

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7119 PNG

Loan Agreement

(Road Maintenance and Rehabilitation Project)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 12, 2002

Public Disclosure Authorized

LOAN AGREEMENT

AGREEMENT, dated August 12, 2002, between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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 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) “Annual Work Program” means the annual program of activities under the Project to be prepared by DOWT, pursuant to the provision of paragraph 6 (a) of Schedule 5 to this Agreement;

(b) “Bridge Inventory and Bridge Management System” means the system for inventorying bridges on national and provincial roads and for management of these bridges, developed by Works Consultancy Services Limited of New Zealand in association with Beca Gure of Papua New Guinea dated July 1996, to be updated and improved under Part F.3 of the Project;

(c) “Displaced Persons” means persons who, on account of the involuntary taking of land and other assets under the Project resulting in a direct economic and social adverse impact, whether or not said Displaced Persons must physically relocate, had or would have their: (i) standard of living adversely affected, whether or not the Displaced Person must move to another location; (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or

grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently, adversely affected; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Displaced Person” means any of the Displaced Persons;

(d) “DOWT” means the Department of Works and Transport of the Borrower and any successor thereto;

(e) “Employer’s Project Manager” means the consulting firm selected and retained by DOWT on August 23, 2001, in accordance with the Quality-and Cost-based Selection Procurement method set forth in 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, for purposes of assisting DOWT in implementing, coordinating, monitoring and supervising the Project, pursuant to terms of reference satisfactory to the Bank; or, any other consulting firm selected and retained in the future in accordance with paragraph 1 of Schedule 5 to this Agreement;

(f) “Environmental and Social Impact Assessment Management and Monitoring Plans” means the guidelines adopted by the Borrower on June 1, 2001, satisfactory to the Bank, for managing and monitoring environment and social impacts under the Project, and as such guidelines may be amended from time to time with the prior agreement of the Bank;

(g) “Environmental Unit” means the Borrower’s unit established in DOWT on July 18, 2001, responsible for managing and monitoring environment and social practices for works carried out by DOWT, pursuant to paragraph 2 of Schedule 5 to this Agreement;

(h) “Executing Agency Trust Account” means the Borrower’s account established pursuant to Section 3.03 of this Agreement;

(i) “Fiscal Year” and the acronym “FY” mean the twelve (12)-month period corresponding to any of the Borrower’s financial years, which period commences on January 1 and ends on December 31 in each calendar year, and the term “Fiscal Years” means, collectively, each of said Fiscal Year;

(j) “Imprest Accounts” means the Participating Provinces’ accounts established pursuant to Section 3.05 of this Agreement, and “Imprest Account” means any of said Accounts;

(k) “Kina” and the acronym “K” mean the currency of the Borrower;

(l) “Land Acquisition and Compensation Framework” means the framework satisfactory to the Bank, adopted by the Borrower’s National Executive Council on May 10, 2002, and referred to in paragraph 7 (e) of Schedule 5 to this Agreement, which sets out the principles and procedures governing land acquisition from and compensation to Displaced Persons, as well as administrative, reporting and monitoring arrangements to ensure compliance with said framework, as said framework may be revised from time to time with the prior agreement of the Bank;

(m) “Memorandum of Agreement” means the memorandum entered into between the Borrower and a Participating Province, pursuant to the provisions of paragraph 8 of Schedule 5 to this Agreement, as such Memorandum may be amended from time to time with the prior agreement of the Bank;

(n) “Participating Provinces” means, collectively, the Borrower’s provinces of Central, East New Britain, Manus, Morobe, Oro and West New Britain; and “Participating Province” means singularly any one of the said Provinces;

(o) “Provincial Annual Work Program” means each of the annual program of activities under Parts B and D of the Project prepared by each Participating Province for their Respective Part of the Project, and approved by DOWT pursuant to paragraph 6 (b) of Schedule 5 to this Agreement;

(p) “Provincial Employer’s Project Manager” means the Employer’s Project Manager’s staff assigned to the Participating Provinces of Central, East New Britain and Manus, Morobe, Oro, and West New Britain, to assist in the implementation, coordination, monitoring and supervision of their Respective Part of the Project pursuant to paragraph 1 (b) of Schedule 5 to this Agreement;

(q) “Provincial Executing Agency Trust Accounts” means the Participating Provinces’ account established pursuant to Section 3.04 of this Agreement, and “Provincial Executing Agency Trust Account” means any one of said Accounts;

(r) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(s) “Respective Part of the Project” means, for each Project Province, the activities to be carried out under the Project within said Project Province;

(t) “Road Asset Management System” means the DWOT system for planning maintenance of national and provincial roads adopted in May 2001 and October 2001, respectively; and

(u) “Special Account” means the account referred to in Section 2.02 (b) 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 this Agreement, an amount equal to forty million Dollars (\$40,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in a commercial bank, acceptable to the 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 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006, 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 one percent (1%) of the amount of the Loan. 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 a 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 to but not including 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 other charges shall be payable semiannually in arrears on January 15 and July 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.

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

of the
establishment of
said Variable Rate.

principal amount of the Loan withdrawn and outstanding by the
an Interest Rate Cap or Interest Rate Collar on

(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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end shall carry out: (i) Parts A, C, E, F.3 and F.4 of the Project through DOWT; (ii) Parts F.1 and F.2 of the Project through its Department of Trade and Industry; and (iii) Parts B and D of the Project through the Participating Provinces, all with due diligence and efficiency and in conformity with sound administrative, economic, engineering, financial and technical practices, and social and environmental standards and shall provide, 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the works, goods, 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 4 to this Agreement.

Section 3.03. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall:

(a) open and thereafter maintain, until completion of the Project, an Executing Agency Trust Account in Kina in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment, for purposes of channeling in a timely manner the Borrower’s funding for the costs of works, goods and services required for the carrying out of Parts A, C, E and F of the Project, not financed out of the proceeds of the Loan;

(b) make an initial deposit into such account in the amount of K5,000,000; and

(c) deposit into the Executing Agency Trust Account, not later than the last day of each calendar quarter, amounts sufficient to cover counterpart funding for estimated

disbursements under Parts A, C, E and F of the Project for the succeeding three-month period.

Section 3.04. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall, through each Participating Province:

(a) open and thereafter maintain, until completion of the Project, a Provincial Executing Agency Trust Account in Kina in the name of the respective Participating Province, each in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment, for purposes of channeling in a timely manner each Participating Provinces' funding for the costs of works, goods and services required for the carrying out of its Respective Part of the Project not financed out of the proceeds of the Loan;

(b) make an initial deposit into each such account as follows:

- (i) for the Central Province in the amount of K200,000;
- (ii) for the East New Britain Province in the amount of K400,000;
- (iii) for the Manus Province in the amount of K140,000;
- (iv) for the Morobe Province in the amount of K270,000;
- (v) for the Oro Province in the amount of K140,000; and
- (vi) for the West New Britain Province in the amount of K200,000.

(c) and, thereafter, deposit into each such Provincial Executing Agency Trust Account, not later than June 30 and December 31 of each calendar year, commencing on December 31, 2002, amounts sufficient to cover counterpart funding for estimated disbursements under the Respective Parts of the Project on account of the relevant Participating Province for the succeeding six-month period.

Section 3.05. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall, through each Participating Province:

(a) open and thereafter maintain until completion of the Project, an Imprest Account in Kina in the name of the respective Participating Province, each in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment, for purposes of channeling in a timely manner each Participating Provinces' funding for the costs of works for routine maintenance of provincial roads procured under paragraph 4 of Part C of Section I of Schedule 4 to this Agreement required for the carrying out of the respective Part B.1 of the Project not financed out

of the proceeds of the Loan;

- (b) make an initial deposit into each such account as follows:
 - (i) for the Central Province in the amount of K100,000;
 - (ii) for the East New Britain Province in the amount of K200,000;
 - (iii) for the Manus Province in the amount of K60,000;
 - (iv) for the Morobe Province in the amount of K130,000;
 - (v) for the Oro Province in the amount of K60,000; and
 - (vi) for the West New Britain Province in the amount of K100,000.

(c) and, thereafter, deposit into each such Imprest Account, not later than June 30 and December 31 of each calendar year, commencing on December 31, 2002, amounts sufficient to cover counterpart funding for estimated disbursements for the costs of works for routine maintenance of provincial roads procured under paragraph 4 of Part C of Section I of Schedule 4 to this Agreement required for the carrying out by the relevant Participating Province its respective part of Part B.1 of the Project for the succeeding six-month period.

Section 3.06. For the purposes of Section 9.07 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 after 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

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower, including the Participating Provinces, responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) (A) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (B) have the internal control system for the management of the Borrower's Project accounts established for the carrying out of the Project, including those for DOWT, Department of Trade and Industry, and each of the Participating Provinces, reviewed every six months by independent auditors acceptable to the Bank, furnish to the Bank the report of such review by not later than two months after its completion, and thereafter take corrective actions, if required, in a manner and substance satisfactory to the Bank; and
 - (C) for purposes of sub-paragraphs (A) and (B) above, the Borrower shall, by December 31, 2002, employ an independent auditor, with qualifications and experience, terms of reference and terms and conditions of employment acceptable to the Bank, selected in accordance with the provisions of paragraph 5.1 through 5.3 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.
- (ii) furnish to the Bank as soon as available, but in any case not later than three (3) months after the end of each such year, commencing March 31, 2003, 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 and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and

was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than December 31, 2002, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, 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 Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

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) the Executing Agency Trust Account has been established in accordance with Section 3.03 (a) and (b) of this Agreement;

(b) a Provincial Executing Agency Trust Account has been established in each Participating Province in accordance with Section 3.04 (a) and (b) of this Agreement;

(c) an Imprest Account has been established in each Participating Province in accordance with Section 3.05 (a) and (b) of this Agreement;

(d) the Borrower has entered into arrangements with the Employer's Project Manager pursuant to paragraph 1(b) of Schedule 5 to this Agreement;

(e) the Borrower has adopted a financial management system for the Project within DOWT and each Participating Province, in accordance with paragraph 3 of Schedule 5 to this Agreement;

(f) the Borrower has furnished evidence of the actions taken, and a time-bound action plan of the outstanding actions, if any, to be taken, all satisfactory to the Bank, to implement the recommendations of the Auditor-General's Office special review of the internal control system for the operations of DOWT, dated July 26, 2001, in accordance with paragraph 4 of Schedule 5 to this Agreement; and

(g) the Memorandum of Agreement between the Borrower and each Participating Province has been entered into in accordance with paragraph 8 of Schedule 5 to this Agreement.

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

(a) the Land Acquisition and Compensation Framework has been duly adopted by the Borrower's National Executive Council and is legally binding upon the Borrower and each Participating Province in accordance with their respective terms;

(b) the Environmental and Social Impact Assessment Management and Monitoring Plans has been duly adopted by the Borrower on June 1, 2001, and is legally binding upon the

Borrower and each Participating Province in accordance with their respective terms; and

(c) the Memorandum of Agreement between the Borrower and each Participating Province has been duly authorized or ratified by the Borrower and each Participating Province and is legally binding upon the Borrower and each Participating Province in accordance with its terms.

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 Finance 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 of Finance
Department of Finance
Vulupindi Haus 4th floor
P.O. Box 710
Waigani, 131 NCD
Papua New Guinea

Cable address:	Telex:	Facsimile:
FINANCE Boroko	NE 22218	(675) 3288213

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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/ Graham Michaels

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Emmanuel Y. Jimenez

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works:		
(a) under Part A.1 of the Project	2,180,000	37%
(b) under Part A.2 of the Project	11,660,000	70%
(c) under Part B.1 of the Project	1,100,000	37%
(d) under Part B.2	2,380,000	70%

	of the Project		
	(e) under Part C.1 of the Project	570,000	70%
	(f) under Part C.2 of the Project	3,370,000	70%
	(g) under Part D.1 of the Project	430,000	70%
	(h) under Part D.2 of the Project	2,910,000	70%
(2)	Goods under Parts C.3, E.1 and E.2 of the Project	1,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3)	Training, workshops, seminars and conferences under Parts F.1 and F.2 of the Project	100,000	90%
(4)	Consultants' services:		
	(a) under Part E.3 of the Project	2,710,000	83% for foreign firms and 75% for local firms
	(b) under Parts E.4, F.3 and F.4 of the Project	2,850,000	100% for foreign firms and 75% for local firms
	(c) for training under Parts F.1 and F.2 of the Project	970,000	70% for individuals
	(d) under Part E.6 of the Project	500,000	100% for foreign firms, 75% for local firms, and 70% for individuals
	(e) for audits of Project accounts	170,000	100% for foreign firms, 75% for local firms, and 70% for individuals

(5)	Incremental operating costs	410,000	80%
(6)	Fee	400,000	Amount due under Section 2.04 of this Agreement
(7)	Unallocated	<u>5,390,000</u>	
	TOTAL	<u>40,000,000</u>	

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, works or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods, works or services supplied from the territory of the Borrower; and

(c) the term “incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the Borrower (which expenditures would not have been incurred absent the Project), including expenditures for the cost of per diem and local transportation costs of Project staff, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$900,000, may be made in respect of Categories (1) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but on or after September 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$300,000 equivalent per contract; (b) goods under contracts costing less than \$100,000 equivalent per contract; (c) training, workshops, seminars and conferences; (d) contracts for the employment of consulting firms valued at less than \$100,000 equivalent per contract; (e) contracts for the employment of individual consultants valued at less than \$50,000 equivalent per contract; and (f) incremental operating costs; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in promoting an efficient, safe and reliable roads transport system in the Participating Provinces through: (a) the improvement of

reliable roads transport system in the Participating Provinces through: (a) the improvement of selected road segments; (b) strengthening strategic planning and management of the road sector; and (c) strengthening the institutional arrangements for road maintenance, including private sector participation.

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: Maintenance and Restoration of National Roads

Carrying out of routine maintenance and restoration works on selected national road segments, including:

1. annual routine maintenance on about 2,200 kilometers of national roads; and
2. restoration of about 440 kilometers of national roads.

Part B: Maintenance and Restoration of Provincial Roads

Carrying out of routine maintenance and restoration works on selected provincial road segments, including:

1. annual routine maintenance on about 900 kilometers of provincial roads; and
2. restoration of about 200 kilometers of provincial roads.

Part C: Maintenance, Restoration and Replacement of National Bridges

Carrying out of routine maintenance, restoration and replacement works on selected national bridges, and provision of emergency bridges and bridge parts, including:

1. maintenance and restoration of about 35 bridges;
2. replacement of about 9 bridges; and
3. acquisition of about 6 bailey-type bridges for emergency needs, bridge decking and bridge parts for maintenance of bridges.

Part D: Maintenance, Restoration and Replacement of Provincial Bridges

Carrying out of routine maintenance, restoration and replacement works on selected

provincial bridges, including:

1. maintenance and restoration of about 25 bridges; and
2. replacement of about 6 bridges.

Part E: Implementation Support

1. Provision of laboratory equipment and traffic counting equipment for DOWT and Provincial Works Manager Offices.
2. Provision of environmental monitoring equipment to DOWT, and Provincial Works Manager Offices and Provincial Administrations in each Participating Province.
3. Strengthening the Employer's Project Manager in the carrying out of Project management, including the provision of technical assistance.
4. Strengthening the capacity of DOWT in the carrying out of the design of roads to be restored and bridges to be replaced, and of Project supervision, including the provision of technical assistance.
5. Provision of accounting and auditing services including an internal control system for the management of DOWT and the Participating Provinces' Project accounts.
6. Strengthening the financial management and operational capacity of DOWT, including preparation and implementation of a time-bound action plan to address the weaknesses identified in the special review of the Auditor-General's Office, dated July 26, 2001, including the provision of technical assistance.

Part F: Road Sector Support

1. Provision of technical assistance and training on management, preparation of bids, costing, quality control, and site planning for small and medium-sized contractors involved in road maintenance.
2. Strengthening the capacity of the DOWT and provincial administration agencies in the carrying out of works for road maintenance, including the provision of technical assistance and training.
3. Updating and improving the Bridge Inventory and Bridge Management System of national and provincial roads, including the provision of technical assistance to DOWT.
4. Carrying out of the social and economic impact assessments of roads and bridges under

4. Carrying out of the social and economic impact assessments of roads and bridges under the Project, including the provision of technical assistance.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

1. 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.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
15-Jan-2008	1.94%
15-Jul-2008	2.00%
15-Jan-2009	2.08%
15-Jul-2009	2.15%
15-Jan-2010	2.22%
15-Jul-2010	2.30%
15-Jan-2011	2.38%
15-Jul-2011	2.46%
15-Jan-2012	2.55%
15-Jul-2012	2.64%
15-Jan-2013	2.73%
15-Jul-2013	2.83%
15-Jan-2014	2.93%
15-Jul-2014	3.03%
15-Jan-2015	3.14%
15-Jul-2015	3.25%
15-Jan-2016	3.36%
15-Jul-2016	3.48%
15-Jan-2017	3.60%
15-Jul-2017	3.72%
15-Jan-2018	3.85%
15-Jul-2018	3.99%
15-Jan-2019	4.13%
15-Jul-2019	4.27%
15-Jan-2020	4.42%
15-Jul-2020	4.58%

15-Jan-2021	4.74%
15-Jul-2021	4.90%
15-Jan-2022	5.08%
15-July-2022	5.25%

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

separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

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: (i) civil works for national and provincial roads shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each; (ii) civil works for bridge replacement shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each, and (iii) contracts for goods, including bailey-type bridges, shall be grouped in bid packages estimated to cost \$100,000 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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Civil works for national and provincial works estimated to cost less than \$1,000,000 equivalent per contract, and civil works for bridge replacement estimated to cost less than \$500,000 equivalent per contract, all up to an aggregate amount not to exceed \$29,300,000

than \$500,000 equivalent per contract, all up to an aggregate amount not to exceed \$29,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under this paragraph 1, Part C, shall be those set forth in the Annex to this Schedule 4 required to comply with the provisions of the Guidelines.

2. International Shopping

Goods, excluding bailey-type bridges, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Civil works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$100,000 equivalent or less per contract, up to an aggregate amount not exceeding \$1,100,000, equivalent may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. Community Participation

Civil works required for roads routine maintenance under Parts A.1 and B.1 of the Project estimated to cost less than \$8,000 equivalent per contract, up to an aggregate amount not to exceed \$6,100,000 equivalent, may be procured in accordance with the provisions of paragraph 3.15 of the Guidelines, under procurement procedures satisfactory to the Bank.

5. Procurement of Small Works

Works estimated to cost less than \$54,000 equivalent per contract, up to an aggregate amount not to exceed \$5,200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least 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.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement

Prior to the issuance of any invitations 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

(a) With respect to each contract for: (i) goods estimated to cost \$100,000 equivalent or more; (ii) works estimated to cost the equivalent of \$300,000 or more; (iii) the first contract in each Participating Province for civil works for national and provincial roads and bridge maintenance works estimated to cost less than \$300,000 equivalent; the first contract for roads routine maintenance works in each Participating Province procured in accordance with paragraph 4 of Part C of this Section; and (v) the first contract for roads routine maintenance works in each Participating Province procured in accordance with paragraph 5 of Part C of this Section; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost less than \$100,000 equivalent and to be procured in accordance with the procedures referred to in paragraph 2 of Part C of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

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

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

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

Individual Consultants

Services under Parts F.1 and F.2 of the Project, up to an aggregate amount not to exceed \$1,300,000 equivalent, may 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 \$100,000 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 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 the 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.

ANNEX TO SCHEDULE 4

National Competitive Bidding

1. General

The procedures to be followed for national competitive bidding under paragraph 1 of Part C of Section I of Schedule 4 to this Agreement shall be those set forth in Section II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised January and August 1996, September 1997 and January 1999 (the Guidelines), except as provided in the following paragraphs:

2. Advertising

(a) Invitations to bid may be issued by the Borrower's Central Supply and Tenders Board.

(b) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper and copies of said invitations shall be sent to the representatives of foreign countries (e.g. embassies) in Port Moresby.

3. Award of Contracts

The Borrower's Central Supply and Tenders Board shall issue notice of award of contracts using its own standard forms.

SCHEDULE 5

Implementation Program

Project Management

1. The Borrower shall: (a) retain, until completion of the Project, the services of the Employer's Project Manager, under terms of references, and headed by a qualified and experienced manager, assigned with qualified staff in adequate numbers, including at least an accountant with financial management skills, all satisfactory to the Bank; and (b) enter into arrangements with the Employer's Project Manager, satisfactory to the Bank, to assign qualified and experienced staff in adequate numbers, to each Participating Province Department of Works and Transport's Provincial Offices with terms of reference acceptable to the Bank.

2. The Borrower shall maintain until completion of the Project, an Environmental Unit within DOWT headed by a qualified and experienced manager and assigned with qualified staff in adequate numbers, including at least one qualified environmental specialist, and provided with such powers, responsibilities and funding as shall be required to coordinate and monitor environmental and social works related to DOWT in the carrying out of the Project.
3. The Borrower shall establish, and thereafter maintain until completion of the Project, a financial management system for the Project within DOWT and each Participating Province, acceptable to the Bank.
4. The Borrower shall prepare and adopt a time-bound action plan, satisfactory to the Bank, to implement any outstanding actions needed to be taken to implement the recommendations of the Auditor-General's Office special review of the internal control system for the operations of DOWT, dated July 26, 2001, and, thereafter, implement such time-bound action plan in a manner and substance satisfactory to the Bank.
5. The Borrower shall not amend, waive or abrogate the provisions of the Environmental and Social Impact Assessment Management and Monitoring Plans and of the Land Acquisition and Compensation Framework without the prior concurrence of the Bank.

Project Implementation

6. (a) In carrying out the Project, the Borrower, through DWOT, shall: (i) by June 30 in each calendar year, commencing on June 30, 2003, until completion of the Project, furnish to the Bank, for its approval, the draft Annual Work Program for the immediately following year; (ii) by December 31 in each calendar year, commencing on December 31, 2003, adopt said Annual Work Program, as so approved; and (iii) thereafter, implement and cause each Participating Province to implement, as the case may be, said Annual Work Program in a manner acceptable to the Bank; provided, however, that the Annual Work Program for the calendar year January 1 to December 31, 2003, shall be prepared and furnished to the Bank for its approval by no later than December 15, 2002, and thereafter the Borrower shall adopt and implement and cause each Participating Province to implement, as the case may be, said Annual Work Program in a manner acceptable to the Bank.

(b) For purposes of developing the Annual Work Program for Parts B and D of the Project, the Borrower shall, by May 31 in each calendar year, commencing on May 31, 2003, and until completion of the Project, cause each Participating Province to furnish to the Borrower, their respective draft Provincial Annual Work Program for the immediately following year, for their inclusion in the draft Annual Work Program referred to in sub-paragraph (a) (i) of this paragraph; provided, however, that for the Annual Work Program for the calendar year January 1 to December 31, 2003, the Borrower shall cause the Participating Provinces to furnish to the Borrower by no later than November 15, 2002, for their inclusion in the draft Annual Work Program referred to in the proviso in sub-paragraph (a) of this paragraph 6 their respective draft Provincial Annual Work Program for the period January 1 to December 31, 2003.

7. Except as the Bank shall otherwise agree, the Annual Work Program shall be prepared in

7. Except as the Bank shall otherwise agree, the Annual Work Program shall be prepared in accordance with the following criteria:

(a) civil works for roads and bridges are included in the Road Asset Management System and the Bridge Inventory and Bridge Management System, respectively, with updated data, as required, on the condition of the roads and bridges, traffic volumes on the roads and bridges and cost estimates;

(b) except for road routine maintenance works, the works for roads and bridges have an estimated economic rate of return of twelve percent (12%) or more, calculated in a manner acceptable to the Bank; works for national and provincial roads or segments of national and provincial roads are located in each of the Participating Province, and will be carried out within the existing rights-of-way. In the event that taking of land is required to implement such works, including the replacement of bridges, such taking shall not exceed 20% of the total land area of the Displaced Person, and the taking shall not entail the physical relocation of people nor the destruction of houses and structures thereon;

(c) necessary counterpart funding from the Borrower and each Participating Province for their respective proposed works, goods and services is available in amounts acceptable to the Bank;

(d) appropriate engineering, social and environmental practices and standards that would minimize any acquisition of land and avoid involuntary resettlement of Displaced Persons and mitigate any environmental harm have been considered in the design of the proposed works in accordance with the Environmental and Social Impact Assessment Management and Monitoring Plans;

(e) the provisions of the Land Acquisition and Compensation Framework have been complied with, and, where the taking of land or assets is unavoidable under proposed works, a land acquisition and compensation action plan acceptable to the Bank has been prepared in accordance with the Land Acquisition and Compensation Framework and in consultation with Displaced Persons and compensation has been made available to the Displaced Persons in accordance with the Land Acquisition and Compensation Framework, and prior to the signing of the contract for the carrying out of said works; and

(f) an environmental impact assessment has been completed and recommended measures adopted in accordance with the provisions of the Environmental and Social Impact Assessment Management and Monitoring Plans.

8. For purposes of the carrying out of Parts B and D of the Project, the Borrower shall:

(a) enter into a Memorandum of Agreement with each of the Participating Provinces, acceptable to the Bank, which shall include the following:

(i) that the Participating Provinces shall carry out the activities under Parts B and D of the Project in accordance with the Environmental and Social

B and D of the Project in accordance with the Environmental and Social Impact Assessment Management and Monitoring Plans;

- (ii) that the funds, facilities, services and other resources required for Parts B and D of the Project are provided promptly;
- (iii) that the procurement of goods, works and consultants' services required for Parts B and D of the Project and to be financed out of the proceeds of the Loan is carried out in accordance with the provisions of Schedule 4 to this Agreement;
- (iv) that the goods and services under Parts B and D of the Project financed out of the proceeds of the Loan are exclusively used for the purposes of Parts B and D of the Project;
- (v) that the Borrower and the Bank are allowed to inspect, from time to time, the goods, works and services under Parts B and D of the Project, including all records and documents relating thereto;
- (vi) that the Borrower is promptly informed of any condition which interferes or threatens to interfere with the progress of Parts B and D of the Project and that appropriate corrective measures are taken;
- (vii) that, from time to time, at the request of either the Borrower or the Bank, the Participating Province shall exchange views with the Borrower and the Bank regarding progress achieved in carrying out Parts B and D of the Project;
- (viii) that the Participating Province shall furnish to the Borrower and the Bank all such information and documents related to Parts B and D of the Project as may reasonably be requested and further agree to obtain such information and documents as may be required by the Borrower to fulfill its supervision, monitoring, recording and reporting obligations to the Bank; and
- (ix) that the Participating Province shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts B and D of the Project of the departments or agencies of the Participating Province, responsible for the carrying out of Parts B and D of the Project or any part thereof; and take all such action as shall be necessary to enable the Borrower to comply with its obligations under the Loan Agreement, in particular those regarding auditing of Project accounts; and
- (b) exercise its rights under each Memorandum of Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project,

protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Memorandum of Agreement entered into between the Borrower and each Participating Province or any provision thereof.

9. For purposes of carrying out Parts F.1 and F.2 of the Project, respectively, the Borrower shall, by December 31, 2002, employ and retain in its Department of Trade and Industry, until completion of the Project: (a) the services of five qualified and experienced individual consultants to carry out Part F.1 of the Project; and (b) a qualified and experienced Training Support Manager to carry out Part F.2 of the Project; all with qualifications and experience, terms of reference and terms and conditions of employment, acceptable to the Bank, and selected in accordance with the provisions of paragraphs 5.1 through 5.3 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.

10. In carrying out Parts F.1 and F.2 of the Project, the Borrower shall, by December 31, 2002, establish, and thereafter maintain until completion of the Project, a Steering Committee headed by a qualified staff from the Borrower's Department of Trade and Industry at First Assistant Secretary level, with representatives from the Borrower's Department of National Planning and Monitoring, National Training Council, and DOWT, and provided with such powers, responsibilities and funding as shall be required to review and monitor training programs under Parts F.1 and F.2 of the Project.

11. The Borrower shall prepare, under terms of reference acceptable to the Bank, and furnish to the Bank for its review and comments, by June 30, 2003, a draft Financial Instructions that shall supersede the Financial Instructions related to the Public Finances Management Act of 1986 (PFMA-1986) and govern the implementation of the Borrower's Public Finances Management Act of 1995 (PFMA-1995) relating to the procurement of goods, works and services by the Borrower's public service, including a manual for the carrying out of procurement under the Borrower's departments and agencies, standard bidding documents, procedures for transparency in bidding and award of contracts, including the requirement to open bids in public and to notify the bidders as to contract award, a timely and effective bid protest procedure, and prohibition of negotiation with bidders on the bids.

Monitoring, Evaluation and Reporting

12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, 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, by March 31 of each calendar year, commencing March 31, 2004, 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

out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30 of each calendar year, commencing June 30, 2004, 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.

13. The Borrower shall, by December 31, 2004, furnish to the Bank, for its review and comments, a report integrating the results of the activities under Part F.3 of the Project, including recommended actions to be taken to make said results sustainable in the future, and finalize such report taking into consideration the comments of the Bank.

14. The Borrower shall, by December 31, 2005, prepare and furnish to the Bank, for its review and comments a report integrating the results of the activities performed under Parts F.1 and F.2 of the Project pursuant to paragraph 10 of this Schedule, including an action plan for the implementation of the recommendations of such report, and, thereafter, finalize such report taking into consideration the comments of the Bank.

15. The Borrower shall, by December 31, 2005, prepare and furnish to the Bank, for its review and comments a report integrating the results of the activities performed under Part F.4 of the Project, and, thereafter, finalize such report taking into consideration the comments of the Bank.

SCHEDULE 6

Performance Indicators

	Project Objectives/Outputs		Performance Indicator	Indicator Type	Baseline	2002	Medium Term 2004	2005	Complete 2006	Full Impact 2008
A	Restore satisfactory physical conditions and safety to parts of national and provincial roads based on priority needs.	1	Percentage of national roads in fair or better conditions.	Outcome	20	21	25	40	50	60
		2	Percentage of provincial roads in fair or better conditions.	Outcome	10	12	14	16	18	20
B	Strengthen strategic sector planning and management of road assets.	1	Percentage of expenditures on maintenance and preservation.	Impact	30	32	40	50	60	70
		2	Percentage of budgeted work program based on RAMS.	Impact	70	85	95	100	100	100

	Project Objectives/Outputs		Performance Indicator	Indicator Type	Baseline	2002	Medium Term 2004	2005	Complete 2006	Full Impact 2008
D	Increase private sector contracting of road maintenance works.	1	Percent of maintenance expenditure bid competitively in the Project provinces.	Impact	40	70	75	80	85	90
E	Physical Outputs.	1	Cumulative Kilometers of national roads receiving specific maintenance or restoration cumulative.	Output	0	20	200	320	400	700
		2	Kilometers of provincial roads receiving specific maintenance or restoration.	Output	0	20	100	180	200	250
		3	Cumulative number of bridges replaced.	Output	0	0	5	12	17	22

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) 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 works, 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 \$1,500,000 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 \$1,000,000 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 \$8,000,000.

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 para-graph 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

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 this 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 Accounts;

(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 of the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions of 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 of the Project 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,

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.

