Financing Agreement

(First Economic and Fiscal Resilience Development Policy Financing)

between

INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
AGREEMENT dated as of the Signature Date between INDEPENDENT STATE OF PAPUA NEW GUINEA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to one hundred six million eight hundred thousand Special Drawing Rights (SDR 106,800,000) (variously, “Credit” and “Financing”).

2.02. The Maximum Commitment Charge Rate is one-half of one percent (1.2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.03. The Service Charge is three-fourths of one percent (3.4 of 1%) per annum on the Withdrawn Credit Balance.

2.04. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.

2.05. The Payment Dates are June 1 and December 1 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Dollar.
2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section 1 of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension is that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration is that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness is that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

5.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.
ARTICLE VI — REPRESENTATIVE: ADDRESSES

6.01. The Recipient’s Representative is the minister at the time responsible for treasury.

6.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:

Department of Treasury
The Treasury Building 10th floor
P.O. Box 542
Waigani, 131 NCD
Papua New Guinea, and

(b) the Recipient’s Electronic Address is:

Facsimile: 3133671
E-mail: fund@treasury.gov.pg
and enquiries@treasury.gov.pg

6.03. For purposes of Section 11.01 of the General Conditions: (a) The Association’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America, and

(b) the Association’s Electronic Address is:

Telex: 248423 (MCI) 1-202-477-6391
Facsimile: E-mail: cdpngpacific@worldbank.org
AGREED as of the Signature Date.

INDEPENDENT STATE OF PAPUA NEW GUINEA

By

[Signature]

Authorized Representative

Name: CHARLES ABEL
Title: DPM x THUENSLA
Date: 07 NOVEMBER 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: MICHEL XERA
Title: COUNTRY DIRECTOR
Date: 31 OCTOBER 2018
SCHEDULE I

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. In order to establish a medium-term fiscal anchor:
   
   (a) the Recipient’s Parliament has amended the Fiscal Responsibility Act to require the fiscal strategy to target a zero average annual non-resource primary fiscal balance over the medium term, as evidenced by the Amendment to the Fiscal Responsibility Act;
   
   (b) the Recipient’s National Executive Council has approved a Medium Term Fiscal Strategy for 2018-2022 that is consistent with a zero average annual non-resource primary fiscal balance over the medium term, as evidenced by: (i) the MTFS for 2018-2022; and (ii) the letter from the Secretary of the Department of Treasury to the Association, dated August 30, 2018, titled “Papua New Guinea’s Programmatic Development Policy Operations (DPO)”; and
   
   (c) the 2018 Budget presented to the Recipient’s Parliament is consistent with the MTFS for 2018-2022, as evidenced by: (i) the Appropriation Act 2017; (ii) the MTFS for 2018-2022; and (iii) the 2018 Budget.

2. To improve revenue administration and enhance compliance:

   (a) the Recipient’s Parliament has voted its approval of the Tax Administration Bill, as evidenced by: (i) the parliamentary debates (draft hansard) of the Recipient’s Parliament, dated December 5, 2017; (ii) the Tax Administration Bill; and (iii) the letter from the Secretary of the Department of Treasury to the Association, dated August 30, 2018, titled “Papua New Guinea’s Programmatic Development Policy Operations (DPO)”;
   
   (b) the Recipient’s Parliament has amended the Income Tax Act to make taxpayer identification numbers mandatory, as evidenced by the Amendment to the Income Tax Act; and
   
   (c) the Recipient’s Internal Revenue Commission has approved the establishment of a new Large Taxpayer Office, as evidenced
by: (i) the letter from the IRC’s Commissioner of Services to the Secretary of the Department of Treasury, dated July 9, 2018, titled “Formal Establishment of the Large Taxpayers Office in IRC”; and (ii) the letter from the IRC’s Commissioner General to the Association, dated July 20, 2018, titled “Formal Establishment of the Large Taxpayers Office in IRC”.


4. The Recipient has increased the excise on diesel in the 2018 Budget, in order to raise revenue, reduce the distortion between diesel and petrol taxes, and reduce environmental pollution, as evidenced by the Excise Tariff Amendment Act.

5. The Recipient’s Department of Finance has implemented the integrated financial management system in national government departments, such that it is being used to record all expenditures other than trust fund expenditures, as evidenced by the letter from the Secretary of the Department of Finance to the Association, dated July 16, 2018, titled “Papua New Guinea Draft Policy and Results Matrix, World Bank Budget Support”.

6. (a) To support increased financial inclusion, the Recipient’s National Executive Council has approved the Financial Sector Development Strategy and the National Financial Inclusion Policy, as evidenced by: (i) the Financial Sector Development Strategy; (ii) the National Financial Inclusion Policy; and (iii) the letter from the Secretary of the Department of Treasury to the Association, dated August 30, 2018, titled “Papua New Guinea’s Programmatic Development Policy Operations (DPO)”; and

(b) to increase women’s financial inclusion, the Recipient, through the Bank of Papua New Guinea, has launched the Gender Equity and Social Inclusion Policy for microfinance institutions, as evidenced by: (i) the Gender Equity and Social Inclusion Policy; and (ii) the letter from the Governor of the Bank of Papua New Guinea to the Association. Ref: GOFF. 7/1/G. LMB; gymn. dated July 17, 2018, titled “Adoption and Implementation of Gender Equity and Social Inclusion (GESI) Policy among Microfinance Institutions (MFIs)”.

Ref: GOFF. 7/1/G. LMB; gymn. dated July 17, 2018, titled “Adoption and Implementation of Gender Equity and Social Inclusion (GESI) Policy among Microfinance Institutions (MFIs)”.
Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>106,800,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>106,800,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposit of Financing Amounts.

1. Notwithstanding the provisions of Section 2.03 of the General Conditions, and except as the Association may otherwise agree:

   (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain on terms and conditions satisfactory to the Association, a dedicated account in Dollar ("Foreign Currency Dedicated Account"); and

   (b) all withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Dedicated Account. Upon each deposit of an amount of the Financing into the Foreign Currency Dedicated Account, an equivalent amount in Kina is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the Foreign Currency Dedicated Account; (b) the details of the account to which the Kina equivalent amount has been accounted for in the Recipient’s budget management system; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management system; and (d) the statement of receipts and disbursement of the Foreign Currency Dedicated Account.

E. Audit. The Recipient shall:

1. have the Foreign Currency Dedicated Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case, not later than six (6) months after the end of the Recipient’s fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Foreign Currency Dedicated Account and their audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is March 31, 2020.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each June 1 and December 1:</td>
<td></td>
</tr>
<tr>
<td>commencing December 1, 2023 to and including June 1, 2043</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing December 1, 2043 to and including June 1, 2048</td>
<td>3.40%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.
Definitions


5. “Bank of Papua New Guinea” means the Bank of Papua New Guinea, established and operating as the Recipient’s central bank pursuant to the Recipient’s Central Banking Act 2000, No. 1 of 2000, as such act may be amended from time to time.

6. “Department of Finance” means the Recipient’s department responsible for finance, or any successor thereto.

7. “Department of Treasury” means the Recipient’s department responsible for treasury, or any successor thereto.


Gazette No. G180, dated September 14, 2006, as such act may be amended from time to time.

11. "Foreign Currency Dedicated Account" means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.


14. "Income Tax Act" means the Recipient’s Income Tax Act 1959, No. 24 of 1959, as such act may be amended from time to time.

15. "Internal Revenue Commission" or its acronym "IRC" means the Recipient’s Internal Revenue Commission, established and operating pursuant to the Internal Revenue Commission Act 2014, No. 13 of 2014, certified by the Speaker of the Parliament on August 5, 2014, and came into operation in accordance with a notice in the National Gazette No. G362, dated August 21, 2014, as such act may be amended from time to time.

16. "Kina" means the official currency of the Recipient.

17. "Large Taxpayer Office" means the Large Taxpayer Office established within the Internal Revenue Commission on August 10, 2017, pursuant to the approval of the IRC’s Commission Governance Committee.


20. "National Financial Inclusion Policy" means the Recipient’s National Financial Inclusion Policy 2018-2022, approved by the National Executive Council pursuant to a special NEC meeting (number 21 2018) and NEC decision number 248 2018.

22. "Program" means the program of objectives, policies, and actions set forth or referred to in the letter, dated June 20, 2018, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.

23. "Public Finances (Management) Act" means the Recipient’s Public Finances (Management) Act 1995, No. 21 of 1995, as such act may be amended from time to time.

24. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

25. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

26. "Tax Administration Bill" means the Recipient’s bill for an act entitled Tax Administration Act 2017, approved by the National Executive Council on November 17, 2017 pursuant to a special NEC meeting (number NG06/2017) and NEC decision number NG57/2017, and voted as approved by the Parliament.