
LOAN NUMBER 3408-PNG

LOAN AGREEMENT
(Ordinary Operations)

(Highlands Region Road Improvement Investment Program – Project 3)

between

INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 6 OCTOBER 2016

PNG 40173

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 6 October 2016 between INDEPENDENT STATE OF PAPUA NEW GUINEA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 19 November 2008 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Highlands Region Road Improvement Investment Program;

(B) by a periodic financing request dated 25 April 2016, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) by a loan agreement of even date herewith between the Borrower and ADB ("Special Operations Loan Agreement"), ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twenty seven million four hundred sixty seven thousand Special Drawing Rights (SDR27,467,000) ("Special Operations Loan", and, together with the Loan, the "Loans") in connection with the Project; and

(D) by a grant agreement of even date herewith between the Borrower and ADB ("Grant Agreement", and, together with the Special Operations Loan Agreement, the "Other Financing Agreements"), ADB has agreed to make available to the Borrower a grant from the European Union in the amount of nineteen million nine hundred ninety thousand Dollars (\$19,990,000) ("Grant"), as such amount may be adjusted from time to time, for the purposes of the Project;

(E) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit; Maturity Premium.

- (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.
- (b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.
- (c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

- (b) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (c) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

- (a) "Affected Persons" or "APs" means affected persons under the Project;
- (b) "Conservation and Environmental Protection Authority" or "CEPA" means the Conservation and Environmental Protection Authority of the Borrower or any successor thereto acceptable to ADB;
- (c) "Construction EMP" or "CEMP" means the site-specific construction EMP;
- (d) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);
- (e) "Consulting Services" means the services to be financed out of the proceeds of the Loan and/or the Grant as described in paragraph 3 of schedule 1 to this Loan Agreement;

(f) "Department of Lands and Physical Planning" or "DLPP" means the Department of Lands and Physical Planning of the Borrower or any successor thereto acceptable to ADB;

(g) "Department of Works" or "DOW" means the Department of Works of the Borrower or any successor thereto acceptable to ADB;

(h) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(i) "Environmental Management Plan" or "EMP" means the environmental management plan for each Subproject, including any update thereto, incorporated in the IEE;

(j) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(k) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(l) "Framework Financing Agreement" or "FFA" means the framework financing agreement dated 19 November 2008 between ADB and the Borrower with respect to the Facility;

(m) "Highlands Road Management Group" or "HRMG" means the Highlands Road Management Group, or any successor thereto, in DOW which is the project implementation unit for ongoing ADB loans;

(n) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(o) "Initial Environmental Examination" or "IEE" means the initial environmental examination for each Subproject, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(p) "Investment Program" means the Highlands Region Road Improvement Investment Program;

(q) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(r) "km" means kilometer;

(s) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(t) "National Roads Authority" or "NRA" means the National Roads Authority of the Borrower or any successor thereto acceptable to ADB;

(u) "National Road Safety Council" or "NRSC" means the National Road Safety Council of the Borrower or any successor thereto acceptable to ADB;

(v) "Project Administration Manual" or "PAM" means the project administration manual for the Project dated 28 June 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(w) "Periodic Financing Request" or "PFR" means the periodic financing request submitted or to be submitted by the Borrower, for the purposes of each loan under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 7 April 2016;

(x) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(y) "Procurement Plan" means the procurement plan for the Project dated 28 June 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(z) "Project Implementation Unit" or "PIU" means the project implementation unit of NRA, DOW or NRSC, as applicable;

(aa) "Resettlement Framework" or "RF" means the resettlement framework for the Investment Program, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(bb) "Resettlement Plan" or "RP" means the resettlement plan for each Subproject, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(cc) "Project 1" means Project 1 of the Investment Program;

(dd) "Project 2" means Project 2 of the Investment Program;

(ee) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(ff) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP and the RP, including any corrective and preventative actions;

(gg) "Subproject" means each subproject to be financed by the Loans and/or the Grant and which meets the subproject selection criteria set forth in Schedule 4 of the FFA; and

(hh) "Works" means construction or civil works to be financed out of the proceeds of the Loans and/or the Grant, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II**The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of seventy million four hundred ten thousand Dollars (\$70,410,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB 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 sum of:

- (a) LIBOR;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 March and 15 September in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (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, whether withdrawn and outstanding 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 withdrawn and

outstanding from a Floating Rate to a Fixed Rate, or vice versa;
and

- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2018 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.

Section 4.03. (a) Whenever applicable, in the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to ADB to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and ADB, as applicable. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.05. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.06. The Borrower shall enable ADB's representatives to inspect the Project and the Works, and any relevant records and documents.

Section 4.07. The Borrower shall ensure that any facilities relevant to the Project are operated, maintained and repaired in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: the Borrower shall have failed to perform any of its obligations under one of the Other Financing Agreements.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement.

ARTICLE VI

Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Other Financing Agreements each shall have been duly executed and delivered on behalf of the Borrower, and shall have become legally binding upon the Borrower in accordance with their terms, subject only to effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or

opinions to be furnished to ADB: the Other Financing Agreements each have been duly executed and delivered on behalf of the Borrower, and have become legally binding on the Borrower in accordance with its terms, subject only to effectiveness of this Loan Agreement.

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Secretary
Department of Treasury
P.O. Box 542
Waigani, National Capital District
Papua New Guinea

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2446.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

INDEPENDENT STATE OF PAPUA
NEW GUINEA

By 

PATRICK PRUITICH
Treasurer

ASIAN DEVELOPMENT BANK

By 

MARCELO J. MINC
Country Director
Papua New Guinea Resident Mission

SCHEDULE 1

Description of the Project

1. As part of the Investment Program, the Project aims to improve accessibility and reduce transport costs in the Highlands region.
2. The Project shall comprise:
 - Output 1: Improving core road network in the Highlands region. Performing civil works to improve about 113.5 km of priority national roads of the Highlands core road network.
 - Output 2: Ensuring sustainable maintenance arrangements for core road network. Putting in place maintenance arrangements for about 113.5 km of road sections rehabilitated under this Project.
 - Output 3: Improving capacity of NRA. This entails strengthening NRA's capacity to prepare and implement annual work plans to maintain the Highlands core road network using performance based contracts.
 - Output 4: Ensuring DOW is made more efficient and capable of implementing and delivering road improvements. This entails strengthening DOW's capacity to (i) implement road improvements to meet national standards and SPS, (ii) improve the existing asset management system of the Highlands core road network, and (iii) implement community based rural road maintenance for identified roads in compliance with sound engineering design, construction standards and procedures, and using government funding.
 - Output 5: Improving road safety capacity of NRSC. This includes strengthening NRSC's capacity to (i) update the Highlands core road network accident/crash database, (ii) identify accident blackspots and remedial measures, (iii) conduct road safety audits and address safety concerns of all users.
3. The Project includes the provision of Consulting Services to support the above stated activities.
4. The Project is expected to be completed by 30 June 2018.

SCHEDULE 2

Amortization Schedule

(Highlands Region Road Network Improvement Investment Program – Project 3)

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 ADB 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>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 September 2021	2.500000
15 March 2022	2.500000
15 September 2022	2.500000
15 March 2023	2.500000
15 September 2023	2.500000
15 March 2024	2.500000
15 September 2024	2.500000
15 March 2025	2.500000
15 September 2025	2.500000
15 March 2026	2.500000
15 September 2026	2.500000
15 March 2027	2.500000
15 September 2027	2.500000
15 March 2028	2.500000
15 September 2028	2.500000
15 March 2029	2.500000
15 September 2029	2.500000
15 March 2030	2.500000
15 September 2030	2.500000
15 March 2031	2.500000
15 September 2031	2.500000
15 March 2032	2.500000
15 September 2032	2.500000
15 March 2033	2.500000
15 September 2033	2.500000
15 March 2034	2.500000
15 September 2034	2.500000
15 March 2035	2.500000
15 September 2035	2.500000
15 March 2036	2.500000
15 September 2036	2.500000

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 March 2037	2.500000
15 September 2037	2.500000
15 March 2038	2.500000
15 September 2038	2.500000
15 March 2039	2.500000
15 September 2039	2.500000
15 March 2040	2.500000
15 September 2040	2.500000
15 March 2041	<u>2.500000</u>
TOTAL	100.000000

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 ADB 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. 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.

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 ADB 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 ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

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

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Financing Charges

3. The amount allocated to Category 4 is for financing charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such financing charges.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and
- (b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Highlands Region Road Network Improvement Investment Program – Project 3)				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Works	52,493,000		
1A	Gewa-Gembogl		15,696,000	49% of total expenditure claimed
1B	Nipa-Munihu		12,391,000	49% of total expenditure claimed
1C	Pangia-Wiru Loop		12,284,000	49% of total expenditure claimed
1D	Henganofi-Nupuru		12,122,000	49% of total expenditure claimed
2	Consulting Services	2,379,000		36% of total expenditure claimed*
3	Project Administration	1,383,000		53% of total expenditure claimed*
4	Financing Charges	1,563,000		100% of amounts due
5	Unallocated	12,592,000		
	Total	70,410,000		

* Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4**Procurement of Works and Consulting Services**General

1. The procurement of Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. Except as ADB may otherwise agree, Works shall be procured and Consulting Services shall be selected and engaged only on the basis of the procurement methods and the selection methods set forth below. These methods are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the procurement methods and the selection methods or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.
3. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Works

4. Works shall be procured on the basis of International Competitive Bidding.

Conditions for Award of Contract

5. The Borrower shall not award any Works contracts which involves involuntary resettlement impacts until it has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

Consulting Services

6. Except as ADB may otherwise agree, the Borrower shall apply Quality- and Cost-Based Selection for selecting and engaging Consulting Services.
7. The Borrower shall recruit the individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

8. (a) The Borrower shall ensure that all Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

10. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FFA and the PAM. Any subsequent change to the FFA or the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the FFA or the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail. The Borrower shall cause DOW to be the Project Executing Agency and the implementing agency for the components set out in subparagraphs (i) and (iv) of paragraph 2 of Schedule 1 to this Loan Agreement, NRA to be the implementing agency for the components set out in subparagraphs (ii) and (iii) of paragraph 2 of Schedule 1 to this Loan Agreement, and NRSC to be the implementing agency for the component set out in subparagraph (v) of paragraph 2 of Schedule 1 to this Loan Agreement.

Counterpart Support

2. The Borrower shall make available adequate budgetary allocations of the required counterpart funds in respect of the Project on a timely and regular basis. The Borrower will meet any financing shortfall to ensure that the Project and the Subprojects are fully implemented.

Long-Term Maintenance

3. The Borrower shall (a) ensure a five-year performance-based maintenance provision is incorporated in the bidding documents and contracts for Works in respect of the 113.5 km of roads to be improved under the Project; and (b) ensure that the maintenance described above is adequately funded. The Borrower and NRA shall take the necessary actions to continue to improve maintenance resources through road user charges, road damage charges, tax credit scheme and other measures in order that such resources shall meet maintenance funding requirements.

Environment

4. The Borrower shall (a) ensure that the preparation, design, construction, implementation, operation and decommissioning of each Subproject and all Project facilities comply with (i) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (ii) the Environmental Safeguards; (iii) the EARF; and (iv) all measures and requirements set forth in the IEE and EMP and any corrective or preventative actions set forth in a Safeguards Monitoring Report; and (b) ensure or cause DOW, NRA and NRSC to ensure, that Works do not commence until and unless (i) the contractor has received induction training on environmental management delivered by HRMG or the supervision consultant; (ii) the CEMP has been reviewed and cleared by HRMG and supervision consultants; and (iii) environmental clearance has been obtained from CEPA.

Land Acquisition and Involuntary Resettlement

5. The Borrower shall ensure that (a) all land and all rights-of-way required for each Subproject and all Project facilities are made available to the Works contractor in accordance with the schedule agreed under the related Works contract; (b) all land acquisition and resettlement activities are implemented in compliance with (i) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (ii) the Involuntary Resettlement Safeguards; (iii) the RF; and (iv) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report; and (c) the DLPP or other relevant government authority of the Borrower shall approve updated compensation rates for land acquisition.

6. Without limiting the application of the Involuntary Resettlement Safeguards, the RF or the RP, the Borrower shall ensure that no physical or economic displacement takes place in connection with the Subprojects until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

7. The Borrower shall submit to ADB for disclosure on its web site, and disclose on its web site or those of the implementing agencies, as appropriate, semi-annual Safeguards Monitoring Reports.

8. The Borrower shall ensure that the following shall occur: (a) relevant information including an information brochure in local language shall be disseminated to APs and local stakeholders; (b) a grievance redress mechanism shall be established to receive and address project related concerns or grievances that may arise during project implementation; (c) APs shall be informed how they can access to the grievance redress mechanism; (d) APs shall receive their compensation at full replacement cost prior to any displacement and before the start of civil works affecting land or property; (e) the Project shall comply with both ADB safeguard requirements and the Borrower's laws and regulations applicable to land acquisition and resettlement; and (f) for implementation of the resettlement plans, DOW shall (i) appoint a land officer at PIU; and (ii) coordinate with the DLPP, provincial authorities, and other relevant agencies to implement land acquisition and resettlement activities.

9. A third party acceptable to ADB shall verify the memorandum of agreement between DOW and landowners in respect of use of land for road widening.

Indigenous Peoples

10. The Borrower shall ensure that each Subproject does not have any indigenous peoples impacts within the meaning of the Safeguard Policy Statement. In the event that a Subproject does have any such impact, the Borrower shall take all steps required to ensure that the Subproject complies with the applicable laws and regulations of the Borrower relating to indigenous peoples, the Indigenous Peoples Safeguards and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

11. The Borrower shall make available necessary budgetary and human resources to fully implement the EMP and RP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

12. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures and requirements relevant to the contractor set forth in the IEE, EMP and RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, EMP or RP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

13. The Borrower, through DOW, NRA and NRSC, shall do the following:

- (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of any Subproject that were not considered in the IEE, EMP or the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP or RP promptly after becoming aware of the breach.

Prohibited List of Investments

14. The Borrower shall ensure that no proceeds of the Loan(s) and/or the Grant are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

15. The Borrower shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women. The Borrower shall strictly monitor compliance with the requirements set forth above and provide ADB with regular reports.

Gender and Development

16. The Borrower shall ensure that the principles of gender equality aimed at increasing Project benefits and impacts on women in the Project area are followed during implementation of the Project, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Project area to participate in the design and implementation of Project activities.

Governance and Anticorruption

17. The Borrower and the implementing agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

18. The Borrower and the implementing agencies shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.