Mr. Loi Martin Bakani 11/25/10
Governor
Bank of Papua New Guinea
P.O Box 121
Port Moresby, NCD
PAPUA NEW GUINEA

Dear Mr. Bakani,

Re: Independent State of Papua New Guinea:
Financial Literacy Program Trust Fund Grant to Co-finance the PNG
Financial Competency Study under the Methods for Financial
Capacity Measurement Project (Grant No. TF098127)

In response to the request for financial assistance, I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided by the Ministry of Finance of the Russian Federation ("Donor") under the Financial Literacy Program Trust Fund, proposes to extend to Bank of Papua New Guinea, the Independent State of Papua New Guinea’s central bank established under the Recipients Central Banking Act 2000, (the Recipient) for the benefit of the Independent State of Papua New Guinea ("Member Country"), a grant in an amount not to exceed two hundred thousand United States Dollars (U.S.$ 200,000) ("Grant") on the terms and conditions set forth or referred to in this letter of agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

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.

November 17, 2010
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, 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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World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.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Ferid Belhaj

Ferid Belhaj
Country Director
Timor-Leste, Papua New Guinea
and Pacific Islands
East Asia and Pacific Region

AGREED:
BANK OF PAPUA NEW GUINEA

By /s/ Loi M. Bakani
Authorized Representative

Name Loi M. Bakani

Title Governor

Date 11/25/2010

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter dated November 17, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Financial Literacy Program Trust Fund Grant No. TF098127

ANNEX

Article I

Standard Conditions; Definitions


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, and the following additional terms shall have the following meanings:

(i) "Documentation" means: all written, graphic, audio, visual and any other materials, contributions, applicable work product and production elements contained therein, whether on paper, disk, tape, digital file or any other media, including at a minimum: (a) the interviewer guidelines from the Survey; (b) a concise, but complete description of the sample design of the Survey including how sampling weights were computed; (c) a description of the basic field procedures and quality control techniques of the Survey (d) guidelines for using the Survey’s dataset, including, but not limited to, problems encountered in the data and the solutions taken; (f) descriptions of the Survey’s data files;

(ii) "Data" means all data obtained through the Survey.

Article II

Project Execution

2.01. Project Objectives and Description. The objective of the Project is to assist the Recipient in co-financing the development of an understanding of the financial capability in the Independent State of Papua New Guinea, which is of particular importance to financial inclusion policy development. The Project consists of the following parts:

Part 1. Map financial activities and determine financial competencies

(A) Development of a comprehensive map of money related activities (including engagement with formal and informal financial systems) for each of the following community groups: (i) urban communities (ii) informal urban communities; (iii) rural communities linked to mining or logging activities; and (iv) largely subsistence farming communities. The foregoing shall be developed using a methodology acceptable to the Bank, including the organization of focus group discussions with gender based groups drawn from the aforementioned communities and in depth interviews with members from low income groups.
(B) Development, using a methodology acceptable to the Bank, of a closed question survey instrument to measure financial knowledge and skill (including financial inclusion with gender segregated information) and attitude to money (the “Survey”).

Part 2. Financial Capability Measurement

(A) Selection and training of some 40 interviewers (20 male and 20 female), to conduct the Survey using interviews and tablet net-book computers, all with adequate skills and experience and fluent in the languages to be used in the Survey.

(B) Data collection by teams of male and female interviewers, through the administration of the Survey to a sample representative of the PNG population (including representatives of the groups mentioned under Part 1A above) by using interviews and tablet net-book computers. To ensure that respondents are able to respond freely, interviews with male and female principal decision makers shall be undertaken separately.

(C) Analysis of the data thus collected, and preparation of a report.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall implement the Project through the Bank of Papua New Guinea 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 Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. Technical Workshops. The Recipient shall participate in the Technical Workshops organized by the World Bank on behalf of the Donor for Project design and implementation, provided that the reasonable cost of travel expenses of such participation shall be covered, not by the proceeds of this Grant, but otherwise by the Financial Literacy Program Trust Fund.

2.04. Donor Visibility and Visit.
(a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Member Country’s territory for purposes related to the Project.

2.05. Project Reporting. The Recipient shall 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 six months after the Closing Date.

2.06. 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 as part of the Project Report not later than one
month after the end of each six month period, covering the six month period, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period. The Recipient shall make the audit report publicly available in a manner acceptable to the World Bank.

2.07. **Procurement**

(a) **General.** All goods, and 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 under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; 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 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Shopping.

(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 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; (B) Single Source Selection; (C) Selection of Individual Consultants; and (D) Sole Source Procedures for the 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) 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 (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, Training and Workshops, and consultants’ services *) **)</td>
<td>200,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>200,000</td>
<td></td>
</tr>
</tbody>
</table>

*) For the purpose of this Section 3.01 the term “Training and Workshops” means the reasonable expenditures incurred by the Recipient in connection with the holding of training and workshops under the Project including the domestic travel costs and per diem of trainers and trainees, and the rental of facilities and the production and/or acquisition and distribution of training materials.

**) Pursuant to the Loans and Assistance (International Agencies) Act, Chapter No. 132 of the Revised Laws of Papua New Guinea (the “Act”), and by this Agreement with the Association, the Recipient confirms that any persons, income, matter or thing that is directly engaged in and directly forms part of this Agreement with the Association, is exempt from any tax, duty, or imposition under the revenue laws administered by the Commissioner General of the Internal Revenue Commission. If any change is made to the Act that will affect this exemption from tax, duty or imposition under the Project, the Recipient shall notify the Association in writing.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient or
(b) for any payment for Taxes levied by or in the territory of the Member Country in respect of goods and services.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is February 28, 2012.

**Article IV**

**Use of Information under the Project**

4.01. All Documentation and Data prepared by the Recipient pursuant to this Agreement shall remain the intellectual property of the Recipient, provided however that the Recipient hereby irrevocably grants to the World Bank (and to all members of the World Bank Group), free of charge, the non-exclusive right to copy, distribute, use, and prepare derivative works from the Documentation.

4.02. The Recipient shall provide access to and allow the use of the suitably anonymized Data and Documentation to researchers in government agencies, universities, private research institutes, international development organizations, and other similar institutions. Access to said data and documentation will be provided in computer readable format, and documentation will be provided in computer readable format when possible.

4.03. The Recipient shall provide the World Bank with all audio and video recordings made of the focus groups within two weeks (14 days) of completion, and (b) all transcripts of these recordings. (c) The Recipient shall provide the World Bank with documentation of the in-depth interviews within two weeks (14) days of completion of these in-depth interviews. The Recipient will provide the World Bank with the full data base, documentation, and copies scanned copies of the questionnaires of the Survey within three (3) months of the completion of Data collection.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Governor of Bank of Papua New Guinea.

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

    Bank of Papua New Guinea  
    Douglas Street  
    P.O Box 121, Port Moresby, NCD, PNG  
    Tel: + 675 3227240 Fax: + 675 3211617

5.03. **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/International Development Association  
    1818 H Street, N.W.  
    Washington, D.C. 20433 USA  
    Cable: INTBAFRAD Telex: 248423 (MCI) Facsimile: +1-202-477-6391
APPENDIX

Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   "...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

2. Section 11(a) is modified to read as follows:

   "...(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

Footnotes:

"13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

"14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines."

"15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders."