

CONFORMED COPY

LOAN NUMBER 3485-PNG

(Oro Smallholder Oil Palm Development Project)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 16, 1993

Loan Number 3485-PNG

LOAN AGREEMENT

AGREEMENT, dated April 16, 1993, 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, 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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an

integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "DAL" means the Borrower's Department of Agriculture and Livestock;

(b) "DEC" means the Borrower's Department of Environment and Conservation;

(c) "FFB" means oil palm fresh fruit bunches;

(d) "FY" means the Borrower's fiscal year beginning January 1 and ending December 31;

(e) "HOPPL" means the Higaturu Oil Palms Pty. Ltd., established under the Borrower's Companies Act, Chapter 146, and owner of the Higaturu palm oil factory in the vicinity of Popondetta;

(f) "HTPL" means the Higaturu Transport Pty. Ltd., established under the Borrower's Companies Act, Chapter 146, to transport smallholders' FFB to the Higaturu palm oil factory;

(g) "HTPL Financial Management Agreement" means the agreement to be entered into between the Borrower and HTPL pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Financial Management Agreement;

(h) "K" or "Kina" means the currency of the Borrower;

(i) "OPIC Subsidiary Agreement" means the agreement to be entered into between the Borrower and OPIC pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

(j) "OPIC" means the Oil Palm Industry Corporation, established under the Borrower's OPIC Act of 1992, to carry out agricultural extension activities;

(k) "PNGOPRA" means the Papua New Guinea Oil Palm Research Association, established under the Borrower's Associations Incorporation Act, 1968, Chapter 142;

(l) "PNGOPRA Subsidiary Agreement" means the agreement to be entered into between the Borrower and PNGOPRA pursuant to Section 3.01 (e) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

(m) "Project Area" means the areas in the vicinity of Popondetta and Kokoda in the Borrower's Oro Province;

(n) "Smallholder" means a participant under the Project cultivating oil palm on about six hectares or less of land;

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

(p) "Sub-loan" means a loan made or proposed to be made by the Borrower to a Smallholder out of the proceeds of the Loan.

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, various currencies that shall have an aggregate value equivalent to the amount of twenty seven million dollars (\$27,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 7 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Kina a special deposit account in Bank of Papua New Guinea (its Central Bank) on terms and conditions satisfactory to the Bank. 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, 1999, 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 commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the

second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A.1, A.2, A.4, A.5, A.6, B, C, D.1 and E of the Project, shall cause OPIC to carry out Parts A.3 and D.3 of the Project, and shall cause PNGOPRA to carry out Part D.2 of the Project, with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of 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 or cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall, for the purposes of Part A.1 and A.2 of the Project, enter into a financial management agreement with HTPL, under terms and conditions acceptable to the Bank and which shall include the conditions set forth in Schedule 6 to this Agreement.

(d) The Borrower shall, for the purposes of Parts A.3 and D.3 of the Project, make part of the proceeds of the Loan available to OPIC as a grant under a subsidiary agreement to be entered into between the Borrower and OPIC, under conditions acceptable to the Bank, and which shall include the conditions set forth in paragraphs 3, 9 and 10 of Schedule 5 to this Agreement.

(e) The Borrower shall, for the purposes of Part D.2 of the Project, make part of the proceeds of the Loan available to PNGOPRA as a grant under a subsidiary agreement to be entered into between the Borrower and PNGOPRA, under conditions acceptable to the Bank, and which shall include the condition set forth in paragraph 3 (c)

(ii) of Schedule 1 to this Agreement.

(f) The Borrower shall exercise its rights under the HTPL Financial Management Agreement, the OPIC Subsidiary Agreement, the PNGOPRA Subsidiary Agreement, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the HTPL Financial Management Agreement or the OPIC Subsidiary Agreement or the PNGOPRA Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall: (i) 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 responsible for carrying out the Project or any part thereof; and (ii) cause HTPL to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A.1 and A.2 of the Project.

(b) The Borrower shall:

- (i) 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;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, 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 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 or payment out of the Special Account 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 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) The Borrower shall cause OPIC and PNGOPRA to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial conditions of OPIC and PNGOPRA, respectively.

(b) The Borrower shall cause OPIC and PNGOPRA, respectively, to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. The Borrower shall, after completion of the Project, make funds available to Smallholders under the same terms and conditions as set forth in paragraphs 2 and 3 of Schedule 5 to this Agreement for purposes of maintenance of the Smallholder plantings established under Part A.1 and A.2 of the Project until such planting reach maturity.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of HTPL or OPIC or PNGOPRA or for the suspension of the operations of any of them; and

(b) any of the parties to the HTPL Financial Management Agreement, the OPIC Subsidiary Agreement, and the PNGOPRA Subsidiary Agreement shall have failed to perform any of its obligations under the respective Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified namely that the events specified in paragraphs (a) and (b) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 HTPL Financial Management Agreement has been executed on behalf of the Borrower and HTPL;

(b) the OPIC Subsidiary Agreement has been executed on behalf of the Borrower and OPIC;

(c) OPIC has appointed a General Secretary, a Project Accountant and a Field Project Manager as set forth in paragraph 9 of Schedule 5 to this Agreement;

(d) the Borrower has established the National Oro Project Management Committee, referred to in paragraph 5 of Schedule 5 to this Agreement, in accordance with the provisions thereof, and the Committee has held its initial meeting; and

(e) the Borrower has established the Provincial Oro Project Coordination Committee, referred to in paragraph 6 of Schedule 5 to this Agreement, in accordance with the provisions thereof, and the Committee has held its initial meeting.

Section 6.02. 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) that the HTPL Financial Management Agreement has been duly authorized or ratified by the Borrower and HTPL and is legally binding upon the Borrower and HTPL in accordance with its terms; and

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

Section 6.03. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance and Planning
Post Office Wards Strip
Waigani, N. C. D.
Papua New Guinea

Cable address:	Telex:
TREASURER Boroko	NE 23331

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:
INTBAFRAD Washington, D.C.	248423 (RCA) 82987 (FTCC)

64145 (WUI) or
197688 (TRT)

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/ Margaret M. Taylor
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Daniel Ritchie
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:		100% of foreign expenditures and 90% of local expenditures
(a) Part B of the Project	800,000	
(b) Part C of the Project	300,000	
(c) Other Parts of the Project	12,100,000	
(2) Equipment, furniture, vehicles, and related transport services:		100% of foreign expenditures and 90% of local expenditures
(a) Part C of the Project	100,000	
(b) Part D.2 of the Project	80,000	
(c) Other Parts of the Project, except Part A.6 of the Project	700,000	
(3) Agricultural inputs (except planting materials) and agri- cultural equipment under Part A.1 and A.2 of the Project, and	1,700,000	100%

	related transport services		
(4)	Planting materials under Part A.1 and A.2 of the Project	2,000,000	100%
(5)	Salaries and travel expenses for:		90% in FY 1993 and FY 1994; 75% in FY 1995, FY 1996, and FY 1997; and 25% thereafter
	(a) incremental DAL staff	1,300,000	
	(b) incremental DEC staff under Part C of the Project	620,000	
	(c) incremental OPIC staff	1,950,000	
	(d) incremental PNGOPRA staff under Part D of the Project	230,000	
(6)	Rental of staff houses under:		100%
	(a) Part C of the Project	120,000	
	(b) Part D.1 of the Project	270,000	
(7)	Maintenance:		90% in FY 1993 and FY 1994; 75% in FY 1995, FY 1996, and FY 1997; and 25% thereafter
	(a) Roads under Parts A of the Project	390,000	
	(b) Roads under Part B of the Project	600,000	
	(c) Equipment and vehicles under Parts A.3, A.5, D.1 and D.3 of the Project	240,000	
	(d) Equipment and vehicles under Part C of the Project	380,000	
	(e) Vehicles under Part D.2 of the Project	30,000	
(8)	Consultants' services	300,000	100%
(9)	Training:		100%
	(a) Part C of the Project	40,000	
	(b) Part D.2 of the Project	30,000	

(c) Other Parts of the Project	20,000
(10) Unallocated	2,700,000 -----
TOTAL	27,000,000 =====

2. For the purposes of this Schedule:

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

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

(c) the term "incremental staff" means the staff employed in accordance with Parts A.3, C and D of the Project.

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) expenditures under Categories (1)(b), (2)(a), (5)(b), (6)(a), (7)(c) and (9)(a), until the Borrower has employed a conservation project manager and a principal research officer as set forth in paragraphs 7 and 8 of Schedule 5 to this Agreement; and

(c) expenditures under Categories (2)(b), (5)(d), (7)(d) and (9)(b), until the Borrower has furnished to the Bank evidence satisfactory to the Bank that: (i) the Borrower and PNGOPRA shall have entered into the Subsidiary Agreement referred to in Section 3.01 (e) of this Agreement, and (ii) all payments due by HOPPL to PNGOPRA which are overdue by 60 days or more, for research carried out by PNGOPRA on behalf of HOPPL, shall have been made.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to increase agricultural production and exports, (ii) to provide employment opportunities, (iii) to generate income for poor farmers, and (iv) to maintain income for existing smallholders, through environmentally sound expansion of oil palm in Oro Province.

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: Smallholder Development in the Project Area

1. Establishment of about 2,500 hectares of oil palm in the Popondetta area and of about 1,000 hectares of oil palm in the Kokoda area.

2. Establishment of about 3,000 hectares of oil palm on the reserve land of about 1,500 existing oil palm blocks in the Popondetta area.

3. Strengthening OPIC's oil palm extension services in the Project Area including:

(a) employment and training of about 27 additional extension staff;

(b) construction and maintenance of about 20 staff houses and office facilities; and

(c) acquisition and maintenance of about 26 vehicles and agricultural equipment.

4. Construction, upgrading, and maintenance of about 80 km of access roads and about 370 km of harvesting roads in the Project Area.

5. Construction of an office for the Oro Province Oil Palm Smallholders Association in the vicinity of Popondetta; construction, rehabilitation, and maintenance of classrooms, health posts and teachers' houses in the Project Area; and acquisition of related furniture and equipment.

6. Rehabilitation or maintenance of rural police stations and staff houses in the Project Area.

Part B: Main Road Improvement

Upgrading of sections of the Isevene-Kokoda national highway to meet the requirements of the traffic of FFB transport trucks, and maintenance of such highway.

Part C: Environmental Protection

Carrying out of conservation activities in the Project Area to ensure that smallholder oil palm development in the Project Area does not endanger the Queen Alexandra Birdwing butterfly (*Ornithoptera Alexandrae*) and its ecosystem, including:

(a) employment and training of about 16 additional field staff for DEC;

(b) upgrading of office space for DEC in the Project Area, and construction of about 4 staff houses, and offices and demonstration facilities for conservation activities; acquisition of furniture; and acquisition and maintenance of two vehicles, and scientific, field and office equipment for DEC in the Project Area; and

(c) provision of rental staff houses and financing of incremental operating expenses of DEC in the Project Area.

Part D: Institutional Strengthening

1. Strengthening DAL's capacity for policy formulation and project preparation in the tree crop sub-sector, including:

(a) employment of about 9 additional staff for DAL's Policy and Planning Division, and acquisition of related equipment and furniture; and

(b) provision of rental staff houses and financing of incremental operating expenses for (a) above.

2. Employment and training of additional staff by PNGOPRA for carrying out of adaptive research for purposes of the Project, including acquisition and maintenance of equipment and a vehicle, and financing of incremental salaries and incremental operating expenses.

3. Strengthening the capacity of OPIC to monitor the implementation of smallholder oil palm development schemes, including:

(a) employment of two additional staff at OPIC's headquarters;

(b) acquisition of office equipment and furniture;

(c) financing of incremental operating expenses; and

(d) provision of technical assistance.

Part E: Studies

Carrying out of studies in the tree crop sub-sector including the identification and preparation of future tree crop projects.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each March 15 and September 15	
beginning September 15, 1997 through March 15, 2012	900,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: Procurement Procedures

1. Goods, related transport services, and works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
2. House and office furniture, workshop equipment, and related transport services, estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
3. Fertilizers, tools and herbicides, and related transport services, estimated to cost the equivalent of \$50,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
4. Planting material may be procured through direct contracting with HOPPL under procedures acceptable to the Bank.
5. Maintenance of roads and vehicles may be carried out by force account, under procedures acceptable to the Bank.

Part B: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:
 - (a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.
 - (b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 7 to this Agreement.
 - (c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.
2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

1. In carrying out Part A.1 and A.2 of the Project, the Borrower shall make oil palm planting materials available to Smallholders as follows: (a) half of a Smallholder's requirements shall be made available on a grant basis; and (b) half of a Smallholder's requirements shall be made available on a credit basis in accordance with paragraph 2 of this Schedule.

2. In carrying out Part A.1 and A.2 of the Project, the Borrower shall make Sub-loans available to Smallholders for the establishment of new blocks of oil palm for a period not exceeding 10 years including a grace period of 3 years. Interest shall be charged for the amounts withdrawn and outstanding at the rate of 8% per annum. Interest shall be capitalized during the grace period. Payments of principal and interest shall be made in accordance with paragraph 3 of this Schedule.

3. For purposes of paragraph 2 of this Schedule, the Borrower shall cause OPIC to enter into Smallholder Sub-loan agreements with the Smallholders on behalf of the Borrower, such agreements to provide, inter alia, that the Smallholder shall be required to deliver to HTPL, at farm gate, fresh fruit bunches of oil palm, 30%, or such other percentage as the Bank may agree, of the proceeds of the sale of which shall be used for repayment of their debt obligations to the Borrower.

4. In carrying out Part A of the Project, the Borrower shall regularly monitor, through DAL, the application of the Borrower's pricing formula for FFB, agreed between the Borrower and the oil palm industry.

5. The Borrower shall establish, and thereafter maintain until completion of the Project, a National Oro Project Management Committee, responsible for the coordination of the planning, management and implementation of the Project. Its members shall include, among others, the following:

- (a) the Secretary of DAL as Chairman, or the Secretary's nominee;
- (b) the Secretaries of the Departments of Finance and Planning, Works, Lands and Physical Planning, Environment and Conservation, or their nominees;
- (c) the Secretaries of the National Departments of Education and of Health, or their nominees;
- (d) the Provincial Secretary of Oro Province, or the Secretary's nominee;
- (e) representatives of HOPPL, HTPL, and PNGOPRA; and
- (f) the General Secretary of OPIC as Executive Officer.

6. The Borrower shall establish, and thereafter maintain until completion of the Project, a Provincial Oro Project Coordination Committee, responsible for the coordination of the activities under the Project at the Provincial level. Its members shall include, among others, the following:

- (a) the Field Project Manager of OPIC as Chairman;
- (b) the Provincial Secretary of Oro Province, or the Secretary's nominee;
- (c) representatives of HOPPL, HTPL and PNGOPRA;
- (d) representatives of the National Departments of Works,

Lands and Physical Planning, and Environment and Conservation in Oro Province; and

- (e) representatives of the provincial divisions of Primary Industries, Education and Health in Oro Province.

7. For purposes of carrying out Part C of the Project, the Borrower shall employ, and thereafter maintain until completion of the Project, a conservation project manager, with qualifications, experience and terms of reference acceptable to the Bank.

8. For purposes of carrying out Part C of the Project, the Borrower shall employ, and thereafter maintain for at least three years, a principal research officer, with qualifications, experience and terms of reference acceptable to the Bank.

9. The Borrower shall cause OPIC, in carrying out Part D.3 of the Project, to employ and thereafter maintain until completion of the Project:

- (a) a General Secretary;
- (b) a Field Project Manager; and
- (c) a Project Accountant;

all with qualifications, experience, and terms of reference acceptable to the Bank.

10. The Borrower shall cause OPIC, not later than December 31, 1993, to retain until completion of the Project, the services of a development field supervisor, with qualifications, experience, and terms of reference acceptable to the Bank.

11. The Borrower shall take all measures necessary to cause HOPPL to establish, not later than December 31, 1993, an environmentally adequate landfill for the disposal of its non-biodegradable solid waste in a location away from water courses.

12. The Borrower shall take all measures necessary to cause HOPPL to upgrade, not later than December 31, 1994, its effluent treatment facilities at its palm oil factory in the vicinity of Popondetta.

SCHEDULE 6

Conditions of the HTPL Financial Management Agreement

1. HTPL shall be responsible for the financial management of the accounts of Smallholders, including retaining 30%, or such other percentage as the Bank may agree, of the proceeds of the sale of Smallholders FFB for repayment of the Smallholders' debt obligations to the Borrower.

2. HTPL shall carry out the procurement of planting materials, fertilizers, agro-chemicals and tools.

3. HTPL shall purchase the FFB from the Smallholder plantings at a purchase price determined on the basis of the FFB pricing formula agreed between the Borrower and the oil palm industry.

4. HTPL shall transport and sell the FFB to HOPPL.

5. To ensure that Smallholders of existing oil palm blocks have sufficient funds for the maintenance of their oil palm, HTPL shall enter into agreements with such Smallholders to deduct about ten Kina from their monthly FFB sales income and maintain it in escrow accounts until sufficient funds have been accumulated to finance the oil palm block maintenance for the following year.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in the Special Account such amount or amounts as the Borrower shall have requested.

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

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

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the

Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

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

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

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

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

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

