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NOTE ON CANCELLED OPERATION (NCO)
(PE-4398/GE4345)

ON AN

IBRD LOAN

IN THE AMOUNT OF US\$17.36 MILLION EQUIVALENT

AND A

GEF GRANT

IN THE AMOUNT OF US\$17.00 MILLION EQUIVALENT

TO

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

FOR A

FORESTRY AND CONSERVATION PROJECT

October 13, 2006

**Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective October 13, 2006)

Currency Unit = Kina (K)

US\$1.00 = 2.96 K

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAC	Annual Allowable Cut
CAS	country assistance strategy
CDD	community-driven development
CELCOR	Center of Environmental Law and Community Rights, Inc.
CMA	Conservation Management Area
CTF	Conservation Trust Fund
EA	Environmental Assessment
FA	Forest Authority
FB	Forestry Board
FCP	Forestry and Conservation Project
FIA	Forest Industries Association
FMA	Forest Management Area
GEF	Global Environment Facility
GoPNG	Government of Papua New Guinea
GPAL	Governance Promotion Adjustment Loan
ICR	Implementation Completion Report
IRT	Independent Review Team
ISR	Implementation Supervision Report
LDOU	Landowner Decision and Organization Unit
LIL	Learning and Innovation Loan
NCO	Note on Cancelled Operation
NGO	nongovernmental organization
OEC	Office of Environment and Conservation
PAD	Project Appraisal Document
PID	Project Information Document
PIP	Project Implementation Plan
PNG	Papua New Guinea
PNGFA	Papua New Guinea Forest Authority
PSR	Project Supervision Report
QAG	Quality Assessment Group (World Bank)
QER	Quality Enhancement Review
SA	Social Assessment
SIL	Specific Investment Loan
TA	technical assistance
TFAP	Tropical Forest Action Plan

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**PAPUA NEW GUINEA
FORESTRY AND CONSERVATION PROJECT**

NOTE ON CANCELLED OPERATION

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1. Basic Information

Country: Papua New Guinea (PNG)	Project Name: Forestry and Conservation Project (FCP)
Project ID: (A) P004398-IBRD (B) P004345-GEF	L/C/TF Number(s): (A) TF036167 / TF025121 / TF020635 (B) TF025121 / TF028492 / TF050372 / TF050373
Note on Cancelled Operation (NCO) Date: October 4, 2006	
Lending Instrument: Specific Investment Loan (SIL)	Borrower: Government of PNG (GOPNG)
Original Total Commitment: (A) US\$17.36 million (B) US\$17.00 million	Disbursed Amount: (A) US\$1.90 million (B) US\$0.70 million
Environmental Category: B – Partial Assessment	
Implementing Agencies: PNG Forest Authority, PNG Department of Environment and Conservation, and PNG Mama Graun Conservation Trust Fund	
Co-financiers and Other External Partners: GEF	

2. Key Dates

Process	Date	Process	Original Date	Revised/Actual Date(s)
Concept review:	(A) 11/13/1997 (B) 12/20/1997	Effectiveness:	(A) 6/28/2002 (B) 6/18/2002	(A/B) 6/28/2002
Appraisal:	(A) 10/27/1998 (B) 10/15/1998	Closing:	(A/B) 6/30/2008	(A/B) 6/30/2005
Approval:	(A/B) 12/18/2001			

3. Ratings Summary: Performance Rating by NCO

Outcome¹:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Moderately Unsatisfactory
Borrower Performance:	Unsatisfactory

4. Sector and Theme Codes

¹ All ratings given in the NCO should use a 6-point rating scale (Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, or Highly Unsatisfactory), *except* for the rating of Risk to Development Outcome, which uses a 4-point scale (Negligible to Low, Moderate, Significant, High).

	Original
Sector Code (as percentage of total amount)²	
1. (A) AT – 42 - Forestry	
2. (A) JB – 37 - Other Social Service	
3. (A) BC – 21 - Central Government Administration	
4. (B) BC – 89 - Central Government Administration	
5. (B) JB – 11 - Other Social Service	
	Original Priority
Thematic Code (Primary/Secondary)	
1. (A/B) 80-P – Biodiversity	
2. (A) 57-P – Participation and Civic Engagement	
(B) 57-S – Participation and Civic Engagement	
3. (A) 82-S – Environmental Policies and Institutions	
(B) 82-P – Environmental Policies and Institutions	
4. (A/B) 37-S – Other Rule of Law	

5. Bank Staff

Positions	At NCO	At Approval
Vice President	James W. Adams	Jemal-ud-din Kassum
Country Director	Xian Zhu	Klaus Rohland
Sector Director	Christian Delvoie (Acting)	Mark D. Wilson
Project Team Leader	Oliver Braedt	James J. Douglas
NCO Team Leader	Oliver Braedt	
NCO Primary Author	Ridley Nelson / Oliver Braedt	

² There can be a maximum of 5 Sector Codes (that have more than 0 percent) and 5 Thematic Codes (of which up to 2 are “Primary”).

6. Context, Project Development Objectives, and Design

6.1 INTRODUCTION

The objective of this Note on Cancelled Operation (NCO) is to document experiences gained from the Bank/GEF-funded Forestry and Conservation Project (FCP) in Papua New Guinea (PNG). The project was designed to support the development of the country's forestry sector while addressing the global issue of forestry conservation. The danger of deforestation and irretrievable loss of forest biodiversity in PNG was, and still is, imminent and severe. The project was a high-risk/high-reward type of operation that failed.

The project was financed by a Specific Investment Loan (SIL) and a Global Environment Facility (GEF) grant. Total project costs were estimated at US\$39.29 million. IBRD provided a US\$17.36 million loan, and the GEF a US\$17.00 million grant, including contingency provisions. The project was approved by the Board on December 18, 2001 to be implemented over 6 years. The project was suspended on August 31, 2003 and cancelled at the request of the Government of PNG on June 30, 2005 with only \$2.6 million disbursed.

This NCO (a) summarizes the important sectoral, social, and governance background of the project; (b) outlines its objectives and design, then examines the implementation record up to cancellation; (c) presents the issues and actions related to the suspension and cancellation periods, including a discussion of the specific covenants in default; (d) assesses the institutional development impact; (e) assesses the performance of the Bank and the Borrower from preparation through appraisal and implementation; and (f) synthesizes lessons for the future.

6.2 COUNTRY CONTEXT

Politics and Governance

PNG has many political parties, so governments are often coalition-based and fragile. No-confidence votes in governments have become customary and, until the present, no government in PNG has served the full term of five years. In this context, governance is very weak.

Forestry Sector

PNG contains 1 of the world's 4 remaining significant tropical rainforest wilderness areas. These closed natural forests cover 36 million hectares (ha), 77 percent of PNG's total land area. High-altitude cloud and montane forests descend to lowland mixed forest and mangroves near the coast. These last two support approximately 200 species of mammals, 15,000–20,000 plant species, 1,500 tree species, and 750 bird species. (Fifty-three percent of the bird species are endemic, including 90 percent of the entire world population of birds of paradise). PNG has a substantial reserve of the world's biodiversity. However, it has one of the smallest protected area systems of any country. Less than 0.5 percent of PNG's territory is protected.

Rural poverty is a major issue in PNG. Its social indicators are worse than those of other countries with similar *per capita* income levels. Forest areas are the bases of livelihoods and cultural life of the 80 percent of the population who still live in rural communities. The majority of rural dwellers obtain subsistence from their gardens and from hunting in a reasonably intact natural forest.

In locations from which timber is being extracted, landowners sometimes experience temporary increases in income, after which they make minimal enhancements in infrastructure. Such improvements

often are little more than putting in forestry skidding roads, which then are not maintained. Many households in these areas use their temporarily increased incomes to increase their dependency on consumer goods. However, when logging ends, little sustained development or income base remains, so households revert to exploiting the now-degraded land resource base. Following logging, landowners often seize the opportunity of an opened canopy to extend gardens cultivated for cropping. While this pattern lowers labor costs, it also reduces the chance of later natural regeneration of forest cover.

Local clans or tribal groups own essentially all forested land under customary titles. No major development activity can occur on a clan's land without its consent. However, in the recent past, major social and economic disruptions have occurred in areas in which large areas of forest were destroyed, primarily by unsustainable logging operations. Logging is carried out in natural forests by a small number of large private logging companies, generally foreign owned. Companies pay royalties to landowners. Landowners usually are represented by a landowner company formed to look after the owners' collective interests, or to an agent. Many problems occur with such representation. In many cases, royalty payments were received by company representatives or agents but never were paid to the appropriate landowners, or were reduced by illegal deductions made by the companies.

Over the last 20 years, forest-related laws have evolved toward increasing government control of forest areas. This change has been aimed at enhancing sustainability and overall sector efficiency. However, implementation of the laws and associated codes of conduct often has been difficult because of political ambivalence and governance problems resulting from relationships among the industry, politicians, and officials.

Over the last five years, with declining export prices for logs, profitability and royalties have fallen. With profit margins shrinking, most companies are unwilling or unable to invest in new or better processing equipment. Nevertheless, logging and export of roundwood (logs) have been sufficiently profitable for the companies to strongly pursue logging permits. Since 2005, log prices have remained stable, and log exports have increased by approximately 20 percent. As a result, royalties and taxes also have increased.

6.3 PROJECT DESCRIPTION

Objectives

The Loan Agreement (December 20, 2001) states the Forestry and Conservation Project (FCP)'s objective as follows:

“The objective of the project is to assist the borrower to improve sustainable forest resource management in The Independent State of Papua New Guinea, through: (a) enhanced processes for landowner participation in forest management and conservation; (b) provision of financing to implement forest management options consistent with forest biodiversity conservation; (c) streamlining planning, monitoring and enforcement capacity of the PNG Forest Authority; and (d) strengthened environmental impact assessment and monitoring capabilities of the Office of Environment and Conservation.”

Design

The project had four components: (1) Landowner Forest Decision-Making, (2) PNG Mama Graun Conservation Trust Fund, (3) Sustainable Forest Management, and (4) Environment Assessment and Monitoring.

Component 1. Landowner Forest Decision-Making (US\$10.72 million)

“Develop and implement processes to enhance forest landowner’ participation in forest management and conservation, including educational activities to improve landowner access to information, and improved institutional and legal arrangements for organizing landowner representation, regarding forest management and conservation, and provision of technical and financial assistance to implement their chosen forest development option. Develop and implement Conservation Management Areas through the adoption of policies and enactment of legislation for community-initiated conservation and sustainable resource management areas on customary land.”

—*Loan Agreement, December 20, 2001*

Under this component, the project was to develop a process that would enable landowners to understand and make informed decisions about their forest-use options. To achieve this process, the project would establish a Landowner Decision and Organization Unit (LDOU) and carry out education campaigns on forest management and conservation. Component 1 had 3 subcomponents: (1) Development Options Study to improve landowners’ access to information on development options; (2) Strengthening Landowner Representative Mechanism to improve landowner representation processes and enable improved resource decision-making, including a proposed Land Group Summit to share and evaluate experiences; and (3) Land-Group Based Conservation and Resource Management to assist policy and legislative development to ensure the legal basis for community-initiated Conservation Management Areas (CMAs).

Component 2. PNG Mama Graun Conservation Trust Fund (US\$15.00 million)

“Implementation by Beneficiaries of specific forest biodiversity conservation and sustainable projects, including the provision of grants and sub-grants and technical assistance therefor. Develop and implement the PNG Mama Graun Conservation Trust Fund, including provision of technical assistance, office facilities, office equipment and vehicles therefor.”

—*Loan Agreement, December 20, 2001*

This component was to establish a Conservation Trust Fund (CTF) using GEF support. Its objective was to promote the conservation of forest biological diversity of global significance by providing an in-country source of funding for conservation-oriented forest resource use options in high biodiversity areas. Component 2 would have 3 phases: Establishment, Commencement, and Endowment. GEF was to help to launch the CTF’s endowment phase by making a capital contribution of up to US\$10 million if performance benchmarks had been achieved.

Component 3. Sustainable Forest Management (US\$8.71 million)

“Enhance the PNG Forest Authority’s capability to manage, plan, implement and monitor sustainable forest operations, including the provision of PNGFA staff training and workshops, field and office equipment, vehicles, computers and consultants’ services. Improvement of natural production forest management through expansion of sustained yield post-harvest activities, including the provision of PNGFA staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants’ services. Development of post-harvest management activities and feasibility studies for the development of plantations on degraded forest lands, including feasibility studies, development of a forest plantation strategy and testing of methodology on a pilot basis.”

—*Loan Agreement, December 20, 2001*

This component was to augment the efforts of the Forest Authority (FA) and other institutions to sustainably manage PNG forests by supporting institutional reform and providing technical assistance (TA) to improve capacity within the FA. Activities were to include (a) improved forest operations, inspection, and monitoring; (b) forest management planning; and (c) post-harvest forest management and plantations.

Component 4. Environmental Assessment and Monitoring (US\$4.68 million)

“Development, testing and implementing environmental impact assessments and monitoring methodologies, including development of operational manuals, OEC staff training and workshops, field and office facilities and equipment, vehicles, computers and consultants’ services. Designing and implementing a community-based environmental monitoring program, including “training to trainers” within government agencies and Non-Governmental Organizations established in PNG, and testing the approach in several pilot areas.”

—*Loan Agreement, December 20, 2001*

This component was to provide TA for the Office of Environment and Conservation (OEC) to develop and implement rigorous assessment and monitoring and operational systems under the new environmental regulatory framework. Activities were to include Environmental Assessment, Monitoring and Regulation, and Environmental Monitoring by Local Communities.

Conditions of Effectiveness

The Loan/Grant conditions of effectiveness were:

- The GEF Trust Fund Grant Agreement and the PNG Mama Graun Conservation Trust Fund GEF Grant Agreement were each to have been executed and delivered and all conditions to their effectiveness were to have been fulfilled.
- The Project Oversight Committee was to have been established.
- The FCP Supply and Tender Board for procurement was to have been established.
- The PMU was to have retained the services of a procurement specialist were to have been retained.
- The executing agency trust account was to have been established.
- Government was to adopt a timetable to implement the recommendations of the review of all timber harvesting operations pending approval as of the date of the Loan/Grant Agreement.
- Government was to adopt a time-table to employ consultants to review all on-going timber harvesting operations.
- Government was to adopt arrangements to review new logging permit applications.
- Government was to establish a landowner decision and organization unit.

General and Dated Covenants

The following covenants were the most important in the Loan and Grant Agreement:

- By June 30, 2002, issue and then enforce regulations requiring any person who is engaging in the harvesting of timber under a timber permit, authority or license (other than from a plantation forest) to post a performance bond for an amount equal to not less than 40% of the estimated average annual operating costs, subject to forfeiture for non-compliance with the Logging Code of Practice.
- By August 31, 2002, adopt and then implement a Forest Land Use Options Strategy.
- By June 30, 2003, submit to Parliament a bill enabling landowners to organize as legal entities, and promptly upon enactment of the bill, issue required regulations for its implementation.
- By June 30, 2003, review at least 15 current logging operations for compliance with the Forestry Act, including the Logging Code of Practice; review the rest of logging operations by June 30, 2007.
- Maintain the FA's budget, the independence of the Forestry Board (FB), and the independent inspection of log exports.
- Review all logging applications submitted after the date of the Loan Agreement to determine compliance with the Forestry Act.

Quality at Entry

The project was reviewed for Quality at Entry in February 2002 and was rated as satisfactory overall. The Quality at Entry Review (QER) team summarized the findings as follows:

“This is a high risk/high reward project that is consistent with the country assistance strategy for PNG. The Panel sees a compelling case to move forward with this project, the high-risk environment in the country because of weak governance, poor macroeconomic conditions, fragile political situation, and a track record of under-performing projects notwithstanding.”

The panel found fiduciary aspects to be highly satisfactory but implementation arrangements to be only marginally satisfactory. The review noted the risks related to the new government's commitment and ownership by the questioning about the support that came from some PNG heads of departments, opposition from civil society to government's handling of forests, and resource owners who were potential opponents. The panel also noted that the project design was complex; hence, the project should have had its administrative apparatus in place prior to loan effectiveness. The review also noted that, with a change of the government immediately after loan effectiveness, the new government's understanding of the objectives and background was limited. The situation was exacerbated by the introduction of new loan conditions at the final stages of negotiation. The review considered that some conditions of effectiveness should have been sought earlier and that some dated covenants should have been set as conditions of loan effectiveness.

Environmental Assessment Category

The project was categorized as a “B,” not calling for a full Environmental Assessment (EA). This classification was given because the project was expected to have a largely positive environmental impact.

Bank Costs

Based on Bank and GEF data, the total preparation and appraisal costs, including all Trust Funds, was US\$2.81 million (appendix 1, table C). The Bank's portion was US\$1.91 million, and GEF's US\$0.90 million. The lending costs (US\$2.16 million) equivalent to more than 5 percent of the total Loan were high by Bank standards. Total supervision costs during implementation and suspension of the project amounted to US\$0.63 million.

6.4 PROJECT BACKGROUND

6.4.1 Pre-Project History

PNG's constitution and national policy commit the country to the sustainable management of its forest resources. However, in the past two decades, sustainability in the forestry sector was compromised by major financial and operational malfeasance. The following were some of the key pre-project events:

- In 1989 a commission of inquiry into the PNG forestry sector (Barnett Commission) concluded that logging practices were out of control. These practices were causing irreversible damage to forests, land, and local communities and diminishing biodiversity and other environmental values.
- In 1990 a strategy document, "Papua New Guinea, the Forestry Sector: A Tropical Forestry Action Plan," was produced as a part of the overall World Bank-supported Tropical Forestry Action Plan (TFAP). The TFAP provided project preparation knowledge and presaged reforms, particularly in the tax and royalty regimes, that subsequently were implemented in association with two adjustment loans. These reforms provided the enabling framework within which the FCP was proposed.
- In 1991, to reverse the trends in deteriorating forests, in conjunction with the Bank and other donors, the government initiated the National Forest and Conservation Action Program.
- Subsequently, the Forestry Act (1991) was passed to facilitate the establishment of a sustainable forest industry. Some reforms were introduced but often were not well implemented. Governance problems persisted. As late as October 2001, internal government documents note that successive ministers had directed the Forest Authority (FA) to speed up new projects, putting pressure on them to bypass procedures.
- The Bank-funded Governance Promotion Adjustment Loan (GPAL) became effective in June 2000. The structural adjustment conditions associated with GPAL addressed governance problems that had emerged in the legislative and regulatory foundations.
- In July 2000, the cabinet was prepared to approve a particular road (Kiunga-Aimbak), first for a length of 240 km but eventually for 635km. Approval would have had major negative effects on sustainable forest management. The possibility concerned the Bank and NGOs. Ultimately, this proposal was not approved.

6.4.2 Project Timeline

A detailed timeline is given in appendix 3. Given the high profile of the timeline, the interaction between the Bank and Government was intensive during preparation and implementation. Key elements in the sequence of project events were:

- The preparation took over four years from the first identification mission to Board approval. (Consultants had done significant pre-identification work on forestry issues.) Staff involved note that some of the delays were caused by Regional management's decision to freeze preparation at one stage due to a perceived lack of ownership by government.

- Nearly three years elapsed from appraisal mission to Board approval. During this period, a Project Implementation Plan (PIP) was finalized; government set a moratorium on new logging licenses; and the PAD was completed.
- Before the Board approved the FCP, the Inspection Panel received a Request from nongovernmental organizations related to the GPAL (Received December 6, 2001, dated November 29, 2001) (see section 6.4.3).
- Approximately six months elapsed between loan approval and effectiveness.
- The project was effective for approximately 15 months from loan effectiveness to suspension.
- The project was cancelled 22 months after it was suspended.

6.4.3 Governance Promotion Adjustment Loan (GPAL) and the Conditions for the Second Tranche

The GPAL had many conditions not relevant to forestry. However, three specific forestry-related actions were required to permit the release of the second tranche of the GPAL. They were:

- a. Satisfactory implementation of reforms to the forestry revenue and royalty regime
- b. Completion of the independent review of all Forest Management Areas (FMAs), timber permits, and geographic extensions to timber permits
- c. Amendments to the Forestry Act covering: (1) the regulatory framework for the clearance of forested land, (2) noncommercial disclosure by the Forestry Board, (3) delegation of the powers of the Forestry Board to an individual, and (4) composition of the Forestry Board agreed with the Bank and passed.

The GPAL Implementation Completion Report (ICR) notes that, prior to the GPAL, the government had taken a number of measures to support and adjust forestry sector policies. These measures were reinstatement of the export tax regime for logs, continuation of the independent preshipment inspection service for log exports, and a moratorium on issuing new timber harvesting permits. The GPAL was intended to build on these initiatives. The GPAL intended to support additional changes to the revenue and royalty regime for logs and supported an independent review of the large “pipeline” of projects pending approval. These projects were the subject of the moratorium to identify and address serious shortcomings in the acquisition of forest resources. Finally, amendments were to be made to the Forestry Act to:

- a. Strengthen the regulatory framework for clearing forested land
- b. Increase disclosure by the Forestry Board
- c. Strengthen the workings of the board and other forestry sector participants.

As agreed under the GPAL, in 2000 Parliament enacted comprehensive amendments to the Forestry Act and related regulations that required noncommercial disclosure by the Forestry Board. The Forestry Act also was amended to adjust the composition of the Forestry Board to broaden stakeholder representation and to establish clear appointment criteria to ensure selection of suitably qualified individuals. Other amendments provided an improved regulatory framework to clear forested land for agricultural and infrastructure projects. These regulations were promulgated in 2001. However, as noted in the GPAL ICR, actual implementation of these changes remained difficult.

The review of the applications for timber harvesting permits generated controversy that continued beyond GPAL’s completion. During loan negotiations, the government and the Bank agreed that the review did not apply to operations already in implementation and that the review would focus only on the new applications. This focus may not have been clearly communicated to the nongovernmental organization (NGO) community prior to loan negotiations. As a result, some NGOs claimed that the

conditionality required a review of all projects, including those under implementation. The Bank made efforts during GPAL implementation to clarify this issue and to discuss the rationale for the exclusion. Nevertheless, some NGOs remained dissatisfied and decided to bring their grievances to the Inspection Panel. In the end, as discussed in the following section, after the initial investigation, the Panel did not find merits for a full review.

6.4.4 Inspection Panel Filed under GPAL

On November 29, 2001, a Request for Inspection Panel Review was filed by the Center of Environmental Law and Community Rights Inc. (CELCOR), a PNG-based NGO representing 550 customary landowners of lands and forests in 21 villages in Kiunga District of Western Province. The Requesters claimed that, in violation of the terms and conditions of the GPAL loan, Bank management intended to release the last *tranche* despite the fact that the Borrower had not complied with conditions related to forestry management. These conditions included:

- Reinstating the forestry log tax regime and satisfactorily implementing reforms of the forestry revenue and royalty-to-landowners regime
- Funding an independent preshipment inspection of log exports
- Placing a moratorium on all new timber concessions pending a complete review of all existing concessions
- New laws on forest clearance for roads and agricultural schemes
- New laws restraining powers of delegation
- New laws insisting on a better balance on the Forest Authority Board
- New laws on transparency and noncommercial disclosure by the Forestry Board.

The Inspection Panel's Eligibility Report dated April 30, 2002 concluded that the evident harm suffered by the Requesters was not related to an act or omission by the Bank. The Panel also concluded that the actions causing harm were inflicted by private entities that had no relationship to the Bank's assistance program. The Panel concluded that the harmful logging projects predated the GPAL so could not be regarded as the consequence of failure by the Bank to supervise the GPAL. Therefore, the Panel did not recommend a full investigation.

6.5 PROJECT RELEVANCE AND RISK

6.5.1 Relevance of FCP to PNG

As negotiated, the FCP objectives were fully consistent with the Borrower's and the Bank's objectives and strategy at the time of approval, and remain so today.³ The October 1999 Country Assistance Strategy (CAS) gave priority to governance and broad-based rural development. It stressed participation and the enhancement of village life. The CAS gave priority to sustainable forest management and listed the proposed FCP even in the low-case lending scenario. Both achieving an impact on rural poverty and achieving a sustainable forestry regime were important elements in the strategies of the Borrower, the Bank, and the GEF.

³ Note that, at the time of loan effectiveness, a new government was in power that had not been involved in the project design or negotiations.

However, the relevance to the needs of the potential beneficiaries is somewhat less clear. The project Social Assessment (SA) work raises questions about the relevance of the project design to the priorities of poorer landowners. The PAD states that Kokoro was the only community subject to SA although it was not a logging community (appendix 11, Social Assessment of Kokoro Village). The SA found that the community had several top development priorities:

1. Maintenance of the road link and transport
2. Hospital and professional medical practitioners in the area
3. Wholesale outlet
4. Assistance for women
5. Portable sawmill and training in its maintenance
6. Cooperative marketing and associated training
7. Coffee mills and training in how to organize and to sell coffee
8. FM radio
9. Improvements in the education system
10. Microhydroelectric power generation
11. Identification of customary land boundaries.

None except the portable sawmill is a request for forestry support, an element of sustainable forest management, or support to manage biodiversity better. There is *no strong evidence in the supporting documents of widespread landowner concern for the main elements of sustainable forest management*. As a result, the relevance of the project to the needs of the landowners, particularly the poorer, is rated as only modest. One aim of the project was to educate landowners who might change their priorities once they were better informed.⁴

6.5.2 Risk

The complexity of the project's stakeholder relationships was noted by some World Bank Board members. Several government institutions were involved. There were difficult relationships among government and landowners, household beneficiaries and their collective representatives, timber companies, NGOs (with a range of different positions), and the Bank. Exacerbating this complexity, some politicians were known to be close to the timber companies. Some bodies, such as the FB, had members from some of the interested parties, although later, due to legislative changes, not from the forest industries.

Given the eventual outcome of the FCP, an important retrospective question is whether the risk was worth taking and whether risk was adequately addressed. Several risks were flagged in the PAD, and the Bank's Regional management appears to have been well aware of the project's high risk. Based on documentation, it is not clear whether the risk to the Bank's broader program and the Bank-country relationship was understood and explored through "what if" scenarios. Nevertheless, discussions with staff

⁴ To meet the priorities of a community such as Kokoro would have called for some form of Community-Driven Development (CDD) project. It might have begun by focusing on local-level community decision-making processes aimed more broadly, rather than simply at forestry decisions; and providing infrastructure and services grants to clan or subclan groups, probably mostly outside logging concession areas. A CDD project also might have been supported by assistance in agricultural technology and vocational training for employment outside the area. However, given the remoteness of these areas and the relatively low levels of productivity and low population density, any CDD project investing in infrastructure and services would have needed to address the capacity of communities or government to maintain both the current (if any) and proposed infrastructure and to focus on income.

and managers during the preparation of this NCO make it clear that they were fully aware that this was a very high-risk operation due both to the multifaceted stakeholder relationships and the reasons mentioned in the QER team's quote above. However, the managers and staff also believe that, if the project had been successfully implemented, it would have had a major positive impact on the environment and on good governance in the forest sector in PNG.

7. Post-Approval Experience and Reasons for Cancellation

7.1 IMPLEMENTATION AND SUSPENSION

The project was suspended only 15 months after the effectiveness; hence, the actual implementation was very limited and so was the outcome. Therefore, most of this section documents the events that unfolded during that period rather than on the project's outcome or impact.

7.2.1 Implementation Progress

The project had a difficult start, because shortly after loan negotiations, a new government took power. It had concerns about the PIP and project objectives. The PIP was never formally finalized. The project launch workshop was cancelled when the Forest Authority withdrew its participation at the last minute on instructions from its managing director.

Over the short life of the project, there were eight Project Status Reports (PSRs, subsequently called Implementation Status Report, or ISRs). In the second PSR, the Sector Manager had already noted that "...*the start-up has not been very reassuring...*" However, at that point, little implementation had actually taken place.

Nearly 10 months after the approval, in a letter dated October 28, 2002, the new government formally expressed its concerns about the Loan Agreement. The letter stated that the conditionalities created an atmosphere that conflicted with the new government's export-driven economic policy. This policy focused on the export of timber (among other products). A number of meetings took place between the government and the Bank to reach agreement on loan conditions, but no changes were made in the project design or in the loan conditions. While these discussions continued, in approximately November 2002, 6 timber operations were cited by NGOs as possible violations of the law with regard to timber acquisition and harvesting. Because of uncertainty about the facts, the government agreed to an independent review to check the veracity of the NGOs' claims to be carried out by an Independent Review Team (IRT). The government also agreed with the Bank to act to address any violations (by January 30, 2003).

The IRT reported to the government in January 2003, but the Bank did not formally receive a copy of the report from the government. Meanwhile, NGOs reported additional possible violations that also were reviewed by the IRT. The team submitted a supplemental report to the government in March 2003. During this period, the Bank sent two written requests to the government requesting copies of the review reports. The government responded that action was being taken and that the Bank would be advised. The government issued instructions to the Attorney-General with respect to a court case brought by the government concerning findings of violations by the IRT in relation to the Kiunga-Aimbak Road. Subsequently, the government suddenly and unexpectedly entered into a Deed of Settlement with the holder of the Kiunga-Aimbak Road. The government agreed to halt actions questioning the Timber Authority's validity and to permit the plaintiffs to extract logs from elsewhere to make up any shortfall resulting from the Timber Authority. Despite interventions by the Bank and some progressive members of the government pursuing further legal action, the government allowed the settlement in this case to proceed, the government did not respond to a later Bank request for information on the steps that the holder of the Timber Authority was taking to comply with the forestry policy.

Representatives of the government and the Bank met on April 26, 2003, and the Bank sent a follow-up letter on April 28, 2003. The government agreed to advise the Bank formally on what corrective actions it had taken as a result of the findings and once agreed to give the IRT reports to the Bank. Two slippages then occurred on the agreed dates for action. By this point, the government was acknowledging that it had approved six timber operations. Without having received the IRT reports, the Bank remained uncertain whether the government was in violation of the procedure required by the law. At this point, NGOs sent additional letters to the Bank concerning the government's failure to act on many forestry issues, including illegal logging, unlawful permits, the Forestry Action Plan, the road project, and the above-mentioned Deed of Settlement, which could be violations of the project's conditionalities. As this saga continued, NGOs became increasingly dissatisfied with the Bank, believing that it might be willing to concede to the government.

In a July 3, 2003 letter, the Bank informed the government that 8 outstanding covenants needed follow-up actions satisfactory to the Bank, or the Bank would have to suspend the project by July 31, 2003. After intensive discussions with Bank staff, the government took some action, and the Bank agreed to extend the deadline to August 31, 2003. Four issues were still unresolved:

1. At Wawoi Guavi, no variance to the timber permit had been issued. However, the company had agreed to undertake the actions once the IRT had verified that these actions would bring the operation into compliance.
2. At Vailala, no variance had been issued, but the company indicated that action would be taken after the team verified that the action would bring the operation into compliance.
3. The Kiunga-Ambak Road issue was in the courts. A favorable judgment was hoped for but not before the end of September.
4. Performance bonds had been agreed to by the Cabinet, but legal drafting and finalization remained to be done.

With the above four issues still outstanding, on August 31, 2003, the Bank suspended the Loan and GEF Grant.

7.2.2 Suspension Period

Following a series of letters between the Bank and the government, on September 4, 2003, the Bank confirmed by a letter to the government that the Loan and GEF Grant had been suspended as of August 31, 2003. The December 2003 supervision mission found only one of all the outstanding issues had been resolved, and not by direct government action. In response to a private challenge brought by an NGO group, the court declared null and void the Deed of Settlement on the Kiunga-Aimbak Road. Eventually, the performance bonds also were agreed by the Cabinet, but the resolution of the other two violations was still moving slowly.

Posturing by the company slowed the permit for Wawoi Guavi, but the permit seemed close to resolution. The permit for Vailala was more complex since the permit holder had a court case with landowners, and, pending resolution, there was an injunction on logging. However, there was still hope for resolution. Both permits required full compliance with the Forestry Act. In the event of failure, they would be terminated. Key outstanding issues at Vailala included irregularities in the approval processes of a request for an area extension; absence of valid Board resolutions and quorum; not meeting the sustainability criteria with respect to calculations of Annual Allowable Cut (AAC); lack of landowner presence at the Provincial Forest Management Committee meeting; and lack of protection of landowner rights. The IRT estimated the AAC to meet the sustainable harvest criteria was approximately 106,000 m³ per year while the company's lowest estimate was 160,000 m³. Meanwhile, the University of PNG had

assessed the total stock of exploitable timber at Vailala at a level well below the figure used by the IRT. This figure would lead to an even lower AAC.

The issues at Wawoi Guavi were somewhat different since it had only 3–4 years of logging left. This fact made it difficult for the concession as a whole to revert to a reasonable state of overall sustainable management. Moreover, to reduce logging toward the end presented social problems. Landowners would suffer since, in the agreement, their benefits had been substantially back-loaded.

Meanwhile, another apparent violation arose when the government awarded a new permit at East Awin. When the Minister of Forests announced the East Awin award, the Bank inquired whether it was in compliance with national laws. The government subsequently admitted that there were irregularities. The government and the Bank agreed that the IRT also would review this permit.

7.2 CANCELLATION

With the Wawoi and Vailala permit issues remaining and other issues emerging, on May 9, 2005, the government instructed the Bank requested cancel the Loan. This action accorded with its rights under the General Conditions for World Bank Loans. According to the General Conditions, the Bank must cancel a loan without further delay upon instruction from the borrower. The government also asked that the related GEF Grant be continued. The Bank did not agree to continue the GEF Grant because, at the time of approval, the GEF Board had specifically indicated that the GEF grant was to be linked to the Bank's Loan. The Bank cancelled both the Loan and GEF Grant on June 30, 2005.

This NCO concludes that the evidence is inconclusive whether the Bank should have persuaded the government to restructure the Loan rather than cancel it. There were debates within the Bank to consider restructuring. However, evidence was accumulating that the new government's lack of capacity, governance, and common strategy with the Bank (despite some committed government staff within the sector) would have led to cancellation by the Bank in due course. In addition, the government clearly indicated to the Bank that it did not want further Bank involvement in PNG's forest sector, and requested cancellation of the loan.

By the time that the Loan and GEF Grant were cancelled, little of the project had been implemented. Nonetheless, some achievements had been made. With respect to the Landowner Forest Decision-Making Component, the unit was partly staffed but did not proceed to full operation. With respect to the Mama Graun Conservation Trust Fund, establishment activities had been completed and some promotional material prepared. Since this fund was to depend on other donors, and eventually an endowment, further progress may yet be made. With respect to the Sustainable Forest Management Component, little had been put in place by the cancellation date.

8. Assessment of Bank Performance

The Bank's overall performance is rated "*Moderately Unsatisfactory.*"

8.1 PREPARATION AND APPRAISAL

Based on two sets of ratings for preparation/appraisal and supervision, the Bank's overall performance is rated "*Moderately Unsatisfactory.*" The NCO recognizes that this was a high risk/high reward operation. The Bank was aware of the high risks but also wanted to seize an opportunity because of a government that was intent on changes that PNG needed. PNG was, and remains, a very fragile and difficult state environment. This operation attempted to generate satisfactory results in an unsatisfactory environment, and it failed.

The Bank's strengths were:

1. Pursuit of a highly relevant issue
2. Strong focus on fundamental policy reform
3. Wide consultation (notwithstanding complaints in this area, mainly from the Forest Industries Association⁵)
4. Strong environmental focus
5. Strong fostering of limited champions within government.

Championing policy reforms to address forestry conservation issues in a country with vested interests clearly is a difficult but worthwhile development agenda for the Bank. The experiences of this operation provide valuable lessons for assisting other fragile states.

The main weaknesses during the preparation cycle include:

1. Unrealistic optimism, given the past unpromising cycle of political instability
2. Selection of lending instrument
3. Weak Social Assessment
4. Lack of analysis of institutional capacity
5. Lack of exploration of the tensions between environmental and social objectives
6. Given the prominence of this operation in the PNG program, the Bank could have predicted and prepared exit scenarios in the event that the project failed and as well as what implications failure would bring to the overall Bank-country relationship.

The potential high risk had been clearly had been flagged to Bank management. However, there is little evidence of that the Bank explored the possible alternative scenarios that could have been expected in relation to the rigid set of covenants. It appears to have been very optimistic to believe at the time that the persistent cycle of changing governments would change or would not be critical to the project's outcome⁶. Some Bank staff interviewed for the NCO had perceived too much Bank optimism in assessing

⁵Bank staff attempted to see Forest Industries Association members or selected logging companies on every mission but meetings were not always accepted by the industry representatives. The Task Manager was able to hold one meeting with the owner of the largest logging company.

⁶This would apply to any operation in PNG given the political scenario.

the strengths of political reformers. Some exploration of “condition violation” scenarios at appraisal,⁷ could have influenced the formulation of the number of covenants and the timing. Such exploration also might have prompted the achievement of some of the conditions prior to loan approval to reduce the post-approval burden.

Apparently, more discussion took place about the lending instrument choice than is evident in the project documentation. As noted, in such uncertain circumstances, a more focused and prioritized first phase and the use of a simpler project design should have been given more consideration. With a more staged approach, the down-side risks would have been lower and the pressures fewer. More focused and phased options within a coherent CAS-based program might have provided more sustained leverage over time than a single operation of a significant size for a country such as PNG. The latter raises the question how much leverage the size of the loan really gave in this case, especially taking into account the lack of good governance in the sector.

With respect to social analysis of individual beneficiaries, the Bank could have done more exploration of the incentives at the household and clan levels. On the other hand, the enormous challenge of carrying out social analysis in a country with approximately 800 languages needs to be understood. The NCO acknowledges that more SA than was actually quoted in the PAD was carried out during the preparation stage. However, how any of these findings influenced project design is not clear. There is evidence that, during the review process prior to approval, peer reviewers had significant concerns about the issue of household and community incentives.

Little evidence exists in the PAD of analyzing institutional capacity. The main text related to the Forest Authority states simply that the FA has various limitations and is too preoccupied with large-scale logging revenue collection and application of the regulations. The PAD goes on to say:

“The basic approach of the project...will be to focus on...monitoring and enforcement...but [this will be based]...on a system of periodic outcome based assessment, to remove the very heavy institutional and technical burden which a complex, input assessment based regulatory system imposes.”

This was a significant shift of Bank strategy aimed at much greater effectiveness of staff skills. This shift warranted more substantive treatment in the PAD. In addition, in the institutional section, the PAD does not mention the Forestry Board.

8.2 SUPERVISION

The supervision of the project is rated as “*Moderately Satisfactory*” overall. Given the project’s design, the risks involved, and the external pressures, supervision was bound to be challenging. This certainty was noted at appraisal and confirmed by the QER. The Bank allocated above-average supervision resources, and the project had a high level of engagement by EAP management and both legal and technical advisory support. Staff changes in PNG made sustained interaction difficult. Over the short life of the project, there were 4 general managers of the FA and 2 heads of counterpart agencies. Project consultants were threatened and taken to court for defamation. Bank country managers and the project team attempted close donor coordination—a challenge given the range of donor views. This unity enabled the dialogue with PNG to continue during the supervision period.

⁷ For example, project documentation does not indicate why the project was not reappraised after the long period between appraisal (October 1998) and Approval (December 2001). A formal reappraisal could have highlighted issues that were not apparent otherwise.

During the 22 months between suspension and cancellation, the government did meet many of the outstanding conditions. However, the files and correspondence suggest that the lack of good governance in the sector was the direct cause for lack of compliance with individual covenants aimed at correcting fundamental issues of governance and institutional capacity. One major weakness during supervision is that the Bank could have considered an option of restructuring the project to address already apparent issues of lack of capacity and commitment, and the oversized scale of the Loan and the Grant. This NCO concludes that, on the evidence and at the time, the suspension by the Bank and cancellation by the government⁸ were sound decisions.

9. Assessment of Borrower

The overall Borrower performance is rated “*Unsatisfactory*.”

The Borrower’s performance in early preparation was moderately satisfactory, requiring challenging political decisions in an unstable political environment. Virtually all of the design was carried out by the Bank, with the Borrower doing little beyond trying to manage the political process. Given the negligible Borrower input, this preparation and appraisal period is rated “*Moderately Unsatisfactory*.”

The Borrower’s performance during supervision leading to suspension and cancellation is also rated “*Unsatisfactory*” because of the covenant violations. In addition, although financial management ratings were satisfactory for most of the implementation period, the final audited accounts and the refund of the Special Account balance are still outstanding.

The NCO acknowledges that, over the life of the project, the government achieved several important policy advances. However, these were not due entirely to the project’s intervention. These advances included updating the Forestry Act, changing the structure of the Forestry Board, providing more openness by the IRT in reviewing violations, refining the adoption of sustainable forest management practice rules, sharing ministerial statements of commitment, introducing performance bonds, and implementing a moratorium when it was clear that violations needed investigation.

10. Lessons Learned

The main lessons learned fall into three areas: institutions, lending, and Bank processes.

Institutions

Projects in difficult governance environments may benefit from a formal assessment of Borrower commitment using some form of political mapping. Such an analysis would enable Bank country and Regional management to make more informed decisions and should be applied more frequently, particularly in countries and projects with difficult governance environments.

Careful social analysis and household-level analysis of the incentives for beneficiary participation in different situations should be done early in preparation. These analyses also should cut across a sufficiently large sample, particularly if longer-term national sustainability objectives may conflict with shorter-term beneficiary objectives. Interventions that are not current high community priorities are risky unless incentives or knowledge are expected to change substantially.

⁸ Under the General Conditions governing the loan, the government has the right to cancel.

When there are associated governance issues, an institutional analysis is critical. It should match the capacity of the FA and other entities to the scale of the task and phasing of the project. A detailed institutional analysis might have enabled deeper senior management discussion of this central issue.

Lending

Large, multiple-component, multiple-covenant SILs are risky in the circumstances where sectoral governance is weak; where there is a long history of political instability; and where the Bank has no previous history of investment in a specific sector in that country. Phased or focused smaller projects may be more suitable for a “learning by doing” process. Risk-taking is justified by high potential impact. Nevertheless, there is a need for realism about potential impact drawn from past political and ownership experience. The Bank appears to have taken too much risk for this type and scale of lending instrument, in which an entire lending program depended on the outcome. In this case, the problem appears to have been one of over-reaching. Moving from a small early technical support to the large high-risk project was a huge leap for a country with weak capacity and governance. In a fragile environment characterized by frequently changing governments and powerful vested interests, the Bank needs to do much more comprehensive risk assessment, including alternative scenario analysis, before deciding on a project’s scale and scope.

The Bank should hold sufficient dialogue not only with government but also with other stakeholders who were not champions (including the potential spoilers, especially in the political arena). In a sustainability-focused project of this type, with an industry that had been largely uncontrolled in the past, it would not be reasonable to expect the Bank to achieve full agreement on the project design. A better assessment by the Bank of the industry’s incentives and constraints might have helped it address some of the industry’s concerns at an early stage.

Given the country program risks, country and sector management should have questioned more forcefully the realism and complexity of the project design, and pay more attention to the QER process to generate relevant and appropriate advice to the team early on.

Bank Processes

It is important that a project document accurately reflect the key elements in the logic of the lending instrument selection, institutional analysis, and main design choices made. Accuracy is especially critical in a high-risk project. Consistency of both intent and language between the legal documents and the PAD is also important and should receive close management attention during the final review stage.

For a project of this nature, fiduciary assessment needs to be emphasized much more and resources provided to identify potential risks and mitigating solutions. For a socially challenging project, a Social Assessment that would sufficiently assess the needs of the beneficiaries is critical. The central issue of short-term versus long-term benefits for households that are presented with forest exploitation or conservation choices needs to be sufficiently explored.

Appendix 1. Bank Lending and Implementation Assistance/Supervision Processes

(a) Task Team Members

Names	Title	Unit	Responsibility/Specialty
Lending (from Task Team in PAD Data Sheet)			
James J. Douglas	Forestry Specialist		Forestry
Glen Barry	Forest and Environment Specialist		PNG Forest and Environment Specialist
Kathleen S. Mackinnon	Sr. Biodiversity Specialist	ENVDR	Biodiversity
Anita Gordon	Consultant		NGO and Media
Bruce M. Harris	Sr. Social Scientist		Social Assessment and Participation
Charles Di Leva	Lawyer	LEGEN	Legal
Behdad M.H. Nowroozi	Sr. Financial Management Specialist		Financial Management
Carlos R. Escudero	Senior Counsel	LEGEA	Legal
Kathleen Mikitin	Audit Senior		Auditing
Robin Broadfield	GEF Sr. Regional Coordinator		
Andrew Bond	Sr. Biodiversity Specialist		Biodiversity
Kathryn Cherrie	Program Assistant		
Brenda Phillips	Program Assistant		
Patricia Miranda	Counsel	LEGEA	Legal
Supervision (from Task Team Members in all archived ISRs, if available)			
Andrew Bond	Biodiversity Specialist / Task Team Leader		Task Team Leader (12/18/01 to end 2004)
Stephen Lintner	Sr. Advisor	ESDQC	Safeguards
Carlos Ricardo Escudero	Lead Counsel	LEGEA	Legal
Mahesh Sharma	Country Manager and Country Progr. Coordinator	EACGF	Country Management
Oliver Braedt	Natural Resources Mgmt. Spec.	EASRD	Task Team Leader (since 2005)
David Michael Chandler	Sr. Financial Management Specialist	EAPCO	Financial Management Specialist
Donna Marie Quartley-Parker	Program Assistant		Procurement Specialist

Edward Daoud	Senior Finance Officer	LOAG1	Finance Officer
Maria Luisa B. Pallorina	Finance Analyst	LOAG1	Finance Analyst
Jo Ann Galimpin	Finance Analyst	LOAG1	Finance Analyst
Rafaelina Singson	Finance Assistant	LOAG1	Finance Assistant
Grace Athena Robles	Finance Assistant	LOAG1	Finance Assistant
Clemencia Onesty	Portfolio Office	ACTCF	Loan Accounting Officer
Cyrus Talati (Extended Team)	Senior Economist	EASPR	
Christopher Redfern (Extended Team)	Senior Economist		
David Cassells (Extended Team)	Senior Environmental Specialist		
Narenda Sharma (Extended Team)	Consultant	Consultant	
Glenn Morgan (Extended Team)	Lead Environmental Specialist	EASES	

(b) Ratings of Project Performance in PSRs/ISRs (if available)

No.	Date ISR Archived	IP	PDO	Actual Disbursements (US\$ million, cumulative)
8	6/22/2005	Highly Unsatisfactory	Highly Unsatisfactory	1.77
7	12/22/2004	Unsatisfactory	Unsatisfactory	1.57
6	6/22/2004	Unsatisfactory	Unsatisfactory	1.57
5	12/30/2003	Unsatisfactory	Unsatisfactory	1.57
4	12/19/2003	Unsatisfactory	Unsatisfactory	1.57
3	6/18/2003	Unsatisfactory	Unsatisfactory	0.96
2	1/6/2003	Unsatisfactory	Satisfactory	0.67
1	5/16/2002	Satisfactory	Satisfactory	0.00

(c) Staff Time and Cost

Stage of Project Cycle	US\$ million (including travel and consultants costs)
Lending: Bank	1.55
Lending: GEF	0.62
Total Lending	2.16
Supervision: Bank	0.36
Supervision: GEF	0.28
Total Supervision	0.63
Total Lending and Supervision	2.80

Note: Totals may not add up due to rounding.

Appendix 2. Supporting Documents

1. Project Concept Note 12/20/1997
2. Project Loan Agreement (P004398)
3. GEF Grant Agreement (P004345)
4. Project Appraisal Document 12/18/2001
5. PSRs and ISRs (see Appendix 1b)
6. Inspection Panel Report 04/30/2002
7. Project Implementation Plan 12/07/1999
8. Project Information Document 12/15/1997
9. Integrated Safeguards Data Sheet.

Appendix 3. Papua New Guinea Forestry and Conservation Project Timeline

Date	Occurrence
1994	National Forestry Action Plan recommended landowner-targeted mechanisms for sustainable forestry
1995	Under WB Economic Recovery Program, GoPNG committed to sustainable forestry
1995	FA adopted Logging Code and new permit system
09/15/1997	First Bank identification mission
12/15/1997	First PID
12/20/1997	Concept review
12/20/1997	Environmental B category given
01/08/1998	First Environmental data sheet
10/01/1998	Environmental data sheet updated
10/15/1998	Decision meeting on PAD
11/02/1998	Appraisal mission departure
12/07/1999	Project Implementation Plan finalized
02/16/2000	Quality at Entry (QAG) review completed
05/18/2000	GoPNG decision re: moratorium on new licenses
06/21/2000	GPAL effective
10/31/2000	Begin negotiations
08/30/2001	Project manager in post
11/15/2001	Minutes of negotiations signed after additional correspondence
11/16/2001	Initial final PAD issued
12/06/2001	Inspection Panel Request received (dated Nov 29, 2001) related to GPAL
12/18/2001	Revised PAD (to accommodate lifting moratorium on new logging permits following review and adoption of review recommendations).
12/18/2001	Board approval (expected effectiveness date 03/31/2002)
12/31/2001	GPAL closed
01/03/2002	GEF TF050372 signed
03/19/2002	Government request for effectiveness extension
04/30/2002	Inspection Panel Eligibility Report (recommending that a full investigation not be undertaken)
05/16/2002	Initial PSR (no mission) implementation rated Satisfactory
06/28/2002	Effective
10/17/2002	Letter from PNG Eco-Forestry Forum re: illegal timber allocations (GoPNG then agreed to independent review)
10/28/2002	Letter from GoPNG re: concerns about Loan Agreement
01/06/2003	PSR implementation rated Unsatisfactory
06/18/2003	PSR implementation rated Unsatisfactory
08/01/2003	New Government
09/04/2003	Suspension letter by Bank
11/18/2003	Minister of Finance announces award of project at East Awin
12/30/2003	PSR implementation rated Unsatisfactory
06/22/2004	PSR implementation rated Unsatisfactory
05/09/2005	Letter from GoPNG requesting cancellation of loan and GEF grant
06/22/2005	Final ISR - Project Development Objective rated Highly Unsatisfactory
06/30/2005	Project cancellation