

CONFORMED COPY

CREDIT NUMBER 4374-PNG

Project Agreement

(Smallholder Agriculture Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

OIL PALM INDUSTRY CORPORATION

Dated July 9, 2008

PROJECT AGREEMENT

Agreement dated July 9, 2008 entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and OIL PALM INDUSTRY CORPORATION (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of the same date between the INDEPENDENT STATE OF PAPUA NEW GUINEA (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – TERMINATION

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV – REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity’s Representative is the General Secretary.

4.02. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

Oil Palm Industry Corporation
PO Box 73
Port Moresby, NCD
Papua New Guinea

Facsimile:

(675) 320 1577

AGREED at Port Moresby, Papua New Guinea, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Andriy Storozhuk
Authorized Representative

OIL PALM INDUSTRY CORPORATION

By: /s/ Felix A Bakani
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Project Institutional Arrangements.

1. The Project Implementing Entity shall establish, and maintain until completion of the Project, the Project Office with dedicated staff, including a Project Engineering Unit consisting of one (1) senior engineer and three (3) junior engineers, a field development coordinator, two (2) project accountants, a procurement specialist and an extension specialist, in each case with terms of reference and qualifications and for periods of engagement acceptable to the Association, for the implementation of the Project. The Project Implementing Entity shall ensure that the Project Office is provided at all times with adequate funds and other resources as shall be necessary to accomplish its functions, responsibilities and objectives.
2. (a) The Project Implementing Entity shall ensure that the Project is implemented in accordance with the Project Implementation Manual setting forth: (i) overall Project implementation arrangements; (ii) the procurement procedures consistent with those set forth in Section III of Schedule 2 to the Financing Agreement, Section III of this Schedule and the Procurement Plan, including standard procurement documentation; (iii) reporting requirements, financial management procedures and audit arrangements and procedures consistent with those set forth in Section II of Schedule 2 to the Financing Agreement and Section II of this Schedule; (iv) annual budget and work plan procedures; (v) monitoring and evaluation criteria including the agreed Project Performance Indicators; (vi) the Environmental and Social Management Framework and the Environmental Management Plan; (vii) the Resettlement Policy Framework; (viii) the Smallholder Oil Palm In-fill Planting Sub-Manual; (ix) the Road Reconstruction Sub-Manual; and (x) the Community Development Sub-Manual, as such Project Implementation Manual or any component thereof may be amended from time to time with the agreement of the Association.

(b) Except as the Association shall otherwise agree, the Project Implementing Entity shall not waive, amend or abrogate, or allow to be amended, waived or abrogated, any provision of the Project Implementation Manual or any component thereof, without the prior consent of the Association.

3. The Project Implementing Entity shall prepare withdrawal applications, acceptable to the Association and the Recipient, to be used by the Recipient for the purposes of withdrawals in accordance with Section IV of Schedule 2 to the Financing Agreement.
4. The Project Implementing Entity shall submit to the Association for prior review all terms of reference for consultant services to be procured in accordance with Section III of Schedule 2 to the Financing Agreement regardless of the estimated contract value for such consultant services.

B. Implementation of Part 1 of the Project (Smallholder Oil Palm Sector Productivity Enhancement).

1. In carrying out Part 1 of the Project, the Project Implementing Entity shall establish by June 30, 2008 and thereafter maintain in each of its regional offices in the Project Area in Bialla, Hoskins and Popondetta, an OPID Office with a team of dedicated project staff, headed by an engineer seconded from the Recipient's Department of Works (or another engineer acceptable to the Association) and reporting to the Project Implementing Entity. The Project Implementing Entity shall ensure that each OPID Office is provided at all times with adequate funds and other resources, and with qualified and experienced personnel in adequate numbers, acceptable to the Association and in all cases as shall be necessary to accomplish its functions, responsibilities and objectives as set out in the Project Implementation Manual.
2. **Smallholder Oil Palm In-fill Planting.** In carrying out Part 1(a) of the Project, the Project Implementing Entity shall enter into a project funding agreement with PNGSDP, such project funding agreement to include:

(i) the undertaking of PNGSDP to provide financing for Part 1(a) of the Project in accordance with the Smallholder Oil Palm In-fill Planting Sub-Manual, including the arrangements for Smallholder Sub-Loans to be made on behalf of PNGSDP on the following terms and conditions:

- (A) a term not to exceed twelve (12) years, including a grace period of three (3) years;
- (B) interest to be charged on amounts withdrawn and outstanding at the rate of eight (8%) percent per annum;
- (C) interest to be capitalized during the grace period;
- (D) payments of interest and principal to be made through the following mechanism: that the Smallholder shall be required to deliver FFB to a participating palm oil milling company and that

a maximum of thirty (30%) percent of the proceeds of the sale of which shall be required to be used for repayment of the Smallholder Sub-Loan; and

- (E) covenants regarding compliance with the requirements of the Smallholder Oil Palm In-fill Planting Sub-Manual, the Environmental Management Plan and the Resettlement Policy Framework; and
 - (ii) the agreement that such terms and conditions may be revised with the agreement of PNGSDP, the Project Implementing Entity and the Association.
3. The Project Implementing Entity shall identify and appraise proposals for Smallholder Oil Palm In-fill Planting Subprojects in accordance with the Smallholder Oil Palm In-fill Planting Sub-Manual, and the requirements set out in the Environmental Management Plan and the Resettlement Policy Framework; and monitor implementation of such Smallholder Oil Palm In-fill Planting Subprojects.
 4. **Road Reconstruction.** In carrying out Part 1(b)(i) of the Project, including the Co-financing, the Project Implementing Entity shall ensure that road reconstruction activities are selected, and are prepared and implemented, on the basis of the annual work plan and budgeting procedure set out in the Road Reconstruction Sub-Manual and in accordance with the Environmental Management Plan and the Resettlement Policy Framework. Each OPID Office shall prepare operational plans for road reconstruction and maintenance and provide local implementation supervision in accordance with the Road Reconstruction Sub-Manual.
 5. **Road Maintenance Trust Fund Study.** In carrying out Part 1(b)(ii) of the Project:
 - (a) the Project Implementing Entity shall undertake a study on terms of reference acceptable to the Association, for the design of Road Maintenance Trust Funds including:
 - (i) establishment and operation of a governance structure;
 - (ii) identification of contributors and a schedule for contributions;
 - (iii) identification of criteria for qualifying maintenance services and maintenance service providers including environmental and social safeguards criteria;

- (iv) development of withdrawal procedures for payment to qualified service providers out of each Road Maintenance Trust Fund and establishment of Road Maintenance Trust Fund accounts; and
- (v) monitoring and evaluation activities and criteria;
- (b) the Project Implementing Entity shall review with the Association, by June 30, 2008, or such later date as the Association shall agree, the report of the study referred to in sub-paragraph (a) of this paragraph, and, take into account the Association's views in the conclusions and recommendations of such report; and
- (c) the Project Implementing Entity shall establish one or more Road Maintenance Trust Funds, and coordinate with PNGSDP to provide initial funding thereof through the Co-financing, in accordance with the final recommendations of the study referred to in sub-paragraphs (a) and (b) of this paragraph and satisfactory to the Project Implementing Entity, the Association and PNGSDP.

C. Implementation of Part 2 of the Project (Local Governance and Community Participation).

1. The Project Implementing Entity shall make the proceeds of the Financing allocated to Category (4) in the table in paragraph 2 of Section IV(A) of Schedule 2 to the Financing Agreement available as Community Development Grants for Community Development Subprojects in accordance with the Community Development Sub-Manual, including the institutional arrangements set out in paragraph 2 of this Section and the implementation arrangements set out in paragraph 3 of this Section.
2. In carrying out Part 2 of the Project, the Project Implementing Entity shall:
 - (a) procure and thereafter retain the services of a Management Agency acceptable to the Association, pursuant to the Management Agency Contract, on terms of reference acceptable to the Association which shall include the undertaking of the Management Agency to cooperate with all Project reporting, financial reporting and audit requirements of the Project Implementing Entity in accordance with Section II of this Schedule, to be responsible for managing Part 2 of the Project in accordance with the Community Development Sub-Manual;
 - (b) ensure that the Management Agency shall: (i) establish one (1) Local Coordination Team (LCT) acceptable to the Association in each Project Province and thereafter maintain such LCT during implementation of Part 2 of the Project; and (ii) ensure that each LCT: (A) is provided at all

times with adequate funds and other resources, and with qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its functions, responsibilities and objectives as set forth in the Community Development Sub-Manual; and (B) establish and maintain an LCT Account for each Participating LLG in accordance with the Community Development Sub-Manual;

- (c) ensure that the Management Agency shall: (i) identify for each Community Development Subproject, a subproject implementation team (SIT), to be the recipient of the Community Development Grant and responsible for implementation of such Community Development Subproject in accordance with the Community Development Sub-Manual; (ii) enter into an agreement for each Community Development Grant on behalf of the Project Implementing Entity; and (iii) ensure that each SIT shall establish and maintain a SIT Account in accordance with the Community Development Sub-Manual; and
 - (d) ensure that the Management Agency shall enter into a memorandum of understanding on behalf of the Project Implementing Entity in accordance with the Community Development Sub-Manual: (i) with each Project Province; and (ii) with each Participating LLG, in each case (x) on terms and conditions acceptable to the Association and (y) prior to the withdrawal of any funds allocated to Category 4 in paragraph 2 of Section IV(A) of Schedule 2 to the Financing Agreement for Community Development Subprojects in such Project Province and Participating LLG, respectively.
3. (a) The Participating LLGs for Part 2 of the Project: (i) except as the Association shall otherwise agree, for the first two (2) years of implementation of Part 2 of the Project shall be: Kokoda LLG in Ijivatari district, Oro Bay LLG and Popondetta urban LLG in Sohe district; Bialla LLG and Kimbe urban LLG in Talasea district; and (ii) following the first two (2) years of implementation of Part 2 of the Project, may include additional LLGs, subject to review by the Association.
- (b) The Project Implementing Entity shall, through the Management Agency, ensure that: (i) on an annual basis, community consultation is undertaken to identify Community Development Subprojects in each Participating LLG; (ii) each identified Community Development Subproject is included in the annual budget of the Participating LLG; and (iii) each approved Community Development Subproject is prepared, appraised and implemented in accordance with the Community Development Sub-Manual, including the Environment and Social

Safeguards Framework, Environmental Management Plan and Resettlement Policy Framework.

- (c) The Project Implementing Entity shall, through the Management Agency, ensure that each prepared Community Development Subproject is carried out in accordance with a Community Development Grant Agreement among the Management Agency, the SIT and the Participating LLG on terms and conditions acceptable to the Association, including the requirements for implementation in accordance with the Community Development Sub-Manual.
- (d) The Project Implementing Entity shall, on the advice of the Management Agency withdraw funds for Community Development Subprojects on a quarterly basis in accordance with requirements for that quarter identified by each LCT and deposit such funds in to the respective LCT Account. The Management Agency shall, on behalf of the Project Implementing Entity, and, upon request for disbursement under a Community Development Grant Agreement from the SIT through the Participating LLG, disburse from the LCT Account into the SIT Account in accordance with the Community Development Grant Agreement and the Community Development Sub-Manual.
- (e) The account structure and funds transfer arrangements for Part 2 of the Project shall be reviewed by the Association, the Project Implementing Entity and the Management Agency by December 31, 2009 or such later date as the Association may agree, and may be adjusted with the written agreement of the Association.

D. Safeguards.

- 1. In carrying out the Project, the Project Implementing Entity shall ensure that:
 - (a) environmental screening has been completed for each Project activity in accordance with the environmental screening criteria set out in the Environmental Assessment Report and the Environmental Management Plan;
 - (b) the recommended environmental mitigation measures set out in the Environmental Management Plan and the recommended mechanisms for community identification of environmental and social issues set out in the Project Implementation Manual are:
 - (i) included: (A) for Part 1(a) of the Project in the Smallholder Oil Palm In-fill Planting Sub-Manual and each Smallholder Sub-loan Agreement; (B) for Part 1(b)(i) of the Project in each

contract for road reconstruction activities; (C) for Part 1(b)(ii) of the Project in the documents establishing each Road Maintenance Trust Fund; and (D) for Part 2 of the Project in the Management Agency Contract and each Community Development Grant Agreement; and

- (ii) implemented in respect of each Project activity, and the implementation thereof is monitored and reported in Project Reports.

2. In carrying out the Project, the Project Implementing Entity shall:

- (a) take measures to avoid or minimize the acquisition of land or assets or actions that would result in Displaced Persons; and
- (b) where the acquisition of land or assets or an action that results in Displaced Persons is unavoidable as a result of any Project activity:
 - (i) prepare or cause to be prepared a resettlement plan in accordance with the Resettlement Policy Framework and furnish such plan to the Association for approval; and
 - (ii) implement and monitor the implementation of such plan, including prior to the carrying out of the activities, ensure that all Displaced Persons shall have been compensated in accordance with the provisions of such plan before the works or activities that would result in such acquisition or displacement commence.

3. In carrying out the Project, the Project Implementing Entity shall:

- (a) identify Indigenous Peoples groups in Project areas in accordance with the Beneficiaries Assessment; and
- (b) in accordance with the Project Implementation Manual and through a process of informed consultation and participation, involve concerned Indigenous People in the design and implementation of the Project so as to avoid, or if not possible, minimize adverse effects on Indigenous People and ensure that the benefits received by the Indigenous People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

E. Subsidiary Agreement.

- 1. The Project Implementing Agency shall perform its obligations under the Subsidiary Agreement. Except as the Recipient and the Association shall

otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports.

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of Project Performance Indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient, or as agreed with the Recipient, to the Association on behalf of the Recipient, not later sixty (60) days after the end of the period covered by such report.
2. (a) The Project Implementing Entity shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2010, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II(A) on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

(b) The Project Implementing Entity shall review with the Association, by June 30, 2010, or such later date as the Association shall request, the report referred to in sub-paragraph (a) of this paragraph, 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 such report and the Association's views on the matter.

(c) The Project Implementing Entity make publicly available the report referred to in sub-paragraph (b) of this paragraph.

B. Financial Management, Financial Reports and Audits.

1. The Project Implementing Entity shall maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity and to

register separately the operations, resources and expenditures of the Project Implementing Entity related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association for each calendar quarter interim unaudited financial reports for the Project, in form and substance satisfactory to the Association. For those quarters in which a Project Report is due under paragraph 1(a) of Section II(A) of this Schedule, such quarterly interim unaudited financial report shall be submitted with and included in the Project Report. For all other quarters, such quarterly interim unaudited financial report shall be submitted not later than forty-five (45) days after the end of the calendar quarter.
3. The Project Implementing Entity shall have its Financial Statements and the Project financial statements each separately audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of the Financial Statements and the Project financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity and shall include separate audit opinions on the Project Implementing Entity's Financial Statements and the Project financial statements. The audited Financial Statements and Project financial statements for each period shall be furnished to the Association not later than six (6) months after the end of such period.
4. The Project Implementing Entity shall provide to PNGSDP copies of each Project Report, interim unaudited financial report and audit of the Financial Statements provided for in this Section II.

Section III. Procurement

All goods, works and services required for the Project shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.