

CONFORMED COPY

LOAN NUMBER 7021 PNG

Loan Agreement

(Governance Promotion Adjustment Loan)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 16, 2000

LOAN NUMBER 7021 PNG

LOAN AGREEMENT

AGREEMENT, dated June 16, 2000, between between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated May 15, 2000, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

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 Fixed-Spread Loans" of the Bank, dated September

1, 1999 (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Bank of Papua New Guinea" and the acronym "BPNG" mean the central bank of the Borrower;

(b) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(c) "DFT" means the Borrower's Department of Finance and Treasury;

(d) "Fiscal Year" and "FY" mean the Borrower's fiscal year commencing January 1 and ending December 31;

(e) "Kina" means the currency of the Borrower;

(f) "NEC" means the National Executive Council of the Borrower;

(g) "First Tranche" means the amount of the Loan referred to in Section 2.01 (a) of this Agreement;

(h) "Second Tranche" means the amount of the Loan referred to in Section 2.01 (b) of this Agreement; and

(i) "Floating Tranche" means the amount of the Loan referred to in Section 2.01 (c) of this Agreement.

## 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 ninety million Dollars (\$90,000,000), in three tranches as follows:

(a) a first tranche in an amount equal to thirty-four million one hundred thousand Dollars (\$34,100,000) (the First Tranche);

(b) a second tranche in an amount equal to thirty-five million Dollars (\$35,000,000) (the Second Tranche); and

(c) a floating tranche in an amount equal to twenty million Dollars (\$20,000,000) (the Floating Tranche).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) (d) and (e) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in BPNG a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment

for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals of the proceeds of the Second Tranche shall be made from the Loan Account unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank;

and

(iii) that the actions described in Part A of Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii) and (iii) above, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals of the Floating Tranche shall be made from the Loan Account unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank;

and

(iii) that the actions described in Part B of Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank is not so satisfied, the

Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii) and (iii) above, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2001 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 front-end fee in an amount equal to nine hundred thousand Dollars (\$900,000). The Borrower agrees that 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the loan not withdrawn from time to time, at the rate equal to: (i) eighty-five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions but not to include the fourth anniversary of such date; and (ii) seventy-five one-hundredths of one per cent (0.75%) per annum

thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the loan withdrawn and outstanding from time to time, in respect of each interest period at the variable rate; provided, that upon a conversion of all or any portion of the principal amount of the loan, the Borrower shall, during the conversion period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semi-annually in arrears on November 15 and May 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following conversions of the terms of the loan in order to facilitate prudent debt management:

(i) a change of the loan currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an approved currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a variable rate to a fixed rate, or vice versa; and

(iii) the setting of limits on the variable rate applicable to all or any portion of the principal amount of the loan withdrawn and outstanding by the establishment of an interest rate cap or interest rate collar on the said variable rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### ARTICLE III

#### Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. 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 for Finance and Treasury 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:

Department of Finance and Treasury  
P.O. Box 710  
Waigani,  
National Capital District  
Papua New Guinea

Facsimile:	Cable address:	Telex:	
328 8213	TREASURER Boroko	NE22218	(675)

For the Bank:

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

Facsimile:	Cable address:	Telex:	
477-6391	INTBAFRAD	248423 (MCI) or	(202)

Washington, D.C.

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/ John Kaputin

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Klaus Rohland

Regional Vice President  
East Asia and Pacific Region

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525 materials	-	Radioactive and associated
667	-	Pearls, precious and semiprecious stones, unworked or worked

718 thereof;	718.7	Nuclear reactors, and parts  fuel elements (cartridges), non- irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897 platinum  watch  silversmiths'	897.3	Jewelry of gold, silver or  group metals (except watches and  cases) and goldsmiths' or  wares (including set gems)
971 gold	-	Gold, non-monetary (excluding  ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

## SCHEDULE 2

### Amortization Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies:

Payment Date	Installment share (Expressed as a %)
November 15, 2005	1.93
May 15, 2006	2.00
November 15, 2006	2.07
May 15, 2007	2.14
November 15, 2007	2.21

May 15, 2008	2.29
November 15, 2008	2.37
May 15, 2009	2.46
November 15, 2009	2.54
May 15, 2010	2.63
November 15, 2010	2.72
May 15, 2011	2.82
November 15, 2011	2.92
May 15, 2012	3.02
November 15, 2012	3.12
May 15, 2013	3.23
November 15, 2013	3.35
May 15, 2014	3.46
November 15, 2014	3.58
May 15, 2015	3.71
November 15, 2015	3.84
May 15, 2016	3.97
November 15, 2016	4.11
May 15, 2017	4.26
November 15, 2017	4.41
May 15, 2018	4.56
November 15, 2018	4.72
May 15, 2019	4.89
November 15, 2019	5.06
May 15, 2020	5.61

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on



any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

### SCHEDULE 3

#### Actions Referred to in Section 2.02 (d) and (e) of this Agreement

Part A: Conditions for the Release of the Second Tranche

A (1). Strengthening Economic Management

Improving Fiscal Management and Enhancing Macroeconomic Stability

1. Release by DFT on a timely basis of full cash warrants for the development budget as projected, and for identified Government priorities in the recurrent budget.

2. Establishment and operation by DFT of an integrated payroll and human resources records management system in accordance with criteria agreed with the Bank.

3. Maintenance of expenditures on the Borrower's structural reform program consistent with approved targets in the Borrower's FY2000 budget.

Improving Debt Management

4. Establishment by DFT of a fully functioning debt management office within Treasury and commencement of portfolio restructuring as necessary.

5. Repeal by the Borrower of the Mineral Resource Stabilization Fund (MRSF) Act (Chapter 194).

Improving the Operating Environment for Business

6. (a) Completion of audits (with respect to accounts up to and including 1999) of Telikom, Papua New Guinea Electricity Commission, Papua New Guinea Harbours Board and Air Niugini Limited by recognized external auditors acceptable to the Bank, according to internationally accepted accounting standards; (b) NEC approval of industry structural arrangements, community service obligation arrangements and forms of privatization for these entities; and (c) commencement of due diligence exercises for the privatization of these entities, with terms of reference agreed with the Bank.

7. Implementation by the Borrower of recommendations agreed with the Bank (arising from the Borrower's ongoing Taxation Review) in its FY2001 budget, with respect to personal and corporate taxes, tariff rates and tariff exemptions.

8. Completion by the Borrower of a review of its competition policy, with terms of reference agreed with the Bank, discussion with the Bank of the results of the review, and implementation of recommendations acceptable to the Bank.

A (2). Improving Governance

General

9. Publication by DFT of budget reconciliations and projections according to a schedule agreed with the Bank, and the completion of additional measures to improve fiscal transparency and accountability as agreed with the Bank.

10. Securing of funding secured for the Rural Development Program and its managing agent, for 2001; and the appointment of the managing agent by the Borrower in accordance with procedures, criteria and terms of reference agreed with the Bank.

11. Strengthening, by each respective agency, of the Borrower's Auditor General's Office, Ombudsman Commission and Parliamentary Public Accounts Committee in accordance with an implementation plan agreed with the Bank, and the allocation, in the Borrower's FY2001 budget, of funds necessary for carrying out the implementation plan.

12. Strengthening of the Borrower's Central Government Procurement System in accordance with an implementation plan agreed with the Bank

Improving the Efficiency and Effectiveness of the Civil Service

13. Incorporation in the Borrower's FY2001 budget of the recommendations of functional reviews, as agreed with the Bank.

Improving the Resources and Delivery of Health and Education Services

14. NEC approval of the National Health Plan, acceptable to the Bank, for implementation in the FY2001 budget.

15. Standardization by the Borrower of the procurement of pre-packed medical supply kits for aid posts.

Improving Forestry Management

16. Implementation by the Borrower of reforms to its forestry revenue and royalty regime, satisfactory to the Bank.

17. Completion of an independent review of Forest Management Agreements (FMAs), timber permits and geographic extensions to timber permits.

18. Adoption by the Borrower's Parliament of amendments, acceptable to the Bank, to the Forestry Act 1991 (as amended in 1993) covering: (a) the regulatory framework for the clearance of forested land; (b) non-commercial disclosure by the Forestry Board; (c) delegation of the powers of the Board to an individual; and (d) composition of the Forestry Board.

Improving Efficiency of Financial Services and Reducing Systemic Risk

19. Implementation by the Borrower of recommendations of the Commission of Inquiry into the National Provident Fund (NPF), pertaining to the Borrower, as agreed with the Bank.

20. Adoption by the Borrower's Parliament, of legislation on the regulation and supervision of the pension industry, acceptable to the Bank.

Part B: Conditions for the release of the Floating Tranche

21. Completion of actions by the Borrower and all other responsible agencies to:

(a) bring the Papua New Guinea Banking Corporation group to the point of

sale; and  
(b) dispose of the remaining assets in the Finance Pacific  
Limited/Finance Pacific Group.

