Honorable Peter O’Neill, CMG, MP
Prime Minister and Minister for Finance
Vulupindi Haus
Waigani
National Capital District
Papua New Guinea

Re: Independent State of Papua New Guinea - IDF Grant for Enhanced Legal Administration of Petroleum License Database Management System Project
IDF Grant No. TF012014

Dear Sir:

In response to the request for financial assistance made on behalf of the Independent State of Papua New Guinea (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”) proposes to extend to the Recipient, a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed four hundred fifty thousand United States Dollars (US$450,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”).

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed original of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned original, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned original of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By:

Ferid Belhaj
Country Director
Papua New Guinea, Timor-Leste
and Pacific Islands Operations
East Asia and Pacific Region
AGREED:
INDEPENDENT STATE OF PAPUA NEW GUINEA

By

Authorized Representative

Name

Title

Date: 23 May 2012

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

### Article II

**Project Execution**

2.01. **Project Objectives and Description.** (a) The objective of the Project is to assist the Recipient’s Department of Petroleum and Energy to develop and implement a petroleum license administration and management system which will be used to secure, process and maintain information regarding petroleum agreements and operations.

(b) The Project consists of the following parts:

**Part A. Project Implementation Support**

Provide implementation support related to procurement, including bid document preparation and procurement, and the overall implementation of the procurement plan associated with the engagement of digital registry system ("DRS") suppliers.

**Part B. DRS Development and Deployment; Department of Petroleum and Energy Staff Training**

(i) Development and installation of DRS hardware and software which will support the conversion of the Department of Petroleum and Energy's registry from a paper based system to a fully operational digital registry system.

(ii) Provision of training to Department of Petroleum and Energy staff in the operational use of the DRS to enhance their capacity to operate and maintain the DRS in a manner that provides: (a) license record security; (b) efficient administration of transactions; and (c) public access to non-confidential license information.

**Part C. DRS Promotion, Awareness Campaign**

Conduct a promotional campaign among multi-stakeholders including Government authorities, petroleum sector investors and the general public, to raise awareness regarding the features and access to the DRS database, including petroleum license information.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Department of Petroleum and Energy, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects
2.03. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank's request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover such period as shall be indicated in the World Bank's request and shall be furnished to the World Bank not later than one (1) month after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

   (i) License transaction data secured in DRS database;

   (ii) DRS system utilized to improve transaction processing; and

   (iii) Governmental, investor and public usage of transparent DRS database.

(c) The Recipient shall, upon the World Bank's request, prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five (5) months after the Closing Date.

2.04. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements for the Project shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for the Project for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.05. **Procurement**

(a) **General.** All goods and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

   (i) Section I of 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 ("Procurement Guidelines"), in the case of goods and non-consulting services;
(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”), in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank 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.

(c) Particular Methods of Procurement of Goods

Goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; and (B) Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>380,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants' Services</td>
<td>55,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training</td>
<td>15,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>450,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term "Training" means the cost of training under the Project, attributable to courses, seminars, study tours, and workshops, and comprising domestic and international travel and subsistence allowances for training participants, costs associated with securing the services of trainers and speakers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training preparation and implementation.

3.03. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three (3) years after the date of countersignature of this Agreement by the Recipient.

**Article IV**

**Recipient's Representative; Addresses**

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance and Treasury.

4.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Department of Treasury
Vulupindi Haus 4th floor
P.O. Box 542
Waigani, 131 NCD
Papua New Guinea
4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391