

CONFORMED COPY

LOAN NUMBER 4525 PNG

Project Agreement

(Second Gazelle Restoration Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

GAZELLE RESTORATION AUTHORITY

Dated January 19, 2000

LOAN NUMBER 4525 PNG

PROJECT AGREEMENT

AGREEMENT, dated January 19, 2000, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GAZELLE RESTORATION AUTHORITY (GRA).

WHEREAS (A) by the Loan Agreement of even date herewith between The Independent State of Papua New Guinea (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to twenty-five million two hundred sixty thousand Dollars (\$25,260,000) on the terms and conditions set forth in the Loan Agreement, but only on conditions that GRA agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a financing agreement to be entered into between the Borrower and GRA, the proceeds of the loan provided for under the Loan Agreement will be made available to GRA on the terms and conditions set forth in the GRA Financing Agreement; and

WHEREAS GRA, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) GRA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project (except for Part A.3 thereof) with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and GRA shall otherwise agree, GRA shall carry out the Project (except for Part A.3 thereof) in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

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

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 2 to this Agreement; provided, however, that for the carrying out of Part A.1, Part A.2, part of Part B(vii), Part B(viii), Part C.2(iii), Part C.2(iv), Part C.2(vii), part of Part D(iii), Part D(iv) and Part E(ii) of the Project whereby consultants' services are not to be financed out of the proceeds of the Loan, GRA shall retain consultants with qualifications and terms of employment, including terms of reference, satisfactory to the Bank.

Section 2.03. (a) GRA shall carry out 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 for Part A.3. thereof).

Section 2.04. GRA shall take all such actions as shall be necessary to enable the Borrower to meet its obligations under the Loan Agreement, in particular those set forth in Section 3.04 therein.

Section 2.05. GRA shall duly perform all its obligations under the GRA Financing Agreement and ELCOM MOA. Except as the Bank shall otherwise agree, GRA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the GRA Financing Agreement or the ELCOM MOA or any provision thereof.

Section 2.06. (a) GRA shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement, under the GRA Financing Agreement, under the ELCOM MOA, and other matters relating to the purposes of the Loan.

(b) GRA shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by GRA of its obligations under this Agreement, under the GRA Financing Agreement and under the ELCOM MOA.

ARTICLE III

Management and Operations of GRA

Section 3.01. GRA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. GRA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

ARTICLE IV

Financial Covenants

Section 4.01. (a) GRA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, and to register separately the operations, resources and expenditures related to the Project (except for Part A.3 thereof).

(b) GRA shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the GRA shall carry out a time-bound action plan acceptable to the Bank for the strengthening of its financial management system for the Project (except for Part A.3 thereof) in order to enable the GRA, not later than January 1, 2001, or such later date as the Bank shall agree, to prepare semi-annual Project management reports (except for Part A.3 thereof), acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the GRA shall prepare and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period, in a form and substance satisfactory to the Bank.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For GRA:

Gazelle Restoration Authority
P.O. Box 2177
Rabaul
East New Britain Province
Papua New Guinea

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of GRA may be taken or executed by its Chairman or such other person or persons as GRA shall designate in writing, and GRA shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Klaus Rohland

Authorized Representative

GAZELLE RESTORATION AUTHORITY

By /s/ H.E. Nagora Bogan, KBE

Authorized Representative

SCHEDULE 1

Implementation Program

1. GRA shall maintain at all times during the implementation of the Project, the Project Implementation Unit, headed by a Manager with qualifications and experience satisfactory to the Bank, with such functions, responsibilities and funds and with competent staff in adequate numbers, including an accountant with qualifications and experience satisfactory to the Bank, as shall be required for the day-to-day implementation of the Project, including the preparation of Project reports, the maintenance of consolidated Project accounts, and the implementation of procurement activities.
2. GRA shall by September 30 in each year, commencing on September 30, 2000, furnish to the Bank, for its concurrence, a proposed annual work program and budget for Project activities in the following calendar year, and, thereafter implement such annual work plans, as so approved.
3. GRA shall ensure that Parts A.1 and A.2 of the Project shall be implemented in accordance with a plan prepared with the informed consultation of the host communities, including ethnic minorities, residing in the vicinity of the relocation sites, satisfactory to the Bank.
4. GRA shall ensure that Part A.1 of the Project shall be implemented with due regard to the Policy for Rural Settlement and Resettlement. To that end, the GRA shall apply the said Policy in a manner satisfactory to the Bank.
5. By June 30, 2000, GRA shall submit for review by the Bank, an action plan for the regulation of water and sanitation throughout the Kokopo and Tokua Corridor, which plan shall include recommendations concerning proposed private sector development at Takubar, and thereafter, taking into account Bank's comments, if any, carry out such plan for the regulation of water and sanitation in said Corridor.
6. GRA shall for each activity under Parts A.1, B (i), B (iii), B (ix), C.1 (ii) and C.1 (iii) of the Project prepare an Environmental Management Plan, satisfactory to the Bank, and thereafter implement such Plans accordingly.
7. GRA shall enter into an agreement, satisfactory to the Bank, with ELCOM for ELCOM to provide an adequate supply of electricity to and within the resettlement sites under the Project.
8. GRA shall:
 - (a) conduct, in accordance with terms of reference satisfactory to the Bank, and thereafter furnish to the Bank for its review, the following studies under Part C of the Project: (i) by June 30, 2001, a study for a longer-term economic and spatial framework and implementation strategy for the region; (ii) by June 30, 2001, a study of air quality and environmental health effects of ongoing ash emissions from Mt. Tauruvur; (iii) by December 31, 2001, research into cash and foodcrops, livestock and fisheries development, cocoa and coffee; and (iv) by June 30, 2001, a final report outlining actions to be taken to implement the program on institutional strengthening of the Administration of ENBG.
 - (b) promptly thereafter, take appropriate steps to implement the recommendations of such studies and report, taking into account the comments of the Bank thereon.
9. GRA 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 achievement of the objectives thereof during the period following such date; and 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.

10. GRA shall by January 31, 2000, establish and thereafter maintain, the Village Development Fund in accordance with operational procedures satisfactory to the Bank.

SCHEDULE 2

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, in September 1997, and in January 1999 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided for in paragraphs C.2 and C.3 of this Section, works estimated to cost less than \$ 500,000 equivalent per contract, up to an aggregate amount not to exceed \$ 4,250,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Community Participation

Works required for road restoration and reconstruction, small works in relocation sites, erosion control, and, except as provided for in paragraph 3 below, small works under the Village Development Fund under Part D (v) of the Project, shall be procured in accordance with procedures acceptable to the Bank.

3. Procurement of Small Works

Works under the Village Development Fund under Part D (v) of the Project estimated to cost less than \$ 30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. National Shopping

Goods estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$30,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract to be procured under International Competitive Bidding; (ii) each contract for water and sanitation procured under National Competitive Bidding procedures estimated to cost the equivalent of \$100,000 or more; and (iii) contracts for goods estimated to cost the equivalent of \$30,000 or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2

thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for carrying out studies under Part E of the Project for cash and food crops, livestock and fisheries development, cocoa and coffee shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

