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Mr. Damine Ase
Executive Director
CELCOR

Papua New Guinea Smallholder Agriculture Development Project (SADP)

Dear Ms. Bridgeman and Mr. Ase,

Thank you for your letter dated 7 June 2011 regarding the Papua New Guinea Smallholder Agriculture Development Project (SADP).

I am aware that it has taken us significantly longer than anticipated to finalize the effluent study for SADP, and apologize for this delay. The draft consultant report had some gaps that needed to be addressed in order for the study to be finalized, but we can now confirm that the SADP effluent study will be finalized and disclosed by 31 July 2011. Moreover, we stand by our earlier commitment to ensure that the study is completed and disclosed prior to the commencement of any infill planting financed under the SADP. In this context, I asked for a detailed review of this issue and am informed that the review concludes that no infill planting has commenced under the program financed under SADP.

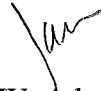
Similarly, road maintenance activities have not yet commenced under the project. The Oil Palm Industry Corporation (OPIC), the implementing agency, is currently recruiting consultants for the review and design of the road maintenance component. The tendering process for road rehabilitation/improvements in the project areas has commenced. Consultations have been undertaken with block holders along the roads selected for the 2011 Spot Patching and Drainage Works and during these consultations communities have expressed their strong support for this work.

As indicated in my earlier letter, based on our analysis of the project's status and the legal commitments under the Financing and Project Agreements, there are no grounds

for withholding disbursements for the project at this time. The Bank's support for the SADP will continue as per the terms of the Financing and Project Agreements. If the Accountability Counsel or CELCOR would like additional up-to-date information on the project, we encourage you to communicate or meet with the SADP Management at OPIC.

Thank you for your continued interest in this project.

Sincerely,



James W. Adams

cc: Mr. Ian Solomon, United States Executive Director
Mr. Jim Hagan, Papua New Guinea Executive Director
Mr. Peter Lallas, Executive Secretary, Inspection Panel