FIRST PROGRESS REPORT
ON THE IMPLEMENTATION OF MANAGEMENT’S ACTION PLAN
IN RESPONSE TO
THE INSPECTION PANEL INVESTIGATION REPORT (64458-PG) ON THE
PAPUA NEW GUINEA
SMALLHOLDER AGRICULTURE DEVELOPMENT PROJECT
(IDA CREDIT 4374-PNG)

January 16, 2014
### Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CELCOR</td>
<td>Center for Environmental Law and Community Rights</td>
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<td>CY</td>
<td>Calendar Year</td>
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<td>EA</td>
<td>Environmental Assessment</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>MAP</td>
<td>Management Action Plan</td>
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<td>OPIC</td>
<td>Oil Palm Industry Corporation</td>
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<td>PGK</td>
<td>Papua New Guinea Kina</td>
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<td>PNG</td>
<td>Papua New Guinea</td>
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<tr>
<td>RMTF</td>
<td>Road Maintenance Trust Fund</td>
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<td>SADP</td>
<td>Smallholder Agriculture Development Project</td>
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### Currency Equivalents (as of October 31, 2013)

1 PGK = 0.39 USD  
1 USD = 2.59 PGK
Papua New Guinea

Smallholder Agriculture Development Project

(P079140)

Progress Report No.: 1

Implementation of Management Action Plan

CONTENTS

I. INTRODUCTION................................................................................................................... 1
II. PROGRESS ON MANAGEMENT ACTION PLAN IMPLEMENTATION......................... 4
III. NEXT STEPS.................................................................................................................... 11
First 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. On September 19, 2011, the Panel issued its Investigation Report outlining the findings of the investigation to the Board. On October 31, 2011 Bank Management submitted its Response along with a detailed Management Action Plan (MAP), in response to the Panel’s findings. 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. Management agreed to report back to the Board on the implementation of the actions presented in the MAP and Annex 1 of the Management Response during implementation.

3. This is the first progress report on the implementation of the MAP covering the period of January 2012 to September 2013. The Project closed on December 31, 2013, and a final report will present additional progress in MAP implementation since September 2013. Progress has been made on all the activities identified in the MAP. Key advances are as follows:

Information Disclosure, Consultation and Broad Community Support

- 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, close to 5,000 participants attended the consultations on road rehabilitation and maintenance alone, a fact that has been confirmed by Bank missions. Free, prior and informed consultations that were culturally appropriate were undertaken for infill planting and road works.\(^1\)

- 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.

\(^1\) Per the recently completed environmental and social audits undertaken by independent consultants recruited by OPIC under the Project.
Environment

- **Palm Oil Mill Effluent Action Plan.** OPIC recruited consultants to prepare an effluent baseline study for the Project area palm oil mills, which was finalized in April 2013 and publicly disclosed by OPIC. Field work for the follow-up effluent audit was completed and a final report submitted to the Bank in October 2013. This report will also be disclosed. 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 are being implemented by the relevant milling companies as a result of the study and audit. Most actions are being completed as planned, and OPIC is expected to monitor and update on their implementation. This will be documented in the final progress report. The Department of Environment and Conservation is updating 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.

Institutional Sustainability

4. **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. The final progress report will update on follow-up actions undertaken following the RMTF study.

5. Management expects to be able to provide the final progress report to the Board by the end of FY2014 upon completion of all outstanding Action Plan items. Management will continue to closely oversee the implementation of the MAP. The Project closed on December 31, 2013.
Smallholder Agriculture Development Project (SADP)


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 aims 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 shares for different disbursement categories and for IDA to finance 100 percent of all eligible expenditures inclusive of taxes.

4. Under the original Project design, 550 km of existing provincial access roads serving the oil palm catchment area were to be upgraded. The revised scope includes only 190 km of road rehabilitation (including spot repairs and drainage improvements) and 13 km of road reconstruction (for incomplete roads in Oro Province). The original 550 km of road reconstruction included 105 km of “incomplete roads” in Oro Province, which were to be financed by PNG Sustainable Development Program Ltd. Due to the increase in costs, however, only about 14.4 km (slightly exceeding the revised target of 13 km) of incomplete roads have been completed to date.

5. In the original Project some 9,000 ha of oil palm 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. As part of the restructuring, the target for infill planting of smallholder oil palm was revised down to 2,500 hectares.

6. The pilot component on Local Governance and Community Participation (Component 2) was dropped from the Project. Due to OPIC’s capacity limitations and difficulties in recruiting
management consultants to implement the component, it was agreed with Government to drop it and instead focus efforts on the road works, infill planting and improving extension service delivery.

7. The Road Maintenance Trust Fund (RMTF) study, which focuses on developing a sustainable financing mechanism for road maintenance, has been completed. However, any new road maintenance arrangements emerging from the study would need to be implemented after the Project period.

8. **Current Status of Project.** Implementation has gained some momentum during the past 18 months. As of September 2013, 189 km of road upgrading (spot improvements and drainage) have been completed. This represents 100 percent of the restructured target for road upgrading. Work has also progressed on the incomplete roads in Oro, with 10.3 km of the 14.4 km completed as of end September. A program of roadside maintenance by community groups is being implemented with 50 contracts (covering 120 km) awarded in the three Project areas. Progress has also been made on infill planting. Six hundred (600) hectares of new infill planting of oil palm had been achieved by May 2013. It was expected that 988 hectares would be completed by Project closing, and this will be assessed in the final progress report. The reduction in the scope of planting is due to the unavailability of seedling supply from the milling companies and OPIC’s weak capacity and inability to adhere to its implementation schedule. The first two environmental and social audits (studies that were proposed under the component on Project management and institutional support for OPIC) have been completed, and the effluent baseline and follow-up audit (part of the Effluent Action Plan developed to supplement the Environmental Assessment for the Project) have also been completed. The update of the Environmental Code of Practice for the Oil Palm Processing Industry (also part of the Effluent Action Plan) has progressed. Progress has also been made on the SADP water quality monitoring program and on a smallholder engagement strategy. There has also been progress on developing a strategy for strengthening OPIC’s extension services, although this strategy has not been implemented.

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

9. On December 17, 2009, the Inspection Panel registered a Request for Inspection (IPN Request RQ09/10) for the Smallholder Agriculture Development Project (SADP). Management submitted its Management Response on February 7, 2010. The Panel’s eligibility report, issued on March 10, 2010, recommended investigation. 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. On September 19, 2011, the Panel issued its Investigation Report outlining the findings of the investigation to the Board. On October 31, 2011 Bank Management submitted its Response along with a detailed Management Action Plan (MAP), in response to the Panel’s findings. 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

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2 These studies were carried out by independent consultants recruited by OPIC.
above reports and approved the MAP proposed by Management. Management committed to report back to the Board on the implementation of the actions presented in the MAP and Annex 1 of the Management Response during implementation.

10. **The Request.** The Requesters alleged that the Project would not reduce poverty and that significant investments made in the oil palm industry had done little to provide material improvement in smallholders’ lives. The Requesters were concerned about inadequate information disclosure and consultation prior to Project approval and claimed that the Bank had failed to ascertain broad community support for the Project. The Requesters were further concerned that the Project would cause environmental damage and that the Project’s Environmental Assessment (EA) did not use reliable information, lacked an assessment of effluent treatment and did not provide mitigation measures for Project impacts on high conservation value forests. Finally, the Requesters also expressed concerns about the sustainability of the Project, particularly with regard to the RMTF and the activities of OPIC extension officers.

**Panel’s Investigation Report**

11. **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 outlined in the paragraphs below.

12. **Information Disclosure, Consultation, and Broad Community Support.** In the Panel’s view the analysis in the Social and Beneficiaries Assessments of the legal and institutional framework and the gathering of baseline information on indigenous communities, fell short of requirements, which may have affected the consultation process. The Panel found that relevant information was not provided prior to consultations in a culturally appropriate manner, form, and language and that Project documents did not contain information documenting how broad community support was reached.

13. **Poverty and Livelihood Impacts.** The Panel found the Project in compliance with the Bank’s Policy on Poverty Reduction (OP 1.00), but not in compliance with the Indigenous Peoples Policy (OP 4.10), as far as ensuring that Indigenous Peoples receive social and economic benefits that are culturally appropriate and gender and intergenerationally inclusive. In particular, the Panel found that the Project did not promote savings mechanisms or measures for smallholder income diversification. In the Panel’s view the Project design did not respond to the significant differences among Project areas. Further, the milling companies’ institutional and financial viability was not reviewed.

14. **Environmental Impacts.** The Panel found that the Project was mainly in compliance with the Policy on Environmental Assessment (OP 4.01). The Panel found that the inclusion of environmental management and mitigation tools and the reliability of sources used in the Environmental Assessment complied with OP 4.01. The Panel agreed with Management that the agreed Palm Oil Mill Effluent Management Action Plan from the effluent study addresses the potential adverse impact from mill effluents. The Panel found that the Project complied with OP/BP 4.04 on Natural Habitats and with the objective of OP/BP 4.36 on Forests.
15. **Institutional Sustainability.** The Panel concluded that establishing a system for the regular maintenance of the road network was critical for smallholders and the industry. The Panel found that Management left the design of the road maintenance system to the implementation phase, and did not fully assess smallholder ability to pay their proposed contribution. The Project included a capacity development component for OPIC, in compliance with policy requirements. The Panel found compliance with OP 13.05 on Supervision.

**Management Response and Management Action Plan**

16. Management appreciated the Panel’s finding of broad concurrence with Bank policies and procedures applicable to the Project and further noted the Panel’s conclusion that the Project is an effective response to poverty reduction, and that the Project as designed includes provisions to avoid conversion or degradation of critical forest areas and habitats. Management acknowledged the Panel’s observations on specific instances of non-compliance during Project design which it addressed through the MAP.

17. **Management also noted that many aspects of the harm alleged by the Requesters did not arise from the SADP.** Management was concerned that the Project had become a vehicle for raising broader issues concerning the oil palm sector in PNG and internationally. As stated in the Panel Report “[…] much of the harm claimed by the Requesters relates to the consequences of smallholder oil palm production during the past decades, with or without World Bank involvement and Requesters’ fear that such harm may continue to emanate from the SADP.” Management concurred with the Panel that the Project had also become a vehicle for raising, and seeking mitigation of, a number of longstanding adverse impacts that existed prior to the Project and that were unrelated to the SADP.

18. Management took seriously the concerns raised in the Request for Inspection including issues that Management had already identified and addressed. Through ongoing implementation support for the SADP, Management continues to provide support to OPIC to ensure that the concerns related to the consultation process, specifically proper documentation, are addressed. SADP’s grievance redress mechanisms have been strengthened. Management has also allocated significant resources to provide timely implementation support and to assist OPIC with enhancing its capacity for safeguards compliance.

19. This is the first progress report on the MAP, covering January 2012 to September 2013.

**II. PROGRESS ON MANAGEMENT ACTION PLAN IMPLEMENTATION**

20. **Management Action Plan Description.** The MAP committed to: (a) assist OPIC in developing a Consultation Framework and ensuring that it is implemented across the three Project areas; (b) continue to support OPIC in improving the documentation of consultations during implementation; (c) continue to closely support and monitor the implementation of the Effluent Action Plan; and (d) verify that adequate consultations are 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 to the smallholders.
21. **Progress Made In Current Reporting Period.** This section describes the specific actions undertaken and the status of implementation (Table 1). During this reporting period progress was made on all items in the MAP.

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

22. **Development and Implementation of a Consultation Framework.** OPIC, with support from the Bank, prepared a Consultation Framework and has been implementing the framework for all major Project activities. Recently completed independent environmental and social audits\(^3\) report that for both infill planting and road works free, prior and informed consultations were undertaken and that consultations were culturally appropriate. Bank missions have also reviewed minutes of consultations to verify that the Consultation Framework is being implemented.

23. By way of example, agreement is required from every farmer that will be potentially affected by the Project’s road works. Project consultations have been used to discuss and obtain agreement from farmers on the proposed road infrastructure. Grievance procedures and consent forms are explained during these consultations. In the absence of grievances, consent forms are signed prior to launching the works. More recently in May 2013, intensive consultations were held to understand the conditions under which a Road Maintenance Trust Fund could be set up and operationalized in a sustainable manner. Issues related to transparency in the use of levies for road maintenance, and to the perceived roles and responsibilities of the government, milling companies, and farmer communities, in road maintenance have been freely and openly discussed during these consultations. The consultation framework has also been effectively used to provide extra space to discuss the impact of poor road conditions on women, as well as solutions best suited to respond to the specific needs of women and other disadvantaged groups.

24. **Documentation of Consultations.** OPIC has been making an effort to systematically document consultations. However, both the independent environmental and social audit and recent implementation support missions have identified the need for OPIC to further improve the documentation and filing of consultation records.

**Environment**

25. **Palm Oil Mill Effluent Action Plan.** OPIC recruited consultants to undertake work on establishing baseline information for each of the Project area palm oil mills. The effluent baseline study was finalized in April 2013 and has been publicly disclosed by OPIC. The field work for the follow-up effluent audit has also been completed and a final report was submitted to the Bank in October 2013. This report will also be publicly disclosed by OPIC. The follow-up effluent 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 the relevant milling companies during the baseline and follow-up audit. Most actions are being completed as planned, and OPIC is expected to monitor and update on their implementation. This will be documented in the final progress report. Progress has been made by the Department of Environment and Conservation on updating the PNG Code of Practice for Palm Oil Processing. This was also an agreed action in the Palm Oil Mill Effluent Action Plan. The Bank had an

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\(^3\) These audits were undertaken by independent consultants recruited by OPIC under the Project.
opportunity to comment on the Terms of Reference and draft reports for this work and participated in the public stakeholder consultations held in May 2012.

Institutional Sustainability

26.  **Road Maintenance Trust Fund Consultations.** OPIC recruited consultants to undertake the RMTF study. The consultants commenced work in the first quarter of 2012 and held a number of consultations across the three Project areas. The minutes of the consultations have been documented in the Inception Report for the study. A second round of consultations was completed in June 2013. A draft report on the RMTF design was completed and findings from the first phase of work on the design were shared with all stakeholders prior to the launch of the second round of consultations. A final design report was shared with the Bank in October 2013. The final progress report will update on follow-up actions undertaken following the RMTF study.

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<thead>
<tr>
<th>Table 1: Overview Matrix on Overall Implementation Process of the MAP</th>
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<tr>
<td><strong>ACTION</strong></td>
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<tr>
<td>Management will assist OPIC in developing a Consultation Framework and ensuring that it is implemented across the three Project areas</td>
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<td>ACTION</td>
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<td>Management will continue to support OPIC in improving the documentation of consultations during implementation</td>
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<td>Management will verify that adequate consultations are conducted as part of the Road Maintenance Trust Fund (RMTF) study and that the proposed amount of the levy, if any, would not constitute an unsustainable financial</td>
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burden to the smallholders. strongly supported by the smallholder growers. While some growers indicated that they would be willing to pay an additional levy, most growers were opposed to such a levy. Some growers agreed to pay up to 5 percent of the maintenance costs of the oil palm roads (which is equal to about 3 Kina per ton of fruit) into a RMTF. However, there was resistance to the payment of another levy in addition to those already charged to the smallholder growers which include the OPIC and Oil Palm Research Association levies. Willingness to pay a RMTF levy was strongly dependent on the reduction of other levies. 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. The study recommended that the Government of PNG should pay for 80 percent of the annual maintenance cost, with the palm oil milling companies contributing 15 percent and the remaining 5 percent being contributed by the growers. During the consultations, the milling companies indicated that they would only be willing to make a contribution to a RMTF if the full rehabilitation of the oil palm road network was completed. In June 2013, representatives of the Department of National Planning and Monitoring, the milling companies, the smallholders, and OPIC agreed that an application would be made under the Public Investment Program for funding the road rehabilitation and initial procurement of maintenance equipment as well as some limited maintenance to road sections that were rehabilitated under the Project. An application has been submitted for inclusion in the Government’s 2014 development budget.

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**Implementation of Items from Annex 1**

27. Management also agreed to report back on items detailed in Annex 1 of the Management Response, which did not relate to allegations of noncompliance and harm, but which sought to improve overall Project implementation. A summary is provided in the table below. Only items where follow-up actions were required are listed.
Table 2: Annex 1 Action Implementation

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<tr>
<td>Item 2: Gathering baseline information</td>
<td><strong>Completed.</strong> A baseline survey was completed for the Project.</td>
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<td>Item 3: Identification of Project Stakeholders and Elaboration of a Consultation Process with Indigenous Peoples</td>
<td><strong>Completed.</strong> As indicated above, OPIC prepared a Consultation Framework and is implementing the Framework.</td>
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<td>Item 5: Identification of Measures to Avoid Adverse Effects and Ensure that Indigenous People Receive Culturally Appropriate Benefits</td>
<td><strong>Completed.</strong> OPIC is now systematically documenting consultations. Minutes of the consultations are reviewed by implementation support missions and areas for improvement have been identified and discussed with OPIC.</td>
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<td>Item 7: Consultation with Customary Leaders</td>
<td><strong>Completed.</strong> OPIC’s consultations during implementation continue to involve clan leaders and this has been documented.</td>
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<tr>
<td>Item 8: Sharing of Information in Appropriate Form and Language</td>
<td><strong>Completed.</strong> OPIC continues 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.</td>
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<td>Item 12: Improving Livelihoods: Savings and Income Diversification</td>
<td><strong>Completed.</strong> 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.</td>
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<td>Item 16: Chemical and Biological Pollution of Waterways</td>
<td><strong>Ongoing.</strong> 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.</td>
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<td>Item 17: Risk of Deforestation of High Conservation Value Forests</td>
<td><strong>Completed.</strong> 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</td>
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no primary forest was cleared for oil palm plantation expansion in Oro after 2005, which is in compliance with the requirements of the Round Table for Sustainable Palm Oil.

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<td>Item 18: Road Maintenance Trust Fund (RMTF)</td>
<td>Ongoing. As elaborated above, the Bank has verified that adequate consultations have been conducted as part of the RMTF study. As reported in the Management Response, OPIC plans to procure three graders to ensure that roads that are in good or fair condition are maintained. The first round of bidding for the graders was unsuccessful as OPIC did not receive any responsive bids. This is now in the process of being retendered.</td>
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**Summary of Outstanding Issues**

28. *Follow-up effluent audit and monitoring.* The final report from the follow-up effluent audit to review compliance of the palm oil mill effluent with standards as per the existing and updated Code of Practice for Palm Oil Processing was submitted by OPIC to the Bank in October 2013. Of the ten mills in the Project area four were found to be compliant with the PNG regulations 100 percent of the time, two were found to be compliant 98 percent of the time, one was compliant 97 percent of the time, one was compliant 68 percent of the time and one was compliant 35 percent of time. For one mill it was not possible to assess compliance as this is a new mill for which historical data were not available. This mill was not fully operational at the time of the baseline study in August 2012. The report concluded that “overall palm oil mill effluent treatment systems across all mills were operating adequately to ensure PNG regulatory compliance is achieved at each mill most of the time.” A number of issues were identified during the baseline assessment in August 2012 in regard to some of the effluent treatment systems. To address these issues, a number of actions and mitigation measures were recommended and agreed with the milling companies. During the follow-up assessment in February 2013, the implementation progress of the recommended actions and mitigation measures was assessed, with findings presented in the final report. The timeframe for implementation of the majority of the agreed actions and mitigation measures is the end of either 2013 or 2014, therefore it was not expected that they would have been fully implemented at the time of the follow-up assessment of February 2003. Most actions continue to be completed as planned, and OPIC is expected to monitor and update on their implementation. This will be documented in the final progress report.

29. *Completion of the RMTF Study.* The RMTF study is completed. Management will provide update on any follow-up action in the final progress report.
III. NEXT STEPS

30. Progress has been made on all the activities identified in the MAP and Management expects to be able to provide the final progress report to the Board by the end of FY 2014 upon completion of all outstanding Action Plan items. The Project closed on December 31, 2013.