A serious case of conditionality:  
The World Bank gets stuck in the forests of PNG

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Introduction
Four years ago, I published a book about the World Bank's role in the process of forest policy reform in Papua New Guinea (PNG) during the period from 1989 to 1999 (Filer et al. 2000). This was one of a number of country case studies designed to evaluate the effectiveness of structural adjustment loan conditionality as an instrument of forest policy reform in tropical countries (Seymour and Dubash 2000). In the PNG case, we were also led to ask whether the World Bank had been more effective in its use of this particular instrument than in its other roles as a sectoral lender, donor coordinator or provider of 'technical assistance'. However, this question was rather difficult to answer, because our story came to an end at a time when the World Bank was still negotiating with the PNG Government over the second adjustment loan to feature forest policy conditions, and one of those conditions was acceptance of a separate loan to implement a forestry and conservation project which would count as the first instance of sectoral lending after a decade of forest policy reform supported by other forms of aid. In this paper, I propose to update and revisit my earlier conclusions in light of what has (or has not) happened over the course of the last four years.

The paradox of national ownership
To assess the effectiveness of adjustment loan conditions as instruments of policy reform, we must first recognise that conditionality implies a certain reluctance on the part of the borrower. In addition, the borrower's compliance may be difficult to monitor, the termination of a loan normally has more costs than benefits to both sides, and the lender is likely to lose control when the funds have finally been disbursed (Kahler 1989; Mosley et al. 1995; Collier et al. 1997; Killick et al. 1998). The World Bank's response to this 'adjustment paradox' has been to articulate a doctrine of 'borrower ownership', which seems to require that the measures in question are measures the borrower already wishes to adopt (Johnson and Wasty 1993; World Bank 2004), yet this only serves to construct a second paradox, since it is not clear why the bank should oblige a government to do what it already wants to do. The basic problem with the concept of 'borrower ownership', at least in the PNG case, is the assumption that a 'government' possesses the unity of purpose that would allow it to act as a single stakeholder in any process of policy reform (Filer et al. 2000:101).

In 1989, the PNG Government invited the World Bank to coordinate a donor-funded process of forest policy reform in response to the findings of a judicial inquiry into forest industry corruption (Barnett 1989). In 1995, the bank and its bureaucratic allies attached five forest policy conditions to an Economic Recovery Program loan in the name of promoting 'long-term sustainable private sector-led growth in income and employment' (Filer et al. 2000:27–28). These could be understood as an effort to sustain the reforms which had already been engineered through the National Forestry and Conservation Action Program. In essence, they said that:

- you/we won't muck around with the powers of the National Forest Board;
- you/we won't reduce the budget of the PNG Forest Authority;
- you/we will impose a sustainable management regime on the log export industry;
- you/we will implement a logging code of practice; and
- you/we will introduce a rational forest revenue system.

In 1996, the bank saw that the government was defaulting on some of these obligations, or breaking some of these promises, and threatened to withhold the final tranche of the loan. The Prime Minister, Julius Chan, told the bank to 'go to hell', and then backed down (Filer et al. 2000:41).

In 2000, another set of forest policy conditions was attached to the Governance Promotion Adjustment (GPA) loan negotiated with the government of Mekere Morauta. In essence, these said that:

- you/we will introduce an even more rational forest revenue system;
- you/we will close the loopholes in the Forestry Act and kick the loggers off the National Forest Board;
- you/we will conduct an independent review of Forest Management Agreements (FMAs), timber permits and geographical extensions to timber permits'; and in the meantime …
• you/we will not grant any new timber concessions; and
• you/we will borrow US$17.3 million from the World Bank for the Forestry and Conservation Project (FCP).

Aside from ‘promoting governance’, this set of conditions was meant to support the aims ascribed to the FCP itself, while the FCP loan was to have its own set of ten, more detailed conditions to support these same objectives. At the time when the GPA loan was being negotiated, the FCP had three aims:

- ‘to strengthen the capacity of local people, government and non-governmental entities to more sustainably manage and conserve PNG’s forest resources’;
- ‘to improve the quality of life of people living at the local level’; and
- ‘to improve management and conservation of important forest ecosystems in one of the world’s most biodiversity-rich regions’ (World Bank 2000b:3–4).

The first two were understood to be ‘national development’ objectives related to the World Bank’s Country Assistance Strategy and the loan component of the FCP, while the third was understood to be a ‘global benefit’ objective related to the second component of the FCP, which was the grant of another US$17.3 million to a conservation trust fund managed by representatives of ‘civil society’. But this grant was itself conditional on the government’s acceptance of the project loan.

**Beating around the bush**

The moratorium on new logging concessions became an issue between the World Bank, the PNG Government, and the NGO community because it was not clear who had proposed, or who had agreed, that all logging project proposals or all current logging operations should be subjected to an independent process of review to determine their compliance with the Forestry Act and its 289 Regulations before the moratorium could be lifted. To put the matter very crudely, my analysis of the historical evidence in 2000 led me to conclude that bank staff and representatives of the NGO community had agreed to push the more comprehensive version of the moratorium down the government’s throat by including it in a draft policy matrix which the bank sent to the government in November 1999 (Filer et al. 2000:81–3).

The NGO community figured that this would stop the government from granting any new logging concessions for a very long time, if not forever, but the bank was mindful of the fact that adjustment loan conditions can only apply during the period of the loan, which in this case would be 18 months, so it had one version of the moratorium attached as a condition of the GPA loan and another version attached as a condition of the FCP loan, which was to be spent over a longer (six-year) period (Filer et al. 2000:86).

The doctrine of ‘borrower ownership’ required the World Bank to pretend that all of this had been the government’s own idea in the first place, but the government was thoroughly confused, not least because the bank seems to have got the two versions of the moratorium mixed up with each other. Nor was it hard to predict that these ambiguities would also enable the NGO community to accuse the bank of breaking its promise of tough action against the logging industry and concealing this act of betrayal under the doctrine of ‘borrower ownership’ (Filer et al. 2000:114–5). That is precisely what happened when the final tranche of the GPA loan was released at the end of 2001.

By that time, the Independent Forestry Review Team (IFRT) had reviewed 32 logging project proposals then under consideration by the PNG Forest Authority, and had identified ten of these as projects which might be sustainable if certain ‘remedial actions’ were taken to ensure their compliance with sectoral rules and regulations (IFRT 2001). These remedial actions were incorporated into a 39-step ‘Time-Bound Action Plan’ which would have the effect of extending the period of the moratorium. The final tranche of the GPA loan was released after the government had agreed to this new set of conditions as part of the FCP loan agreement. However, the Forests Minister instantly broke the agreement by granting an extension of the infamous Kiunga-Aiambak Timber Authority, by means of which a businessman with five nationalities and excellent political connections had been illegally logging part of Western Province on the pretext of building a road (Anon. 2002; Greenpeace n.d.). A local NGO then lodged a complaint with the World Bank’s Inspection Panel on behalf of the landowners affected by this operation, arguing that the bank had breached its own policies and undertakings by releasing the second tranche of the GPA loan (CELCOR 2001). By the time the panel had inspected and rejected this complaint (World Bank 2002a), the minister had rubbed more salt in the wound by extending the period of the Wawoi-Guavi Timber Permit held by Rimbunan Hijau — the biggest fish in the national log pond.

The forest policy ping-pong game continued when Michael Somare took over the reins of government in August 2002. The managing director of the Forest Authority cancelled the launch of the FCP at the last minute in favour of further discussions with Malaysian logging companies. The new Forests Minister then asked the National Forest Board to allocate three new timber permits, and the Prime Minister announced that this action had the approval of the bank, although it contravened the Time-Bound Action Plan. Three senior bureaucrats then endorsed a further extension of the infamous Kiunga-Aiambak concession. In March 2003, the IFRT reported on irregularities in all six
permit extensions granted in the previous year. Cabinet was finally persuaded to endorse some of the team’s recommendations, and Rimbunan Hijau was officially threatened with suspension of two of its own permits. This provoked a flurry of criticism in the pages of The National, a newspaper owned by Rimbunan Hijau (see Box 1). The government kept dithering, so the bank suspended the FCP. The Forests Minister then granted a new permit to Rimbunan Hijau. In March 2004, while the IRFT was still probing the irregularities in 14 current timber permits, the Prime Minister announced that the new logging projects already in the pipeline were worth more to PNG than the value of the FCP loan, but the bank had by then taken the further step of suspending a separate road maintenance loan in order to focus his mind on the game in hand. At the time of writing, the government has still not taken the last of the 39 steps, because Rimbunan Hijau has been pulling out all the stops to prevent it from doing so.1

Effectiveness for what?
The main reason why I still find it hard to assess the effectiveness of adjustment loan conditionality as an instrument, or the World Bank itself as an agent, of forest policy reform in PNG is that the bank’s own objectives now seem to have less coherence than they did when the bank first entered the reform process 15 years ago. While the bank was in the business of designing and delivering the GPA loan to PNG, it was also undertaking a wholesale review of its global forest policy (Lele et al. 2000). The result of this exercise (World Bank 2002b, 2002c) was the maintenance of a commitment to the principles of ‘sustainable forest management’, despite the fact that few people outside the bank appear to believe that the sustainable extraction of timber from old-growth forests makes economic or political sense (Rice et al. 2001). Yet the bank’s own belief is partly hidden behind the ‘three pillars’ of a new policy whose aims are to ‘assist borrowers to harness the potential of forests to reduce poverty in a sustainable manner, integrate forests effectively into sustainable economic development, and protect the vital local and global environmental services and values of forests’ (World Bank 2002b:1).

So how do we make sense of the World Bank’s current engagement with the forests of PNG in light of its new policy and strategy? It is hard to see how the FCP, as presently designed, will serve to reduce poverty or integrate forests into sustainable economic development. Does the bank really believe that another dose of salty consultants will produce a sustainable, well-managed, and properly regulated log export industry within the next ten years? Even the bank’s current crop of consultants seem sceptical on this score (see Box 2). Or does the bank believe that alternative ways of deriving incomes and revenues from the forests of PNG, of the kind promoted by the NGO community, can substitute for the incomes and revenues derived from large-scale logging? This also seems unlikely. Could it therefore be true that 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? World Bank staff might say that they only have an open agenda to persuade the PNG Government to comply with its own rules

Box 1: Borrower ownership, state failure, and national sovereignty

We strongly support Sir Michael’s dislike of PNG and other South Pacific nations being referred to with the phrase ‘failed states’, if for no other reason than inaccuracy …

PNG may have its problems, many in common with other far more ‘developed’ nations — but that’s a long way from being a failed state, a basket case, or the embodiment of any other of the glib and offensive phrases so often used to describe our country …

Those titles mainly emanate from that bane of modern governments throughout the world, the ‘think tank’. These clubs of former politicians, retired economists and would-be power brokers are frequently as nimble with their continually changing interpretation of statistics and policies as they are with their devious pursuit of political influence and power …

The World Bank is a good example. Blind to all but its theories and its spreadsheets, impervious to criticism, and contemptuous of sovereignty and national aspirations, this monolithic money manipulator is also deaf to those who dare to point out its fast-growing record of disastrous misjudgments [sic] …

It seems that the PNG government has been told bluntly to get rid of our timber industry. Never mind that it contributes hundreds of millions to the nation’s coffers. Never mind that thousands of people and their families are dependent upon timber for employment or that landowners gain substantial royalties from the industry.

Doubtless this pressure will be met with hysterical applause by the Greenpeace hordes, certain left-leaning academics, and a noisy section of the media that wrongly judges its pose enjoys the support of the bulk of the literate public.

The World Bank is not a democratic or a parliamentary organisation. It must not be allowed to continue its faceless infiltration of PNG — loans, grants, donations or Big Brother notwithstanding.

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.

The PNG Government also has reason to wonder why it would need to borrow money from the World Bank in order to regulate an industry which is essentially unsustainable (Filer et al. 2000:115). If the bank is still in the business of implementing Justice Barnett's recommendation to 'slow down' an industry which is 'out of control', (1989:375–6) and if this entails a further reduction in the economic value of PNG's old-growth forests then how does the bank propose to trade off this process of contraction with a process of expansion in other sectors of the national economy? If the bank does believe that PNG needs an export-led economic development strategy, then the answer must surely be that a compensating process of expansion is to be pursued in the other branches of extractive industry — mining, petroleum, fisheries or oil palm. 2 The recent history of technical assistance and lending from both the World Bank and the Asian Development Bank does suggest that this might be the case. Yet this is not a strategy that recommends itself to the environmental NGOs with whom the bank has formed an uneasy alliance in the forestry sector. So the bank is inclined to argue that '[i]ncreased investment in PNG's extractive industries is unlikely to have a positive development outcome unless it is preceded by improvements in governance and fiscal management' (Mathrani 2003:19).

In the last three years, the Independent Forestry Review Team has investigated 49 logging projects or project proposals, and has produced a total of 57 reports. The team has recently repeated the finding made umpteen times before, that landowners are 'keen to support any development activity in their area which brings monetary benefits', including logging, but they lack internal cohesion, management skills, and access to good legal, financial and technical advice (IFRT 2004:91–2). In November 2003, some grumpy landowners were quoted in a national newspaper as saying that 'the World Bank should now compensate them for the deaths of more than 1000 people since 1983 while awaiting approval of their logging permit' (The National 14 November 2003). In April this year, the same newspaper quoted another grumpy landowner asking, 'What goods are the World Bank going to bring to my people?', and complaining that, 'The government has not provided us with proper services such as health and education. All it sends us are these review teams' (The National 22–23 April 2004). Although the newspaper in question is owned by Rimbunan Hijau, these characters cannot simply be dismissed as the puppets of the log export industry, because their sentiments are widely shared, and currently endorsed by no less a person than the Prime Minister.

**Conclusion**

Although it can be argued that the World Bank's use of adjustment loan conditionality was effective in holding 'the thin green line' back in 1996, an internal evaluation of the bank's operations in PNG says that this 'use of financial leverage in the absence of sufficient high-level ownership, resulted in considerable bank influence and goodwill being used up, without ensuring a sustainable change' (World Bank 2000a:8). When we consider the events of the last four years, we must wonder whether it makes sense to compare the effectiveness of project lending with 'stroke-of-the-pen' adjustment loan conditions when the acceptance of a project loan becomes an adjustment loan condition in its own right, when the project loan has its own conditionality, and when a project loan which the borrower wants (in this case for road maintenance) is suspended in order to make the borrower accept another project loan (for forestry and conservation) which it never really wanted in the first place.

If World Bank staff are innocent of my previous suggestion that they always intended to stifle the log export industry in a mountain of red tape (Filer et al. 2000:98), should we consider an alternative explanation of what has happened as a form of 'analysis to paralysis' in which each successive study generates

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**Box 2: Reflections of the Independent Forestry Review Team**

None of the direct stakeholders in the industry wish logging to cease …

The logging industry, an essential stakeholder if sustainable timber production is to be achieved, is not profitable, and the logging companies are not replacing their field equipment. This is not sustainable and unless the situation changes for the better it is estimated that PNG's current logging capacity will cease to exist within 10 years …

Whilst new large scale sustainable logging projects may offer the opportunity for landowners to receive a sustainable income, the level of income under current arrangements is generally too small to impact significantly on rural living standards. It is evident that in general landowners are not able to manage their affairs in the democratic way they are expected to with regard to their organisation, and the management of cash flows from logging projects for long term benefits …

[Under the current market conditions, the current levels of log export tax, the current non-compliance with environmental standards, and the inadequate monitoring and control imposed by the Government regulating agencies, timber production as currently practiced is not sustainable. However, in accordance with the national objectives set out in the Constitution, and the National Forest Policy 1991, it behoves Government to protect the productive capacity of the national forest resource, and to pursue sustainable timber production, for future generations.

more problems than it solves, because the implementation of its recommendations only serves to increase the complexity of the problem to which they are addressed? Political Will is the only solution offered by the Independent Forests Review Team, but in PNG, Political Will is a hard man to pin down. An internal bank report laments the absence of the ‘political and social dynamics needed to carry out the reform agenda’ in the forestry sector (World Bank 2001:13). But if we look to the positive side of this equation, we could say that the main obstacle to the bank’s agenda is the fact that PNG’s state politics are its community politics writ large, while PNG’s community politics are its state politics writ small, so national and community ‘ownership’ of sustainable forest management and good forest governance are equally problematic.

Notes
1. The events described in this paragraph are documented in a series of electronic newsletters distributed by an anonymous but very well-informed character known as the ‘Grumbling Bush Spirit’ (Masalai i Tokaut), who began broadcasting in June 2002.
2. In 2003, extractive industry (including oil palm) accounted for 87.5 per cent of the total value of PNG’s exports, but the forestry sector only accounted for 5.3 per cent of the total, whereas mining and petroleum together accounted for 75.1 per cent.

References