

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

**SECOND AND FINAL PROGRESS REPORT**  
ON THE IMPLEMENTATION OF MANAGEMENT'S ACTION PLAN IN RESPONSE TO  
**THE INSPECTION PANEL REPORT (REPORT 64458-PG) ON THE**  
  
PAPUA NEW GUINEA  
**SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT**  
**(IDA CREDIT 4374-PNG)**

December 20, 2014

## **Abbreviations and Acronyms**

BOD	Biochemical Oxygen Demand
CELCOR	Center for Environmental Law and Community Rights
COD	Chemical Oxygen Demand
CSA	Country Situational Analysis
DAL	PNG Department of Agriculture and Livestock
EA	Environmental Assessment
EIP	Environmental Impact Point
FFB	Fresh Fruit Bunch
GoPNG	Government of Papua New Guinea
ICR	Implementation Completion and Results Report
IDA	International Development Association
IPN	Inspection Panel
MAP	Management Action Plan
NGO	Non-Governmental Organization
OPIC	Oil Palm Industry Corporation
PGK	Papua New Guinea Kina
PIP	Public Investment Project
POME	Palm Oil Mill Effluent
PNG	Papua New Guinea
RMTF	Road Maintenance Trust Fund
RSPO	Roundtable for Sustainable Palm Oil
SADP	Smallholder Agriculture Development Project

### **Currency Equivalents (as of December 20, 2014)**

1 PGK = 0.37 USD

1 USD = 2.53 PGK

**Papua New Guinea**  
**Smallholder Agriculture Development Project**  
**(P079140)**  
**Progress Report No.: 2**  
**Implementation of Management Action Plan**

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**Final Progress Report**  
**Smallholder Agriculture Development Project (SADP)**

**Executive Summary**

1. On December 17, 2009, the Inspection Panel registered a Request for Inspection (IPN Request RQ09/10) for the Smallholder Agriculture Development Project (SADP). The Request for Inspection was submitted by the Center for Environmental Law and Community Rights (CELCOR), acting as a representative of affected individuals from Oro Province.
2. The Board of Executive Directors on March 25, 2010 approved the Inspection Panel's recommendation to carry out an investigation of the alleged instances of harm from noncompliance. The Panel's Investigation Report was issued on September 19, 2011. Bank Management submitted to the Board its Report and Recommendation in response to the Panel's findings on October 31, 2011; this included a detailed Management Action Plan (MAP). The MAP committed to actions in three key areas (a) information disclosure, consultation and broad community support; (b) environment; and (c) institutional sustainability. On December 13, 2011, the Executive Directors considered the two above reports and approved the MAP proposed by Management. Executive Directors asked for reporting on the implementation of the actions presented in the MAP and Annex 1 of the Management Response.
3. Management prepared the first progress report on the implementation of the MAP, dated January 11, 2014. The report covered the period of January 2012 to September 2013. The Project closed on December 31, 2013. This is the second and final progress report on the implementation of the MAP covering the period of October 2013 to June 2014. All MAP items have been completed. Key advances covering the period October 2013 to June 2014 are as described below.

**Information Disclosure, Consultation and Broad Community Support**

4. *Development and implementation of a consultation framework and documentation of consultations.* The Oil Palm Industry Corporation (OPIC) now has a Consultation Framework which was used to guide consultations during implementation. This was prepared with Bank support, and amply reported upon in the first progress report. Consultations with smallholder farmers were held in the local language and minutes of consultations were prepared. Culturally-appropriate information was provided to participants. Consultations continued as part of the in-fill program after the Project closed on December 31, 2013, and the quality of the documentation has improved with electronic records now available.

**Environment**

5. *Palm Oil Mill Effluent (POME) Action Plan.* Following a July 2011 baseline study of the Project area palm oil mills, two follow-up POME studies were completed in February 2013 and December 2013. The December 2013 progress report confirmed that mills have most of the time continued to implement agreed actions and mitigation measures, as reported earlier in the

first progress report. However, OPIC's capacity to monitor the implementation of the agreed actions was lost with Project closing, because POME monitoring is not an OPIC mandate. This is recognized in the SADP Implementation Completion and Results Report (ICR) (IDA-437401), which recommended that the Department of Environment Conservation take over the monitoring responsibilities as part of its mandated activities.

### **Institutional Sustainability**

6. ***Road Maintenance Trust Fund Consultations (RMTF) Consultations.*** Since the first progress report, the final RMTF report was accepted by OPIC in November 2013. The accepted version of the report confirms the recommendations for smallholder farmers, milling companies and the Government of PNG (GoPNG) to contribute to the RMTF. The proposed levels of contributions to the fund are to be endorsed by all parties involved. The study proposed that the GoPNG contribute the full cost of the one-time road rehabilitation (PGK60 million) and 80 percent of the annual maintenance cost of PGK50 million. The remaining 20 percent would be covered by the mills and the growers in the ratio of 15 percent for the mills and 5 percent for the growers. The RMTF is still to be implemented as designed, although some road maintenance activities continued after the Project closed. SADP facilitated the purchase of three graders for the Project areas until permanent arrangements for road maintenance are put in place.

## **Smallholder Agriculture Development Project (SADP)**

### **Progress Report on the Implementation of Management Action Plan**

#### **I. INTRODUCTION**

1. ***The Project.*** In 2007, the World Bank approved an IDA Specific Investment Credit of US\$27.5 million equivalent for the Independent State of Papua New Guinea (PNG) Smallholder Agriculture Development Project (SADP), which aimed to improve community participation in local development while increasing revenue flow from the already established local palm oil production industry.
2. The original Project had three components: (a) smallholder productivity enhancement including: infill planting of new smallholder village oil palm along existing access roads; upgrading of provincial access roads and establishment of sustainable financing for road maintenance; and strengthening of oil palm extension services; (b) local governance and community participation, to support the improved provision of local services and infrastructure through participatory processes; and (c) project management and institutional support for the Oil Palm Industry Corporation (OPIC), the implementing agency, and for the smallholder sector, through training, research and studies.
3. The Project became effective in January 2009. Due to a long delay in establishing Project management capacity, implementation did not begin until 2010. In June 2012, the Project was restructured. Under the restructuring, the closing date for the Project was extended by one year to December 31, 2013 and the scope of the Project was scaled back. The reduction in the scope was needed due to the implementation delays, the strong appreciation of the PNG Kina since Project approval, the increase in local construction costs, and the Government's request for a revision in IDA's financing to cover 100 percent of all eligible expenditures inclusive of taxes in eligible disbursement categories.
4. The reduction in the scope consisted in the following: (a) 190 km of road rehabilitation compared to the original Project design's target to upgrade 550 km of existing provincial access roads serving the oil palm catchment area; (b) 13 km of road reconstruction for "incomplete roads" in Oro Province, compared to 105 km in the original design; Oro Province incomplete roads were to be financed by PNG Sustainable Development Program Ltd; (c) 2,500 hectares of infill planting of smallholder oil palm, compared to the original target of 9,000 ha of oil palm that were to be established on vacant blocks of village land along existing access roads (infill planting) within the area already covered by existing oil palm infrastructure; and (d) cancellation of the pilot component on Local Governance and Community Participation (Component 2) from the Project due to OPIC's capacity limitations and difficulties in recruiting management consultants to implement the component; efforts were instead put on the road works, infill planting and improvements in extension service delivery.

5. ***Current Status of Project.*** The Project closed on December 31, 2013. An Implementation Completion and Results Report (ICR) was prepared and filed on June 30, 2014 (IDA-437401). Key Project results are presented in the ICR and summarized as follows:

- ***Increase in Smallholder Income from Oil Palm Production:*** Smallholder income increased from PGK75.1 million in July 2006 to PGK125.4 million when the Project closed in 2013. Although this is 30 percent higher than the end of Project objective of PGK96.1 million, only part of this achievement can be attributed to the Project, particularly the milling companies' efforts in increasing smallholder productivity, facilitating fertilizer distribution and ensuring regular Fresh Fruit Bunch (FFB) pick-up. It is also partly due to the rehabilitation of the smallholder road network carried out under the Project from mid-2012. A large part of the income increase was, however, attributable to higher palm oil prices.
- ***Road Rehabilitation.*** The road rehabilitation and reconstruction is now completed under the Project. As of January 2014, a total of 238.54 km of roads were upgraded, including 223.7 km of rehabilitation or spot repairs (more than the revised target of 190 km), and 15.44 km of reconstruction of the Oro Province incomplete roads (more than the revised target of 13 km).
- ***Roadside Maintenance.*** A program of roadside maintenance by community groups has been implemented with 50 contracts (covering 120 km) awarded in the three Project areas.
- ***Road Maintenance Trust Fund.*** The RMTF study has been completed and was accepted by OPIC in November 2013. The implementation of the recommendations, as envisaged in the study, is yet to be started. The study called for the growers, the milling companies and the Government of PNG (GoPNG) to contribute to the RMTF at the rate of 5, 15 and 80 percent, respectively, of the annual maintenance costs, estimated at PGK50 million. The study also called for the GoPNG to provide the PGK60 million to finance the full cost of the one-time road rehabilitation. In the meantime, the Project facilitated the purchase of three graders for each Project area to facilitate road maintenance until permanent arrangements for road maintenance are put in place.
- ***Infill Program.*** A little over one thousand (1,006) hectares of new infill planting of oil palm was achieved by May 2014, representing only about 40 percent of the revised target of 2,500 hectares. As discussed in the first progress report, the reduction in the scope of planting was due to the unavailability of seedling supply from the milling companies and OPIC's weak capacity and inability to adhere to its implementation schedule.
- ***Training Growers in Sustainable Production Practices.*** The Project financed the development of a strategy for strengthening OPIC's extension services, but the strategy was not implemented for lack of support from milling companies. Despite this, important investments were made to upgrade OPIC's extension delivery by increasing the number of extension officers (28 new extension staff plus an internationally recruited Extension Specialist were hired under the Project), by improving the mobility of extension officers

(through the purchase of new vehicles and motorcycles), through extensive training for OPIC staff and growers associations, and through communications upgrades (for example through the mobile phone closed user group setup in Hoskins).

- *Environmental and Social Safeguards.* Two environmental and social audits, the effluent baseline and follow-up audits, which were required as part of the Effluent Action Plan, were completed and reported on in the first progress report. Since that report, a second follow-up audit has been completed, with results pointing to an overall compliance with PNG regulations. The update of the Environmental Code of Practice for the Oil Palm Processing Industry (also part of the Effluent Action Plan) has been completed. The SADP water quality monitoring program has been implemented and a smallholder engagement strategy prepared.

### **Summary of the Panel Process, Panel Findings and Management Response**

6. The Inspection Panel (IPN) registered a Request for Inspection (IPN Request RQ09/10) for the SADP on December 17, 2009. The summary of the Panel Process, Panel Findings and Management Response is as follows:

December 17, 2009:	Inspection Panel (IPN) registered a Request for Inspection
February 7, 2010:	Management submitted its Management Response
March 10, 2010:	The Panel issued its eligibility report and recommended investigation
March 25, 2010:	The Board of Executive Directors approved the Inspection Panel's recommendation to carry out an investigation of the alleged instances of harm from noncompliance
September 19, 2011:	The Panel issued its Investigation Report outlining the findings of the investigation to the Board
October 31, 2011:	Bank Management submitted its Response along with a detailed Management Action Plan (MAP), in response to the Panel's findings
December 13, 2011:	The Board of Directors approved the MAP, which committed to actions in three key areas: (a) information disclosure, consultation and broad community support; (b) environment; and (c) institutional sustainability
January 28, 2014:	Distribution to the Board of the First Progress Report on the Implementation of the MAP

### **Panel Investigation Report and Management Response**

7. *Panel Report.* As major Project activities had not yet been started on the ground at the time of the Inspection, the Panel primarily focused on the design, planning and appraisal phases of the Project. The Panel found areas of compliance and areas of non-compliance, as discussed in the first progress report. These relate to: (a) Information Disclosure, Consultation, and Broad Community Support; (b) Poverty and Livelihood Impacts; (c) Environmental Impacts; and (d) Institutional Sustainability. Management's response is detailed in the section below on the MAP.

## II. MANAGEMENT ACTION PLAN

8. **Management Action Plan Description.** The MAP committed to: (a) assisting OPIC in developing a Consultation Framework and ensuring that it was implemented across the three Project areas; (b) continuing to support OPIC in improving the documentation of consultations during implementation; (c) continuing to closely support and monitor the implementation of the Effluent Action Plan; and (d) verifying that adequate consultations were conducted and documented as part of the RMTF study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial burden on the smallholders.

9. **Summary of Previous Progress.** Progress made in the first progress report covering the period January 2012 to September 2013 is summarized in the paragraphs 10 to 13.

### Information Disclosure, Consultation and Broad Community Support

10. **Development and implementation of a consultation framework.** The Oil Palm Industry Corporation (OPIC) prepared (with Bank support) and has been implementing a Consultation Framework for all major Project activities. Between May 2011 and May 2013 alone, close to 5,000 participants attended the consultations on road rehabilitation and maintenance, a fact confirmed by Bank missions. Free, prior and informed consultations that were culturally appropriate were undertaken for infill planting and road works.

11. **Documentation of consultations.** OPIC has endeavored to systematically document and file records of consultations. These records have been made available to the Bank. Both the independent environmental and social audits and recent implementation support missions have identified the need for further improvements in the documentation of these consultations.

### Environment

12. **Palm Oil Mill Effluent (POME) Action Plan.** OPIC recruited consultants to prepare an effluent baseline study for the Project area palm oil mills, which was finalized in July 2011<sup>1</sup> and publicly disclosed by OPIC. The follow-up effluent audit was completed in February 2013 and the report was publicly disclosed by OPIC. The audit concluded that “overall, the palm oil mill effluent systems across all mills were operating adequately to ensure PNG regulatory compliance is achieved at each mill most of the time.” A number of actions and mitigations measures were agreed with and were under implementation by the relevant milling companies as a result of the study and audit. Most actions were on track toward completion as planned, and it was expected that OPIC would monitor and update on their implementation until Project closed on December 31, 2013. The overall implementation status of these actions was to be documented in the final progress report. In addition, the Department of Environment and Conservation was completing the update the PNG Code of Practice for Palm Oil Processing. The Bank commented on the Terms of Reference and draft reports and participated in stakeholder consultations held in May 2012.

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<sup>1</sup> The first Progress Report mistakenly indicated that the effluent baseline was completed in April 2013.

## **Institutional Sustainability**

13. **Road Maintenance Trust Fund (RMTF) Consultations.** OPIC recruited consultants to undertake the RMTF study, who began work in early 2012 and held consultations across the three Project areas, which are documented in the study's Inception Report. A draft report on the RMTF design was prepared and findings from the first phase of work on the design were shared with stakeholders prior to the second round of consultations, which was completed in June 2013. A final design report was shared with the Bank in October 2013 and is now publicly disclosed by the PNG Institute of National Affairs.

### **III. PROGRESS ON MANAGEMENT ACTION PLAN IMPLEMENTATION SINCE THE LAST PROGRESS REPORT**

#### **Information Disclosure, Consultation and Broad Community Support**

14. **Development and Implementation of a Consultation Framework.** In the first progress report, it was reported that OPIC prepared a Consultation Framework and has been implementing the framework for all major Project activities, such as the infill planting and road works. The framework was also used to collect views of farmers and milling companies on the conditions under which an RMTF could be set up and operationalized in a sustainable manner. Additional infill planting activities conducted since the first progress report have continued to use the Framework. For example, although SADP closed on December 31, 2014, the Bialla Project area approved Plantation Approval Forms for 214 hectares in infill planting for 2014. By October 2014, 76 hectares have already been planted with credit facility provided through the mills.

15. **Documentation of Consultations.** OPIC has continued to support smallholder farmers and held consultations as part of the infill program. The quality of the documentation has also continued to improve, and the continued use of plantation approval forms by OPIC field offices is encouraging. The sustainability of these achievements will depend on improved overall management of OPIC and stronger oversight from the Department of Agriculture and Livestock (DAL).

#### **Environment**

16. **Palm Oil Mill Effluent (POME) Action Plan.** An effluent baseline was established for all mills in the Project area in July 2011 and two follow-up effluent audits were completed in February 2013 and December 2013. The first progress report summarized the key findings from the February 2013 effluent follow-up audit, and these have been confirmed in the final (December 2013) audit report which upheld the conclusion that overall POME systems were operating adequately to ensure PNG regulatory compliance is achieved at each mill most of the time. Altogether, eight actions were recommended in the baseline assessment and February 2013 follow-up audit. Since the last progress report, the implementation status of the eight actions has been comprehensively established (in the December 2013 audit), and the result is as follows:

seven are fully completed; and the remaining action is no longer relevant because of the planned closure of the mill.

**Table 1: Palm Oil Mill Effluent Action Plan**

<b>Recommended Action/Mitigation Measure</b>	<b>Implementation Status</b>
1. Measure inflow and outflow of treatment ponds	<b>Implemented:</b> All operational land application mills are now measuring inflow and outflow.
2. Improve treatment pond effectiveness at Sangara mill	<b>Implemented:</b> Sangara mill implemented measures to improve treatment pond effectiveness.
3. Ensure irrigation trenches are operational at Sumberipa mill	<b>No longer relevant:</b> Sumberipa mill is expected to be shut down in near future.
4. Commence regular sampling of raw effluent (influent) quality	<b>Implemented:</b> Raw effluent sampling was undertaken at all mills – Biochemical Oxygen Demand (BOD) analyzed at Higaturu Oil Palm Ltd mills but not at New Britain Palm Oil Ltd mills where Chemical Oxygen Demand (COD) was measured instead.
5. Improve Navo mill treatment pond effectiveness	<b>Implemented:</b> Irrigation area was expanded; drainage furrows were built to facilitate separation of water from solid wastes. Solid wastes are recycled as topsoil for nurseries producing oil palm seedlings.
6. Improve quality of effluent discharged from Numundo mill	<b>Implemented:</b> New Standard Operating Procedure developed and implemented.
7. Investigate spikes in BOD levels at Kumbango Environmental Impact Point (EIP)	<b>Implemented:</b> Investigations undertaken and continuing; treatment ponds desilted; BOD spikes still occurring.
8. Assess the continued requirement and frequency of de-silting works at Hargy mill	<b>Implemented:</b> De-silting frequency assessed – requirement for more frequent de-silting than originally planned.

## **Institutional**

17. **Road Maintenance Trust Fund Consultations (RMTF) Consultations.** Since the first progress report, the final RMTF report was accepted by OPIC in November 2013. The report made recommendations for smallholder farmers, milling companies and the GoPNG to contribute to the RMTF. The proposed levels of contributions to the fund are to be formally endorsed by all parties involved. The study proposed that the GoPNG contribute the full cost of

the one-time road rehabilitation (PGK60 million) and 80 percent of the annual maintenance cost of PGK50 million. The remaining 20 percent would be covered by the mills (15 percent) and the growers (5 percent). The RMTF is still to be implemented as designed, although some road maintenance activities continued after the Project closed in December 2013. SADP facilitated the purchase of three graders, one for each Project area, to support road upkeep until permanent arrangements for road maintenance are put in place.

**Institutionalizing the Road Maintenance Trust Fund.**

18. There is a need to institutionalize the RMTF. Without this, there is a potential risk that the pickup and transport of FFB to the mills will be affected. The interim arrangement to purchase one grader for each of the Project areas is useful. The RMTF remains one of the most effective instruments to develop a systematic approach to road maintenance. Institutionalizing the RMTF would require the GoPNG to commit an estimated one-time investment of PGK60 million to rehabilitate the degraded road network in the oil palm areas, in addition to contributing 80 percent of the estimated annual maintenance cost of PGK50 million. Over the next 5 years the total requirement from GoPNG would be PGK260 million, which needs to be reflected in Government budget priorities. No further action is expected from the WBG regarding the establishment of the RMTF, but the Group will remain interested in this trust fund as part of its ongoing policy dialogue with the Government.

**Overview Matrix on Overall Implementation Status**

19. All MAP items have now been completed. The consolidated progress on all items in the MAP since the last progress report is shown in Appendix 1.

**Implementation of Items from Annex 1**

20. In addition to reporting on the progress on the MAP, Management also agreed to report back on items detailed in Annex 1 of the Management Response. Annex 1 items did not relate to findings of noncompliance and harm, but sought to improve overall Project implementation. Table 3 below is an update of the activities set out in Annex 1 that have been completed in this reporting period.

**Table 2: Annex 1 Action Implementation**

<b>ACTION</b>	<b>STATUS</b>
Item 2: Gathering of Baseline Information	<i>Completed.</i> A baseline study was completed for the Project, as reported earlier.
Item 3: Identification of Project Stakeholders and Elaboration of a Consultation Process with Indigenous Peoples	<i>Completed.</i> As indicated above and in the first progress report, OPIC prepared a Consultation Framework and is implementing it. The continued use and improvement of the Framework will require good OPIC leadership and effective oversight from the DAL.

Item 5: Identification of Measures to Avoid Adverse Effects and Ensure that Indigenous People Receive Culturally Appropriate Benefits	<b>Completed.</b> OPIC is now systematically documenting consultations. As reported above and in the first progress report, minutes of the consultations have been reviewed by implementation support missions and areas for improvement have been identified and discussed with OPIC. Consultations instruments have been developed and OPIC should continue using and improving them to ensure inclusiveness of its actions.
Item 7: Consultation with Customary Leaders	<b>Completed.</b> OPIC’s consultations during implementation have continued to involve clan leaders and this has been documented. This is a good practice that OPIC needs to perpetuate.
Item 8: Sharing of Information in Appropriate Form and Language	<b>Completed.</b> OPIC continued to share information in an appropriate form and language. For example, participants in the second round of RMTF consultations received a Tok Pisin summary of the draft findings of the study. OPIC will need to maintain strong management and secure resources to preserve this good practice.
Item 12: Improving Livelihoods: Savings and Income Diversification	<b>Completed.</b> As presented in the first progress report, workshops on income generation opportunities were conducted by the SADP Extension Specialist. As an outcome of this workshop, an Income Generating Projects Committee was established in Oro Province with representation from the growers, the provincial government, financial institutions, community organizations, churches and NGOs. One of the objectives of the committee is to help link growers with other opportunities available in the province.
Item 16: Chemical and Biological Pollution of Waterways	<b>Completed.</b> Management committed to continue to closely support and monitor the implementation of the Effluent Action Plan. As elaborated above, progress has been made on implementing the Plan. In addition, the SADP supported the PNG Oil Palm Research Association to establish an arthropod indicator survey for tracking changes in water quality over time. The arthropod survey for stream health monitoring methodology used water quality metrics computed from survey data on aquatic invertebrate assemblages on selected sites. Protocols for stream assessment have been prepared and related training was conducted in the three Project areas. The capacity created would need to be maintained and further developed. The Department of Environment and Conservation has updated the PNG Code of Practice for Palm Oil Processing, and should also ensure effective monitoring of the pollution of waterways.

<p>Item 17: Risk of Deforestation of High Conservation Value Forests</p>	<p><b>Completed.</b> As reported in the first progress report, two independent environmental and social audits have been completed. The audits did not find evidence of destruction of primary forests or high conservation value forests as a result of infill planting. Remote sensing work was completed on land use and forest cover change for Oro by the European Space Agency. Forest Cover Change maps of the period between 2005 and 2011 indicate that no primary forest was cleared for oil palm plantation expansion in Oro after 2005, which is in compliance with the requirements of the Roundtable for Sustainable Palm Oil (RSPO). Independent from the now-closed SADP, PNG continues to be at risk of palm oil related deforestation, but the risk could be mitigated through better enforcement of forestry regulations and through voluntary RSPO certification of the production.</p>
<p>Item 18: Institutionalizing the Road Maintenance Trust Fund (RMTF)</p>	<p><b>Ongoing.</b> As elaborated above and in the first progress report, as required by the MAP, the Bank has verified that adequate consultations have been conducted as part of the RMTF study. OPIC has purchased three graders as an interim arrangement for carrying out routine maintenance on smallholder roads that are in good or fair condition, until such time as the RMTF becomes operational. The GoPNG will need to provide the PGK60 million needed for a one-time rehabilitation of the road network in the three Project areas. The milling companies and smallholder growers, along with the GoPNG, will need to provide their respective shares of the estimated PGK50 million required for the fund to finance the annual cost of maintenance. The SADP helped define the RMTF instrument but its implementation will require ongoing OPIC and DAL leadership.</p>

**IV. NEXT STEPS**

**Upcoming Issues/Developments Relevant to the MAP**

21. The Project closed on December 31, 2013. Management will endeavor to support PNG in strengthening its institutions through current country engagement. A Country Situational Analysis (CSA) outlining the World Bank Group strategy for reengagement in the PNG palm oil sector is currently being finalized. The CSA takes into account lessons learned from SADP implementation, including the Panel’s compliance audit.

## Annex 1: Overview Matrix on Overall Implementation Process of the MAP

ACTION	STATUS
Management will assist OPIC in developing a Consultation Framework and ensuring that it is implemented across the three Project areas	<b>Completed.</b> OPIC prepared a Consultation Framework which has guided consultations during implementation. All consultations held during implementation on key Project activities, including those on the road rehabilitation works and on the RMTF, have largely complied with the Framework. Details were provided in the first progress report.
Management will continue to support OPIC in improving the documentation of consultations during implementation	<b>Completed.</b> The Bank implementation support missions reviewed and provided guidance to further improve the documentation on consultations provided by OPIC. A copy of the documentation, including signed meeting attendance sheets, is also available in an electronic format with OPIC Headquarter and field offices. OPIC has continued to improve its documentation of consultations, which have been used as part of the infill program, even after the Project closed in December 2013. The quality of the documentation during Project implementation was moderately satisfactory. OPIC should continue its commitment to preserve its current achievements and ensure a consistent and systematic documentation on its consultations.
Management will continue to closely support and monitor the implementation of the Effluent Action Plan	<b>Completed.</b> The first progress report presented the actions that OPIC undertook (with the Bank support) to commission an effluent baseline study and follow-up audits. There were seven recommended actions from the baseline study, and a further one recommended action from the follow-up assessment, making it a total of eight actions <sup>2</sup> . The Bank encouraged OPIC to request a final audit of the mills in December 2013, the key findings of which are summarized above in Table 1. Out of the eight actions, seven are fully completed; and the remaining action is no longer relevant because of the planned closure of the mill.
Management will verify that adequate consultations are conducted as part of the RMTF study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial burden to the smallholders	<b>Completed.</b> The first progress report summarized major steps of the RMTF study, which was conducted by consultants recruited by OPIC. As part of the study, a number of consultations were held across the three Project areas, and this has been documented in the first progress report. The final report was accepted by OPIC in November 2013. The RMTF study estimated that it will cost PGK60 million to complete a one-time rehabilitation of the road network in the three Project areas. The annual cost of maintenance following the rehabilitation was estimated at PGK50 million. Based on the consultations with growers and milling companies, the study recommended that the GoPNG pay for 80 percent of the

<sup>2</sup> In total, nine actions were listed in the follow-up report, but one of these actions is repetitive, making it a total of eight actions.

	<p>annual maintenance cost, with the palm oil milling companies contributing 15 percent and the remaining 5 percent being contributed by the growers. The 5% contribution is broadly accepted among smallholders and is not expected to exert an unsustainable financial burden on them. It is, however, important that smallholders have effective access to good roads which will translate into additional harvest income, and which will more than offset the 5% contribution to the RMTF. As for the milling companies, they have conditioned their contributions to a RMTF on the GoPNG agreeing to, and completing, the full rehabilitation of the oil palm road network.</p> <p>The RMTF is still to be implemented as designed, although some road maintenance activities continued after the Project closed. As part of transition road maintenance arrangements, the SADP facilitated the purchase of one grader for each Project site to facilitate road maintenance until the RMTF is institutionalized. The RMTF provided the basis for a Public Investment Project (PIP) submission for PGK70 million in the 2014 budget, of which only PGK10.2 million was allocated. One grader was fully paid before the SADP closed and the PIP funding was partly used toward paying the outstanding balance for the two remaining graders.</p>
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