Hon. Peter O’Neill  
Prime Minister and Acting Minister for Treasury  
Department of Prime Minister and NEC  
Manasupe Haus Level 8  
PO BOX 639 Waigani 131 NCD  
Papua New Guinea

Re: PNG SP Grant No. TF0A5004  
Independent State of Papua New Guinea: Papua New Guinea Strategic Partnership Multi-Donor Trust Fund to Co-finance the Rural Service Delivery Project  
Letter Agreement

Dear Honorable Prime Minister:

In response to the request for financial assistance made on behalf of the Independent State of Papua New Guinea (the “Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development and International Development Association (collectively, the “World Bank”), acting as administrator of grant funds provided by the Commonwealth of Australia represented by the Department of Foreign Affairs and Trade (“Donor”) under the Papua New Guinea Strategic Partnership multi-donor trust fund, proposes to extend to the Recipient a grant in an amount not to exceed four million five hundred thousand United States Dollars (US$4,500,000) (the “Grant”) on the terms and conditions set forth or referred to in this letter agreement (the “Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (the “Project”).

The International Development Association has also agreed to provide a credit to the Recipient in an amount equivalent to seventeen million Special Drawing Rights (SDR 17,000,000) to finance the activities related to the Project, under the Financing Agreement (as defined in the Annex to this Agreement).

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is 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.
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.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/
INTERNATIONAL DEVELOPMENT ASSOCIATION

By Mona Sur
Acting Country Director
Timor-Leste, Papua New Guinea and Pacific Islands
East Asia and Pacific Region

AGREED:
INDEPENDENT STATE OF PAPUA NEW GUINEA

By
Authorized Representative

Name: HON. PETER O’NEILL, PNG, MP
Title: PRIME MINISTER AND TREASURER
Date: 19TH JULY, 2017

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with Disbursement Guidelines for Investment Project Financing, dated February 2017
ANNEX

Article I

Standard Conditions; Definitions


1.02. Definitions. (a) 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.

(b) All definitions contained in the Appendix of the Financing Agreement are incorporated by reference in this Agreement, and shall apply mutatis mutandis to this Agreement.

Article II

Project Execution

2.01. Project Objectives and Description. The objective of the Project is to improve communities’ access to basic infrastructure and services in targeted rural areas using inclusive, participatory planning and implementation. The purpose of the Grant is to co-finance the Project described in Schedule I to the Financing Agreement (Credit Number 6076-PG) dated 014 JL between the Recipient and International Development Association providing financing in support of the Project, as may be amended from time to time (the “Financing Agreement”).

The Project is described in Schedule 1 to the Financing Agreement.

2.02. Project Execution and Implementation Arrangements. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through Department of Provincial and Local Government Affairs in accordance with: (a) the provisions of Section I of Schedule 2 to the Financing Agreement, incorporated herein by reference, which apply to the Project, mutatis mutandis; (b) Article II of the Standard Conditions; (c) 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 (“Anti-Corruption Guidelines”); and (d) this Article II.

2.03. 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 Donors’ 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, enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.04. Project Monitoring, Reporting and Evaluation. (a) The provisions of Section II of Schedule 2 to the Financing Agreement are incorporated herein by reference and apply to the Project, mutatis mutandis.
(b) 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 (6) months after the Closing Date.

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

2.06. **Procurement**

(a) **General.** All goods, works, non-consulting services 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:


(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 (revised July 2014) (“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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods, Works and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods, works and non-consulting services 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, works and non-consulting services for those contracts which are specified in the Procurement Plan: (A) National Competitive Bidding, subject to the additional provisions set out in Section 2.06(d) below; (B) Shopping; (C) Direct Contracting; (D) Framework Agreements; and (E) Community Participation in Procurement procedures which have been found acceptable to the World Bank and are specified in the Project Operations Manual.

(d) Special Procedures for National Competitive Bidding. The procurement procedures 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; provided that such procedures shall be subject (a) to the provisions of Section I and Paragraphs 3.3 and 3.4 of the Procurement Guidelines; and (b) with the following modifications:

Participation in Bidding

1. The eligibility of bidders shall be as defined under the Procurement Guidelines.

2. 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.

3. 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.

4. A firm which has been engaged by the Recipient 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.

5. 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

6. 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

7. Until national standard bidding documents approved by the Association are available, bidding documents approved by the Association shall be used.

Bid Security

8. 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

9. 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

10. 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

11. 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

12. Bidders may submit bids, at their option, either in person or by courier service or by mail.

13. 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 Recipient 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.
14. 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.

15. 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.

16. The Recipient 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

17. 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

18. 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

19. 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

20. 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.

21. 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

22. Suppliers and contractors that have a business or family relationship with a senior member of the Recipient’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

23. The Recipient 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.

(a) 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) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants’ Qualifications; (d) Single-source Selection of consulting firms; (e) Fixed Budget Selection; and (f) Individual Consultants.

(b) 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 “Disbursement Guidelines for Investment Project Financing” dated February 2017, 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, works, non-consulting services, consultants’ services, WDGs, SPIS Grants, Training, and Incremental Operating Costs, for the Project</td>
<td>4,500,000</td>
<td>100% of the amount disbursed for WDGs, 100% of all SPIS Grants, and 100% of all other Eligible Expenditures</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>4,500,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of this paragraph the terms:

(i) “WDG” mean the proceeds of the Grant to be made available to each eligible Beneficiary, in accordance with Section 1.D of Schedule 2 to the Financing Agreement, for the purposes of carrying out a Sub-project;

(ii) “SPIS Grant” means the proceeds of the Grant to be made available to each Participating LLG to cover Operating Costs incurred from providing assistance to Ward Development Committees and CDD-SCs in preparing and implementing Sub-projects;

(iii) “Training” means the reasonable costs of training, study tours and workshops required for the Project and set forth in the Annual Work Plan and Budget, including materials, rental of facilities, reasonable transportation costs, course fees, as well as domestic travel and subsistence of trainers;

(iv) “Incremental Operating Costs” means reasonable expenditures directly related to the PMU or a PPO’s Project activities which expenditures would not have been incurred absent the Project), including consumable materials and supplies, communications services (postage, telephone and internet), media and printing services, translation and interpretation services, office space rental and utilities, maintenance of office equipment, operation and maintenance, fuel costs, bank charges, administrative support staff, and staff domestic travel, lodging and per diems, but excluding sitting fees and salaries (including bonuses, fees and honoraria or equivalent payments) of officials of the Recipient's civil service.

(v) “Operating Costs” means reasonable expenditures directly related to a Participating LLG’s support to Ward Development Committees and CDD-SCs to prepare and implement Sub-projects, incurred by a Participating LLG (which expenditures would not have been incurred absent the Participating LLG’s support to Ward Development Committees and CDD-SCs to prepare and implement Sub-projects), including consumable materials and supplies, communications services (postage, telephone and internet), media and printing services, translation and interpretation services, office space rental and utilities, maintenance of office equipment, operation and maintenance, fuel costs, bank charges, administrative support staff, and staff travel, lodging and per diems, but excluding sitting fees and salaries (including bonuses, fees and honoraria or equivalent payments) of officials of the Recipient's civil service.
diems, but excluding sitting fees and salaries (including bonuses, fees and honoraria or equivalent payments) of officials of the Recipient's civil service.

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 this Agreement, except that withdrawals up to an aggregate amount not to exceed one hundred thousand Dollars ($100,000) equivalent may be made for payments made prior to this date but on or after May 1, 2017, for Eligible Expenditures.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2020.

**Article IV**

**Effectiveness; Termination**

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action; and

(b) the Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

4.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing, on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

4.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.04. **Termination for Failure to Become Effective.** This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
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 minister at the time responsible for treasury.

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

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

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
   United States of America

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