

OFFICIAL DOCUMENTS

CREDIT NUMBER - 5940-PG

Financing Agreement

(Water Supply and Sanitation Development Project)

between

INDEPENDENT STATE OF PAPUA NEW GUINEA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *March 22*, 2017

FINANCING AGREEMENT

AGREEMENT dated *March 22*, 2017, entered into between INDEPENDENT STATE OF PAPUA NEW GUINEA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fifty one million Special Drawing Rights (SDR 51,000,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- 2.06. The Payment Dates are June 15 and December 15 in each year.

- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Part 4 of the Project, and shall carry out Parts 1 and 2 of the project through DNPM, and cause Part 3 of the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
 - (b) The Recipient has amended, suspended, abrogated, repealed or waived the National WaSH Policy so as to affect materially and adversely, in the opinion of the Association, the ability of the Recipient or the Project Implementing Entity to perform any of their obligations under this Agreement or the Project Agreement.
 - (c) The Subsidiary Agreement has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the ability of the Project Implementing Entity or the ability of the Recipient to perform any of their obligations under the Project Agreement or under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following: any event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister at the time responsible for Treasury.
- 6.02. The Recipient's Address is:

Department of Treasury
The Treasury Building 10th floor
P.O. Box 542
Waigani, 131 NCD
Papua New Guinea

- 6.03. The Association's Address is:

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

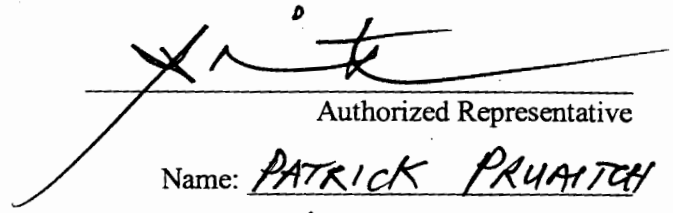
Telex: Facsimile:

248423 (MCI) 1-202-477-6391

AGREED at PORT MORESBY, PAPUA NEW GUINEA, as of the day and year first above written.

INDEPENDENT STATE OF PAPUA NEW GUINEA

By



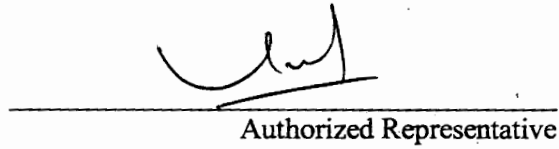
Authorized Representative

Name: PATRICK PRUAITCH

Title: MINISTER FOR TREASURY

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: MICHEL KERF

Title: COUNTRY DIRECTOR

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to support the development and strengthening of the planning and implementation capacity of water sector institutions; and (ii) to increase access to water supply services in selected urban towns and rural districts.

The Project consists of the following parts:

Part 1: Institutional Structures for the Implementation of the National WaSH Policy

- (a) Support the establishment, operationalization and strengthening of the WaSH PMU, including through technical assistance and capacity building, and development of a WaSH PMU Project Implementation Manual.
- (b) Support the development and implementation of key sector tools, including a sector management information system, a national WaSH development strategy, communication and promotions plans, technical advice on a national fund for the expansion of sustainable rural and/or peri-urban water supply and sanitation services and a national regulatory framework for water and sanitation.

Part 2: Rural and Peri-urban Water and Sanitation

- (a) Support selected subnational government authorities to plan, develop and implement rural and peri-urban water supply and sanitation services, including through: (i) piloting the development and implementation of district-wide WaSH development plans by selected DDAs; (ii) scaling up development and implementation of district-wide WaSH development plans in other selected DDAs; (iii) building the capacity of provincial and district level entities responsible for implementation of water supply and sanitation services; and (iv) development of a Community Schemes Grant Implementation Manual for the implementation of infrastructure investment in water supply and sanitation schemes in rural and/or peri-urban areas.
- (b) Provision of Community Schemes Grants to Beneficiaries for the construction of rural and/or peri-urban water supply and sanitation schemes.

Part 3: Urban Water and Sanitation

- (a) Develop the capacity and operational performance of the Project Implementing Entity through: (i) review of its service provision model in small towns; (ii) assessment of the rehabilitation requirements of its water supply and sanitation systems; (iii) a technical audit (including an energy audit) of its existing water supply and sanitation systems; (iv) update of its design manual; (v) provision of

technical assistance in infrastructure development planning, engineering, financial management, procurement, environmental and social management, and project implementation and management; (vi) development and implementation of a training and capacity building plan for its staff; and (vii) development of a PMU-WPNG Project Implementation Manual.

- (b) (i) Construction and implementation of new water supply and sanitation systems in selected district and provincial towns; and (ii) rehabilitation, augmentation, extension or other improvement to existing water supply and sanitation systems in selected district and provincial towns.

Part 4: Contingent Emergency Response

Carrying out a program of activities designed to provide rapid response to an Eligible Crisis or Emergency, as needed.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. WaSH PMU

The Recipient shall maintain, throughout the Project implementation period, the WaSH PMU with a mandate, composition and resources satisfactory to the Association. Without limitation on the foregoing, the WaSH PMU shall be responsible for the implementation, financial management, procurement, environmental and social safeguards management, communication and monitoring and evaluation of Parts 1 and 2 of the Project, including overall coordination of Parts 1, 2 and 3 of the Project, sector coordination and policy implementation.

2. WaSH Task Force

The Recipient shall maintain, throughout the Project implementation period, the WaSH Task Force with a mandate, composition and resources satisfactory to the Association. Without limitation on the foregoing, the WaSH Task Force shall be responsible for providing high-level oversight of the Project, including ensuring effective coordination and alignment of the Project with the Recipient's strategic priorities.

3. Project Implementation Manuals

(a) Not later than one hundred and twenty (120) days after the Effective Date, the Recipient shall collate and adopt a WaSH PMU Project Implementation Manual, in form and substance satisfactory to the Association, containing detailed arrangements and procedures for: (i) institutional coordination and day-to-day execution of Parts 1 and 2 of the Project; (ii) disbursement and financial management; (iii) procurement; (iv) environmental and social safeguards management; (v) monitoring and evaluation, reporting and communication; and (vi) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project, including the overall coordination of Parts 1, 2 and 3 of the Project.

(b) The Recipient shall carry out the Project in accordance with the arrangements and procedures set out in the WaSH PMU Project Implementation Manual, and shall not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated or waived, the WaSH PMU

Project Implementation Manual or any of its provisions without prior approval in writing by the Association.

- (c) In the event of any conflict between the provisions of this Agreement and the provisions of the WaSH PMU Project Implementation Manual, the provisions of this Agreement shall prevail.
- (d) The Recipient shall cause the Project Implementing Entity to collate and adopt a PMU-WPNG Project Implementation Manual, and carry out Part 3 of the Project in accordance with the arrangements and procedures set out in the PMU-WPNG Project Implementation Manual, all in accordance with the provisions of this Agreement and the Project Agreement.

4. Training and Capacity Building Plans

- (a) Not later than sixty (60) days after the Effective Date, the Recipient shall prepare and furnish to the Association for its approval, a training and capacity building plan for Parts 1 and 2 of the Project, for the first year of the Project, and thereafter shall prepare such plan from time to time, but not later than January 31 of each year, and shall ensure that the Project is implemented in accordance with the approved training and capacity building plan; provided, however, that in case of any conflict between the training and capacity building plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.
- (b) The Recipient shall not make or allow to be made any change to the approved training and capacity building plan without prior approval in writing by the Association.
- (c) The Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association for its approval, the training and capacity building plans for Part 3 of the Project, and ensure that the Project is implemented in accordance with the approved training and capacity building plans, all in accordance with the provisions of this Agreement and the Project Agreement.

B. Subsidiary Agreement

- 1. To facilitate the carrying out of Part 3 of the Project, the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (“Subsidiary Agreement”) which shall include the following:

- (a) the Recipient shall make available to the Project Implementing Entity, on a grant basis, the proceeds of the Financing allocated from time to time to Categories (4) and (5) in the table shown in paragraph 2 of Section IV.A in this Schedule;
 - (b) the Recipient shall cause the Project Implementing Entity to undertake to carry out Part 3 of the Project in accordance with the provisions of this Agreement and the Project Agreement; and
 - (c) the Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to use of the proceeds of the Financing made available under the Subsidiary Agreement upon failure by the Project Implementing Entity to perform its obligations thereunder.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Sub-projects.

- 1. The Recipient shall make available Community Schemes Grants to Beneficiaries in accordance with procedures acceptable to the Association and outlined in the Community Schemes Grant Implementation Manual for the purpose of carrying out Sub-Projects under Part 2(b) of the Project.
- 2. The Recipient shall make each Community Schemes Grant pursuant to a Community Schemes Grant Agreement between the DNPM and the respective Beneficiary, on terms and conditions approved by the Association, and shall obtain rights adequate to protect its interests and those of the Association, including the right to:
 - (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Community Schemes Grant, or declare to be immediately due and payable all or any part of the amount of the Community Schemes Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Community Schemes Grant Agreement; and

- (ii) require each Beneficiary to:
 - (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the applicable provisions of the Community Schemes Grant Implementation Manual, the Procurement Guidelines, the Consultant Guidelines, the ESMF, the Safeguard Assessments and Plans, and those provisions of the Anti-Corruption Guidelines applicable to the recipients of grant proceeds other than the Recipient;
 - (B) provide, promptly as needed, the resources required for the purpose;
 - (C) procure the goods, works and services to be financed out of the Community Schemes Grant in accordance with the provisions of Section III of Schedule 2 to this Agreement, and utilize such goods, works and services exclusively in carrying out of its respective activities under Part 2(b) of the Project and for the objectives thereof;
 - (D) maintain procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives;
 - (E) (1) maintain records and accounts adequate to reflect the expenditures pertaining to its activities under the respective Sub-project and provide such information to the Recipient and the Association upon request; and (2) at the Association's or the Recipient's request, have such records and accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the records and accounts as so audited to the Recipient and the Association;
 - (F) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and

- (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
- 3. The Recipient shall exercise its rights under the Community Schemes Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate or waive any Community Schemes Grant Agreement or any of its provisions.
- E. Safeguards.**
- 1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the ESMF.
- 2. Whenever a Safeguard Assessment and Plan shall be required for any proposed Project activity in accordance with the provisions of the ESMF, the Recipient shall ensure that: (a) prior to the commencement of such activity, such Safeguard Assessment and Plan is: (i) prepared in accordance with the provisions of the ESMF; (ii) furnished to the Association for review and no-objection; and (iii) thereafter adopted and disclosed as accepted by the Association, in a manner satisfactory to the Association; and (b) thereafter such measures are taken as shall be necessary or appropriate to ensure compliance with the requirements of such Safeguard Assessment and Plan.
- 3. The Recipient shall not amend, abrogate or waive, or permit to be amended, abrogated or waived, the ESMF or any of the Safeguard Assessments and Plans, unless the Association has provided its prior approval thereof in writing, and the Recipient has complied with the same consultation and disclosure requirements as applicable to the original adoption of the said instruments.
- 4. The Recipient shall ensure that:
 - (a) all terms of reference for any technical assistance or studies carried out under the Project are consistent with, and pay due attention to, the Association's environmental and social safeguards policies, as well as the Recipient's own laws relating to the environment and social aspects; and
 - (b) in drafting any regulations, guidelines or corporate procedures and carrying out capacity building activities under the Project, due attention is given to said policies and laws.
- 5. Without limitation on its other reporting obligations under this Agreement, the Recipient shall collect, compile and submit to the Association on a quarterly basis

(or such other frequency as may be agreed with the Association) consolidated reports on the status of compliance with the ESMF and the Safeguard Assessments and Plans, giving details of:

- (a) measures taken in accordance with the said instruments;
 - (b) conditions, if any, which interfere or threaten to interfere with the implementation of the said measures; and
 - (c) remedial measures taken or required to be taken to address such conditions.
6. In the event of any conflict between the provisions of any of the ESMF or any Safeguard Assessments and Plans, and the provisions of this Agreement, the provisions of this Agreement shall prevail.

F. Contingent Emergency Response

1. In order to ensure the proper implementation of contingent emergency response activities under Part 4 of the Project ("Emergency Response Part"), the Recipient shall:
- (a) prepare and furnish to the Association for its review and approval, a Contingent Emergency Response Implementation Plan ("CERIP"), or Contingent Emergency Response Implementation Plans ("CERIPs"), as the case may be, for each Eligible Crisis or Emergency, which shall set forth detailed implementation arrangements for the Emergency Response Part, including: (i) any special institutional arrangements for coordinating and implementing the Emergency Response Part; (ii) specific activities which may be included in the Emergency Response Part, Eligible Expenditures required therefor ("Emergency Expenditures"), and any procedures for such inclusion; (iii) financial management arrangements for the Emergency Response Part; (iv) procurement methods and procedures for the Emergency Response Part; (v) documentation required for withdrawals of Emergency Expenditures; (vi) application of the ESMF and relevant Safeguard Assessments and Plans to the Emergency Response Part; and (vii) any other arrangements necessary to ensure proper coordination and implementation of the Emergency Response Part;
 - (b) afford the Association a reasonable opportunity to review the proposed CERIP(s);
 - (c) promptly adopt the CERIP(s) for the Emergency Response Part as shall have been accepted by the Association;

- (d) ensure that the Emergency Response Part is carried out in accordance with the CERIP(s); provided, however, that in the event of any inconsistency between the provisions of the CERIP(s) and this Agreement, the provisions of this Agreement shall prevail; and
 - (e) not amend, suspend, abrogate, repeal or waive any provision of the CERIP(s) without prior written approval by the Association.
2. The Recipient shall undertake no activities under the Emergency Response Part unless and until the following conditions have been met in respect of said activities:
- (a) the Recipient has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Association a request to include said activities in the Emergency Response Part in order to respond to said Eligible Crisis or Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof; and
 - (b) the Recipient has ensured the preparation and disclosure of all Safeguard Assessments and Plans required for said activities, in accordance with the ESMF, the Association has approved all such instruments, and the Recipient has ensured the implementation of any actions which are required to be taken under said instruments.
 - (c) the Recipient has prepared and adopted a CERIP, satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Parts 1, 2 and 4 of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report of the Project shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Part 3 of the Project and prepare Project Reports for Part 3 of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report for Part 3 of the Project shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

3. Without limitation on the provisions in paragraph A.1 of this Section II above, the Recipient, through the WaSH PMU, and with such support as may be required from Project Implementing Entity, respectively, shall:
 - (a) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than thirty (30) months after the Effective Date, a mid-term evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraphs 1 and 2 of this Part A, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (b) review with the Association, not later than thirty-one (31) months after the Effective Date, or such later date as the Association shall request, the report referred to in sub-paragraph (a) of this paragraph 3, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall:
 - (a) prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for Parts 1, 2 and 4 of the Project covering the quarter, in form and substance satisfactory to the Association; and
 - (b) ensure that the Project Implementing Entity shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for Part 3 of the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements for Parts 1, 2 and 4 of the Project audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements for Part 1, 2 and 4 of the Project shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for Parts 1, 2 and 4 of the Project and for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. The Recipient shall cause the Project Implementing Entity to have its Financial Statements for Part 3 of the Project audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements for Part 3 of the Project shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements –including for Part 3 of the Project–for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the modifications in the Annex to Schedule 2 of this Agreement; (b) Shopping; and (c) Direct Contracting; and (d) Community Participation procedures which have been found acceptable to the Association.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants' Qualifications; (d) Single-source Selection of consulting firms; (e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (f) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

The Procurement Plans shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Procurement of Emergency Expenditures under the Emergency Response Part

Notwithstanding any provision to the contrary in this Section, Emergency Expenditures required for activities included in the Emergency Response Part shall be procured in accordance with the procurement methods and procedures set forth in the CERIP(s).

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services, and Training under Parts 1 and 2(a) of the Project	5,700,000	100%
(2) Incremental Operating Costs under Parts 1 and 2(a) of the Project	350,000	100%
(3) Community Schemes Grants under Part 2(b) of the Project	7,300,000	100%
(4) Goods, non-consulting services, consultants' services, and Training under Part 3 of the Project	4,500,000	100%
(5) Works under Part 3 of the Project	33,150,000	100%
(6) Emergency Expenditures under Part 4 of the Project	0	100%
TOTAL AMOUNT	51,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed three hundred and fifty thousand Special Drawing Rights (SDR 350,000) may be made for payments made prior to this date but on or after July 1, 2016, for Eligible Expenditures under Categories (1) and (2); or
 - (b) under Category (3), unless the Association has received the Community Schemes Grant Implementation Manual in form and substance satisfactory to the Association; or
 - (c) for Emergency Expenditures under Category (6), unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities:
 - (i) the Recipient has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Association a request to include said activities in the Emergency Response Part in order to respond to said Eligible Crisis or Emergency, and the Association has agreed with such determination, accepted said request and notified the Recipient thereof;
 - (ii) the Recipient has ensured that all safeguards instruments required for said activities have been prepared and disclosed, and the Recipient has ensured that any actions which are required to be taken under said instruments have been implemented, all in accordance with the provisions of Sections I.E and I.F of this Schedule 2;
 - (iii) the entities in charge of coordinating and implementing the Emergency Response Part have adequate staff and resources, in accordance with the provisions of Section I.F of this Schedule 2, for the purposes of said activities; and
 - (iv) the Recipient has adopted the CERIP(s) in form, substance and manner acceptable to the Association and the provisions of the CERIP(s) remain - or have been updated in accordance with the provisions of Section I.F of this Schedule 2 so as to be - appropriate for the inclusion and implementation of the Emergency Response Part.
2. The Closing Date is February 28, 2023.

ANNEX TO SCHEDULE 2

Conditions for Use of National Competitive Bidding Procedure

The procedure to be followed for National Competitive Bidding shall be those set forth in the provisions on competitive bidding in the *Public Financial (Management) Act of 1995 (Part VII, State Tenders and Contracts)*, as amended by the *Public Financial (Management) Amendment Act 13/2015* and the *Financial Instruction 1/2005*, with modifications set forth below:

National Competitive Bidding: Mandatory Provisions

- (1) In order to ensure economy, efficiency, transparency, and broad consistency with the provisions included in Section I of the Procurement Guidelines (as required by paragraph 3.3 of the Procurement Guidelines), goods and works shall be procured in accordance with the following paragraphs.

Participation in Bidding

- (2) The eligibility of bidders shall be as defined under the Procurement Guidelines of the World Bank (issued January 2011, revised July 2014).
- (3) Government-owned enterprises in Papua New Guinea shall be eligible to bid only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient or Project Implementing Entity.
- (4) A firm declared ineligible by the Association, based on a determination by the Association that the firm has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing an Association-financed contract, shall be ineligible to be awarded an Association-financed contract during the period of time determined by the Association.
- (5) A firm which has been engaged by the Recipient or Project Implementing Entity to provide consulting services for the preparation or implementation of a project, and any of its affiliates, shall be disqualified from subsequently providing goods or works resulting from or directly related to the firm's consulting services for such preparation or implementation. This provision does not apply to the various firms which together are performing the contractor's obligations under a turnkey or design and build contract.

- (6) Foreign bidders shall be eligible to participate in bidding under the same conditions as national bidders. In particular, no domestic preference over foreign bidders shall be granted to national bidders or goods in bid evaluation.

Advertising: Time for Submission of Bids

- (7) Invitations to bid shall be advertised in at least one (1) newspaper of national circulation, allowing a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the date of availability of the bid documents or the date of the advertisement, whichever is later.

Bidding Documents

- (8) Until national standard bidding documents approved by the Association are available, bidding documents approved by the Association shall be used.

Bid Security

- (9) All bidders should provide bid security if indicated in the bidding documents, in the amount and form so indicated. A bidder's bid security shall apply only to a specific bid. A bidder shall be permitted to withdraw or modify its bid prior to the bid submission deadline without forfeiting its bid security.

Classification of Contractors; Qualification; Post-qualification

- (10) Bidding shall not be restricted to any particular class of contractors, and non-classified contractors shall also be eligible to bid. Qualification criteria (in case prequalification is not carried out) shall be stated in the bidding documents and shall be based entirely upon the capability and resources of prospective bidders to perform the particular contract satisfactorily, taking into account their experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities, as well as their financial position. Before contract award, the bidder having submitted the lowest evaluated, substantially responsive bid shall be subject to post-qualification.

Registration of Bidders

- (11) If a registration process is required, a foreign firm determined to be the lowest evaluated responsive bidder shall be given reasonable

opportunity of registering, without any let or hindrance. Bidders shall not be required to register as a precondition for bidding.

Evaluation Criteria

- (12) Evaluation criteria shall be clearly specified in bidding documents, and evaluation criteria other than price shall be quantified in monetary terms.

Bid Submission, Opening, and Bid Evaluation

- (13) Bidders may submit bids, at their option, either in person or by courier service or by mail.
- (14) Bids shall be opened in public, immediately after the deadline for submission of bids. Bidders' representatives shall be allowed to attend. The name of the bidder, the total amount of each bid, and any discounts shall be read aloud and recorded in the minutes of the public bid opening. A copy of the minutes of the public bid opening shall be promptly provided to all bidders who submitted bids. With respect to contracts which are subject to the Association's prior review, the Project Implementing Entity shall promptly provide the Association, a copy of the minutes of the public bid opening. No bid shall be rejected during the public bid opening. Bids received after the bid submission deadline shall be promptly returned unopened to the bidder.
- (15) The evaluation of bids shall be done in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the qualified bidder which submitted the lowest evaluated, substantially responsive bid.
- (16) No bid shall be rejected merely on the basis of a comparison with the owner's estimate or budget ceiling without the Association's prior written concurrence.
- (17) The Project Implementing Entity shall publish the following information on contract award on a free and open access website when that website becomes operational, or on another means of publication acceptable to the Association: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated price of each bid that was evaluated; (iv) names of bidders whose bids were rejected and the reasons for the rejection; and (v) name of the winning bidder, price it offered, as well as the duration and summary scope of the contract awarded. This publication shall be

updated at least quarterly.

Rejection of Bids

- (18) Rejection of all bids and re-bidding shall not be carried out without the Association's prior written concurrence.

Extension of the Validity of Bids

- (19) In exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids. In such cases, bidders shall not be requested nor permitted to amend the price or any other condition of their bids. Bidders shall have the right to refuse to grant such an extension without forfeiting their bid securities, but bidders granting such an extension shall be required to provide a corresponding extension of the validity of their bid securities.

No Contract Negotiations

- (20) There shall be no negotiation of contracts, even with the lowest evaluated bidder, without the Association's prior concurrence. A bidder shall not be required, as a condition of award of contract, to undertake obligations not specified in the bidding documents, or otherwise to modify its bid as originally submitted.

Suppliers, Contractors and Subcontractors

- (21) The Association shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association.
- (22) Each contract financed from the proceeds of the Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

Conflict of Interest

- (23) Suppliers and contractors that have a business or family relationship with a senior member of the project implementing agency's staff may not be awarded a contract, unless the conflict of interest stemming from this relationship has been resolved in a manner satisfactory to the Association throughout the process of evaluation of the bids and the execution of the contract.

Bid Protest Mechanism

- (24) The Project Implementing Entity shall establish an effective bid protest mechanism related to the procurement process and contract award, acceptable to the Association, that allows for bidder protests and the timely handling of such protests. The procedures to receive and handle complaints shall be disclosed in the bidding documents.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing June 15, 2022 to and including December 15, 2031	1.65%
commencing June 15, 2032 to and including December 15, 2041	3.35%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Affected Persons” means any person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction or access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Beneficiary” means a community, civil society organization, non-government organization or other entity in a selected district that satisfies the requirements set out in the Community Grant Implementation Manual to carry out a Sub-Project under Part 2(b) of the Project and to receive a Community Schemes Grant in accordance with a Community Schemes Grant Agreement with the Recipient.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Community Schemes Grant” means a grant made or proposed to be made by the Recipient to a Beneficiary out of the proceeds of the Financing pursuant to a Community Schemes Grant Agreement for the purpose of financing goods, works and services required for a Sub-project under Part 2(b) of the Project in accordance with the provisions of Section I.D of Schedule 2 to this Agreement.
6. “Community Schemes Grant Agreement” means an agreement entered into, or to be entered into, between the Recipient and a Beneficiary, for the purpose of extending a Community Schemes Grant under Part 2(b) of the Project, and referred to in Section I.D of Schedule 2 to this Agreement.
7. “Community Schemes Grant Implementation Manual” means the plan referred to in Section I.D of Schedule 2 to this Agreement, to be adopted by the Recipient for Part 2(b) of the Project in accordance with the provisions of said Section.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).

9. “Contingent Emergency Response Implementation Plan” and “CERIP” each means the plan referred to in Section I.F of Schedule 2 to this Agreement, to be adopted by the Recipient for the Emergency Response Part in accordance with the provisions of said Section.
10. “DDA” means a District Development Authority under the Recipient’s District Development Authority (DDA) Act, 40/2014.
11. “Department of National Planning and Monitoring” or “DNPM” means the department of national planning and monitoring of the Recipient, and any successor or successors thereto.
12. “Eligible Crisis or Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.
13. “Emergency Expenditure” means any of the eligible expenditures set forth in the CERIP in accordance with the provisions of Section I.F of Schedule 2 to this Agreement, and required for the Emergency Response Part.
14. “Emergency Response Part” means a specific activity or activities to be carried out in the event of an Eligible Crisis or Emergency under Part 4 of the Project.
15. “Environmental and Social Impact Assessment” means any assessment to be prepared in by the Recipient or the Project Implementing Entity in accordance with the environmental and social screening guidelines, procedures and forms included in the ESMF, pursuant to Section I.E of Schedule 2 to this Agreement, each such assessment in form and substance satisfactory to the Association, defining details of potential environmental and social risks and adverse impacts associated with the implementation of Project activities, as said assessment may be modified from time to time with the prior written approval of the Association, and such term includes any annexes and schedules to such assessment.
16. “Environmental and Social Management Framework” and the acronym “ESMF” mean the Recipient’s framework, including its Resettlement Policy Framework, and its Indigenous Peoples Planning Framework, and a detailed voluntary land donation protocol, dated April 7, 2016, setting out the principles, standards, processes and tools to be applied to assess potential adverse environmental and social impacts associated with Project activities and the ways to avoid, minimize and/or mitigate them, with related public consultation, disclosure, reporting and grievance redress procedures, including, *inter alia*, the guidelines, procedures and forms for preparing and implementing Environmental and Social Impact Assessments and Resettlement Action Plans, as said framework may be modified from time to time with the prior written approval of the Association, and such term includes any schedules or annexes to such framework.

17. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
18. “Incremental Operating Costs” means the incremental expenses reasonably incurred by the Recipient for Parts 1, 2 and 4 of the Project on account of Project implementation, support, management, and monitoring and evaluation, and reasonably related thereto, including utilities and supplies, bank charges, office rentals, communications, media campaigns, stationery, advertising expenses, vehicle operation, maintenance, and insurance, and domestic travel costs, but excluding salaries, fees, honoraria, and bonuses of members of the Recipient’s civil service.
19. “Indigenous Peoples Plan” means the indigenous peoples plan to be prepared by the Recipient or the Project Implementing Entity, as the case may be, in accordance with the IPPF, pursuant to paragraph 2 of Section I.E of Schedule 2 to this Agreement, setting forth, *inter alia*, a summary of the social assessment undertaken to determine whether indigenous people are present in the Project area, a summary of the results of the free, prior, and informed consultation with the affected indigenous peoples’ communities, a framework for ensuring free, prior, and informed consultation with the affected indigenous peoples’ communities, an action plan of measures to avoid, minimize, mitigate, or compensate for adverse effects on affected indigenous peoples, cost estimates and financing, grievance mechanisms and mechanisms and benchmarks appropriate to the Project for monitoring, evaluating, and reporting on the implementation of the IPPF.
20. “Indigenous Peoples Planning Framework” or its acronym “IPPF” means the Indigenous Peoples Planning Framework for the Project, disclosed in Infoshop on April 7, 2016, and annexed to the ESMF, which sets out: (i) the policies and procedures to ensure adequate consultations with, and the informed participation of, indigenous peoples who are affected by the Project, and (ii) the principles to be applied in the preparation of Indigenous Peoples Plans as may be required during implementation of the Project.
21. “National WaSH Policy” means the National Water, Sanitation and Hygiene Policy of the Recipient, endorsed by the Recipient’s National Executive Council, 28/2015, dated 29 January 2015.
22. “PMU-WPNG” means the project management unit within the Project Implementing Entity responsible for implementation of Part 3 of the Project.
23. “PMU-WPNG Project Implementation Manual” means Project Implementing Entity’s manual referred to in the Project Agreement, in form and substance satisfactory to the Association, containing detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of Part 3 of the Project;

(b) disbursement and financial management; (c) procurement; (d) environmental and social safeguards management; (e) monitoring and evaluation, reporting and communication; (f) project monitoring indicators; (g) grievance redress mechanism; and (h) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project, as said manual may be modified from time to time with prior approval in writing of the Association, and such term includes any schedules to the PMU-WPNG Project Implementation Manual.

24. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
25. “Procurement Plans” means the Recipient’s procurement plan for the Project, and the Project Implementing Entity’s procurement plan for the Project, both dated November 10, 2016 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “Project Implementing Entity” means Water PNG, established as the Waterboard through the *National Water Supply and Sewerage Act 1986*, and operating as Water PNG through a certificate of registration of trademark, A69, 306, effective October 29, 2010 and expiring October 29, 2020, and a successor or successors thereto.
27. “Project Implementing Entity’s Legislation” means the *National Water Supply and Sewerage Act 1986*, and the certificate of registration of trademark for “Water PNG”, A69, 306, effective October 29, 2010 and expiring October 29, 2020.
28. “Resettlement Action Plan” means any plan to be prepared by the Recipient or the Project Implementing Entity in accordance with the guidelines, procedures and forms included in the Resettlement Policy Framework, pursuant to Section I.E of Schedule 2 to this Agreement, each such plan in form and substance satisfactory to the Association, containing a program of actions, measures and policies for compensation and resettlement of any Affected Persons, including the magnitude of displacement, compensation and resettlement arrangements, budget and cost estimates, and sources of funding, together with adequate institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with its terms, as said plan may be modified from time to time with the prior written approval of the Association, and such term includes any annexes and schedules to such plan.
29. “Resettlement Policy Framework” means the Recipient’s framework included in the ESMF, setting out the principles and procedures governing acquisition of rights to land, resettlement and compensation, as well as reporting and monitoring arrangements to ensure compliance with the said framework, as said framework

may be modified from time to time with the prior written approval of the Association, and such term includes any schedules or annexes to such framework.

30. “Safeguard Assessment and Plan” means any Environmental and Social Impact Assessment (ESIA), Resettlement Action Plan or Indigenous Peoples Plan to be prepared by the Recipient or the Project Implementing Entity under the Project, in accordance with the ESMF and the provisions of Section I.E of Schedule 2 to this Agreement, as said assessment and plan may be modified from time to time with the prior written approval of the Association, and such term includes any annexes and schedules to such assessment and plan; and “Safeguard Assessments and Plans” means, collectively, all such assessments and plans.
31. “Sub-project” means a water and sanitation system activity qualified for financing by a Community Schemes Grant under Part 2(b) of the Project in accordance with the terms of this Agreement, the Community Grant Implementation Manual and the relevant Community Schemes Grant Agreement.
32. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity.
33. “Training” means the reasonable costs of training, study tours and workshops, required for the Project, and including materials, preparation and reproduction of training materials, rental of facilities, transportation, course fees, travel, accommodation and *per diem* of trainers and trainees, and other costs directly related to preparation and implementation of training, study tours and workshops.
34. “WaSH PMU” means the project management unit within the DNPM and responsible for implementation of Parts 1 and 2 of the Project, including overall coordination of Parts 1, 2 and 3 of the Project, sector coordination and policy implementation, as set out in Section I.A 1 of Schedule 2 of this Agreement, or any successor unit within DNPM.
35. “WaSH PMU Project Implementation Manual” means Recipient’s manual referred to in Section I.A.3 of Schedule 2 to this Agreement, in form and substance satisfactory to the Association, containing detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of Parts 1 and 2 of the Project; (b) disbursement and financial management; (c) procurement; (d) environmental and social safeguards management; (e) monitoring and evaluation, reporting and communication; (f) project monitoring indicators; (g) grievance redress mechanism; and (h) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project, including overall coordination of Parts 1, 2 and 3 of the Project, as said manual may be modified from time to time with prior approval in writing of the Association, and such term includes any schedules to the WaSH PMU Project Implementation Manual.

36. “WaSH Task Force” means the multi-stakeholder task force responsible for developing and overseeing the implementation of the National WaSH Policy, which includes representatives from DNPM, relevant national government departments, water entities, non-government organizations and provincial and local government as required.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Section 3.02 is modified to read as follows:

“Section 3.02. *Service Charge and Interest Charge*

(a) *Service Charge*. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge*. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

2. Paragraph 28 of the Appendix (“Financing Payment”) is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the subsequent paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02 (b).”

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is modified by replacing the reference to Section 3.02 with Section 3.02 (a).