

CONFORMED COPY

LOAN NUMBER 4525 PNG

Loan Agreement

(Second Gazelle Restoration Project)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 19, 2000

LOAN NUMBER 4525 PNG

LOAN AGREEMENT

AGREEMENT, dated January 19, 2000, between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Bank has received a letter dated May 3, 1999, from the Borrower describing a program designed to shift economic activity in East New Britain Province towards lower risk areas, evacuate rural populations from devastated and high risk areas, and restore infrastructure and services to ensure effective operation of Rabaul port and the integrated development of the Gazelle Peninsula (the Program), and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans over a period of approximately six years, to be utilized by the Borrower in the implementation of the Program;

(D) the Project (except for Part A. 3 thereof) will be carried out by the Gazelle Restoration Authority ("GRA") with the Borrower's assistance and, as part of such assistance, the Borrower will make available to GRA the proceeds of the Loan as provided in this Agreement;

(E) the Borrower intends to obtain from the Commonwealth of Australia (Australia) a grant (the Australian Grant) to the Borrower in an aggregate principal

amount equivalent to AUD60,000 to assist in financing Part E(ii) of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and Australia (the Australian Grant Agreement);

(F) the Borrower intends to obtain from the European Union a grant (the EU Grant) to the Borrower in an aggregate principal amount equivalent to \$3,000,000 to assist in financing of part of Part A.1, part of Part A.2, part of Part B(vii), Part C.2(iv), Part C.2(vii), part of Part D(iii), and Part D(iv) of the Project on the terms and conditions set forth in the agreement to be entered into between the Borrower and the European Union (EU Grant Agreement); and

(G) the Borrower has entered into an agreement with the Asian Development Bank dated June 25, 1993 (the ADB Loan Agreement) to secure a loan in an aggregate amount equivalent to SDR 5,183,000 (the ADB Loan) for purposes, inter alia, to assist in financing part of Part B(vii) of the Project on the terms and conditions set forth in the ADB Loan Agreement;

(H) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program, has requested the Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Affected Person" means a person who on account of the acquisition of land, including plantation land, for purposes of establishing relocation sites under Part A.1 of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, or interest in or right to use any land (including premises, agricultural and grazing land) or right in annual or perennial crops and trees or any other fixed or movable asset, acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently, and "Affected Persons" means, collectively, all persons who qualify as an Affected Person.

(b) "ENBPG" means the East New Britain Provincial Government, a political sub-division of the Borrower.

(c) "ELCOM" means the Papua New Guinea Electricity Commission established under the Electricity Commission Act, Chapter 78, and any successor thereto.

(d) "ELCOM MOA" means the agreement to be entered into between ELCOM and GRA pursuant to Section 3.01 of this Agreement.

(e) "Environmental Management Plan" with respect to any part of the Project, means the set of mitigation, monitoring, and institutional measures to be taken during implementation and operation of such part of the Project, to eliminate any adverse environmental and social impacts, offset them, or reduce them to acceptable levels, including a plan of actions needed to implement such measures.

(f) "Executing Agency Trust Account" means the account established by GRA in

a commercial bank in Kokopo for the deposit of counterpart financing for the costs of goods and services required to carry out the Project not financed out of the proceeds of the Loan.

(g) "GRA" means the Borrower's Gazelle Restoration Authority established under the Gazelle Restoration Act (No. 1) of 1995, and any successor thereto.

(h) "GRA Financing Agreement" means the agreement to be entered into between the Borrower and GRA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time.

(i) "Harbours Board" means the Papua New Guinea Harbours Board established and operating under the Harbours Board Act, Chapter 240, and any successor thereto.

(j) "Papua New Guinea Kina" and "K" mean the currency of the Borrower.

(k) "Project Agreement" means the agreement between the Bank and GRA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(l) "Project Implementation Unit" and the acronym "PIU" mean the unit established within GRA on May 23, 1995.

(m) "Project Management Report" means each report prepared in accordance with Section 4.02 of the Project Agreement.

(n) "Policy on Rural Settlement and Resettlement" means the policy, satisfactory to the Bank, approved by the Provincial Executive Council of ENBPG dated December 7, 1998, Decision No. 67/98 for carrying out the relocation of population from high risk areas under Part A of the Project, as such Policy may be amended from time to time by agreement between the Borrower and the Bank.

(o) "Policy for Relocation and Compensation" means the framework for relocation and compensation of Affected Persons, satisfactory to the Bank, approved by the Provincial Executive Council of ENBPG dated April 15, 1999, Decision No. S011-13;

(p) "Vunakambi Resettlement Action Plan" means the plan for the resettlement and rehabilitation of the Affected Persons in the Vunakambi relocation site under Part A.1 of the Project, satisfactory to the Bank, approved by the Administrator of East New Britain Province April 15, 1999, as such Plan may be amended from time to time by agreement between the Bank and the Administrator of the East New Britain Province.

(q) "Steering Committee" means the Committee established by the Borrower pursuant to Section 3.05 of this Agreement.

(r) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(s) "Village Development Fund" is the fund established and managed by GRA pursuant to paragraph 10 of Schedule 1 to the Project Agreement to finance community-based infrastructure and services, community development activities and promotion of economic activities.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty-five million two hundred sixty thousand Dollars (\$25,260,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in the amount of one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of the said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with Schedule 3 to this Agreement.

Section 2.07. Interest and other charges shall be payable in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall: (i) through ENBPG, carry out Part A.3 of the Project; (ii) cause GRA to perform in accordance with the provisions of the GRA Project Agreement all of the obligations of GRA therein set forth; (iii) cause ELCOM and GRA each to perform in accordance with the provisions of the ELCOM MOA all of the obligations of ELCOM and GRA therein set forth; and (iv) take and cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable GRA and ELCOM to perform their respective obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available the proceeds of the Loan to GRA on a grant basis under a financing agreement to be entered into between the Borrower and GRA, under terms and conditions satisfactory to the Bank.

(c) The Borrower shall cause ELCOM and GRA to enter into an agreement, satisfactory to the Bank, to provide the supply of electricity to and within the Project area.

(d) The Borrower shall exercise its rights under the GRA Financing Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the GRA Financing Agreement or any provisions thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project (except Part A.3 thereof) and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 2 to the Project Agreement.

Section 3.03. The Borrower and the Bank hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project

(except Part A.3 thereof).

Section 3.04. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall on each calendar quarter, commencing on October 1, 1999 and thereafter, deposit into the Executing Agency Trust Account in Kina, amounts sufficient to cover counterpart funding for estimated disbursements under the Project for the succeeding three month period; provided, however, that the first deposit to be done on October 1, 1999, shall cover the total expenditures to be incurred by GRA on account of the Project during the calendar quarter ending on December 31, 1999.

Section 3.05. The Borrower shall establish and, thereafter, maintain at all times during the implementation of the Project, a Steering Committee chaired by GRA and with representatives of ENBPG, the National Department of Transport and Works, the National Water Board, ELCOM, the Harbours Board, the National Broadcasting Corporation, Cocoa and Coconut Research Institute, and the National Agricultural Research Institute, assigned with such functions and responsibilities, satisfactory to the Bank, as shall be required for the overall coordination and oversight of Project implementation. The Steering Committee shall meet quarterly to review progress reports and to resolve any issues arising in the implementation of the Project.

Section 3.06. The Borrower shall ensure that the Affected Persons in the relocation site located at Vunakambi therein shall be compensated, resettled and rehabilitated in accordance with the Vunakambi Resettlement Action Plan. In the unforeseeable event that additional resettlement sites under Part A.1 of the Project may give rise to Affected Persons, the Borrower shall, through ENBPG, ensure that the Affected Persons shall be compensated, resettled and rehabilitated in accordance with action plans satisfactory to the Bank prepared in accordance with the Policy for Relocation and Compensation. For such purposes, the Borrower shall, through ENBPG, prepare and furnish to the Bank for its concurrence such action plans, and, thereafter, carry the said action plans as so approved.

Section 3.07. The Borrower shall take all such action as shall be necessary to adequately maintain, through ENBPG, the road between Rabaul Port and Kokopo Town being restored under Part B.1 of the Project, including provision of annual budgetary allocations thereof based on the estimated funding levels furnished by ENBPG to the Borrower's Department of Treasury and Planning by not later than September 30 of each calendar year, commencing on September 30, 2000; provided, further, the said budgetary funding shall be made available by the Borrower to ENBPG on a quarterly basis.

Section 3.08. Without limitation to the provisions of Section 3.01(a) of this Agreement, the Borrower shall cause the Harbours Board to adequately maintain, with the Board's own resources, the Rabaul Port related infrastructure, including the silt traps. For these purposes, GRA shall hand over to the Harbours Board the operation and maintenance of the Rabaul Port facilities rehabilitated under Part C.1 of the Project promptly upon their completion.

Section 3.09. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the objectives thereof during the period following such date; and

(c) review with the Bank, by September 30, 2001, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.10. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

#### ARTICLE IV

##### Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

(b) The Australian Grant and the EU Grant shall have failed to become effective by July 31, 2000 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Australian Grant and the EU Grant or any other grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring in case of loans is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(d) GRA shall have failed to perform any of its obligations under the Project Agreement, or GRA or ELCOM shall have failed to perform any of their respective obligations under the ELCOM MOA.

(e) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that GRA or ELCOM will be able to perform their respective obligations under the Project Agreement or the ELCOM MOA.

Section 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraph (d) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraphs (b) and (c)(i) of Section 4.01 shall occur, subject to the proviso in paragraph (b) and in paragraph (c)(ii), respectively.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the GRA Financing Agreement has been executed between the Borrower and GRA;

(b) that the ELCOM MOA has been duly executed between ELCOM and GRA;

(c) that the Executing Agency Trust Account has been established in a commercial bank, on terms and conditions satisfactory to the Bank, with an initial deposit of not less than K2,500,000;

(d) that the Steering Committee has been established in accordance with the provisions of Section 3.05 of this Agreement; and

(e) that the Project Accountant has been retained in accordance with the provisions of paragraph 1 of Schedule 1 of the Project Agreement.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by GRA, and is legally binding upon GRA in accordance with its terms;

(b) that the GRA Financing Agreement has been duly authorized or ratified by the Borrower and GRA and is legally binding upon the Borrower and GRA in accordance with its terms;

(c) that the ELCOM MOA has been duly authorized or ratified by ELCOM and GRA, respectively, and is legally binding upon ELCOM and GRA in accordance with its terms;

(d) that the provisions of the Policy on Rural Settlement and Resettlement, of the Policy for Relocation and Compensation, and of the Vunakambi Resettlement Action Plan are legally valid and enforceable in accordance with the laws of the Independent State of Papua New Guinea.

Section 5.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Treasury and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry for Treasury and Planning  
Department for Treasury and Planning  
P.O. Box 710  
Waigani  
Port Moresby  
Papua New Guinea

Cable address:

Telex:

NE 22218

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

By /s/ H.E. Nagora Bogan KB

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

By /s/ Klaus Rohland

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures To be Financed
(1)(a) Works for Ah Tam Dawapia wharves under Part C(1)(i) of the Project	145,000	78%
(1)(b) Works for urban drainage in Kokopo and Rabaul under Part B(iii) and C(1)(iii) of the Project	1,090,000	78%
(1)(c) Works for the Rabaul-Kolopo Road Under Part B(i) of the Project	5,383,000	78%
(1)(d) Works for Erosion Control at Rabaul Port under Part C(1)(ii) of the Project	211,000	78%



(1)(e) Works for Urban Solid Waste and Sanitation under Part B(ix) of the Project	197,000	78%
(1)(f) Works for Government Administration Center under Part B(viii) of the Project	1,364,000	33%
(1)(g) Works under other Parts of the Project	7,132,000	78%
(2) Goods	293,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 55% of local expenditures for other items procured locally
(3) Consultants' services	4,258,000	100%
(4) Fee	252,600	Amount due pursuant to Section 2.04 of this Agreement
(5) Unallocated	4,934,400	
TOTAL	25,260,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 1999; and

(b) Categories 1(b) through (e), until an Environmental Management Plan, prepared in accordance with paragraph 6 of Schedule 1 to the Project Agreement, with respect to the activities to be financed under each such Category has been furnished to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$30,000 equivalent; (b) works under contracts costing less than \$500,000; (c) services provided by consulting firms under contracts costing less than \$100,000 equivalent; and (d) services provided by individual consultants under contracts costing less than \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (i) provide to the people of the Gazelle Peninsula with government services similar to those that were destroyed by the volcanic eruption in 1994; and (ii) ensure sustainability of social and economic well-being and minimize adverse impacts of future volcanic eruptions on lives, property and livelihood in the Gazelle Peninsula.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Displaced Communities

1. Relocation of communities displaced by the volcanic eruption in 1994, through provision of relocation sites, agricultural land, internal site roads, electricity, water supply, and sanitation.
2. Provision of services for community development and economic support in the relocation sites under Part A.1 above, through agricultural extension services, improved access to schools, vocational and skills training, health and police services.
3. Resettlement and rehabilitation of Affected Persons.

Part B: Kokopo Town

Upgrading of Kokopo Town through: (i) restoration of the road between Rabaul Port and Kokopo Town, (ii) restoration of the Burmah Road, (iii) restoration of roads and drains within Kokopo Town, (iv) upgrading the solid waste disposal facilities, (v) provision of back-up generators for essential public service facilities, (vi) upgrading facilities at the Butuwin health center, (vii) construction of an elementary school and facility for women's community activities, (viii) a government administration center and a commercial center, and (ix) assessment of human waste treatment options in Kokopo Town.

Part C: Rabaul Port

1. Rehabilitation of port-related infrastructure and facilities at Rabaul Port, through (i) restoration and upgrading of Ah Tam and Dawapia wharves, (ii) provision of erosion control, and (iii) rehabilitation of Blanche Street and Kokopo Road and storm water drains.
2. Restoration of essential utility, infrastructure and public services at Rabaul Town/Port, through: (i) rehabilitation of mains water supply, (ii) rehabilitation of storm water drains, (iii) construction of market facilities, (iv) restoration of education facilities, (v) rehabilitation of the town clinic, (vi) provision of back up electrical power generators for essential public service facilities, and (vii) facility for women's community activities.

Part D: Gazelle Peninsula

Establishment of a less concentrated human settlement pattern in the Gazelle Peninsula, through development of provincial townships in the North East area of the Gazelle Peninsula, including (i) restoration of the road from Baliora to Warangoi Bridge, (ii) provision of water supply at Baliora, (iii) expansion of existing high schools and health centers, (iv) construction of a facility for women's community activities, and (v) establishment and operation of the Village Development Fund.

Part E: Economic Planning and Diversification

Support to develop institutional capacity in the areas of land use, water resources and wastewater management and protection of coastal zone resources, including (i) carrying out of a study for a longer-term economic and spatial framework and implementation strategy for the North East Gazelle Peninsula, including preparation of a management plan and a hazards mitigation plan for the coastal zone area thereof; (ii) carrying out of a study of air quality and environmental health effects of ongoing ash emissions from Mt. Tavurvur; (iii) carrying out of research

into cash and food crops, livestock and fisheries development, cocoa and coffee, and expansion of the Cocoa and Coconut Extension Agency; (iv) development of an agricultural diversification strategy; (v) provision of an incinerator for the Department of Agriculture and Livestock; and (vi) provision of consultants' services for the foregoing.

Carrying out of a program of institutional strengthening for the Administration of the East New Britain Government, including planning and development, staff training and provision of consultants' services.

Strengthening of GRA's accounting, financial management and monitoring and reporting capabilities through development of a computerized accounting system, including provision of computer hardware and software, staff training and consultants' services.

\* \* \*

The Project is expected to be completed by December 31, 2002.

### SCHEDULE 3

#### Interest and Principal Repayment Provisions

##### A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

##### B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollar for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Dollar for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof. 5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

#### C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after May 15, 2015, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

#### SCHEDULE 4

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of the Project Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

