stated that 'the Alliance's greatest potential lies in its ability to leverage reforms and influence ideas and the shape and financing of new endeavors'.² As for the future, the Alliance is 'developing a global vision for 2050 – a vision that sees a shift in the balance from forests as a source of fiber production to forests managed to meet the needs of local communities, as well as for their environmental and aesthetic values. By working together to ensure the sustainability of the Earth's natural resources, our legacy must be a living and livable planet'.³

To secure its three targets by 2050, the Alliance was described as 'forging links with local and international "agents of change"'. Only by working in partnership with others and by fostering coalitions of interest groups, can the Alliance expect to have influence at the scale and with the diversity of players that its targets require'.⁵ The *Annual Report 1999* describes policy and institutional failures and observes that 'The Alliance is applying its influence, leverage, and resources to support the efforts of governments and NGOs to tackle these politically difficult issues'.⁶

Negotiations on the FCP need to be assessed in the context of changes to the way the Bank has sought to address forestry issues – and particularly the replacement of its 1991 Forest Strategy (which banned financing commercial logging in primary moist tropical forests) with a Forests Strategy and Operational Policy, approved by the Executive Board in October 2002. A review of the 1991 Forest Strategy by the Bank's independent Operations Evaluation Department (OED) in 2000 informed the 2002 strategy and operational policy.⁷

The OED report concluded that the 1991 'strategy has been only partially implemented. Although it sent a strong signal about changed objectives in the forest sector and provided a new focus on conservation, the effectiveness of the strategy has been modest, and the sustainability of its impact uncertain. Forest concerns have not been well integrated into Country Assistance Strategies, or in the

1 World Bank/WWF Alliance for Forest Conservation and Sustainable Use (1999), *Annual Report 1999*, World Bank/WWF, Washington, DC, page 2, http://www.worldwildlife.org/alliance/pdfs/gar/AR_simple.pdf, accessed 1 August 2006.

2 *Ibid.*, page 3.


3 *Ibid.*, page 4.

4 "50 million hectares (124 million acres) of new forest protected areas; a comparable area of existing but highly threatened forest protected areas secured under effective management; and 200 million hectares (495 million acres) of production forests under independently certified sustainable management". *Ibid.*, page 2.

5 *Ibid.*, page 5. While the *Annual Report 1999* includes information on a range of countries, the only reference to PNG is in the "List of Activities Supported FY1999" to "Enhancing ecologically and sustainable forest management", in partnership with the PNG Ecoforestry Forum (*ibid.*, page 23). A separate report by ITS Global notes that "The PNG Eco-Forestry Forum, a local NGO which promotes eco-forestry and forest certification and argues against industrial logging, was set up following a 1999 WWF and World Bank workshop on Strategies for Sustainable Development". ITS Global (2006b), *Whatever it takes: Greenpeace's Anti-Forestry Campaign in Papua New Guinea*, ITS Global, Melbourne, page 38. http://www.forestryanddevelopment.com/documents/pdf/fd-G_peaceReport-final.pdf, accessed 20 July 2006.

6 World Bank/WWF Alliance for Forest Conservation and Sustainable Use (1999) *op.cit.*, page 15.

7 A useful chronology of "Relevant Forestry Policy Events since 1985" is contained on page 8 of World Bank/WWF Alliance for Forest Conservation and Sustainable Use Mid-Term Evaluation, prepared for WWF International by Malcolm Forbes Baldwin, Environmental Law and Policy Consultant to The International Resources Group in 2002. This report can be accessed at <http://www.worldwildlife.org/alliance/pdfs/gar/WorldBankWWFAllianceMidtermEvaluation.pdf>. A Google search on Baldwin does not reveal his background in the issues covered in this report.



Bank's economic and sector work. The multisectoral approach envisaged has not been followed'.⁸ The report lists seven reasons for this failure, including 'the Bank adopted an overly cautious approach in the wake of the controversy that surrounded the formulation and implementation of the policy. This discouraged risk taking'.⁹

In an observation that may explain the focus on governance in the FCP with PNG, the OED report notes that 'the strategy failed to address governance issues, which have proved to be central – instead, confining itself to the narrow issues of economic incentive such as the length and price of concessions'.¹⁰

The World Bank has noted that the OED review concluded, *inter alia*, that 'the effectiveness of the strategy has been modest and the sustainability of its impact uncertain'.¹¹ In explaining revisions to the 1991 Forest Strategy, the Bank cites a number of OED conclusions – but not the following observation, which was reported in the WWF Mid-Term Evaluation of the Alliance with the Bank, that 'the OED found that the Bank only partially met the Strategy's goals and its ban on commercial logging loans in moist tropical forests had a "chilling" effect on forest reforms. In July 2000 the Alliance sharpened its focus on target activities in key countries, integration with broader WWF and World Bank missions, and opportunistic activities with expected rates of return'.¹²

In a regional consultative meeting in North America as part of the OED review, a Bank staff member noted that: 'the Bank has had only a moderate impact on improving forest cover and quality; and the Bank's forest strategy has become less relevant given pressures on forests from globalization, demand for forest and agricultural products, weak governance structures and a greater orientation towards borrower demand and decentralized country operation'; 'experimentation in improved forest management' had been discouraged by the ban and the Bank's country and task managers had become "risk averse".¹³ Another Bank staff member argued that the lessons from the OED review were that:

1. 'The impact of the Bank on stemming deforestation had been negligible;
2. Bank effectiveness in reaching other goals of the 1991 Forest Policy have been modest;
3. Additional financial flows for conservation of forest values have not been forthcoming;
4. The Bank has no clear strategy to implement the 1991 Forest Policy; and
5. The forest portfolio is unimaginative and risk averse'.¹⁴

Staff conceded in this document that 'Holding staff accountable to a voluminous policy and figuring how to implement it present significant challenges. They noted a "chilling effect" where

8 World Bank (2000), *The World Bank Forest Strategy: Striking the Right Balance*, Report by the Operations Evaluation Department. World Bank, Washington, DC, page xix.
[http://lnweb18.worldbank.org/oed/oeddoelib.nsf/b57456d58aba40e585256ad400736404/f7d852631e3a2b25852569a800654b8c/\\$FILE/forestry.pdf](http://lnweb18.worldbank.org/oed/oeddoelib.nsf/b57456d58aba40e585256ad400736404/f7d852631e3a2b25852569a800654b8c/$FILE/forestry.pdf), accessed 20 July 2006.

9 *Ibid.*, page xxii.

10 *Ibid.*, page xxi.

11 World Bank (2006b), *Revisions to the Bank's 1991 Forest Strategy*,
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/EXTFORESTS/0,,contentMDK:20630590~pagePK:210058~piPK:210062~theSitePK:985785,00.html>, accessed 19 July 2006.

12 Baldwin, M. F. (2002), *World Bank/WWF Alliance for Forest Conservation and Sustainable Use Mid-Term Evaluation*, *op. cit.*, page 2.

13 North American Regional Consultation for the Forest Policy Implementation Review and Strategy (FRIPS) (2000), *The World Bank Forest Policy Implementation Review and Strategy: Report of the North American Regional Consultation*, FRIPS, Washington, DC, [http://wbln0018.worldbank.org/essd/forestpol-e.nsf/a084cb073737b7e385256621005b2179/cb2b405ee61945b6852568dd005b2fbf/\\$FILE/NA%20Consultation%203-00.pdf](http://wbln0018.worldbank.org/essd/forestpol-e.nsf/a084cb073737b7e385256621005b2179/cb2b405ee61945b6852568dd005b2fbf/$FILE/NA%20Consultation%203-00.pdf), accessed 21 July 2006.

14 *Ibid.*, page 5.

Bank staff are reluctant to engage in forest projects given controversy around the forest policy. Increased civil society attention and fear that projects may be brought before the Inspection Panel create a risk aversion to develop such projects and a disincentive for borrower countries to request such projects'.¹⁵

This consultative document records that 'The ensuing discussion highlighted a reference in the OED Review that new initiatives like the Alliance and the World Bank's CEO Forum might be superseding the 1991 Forest Policy'.¹⁶ A WWF official is recorded as having 'highlighted that the Alliance is now more dependent on resources coming from Dutch trust funds, which permit the funding of Bank staff and stressed the need for flexible funding for target-based initiatives'.¹⁷

The Bank's new Forests Strategy and Operational Policy, 'which are based on three equally important pillars of economic development, poverty reduction and protection of global forest values',¹⁸ were approved by the Executive Board in October 2002. In a booklet accompanying the release of the new Operational Policy, the Bank noted that 'These revisions will retain many of the strengths of the former OP4.36. However, they expand its effectiveness by using new initiatives in third-party certification and monitoring of progress towards sustainable forest management that have been developed since the 1993 operational policy took effect'.¹⁹ The 'more inclusive, twin approach of protection and productive use, in all forest types, is embedded in the revised Forest Strategy. This is a major reason why the previous ban on Bank participation in forest operations involving logging (in primary moist forest) has been replaced in the new policy with a focus on managing production sustainably, and with due attention to protection. This shift allows the Bank to proactively engage with clients and partners to manage forests effectively for all uses'.²⁰

In the Mid-Term Evaluation of the World Bank/WWF Alliance (prepared for WWF) it is argued that the Alliance had 'affected the Bank's forestry ideas and revised Forest Strategy'; that 'at regional and country levels the Alliance has influenced forestry dialogue and stakeholder interaction'; that 'given WWF's credibility the Alliance may have modified and reduced many NGO's concerns about the Bank's proposed forest strategy changes'; and 'since the OED review the Alliance has made significant management improvements'.²¹

The evidence cited above suggests that two conclusions are warranted. First, that when it was seeking to negotiate complex forestry policy and institutional/governance arrangements with PNG, Bank operational staff, OED and presumably management had serious reservations as to the effectiveness of its forestry strategy. Second, that the Alliance had an important bearing on what the World Bank was trying to achieve in its forestry policy negotiations with PNG.

15 *Ibid.*, page 6. In contrast to the views of Bank staff in this document, an official from the Environment Defence Fund was much more supportive of the Bank's forestry policy.

16 *Ibid.*, page 17. On the same page a WWF official is recorded as having 'highlighted that the Alliance is now more dependent on resources coming from Dutch trust funds, which permit the funding of Bank staff and stressed the need for flexible funding for target-based initiatives'.

17 *Ibid.*

18 World Bank (2006a), *Forests Strategy and Operational Policy*, <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/EXTFORESTS/0,,contentMDK:20458437~pagePK:148956~piPK:216618~theSitePK:985785,00.html>, accessed 20 July 2006.

19 World Bank (2002), *Sustaining Forests: A World Bank Strategy*, World Bank, Washington, DC, page 10. http://siteresources.worldbank.org/INTFORESTS/214573-1113990657527/20632625/Forest_Strategy_Booklet.pdf, accessed 21 July 2006.

20 *Ibid.*, page 16.

21 Baldwin, M. F. (2002) *op. cit.*, page 3.

3. The Forestry and Conservation Project

The FCP proposal was the second recent forestry project in PNG. The first was the Governance Promotion Adjustment Loan (GPAL).²² The Bank notes that ‘The FCP was designed to extend *inter alia* and reinforce the forestry reforms initiated under the (GPAL) completed in 2001. Implementation of the FCP, however, had barely commenced when the Bank suspended disbursements under the project on September 4, 2003’.²³

The PNG Government and the World Bank made a joint statement on 17 May 2005 that ‘After more than 20 months, during which the PNG Government and the World Bank have attempted to reach an agreed path for the FCP, the Government has requested cancellation of the Bank’s financing for the project’.²⁴ PNG Chief Secretary Kalinoe was reported in 2002 as having accused the Bank of blackmail and attempting to re-write the Forestry Act.²⁵

The objectives and benefits of the FCP were described by the Bank as being to ‘improve the environmental sustainability of forest harvests and to implement for the first time a country-wide strategy to promote conservation set-asides and small-scale sustainable enterprises. Progress against deforestation, biodiversity and habitat loss, and economic marginalization of affected landowners will be sought through: (i) continued improvement of the capacity of GOPNG (Government of PNG) to plan, implement and enforce sustainable and environmentally responsible forest management; (ii) an upgrading of the GOPNG’s capability to assess the environmental acceptability of resource operations and review or reject proposals accordingly, to be followed by regular and effective monitoring; (iii) improvement in landowner participation in forest use decisions, their access to the benefits of sustainable forest management and their awareness regarding forest management and conservation issues; (iv) with GEF (Global Environment Fund) support, implementation of a forest conservation and preservation strategy to be fully compatible with clan-based land ownership, and based upon the promotion of conservation based alternatives to intensive forest utilization, primarily through the establishment of a trust endowment fund to provide significant in-country funding of such activities’.²⁶

PNG is described as being ‘one of the most significant tropical rainforest global wildernesses

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- 22 This loan, for US\$90 million, was approved by the World Bank in 2000. It provided ‘balance of payments support to the government in exchange for progress on reforms including improved fiscal management, strengthening of governance and measures to combat corruption over a 14 month period’. By accepting the loan, the government agreed to: ‘an independent review of the regime of the forest revenue system’; ‘an independent review of pending applications for timber harvesting, in line with the moratorium on all proposals for new forestry licences, extensions and conversions’; and ‘amendments to the Forestry Act covering: a) the regulatory framework for the clearance of forestry land; (b) non-commercial disclosure by the Forestry Board; (c) delegation of powers of the Board to an individual; and (d) composition of the Forestry Board’. See Section B of World Bank (2001b), *The World Bank and the Forests in Papua New Guinea*, <http://siteresources.worldbank.org/INTPAPUANEGUINEA/Data%20and%20Reference/20211798/NB+Forestry+Brief.pdf>, accessed 20 July 2006.
- 23 World Bank (2005a), *Interim Strategy Note for Papua New Guinea*, World Bank, Washington, DC, page 22.
- 24 World Bank (2005b), *Papua New Guinea: Cancellation of Forestry and Conservation Project*. Joint Statement by World Bank and Papua New Guinea Government, 17 May 2005, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPENVIRONMEN T/0,,contentMDK:20506620~menuPK:502902~pagePK:34004173~piPK:34003707~theSitePK:502886,00.html>, accessed 22 July 2006.
- 25 “PNG rejects World Bank ‘blackmail’ on forests”, *Sydney Morning Herald*, 29/10/2002. <http://www.smh.com.au/articles/2002/10/28/1035683358570.html>, accessed 16 July 2006.
- 26 World Bank (2001a), *Papua New Guinea – Forestry and Conservation Project*. Report No. PID6506, World Bank, Washington, DC, page 2, http://www-wds.worldbank.org/external/default/WDSContentServer/TW3P/IB/1999/10/29/000009265_3980929101716/Rendered/PDF/multi0page.pdf, accessed 20 July 2006.

remaining, harbouring 5-7 per cent of the world's biodiversity as 36 million ha, 77% of total land area, are still covered by closed natural forest'.²⁷

The FCP is described as 'designed particularly to address environmental issues relating to the forests of Papua New Guinea. The two principal environmental issues in the project are the environmental sustainability of PNG's forests being managed in production, and the protection of important biodiversity and other environmental values associated with the forests'.²⁸

The components of the loan were described in 2001 (with the amounts earlier proposed in parentheses) as being: Landowner Forest Decision-Making, US\$10.6 million (US\$6 million); Conservation Trust Fund, US\$14.99 million (US\$35.8 million); Sustainable Forest Management, US\$8.7 million (US\$9.2 million); and Environmental Assessment and Monitoring, US\$4.68 million (US\$4.3 million) – for a total project cost of US\$39 million (US\$55.3 million).²⁹

As a result of the FCP and GPAL projects, five reviews of aspects of the management of forestry in PNG were undertaken: two as conditions for providing GPAL between 2000 and 2002, and three as conditions for the FCP between 2003 and 2005.³⁰

A report by ITS Global assesses, *inter alia*, the draft report by an "Independent Review Team" (IRT) titled *Towards Sustainable Timber Production – A Review of Existing Logging Projects*,³¹ which was a condition of the GPAL. Our critique of this draft report demonstrates that its key conclusions were justified by neither its methodology nor data. Our critique also questions the independence of the natural resource economist who wrote key elements of this report. The World Bank required that the IRT review be undertaken. It is therefore reasonable to assume that it must have been aware of the deficiencies we have identified.

27 *Ibid.*, page 1.

28 World Bank (1999), *Papua New Guinea – Forestry and Conservation Project*. Report No. PID8284, World Bank, Washington, DC, page 5, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/1999/10/29/000094946_99102905360549/Rendered/PDF/multi0page.pdf, accessed 20 July 2006.

29 World Bank (2001a), *op. cit.*, page 5. Earlier figures are in World Bank (1999) *op. cit.*, page 3. GEF funding was foreshadowed to be an initial contribution of US\$10 million, 'which would be used to leverage additional public and private funding' World Bank (2001a) *op. cit.*, page 3.

30 Reviews were undertaken for: forest harvesting projects being developed towards a timber permit or timber authority; the forest revenue system; disputed timber permits and permit extensions; current logging projects; and compliance audits.

31 ITS Global (2006a), *The Economic Importance of the Forestry Industry to Papua New Guinea*, ITS Global, Melbourne <http://www.forestryanddevelopment.com/documents/pdf/fd-ITSGlobalEconomicreport.pdf>, accessed 5 August 2006.

4. How did this happen?

How did a formal review of Government forestry policy mandated by the World Bank produce material that is so deficient? What do this review and the negotiating history of the FCP suggest regarding the Bank's approach to forestry policy in PNG?

Some commentators suggest that the World Bank in PNG has been overly accommodative towards Green NGOs.³² Colin Hunt believes that 'The World Bank has recently been more receptive than hitherto to representations from the Washington offices of those NGOs (WWF, Conservation International, Greenpeace and the Nature Conservancy) concerning forest conservation and policy. It is expected therefore that the concerns of NGOs will be translated into policy through the leverage that the World Bank has over Papua New Guinea's forest policy via the structural adjustment programme'.³³

Navroz Dubash and Frances Seymour believe that there is clear evidence that WWF prevailed in getting the World Bank to include the moratorium on new logging concessions as one of the conditions for the FCP loan.³⁴ They also argue that during a meeting with environmental NGOs in Australia, World Bank President Wolfensohn reportedly pledged to make PNG a test case to how the World Bank did business with NGOs'.³⁵

Peter Larmour argues that rather than the traditional focus on economic issues, in the case of the Forestry and Conservation Project 'it seems the power of the World Bank was used to bring in environment issues, when the government might have preferred simply to talk about money'.³⁶

Filer, Dubash and Kalit argue that 'The *growing profile* (authors' italics) of the "sustainable development" conditions ... could perhaps be seen, in retrospect, as a rather cynical ploy by the Bank (or its Task Manager) to win over the support of "civil society", rather than being the product of a genuine belief that these conditions were central to the whole package'.³⁷ They also question how it makes 'economic sense for the government to borrow US\$18 million from the World Bank in order to scale down an industry which does make a significant contribution to the government's tax revenues, and thus reduce its own capacity to repay the loan'?³⁸

Tim Curtin notes that 'the World Bank and the NGO community continue to lobby Papua New

32 Filer, Dubash and Kalit conclude that 'the Bank took the borrower's deficient sense of "ownership" as the pretext for an effort to broaden the boundaries of its national constituency – an effort which received the personal endorsement of the Bank's new President, James Wolfensohn, who had come to regard this form of consultation as a key component of the "new Bank's" global strategy'. Filer, C., Dubash, N. and Kalit, K. (2000), *The Thin Green Line: World Bank Leverage and Forest Policy Reform in Papua New Guinea*, Research School of Pacific and Asian Studies, Canberra, page 42. A footnote to this reference is: 'Our sources indicate that pressure from Australian NGOs had a particular impact on the Bank's decision to 'reach out' to the NGO community in PNG, even before such outreach was entrenched in the policies of the "new Bank".'

33 Hunt, C. (ed) (2002), *Production, Privatisation and Preservation in PNG Forestry*. Instruments for Sustainable Private Sector Forestry Series, Institute for Environment and Development, London, page 17, http://www.poptel.org.uk/iied/docs/flu/psf/psf_prodcnprivat%20.pdf, accessed 10 July 2006.

34 Dubash, N. and Seymour, F. (2000), *The Right Conditions: The World Bank, Structural Adjustment and Forest Policy Reform*, World Resources Institute, Washington, DC, page 48, <http://pdf.wri.org/iffeforest.pdf>, accessed 11 July 2006.

35 *Ibid.*, page 47.

36 Larmour, P. (2002), *Conditionality, Coercion and Other Forms of 'Power': International Financial Institutions and the Pacific*, page 17, <http://eprints.anu.edu.au/archive/00001676/01/KSI02-7.pdf>, accessed 15 July 2006.

37 Filer, C., Dubash, N. and Kalit, K. (2000), *The Thin Green Line: World Bank Leverage and Forest Policy Reform in Papua New Guinea*, Research School of Pacific and Asian Studies, Canberra, page 96.

38 *Ibid.*, page 115.

Guinea against even contemplating development of its largest resource which could well rival Malaysia's timber industry given half a chance'.³⁹ He also notes that 'forest product exports would have been even smaller if the World Bank had succeeded in its demands that the government should close down the Vailala and Wawoi Guavi projects (in Gulf and Western Provinces respectively) as part of its undeclared but obvious intention of terminating all logging in Papua New Guinea'.⁴⁰

Another interpretation may be that the OED report on the ineffectiveness of the 1991 forest strategy encouraged the Bank to place more emphasis on governance and environmental issues than on maximizing the economic value from PNG's forestry endowment.

39 Curtin, T. (2005). *Forestry and Economic Development in Papua New Guinea*. Abstract written in June 2005 for a forthcoming book. http://archives.pireport.org/archive/2006/April/Forestry_development_PNG.pdf#search=%22curtin%20%22Forestry%20and%20Economic%20Development%22%20abstract%20%22, accessed 10 July 2006.

40 *Ibid.*, page 3.

5. Was the World Bank disingenuous?

Filer questions whether ‘the Bank has a hidden agenda to close down the large-scale log export industry because it privately agrees with the NGOs who say that the industry is corrupt, corrosive and incorrigible? Bank staff might say that they only have an open agenda to persuade the PNG Government to comply with its own rules and regulations in the name of good governance, yet these rules and regulations are primarily the work of the Bank’s own consultants, and the borrower’s sense of ownership is therefore none too strong’.⁴¹

The World Bank must have been aware that the “natural resource economist” who wrote the key economic elements of the draft report by the Independent Review Team, Christopher LaFranchi, is associated with Greenpeace Pacific.⁴² This relationship was not made explicit in the draft IRT report.

Dubash and Seymour believe that the World Bank was concerned about diluting environment conditions it was seeking to impose on PNG in earlier lending as this ‘would draw the unwelcome attention of environment NGOs and other critics of the World Bank’.⁴³ They concluded that ‘this was a turning point for the World Bank’s civil society engagement with PNG’.⁴⁴

The Conservation Trust Fund (CTF) was a key component in the FCP. The objective of the CTF is described by the Bank (in its 2001 information note) as being ‘an endowment fund, whose investment will be used for landowner-based biodiversity conservation and ecologically sustainable development. The CTF will support developments under the Landowner Forest Decision-Making Component by providing a source of funds for landowners committed to pursuing conservation orientated forest resource use options. A strong cooperative relationship will be required between the OEC (Office of Environment and Conservation) and CTF on conservation related matters, while LDOU (Landowner Decision and Organization Unit) will also be required to play a liaison role’.⁴⁵

The CTF ‘will be independent of government and, after an initial period of support and financial management, relatively independent of the project Management Unit for the FCP and CTF Component. The CTF Board of Directors will administer a management structure for the articles defining the CTF Component. This Board, elected in 1999 by a procedure laid down in the articles defining the CTF, is the governing body of the Trustee Company. Links to Government, through the OEC Minister and Minister for Finance, will initially operate as a sinking fund and develop into an endowment-based fund’.⁴⁶

The Bank’s 1999 information note, on the other hand, stated that ‘This component will establish an ongoing, reliable and independent source of in-country funding for biodiversity conservation and sustainable development, based on landowner participation. The Conservation Trust Fund (CTF) will support the framework developed under the landowner component, providing funds for selected landowners that show commitment to conservation-oriented resource use options. It will be a non-

41 Filer, C. (2004), “A Serious Case of Conditionality: The World Bank Gets Stuck in the Forests of PNG”, *Development Bulletin* 65, pages 95-99.

42 See for example http://www.greenpeace.org.nz/pdfs/marovo_report.pdf.

43 Dubash, N. and Seymour, F. (2000), *op. cit.*, page 43. The extent to which the World Bank was supporting the interests of green NGOs in PNG is revealed in a letter from former Country Director for PNG and the East Asia and Pacific Regions, Klaus Rohland. In a letter to former Prime Minister Skate and Treasury and Planning Minister Lasaro, Rohland noted that withdrawal by PNG of a forest concession for The Nature Conservancy “would be a severe blow for our efforts in conservation”. See <http://pandora-test.nla.gov.au/parchive/2001/Z2001-Feb-28/forests.org/recent/1999/wbfundpr.htm>.

44 Dubash, N. and Seymour, F. (2000), *op. cit.*, page 47.

45 World Bank (2002), *op. cit.*, page 3.

46 *Ibid.*, page 6.

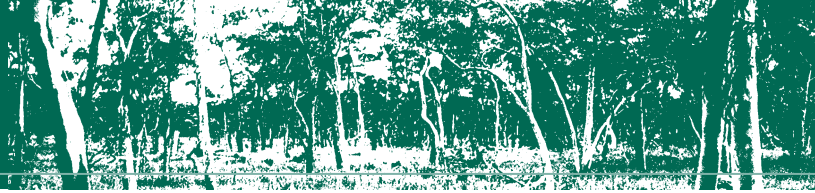
governmental entity, governed by a multi-stakeholder Management Board. Funding will be focused at landowner and Incorporated Land Group (ILG) levels, and will be focused on conservation and biodiversity. Alternatives that may be pursued include certified and community forestry, carbon trading and other low-impact forest based enterprises. The GEF will be approached to provide funds to establish this landholder conservation mechanism'.⁴⁷

The reason for the different descriptions of the CTF in the two World Bank documents is not clear. What is clear is that PNG was being asked to borrow money to establish a fund which would operate independently of the Government.⁴⁸ The Government would have the liability without being able to determine how its money would be used. Which other bodies would be represented on the CTF Board, and how decisions would be reached, is not spelt out in the two documents reviewed for this report. The reference in the 1999 document to a multi-stakeholder Management Board suggests that the intention was that NGOs would be represented on it.

That funds would be directed to 'selected landowners that show commitment to conservation-orientated resource use options' gives rise to questions as to whether a CTF would have operated in a way that would have been at variance with the Government's objective of maximising the sustainable potential of PNG's forestry endowment.

47 World Bank (1999) *op. cit.*, Section 6, page 2.

48 To the extent that GEF funding would have been used the CTF would have involved a higher concessional funding element.



6. Impact on aid donors' approaches to the forestry sector

The underlying theme in the World Bank's approach to the forestry sector in PNG has been that the industry is environmentally unsustainable and faces serious governance challenges. This appears to have had a significant impact on the approach to the sector on the part of key bilateral aid donors. Key donors appear to have accepted the premise underlying the Bank's approach: that PNG's forests are being cut at an unsustainable rate. This premise is inconsistent with International Tropical Timber Organization (ITTO) figures. ITTO estimates demonstrate that rather than cutting its native forests at an unsustainable rate, PNG is not utilising the annual sustainable productive yield from its native forests.⁴⁹

Rather than donors focussing on delivering assistance to PNG to enable it to maximise the economic contribution from its forestry endowment, the approach of the World Bank towards forestry in PNG would appear to have encouraged donors to focus instead on environmental protection and governance issues. In some cases this has been reflected in funding by donors of activities by green NGOs which have actively opposed sustainable commercial forestry in PNG.

49 International Tropical Timber Organization (2005), "Papua New Guinea" in *SFM Tropics: Status of Tropical Forest Management 2005*, ITTO, Yokohama. Available at: <http://www.itto.or.jp>

7. Conclusions

The emphasis in the FCP was on environmental/governance objectives. There was a clear bias in the processes set up under it against commercial forestry. Based on the documents reviewed for this report, it is reasonable to conclude that the Alliance between the Bank and WWF had considerable influence on the way the Bank approached the FCP negotiations with PNG. It is also reasonable to conclude that the Bank must have been aware of the focus and direction of work in the IRT process.

Negotiations on the FCP and GPAL were taking place when the effectiveness of the Bank's forestry policy was known by Bank staff and management to be questionable.

The PNG Government concluded that the benefits from the project were not warranted by the financial and policy/institutional costs associated with the FCP. What role the proposed CTF played in informing that decision is not clear. What is clear is that the Government was being asked to assume the liability for a fund which would have operated independently from it, have been controlled by NGOs and may have undermined its capacity to sustainably develop the economic potential of its forestry endowment.⁵⁰

The Bank would seem to have little positive to show from its negotiations with PNG in the forestry sector. The question must be posed whether this experience has skewed the capacity of the Bank to use its lending program to achieve other economic and social policy reforms in PNG.⁵¹

The Bank's focus on governance and sustainability issues would also appear to have been instrumental in leading other major bilateral donors to direct programs in the forestry sector towards governance and environmental management and away from helping PNG to maximise the contribution to growth from the sustainable commercial use of its forestry endowment.

50 The ITS Global report *The Economic Importance of the Forestry Industry to Papua New Guinea* demonstrates that the sustainable potential embodied in its forests has not been fully utilized. This cost the Government around US\$40 million in lost revenue in 2004. ITS Global (2006a), *The Economic Importance of the Forestry Industry to Papua New Guinea*, ITS Global, Melbourne, <http://www.forestryanddevelopment.com/documents/pdf/fd-ITSGlobalEconomicreport.pdf>, accessed 5 August 2006.

51 The World Bank has an item on its website indicating its engagement with Christians in PNG by supporting "A theological framework for an environmental outlook", which 'will result in a full theological program of environmental study tied to practical forestry and conservation issues in collaboration with key theological colleges of PNG and appropriate NGOs'. See <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTBIODIVERSITY/0,,contentMDK:20482665~pagePK:148956~piPK:216618~theSitePK:400953,00.html>.

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