August 31, 2012

Hon. Don Pomb Polye, MP
Minister for Treasury
Department of Treasury
Vulupindi Haus 4th floor
P.O. Box 542
Waigani, 131 NCD
Papua New Guinea

Re: Grant No. TF012493
Preparation Grant for the Rural Services Delivery and Local Governance Project

Excellency:

In response to the request for financial assistance made on behalf of the Independent State of Papua New Guinea (PNG) ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association (collectively, the "World Bank"), acting as administrator of grant funds provided by the Papua New Guinea Sustainable Development Program Ltd ("Donor") for the Rural Service Delivery and Local Governance Project ("Project"), proposes to extend to the Recipient a grant in an amount not to exceed three hundred thousand United States Dollars (US$300,000) ("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 activities described in the Annex ("Activities").

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 Activities 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. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

[Signature]

Authorized Representative
Ferid Belhaj
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:
Title:
Date:

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
Article I
Standard Conditions; Definitions

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 term used in this Agreement has the meaning ascribed to it in the Standard Conditions or in this Agreement as follows:

"Department for Provincial and Local Government Affairs" means the Recipient’s department that handles provincial and local government affairs or any successor thereto.

Article II
Execution of the Activities

2.01. **Grant Objectives and Activities.** (a) The purpose of the Grant is to prepare the Rural Service Delivery and Local Governance Project which has as its main objective to pilot a successful local community driven development platform that would be adopted by the Recipient as a way to improve the access, quality and management of basic public services delivered in rural communities in PNG.

(b) The Activities for which the Grant is given shall consist of such activities as may be required for the preparation of the Project and as shall have been approved by the World Bank from time to time. These activities may include preparation of detailed Project operations manual, development of basic financial management and community procurement systems, development of environmental, social, economic and other assessments, frameworks and guidelines, carrying out of stakeholder consultations, training, studies and workshops, surveys, and provision of technical advisory services (including audits) and goods required for the carrying out of such activities.

2.02. **Execution of the Activities Generally.** (a) The Recipient declares its commitment to the objectives of the Project and the Grant. To this end, the Recipient shall carry out the Activities through its Department for Provincial and Local Government Affairs in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) 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 (iii) this Article II.

(b) The Recipient shall appoint a financial management specialist and an accountant for the Activities, no later than two (2) months after the countersignature date of this Agreement by the Recipient.

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 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, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.
2.04. **Monitoring, Reporting and Evaluation of the Activities.** (a) The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section.

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

(i) Detailed Project operations manual and guidelines prepared in form and substance acceptable to the World Bank;

(ii) Key systems in place: financial management and procurement;

(iii) Environmental, social, economic and other assessments conducted and relevant frameworks and guidelines developed; and

(iv) Stakeholder consultations, training, studies and workshops conducted.

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 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 of 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.

2.06. **Procurement**

(a) General. All goods and consultants’ services required for the Activities 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 (“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 Activities 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 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, 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) 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 category of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<table>
<thead>
<tr>
<th>Categories</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>Goods, consultants’ services, Training and Operating Costs</td>
<td>300,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>300,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of the preceding paragraph, the terms: (a) “Training” means the costs of training under the Activities attributable to seminars, workshops, meetings, study tours, 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; (b) "operating costs" means operating costs required for the Activities including consumable materials and supplies, communications, utilities, mass media and printing services, vehicle rental, operation and maintenance, insurance charges, charges for the opening and operation of bank accounts required for the Activities, and travel, lodging and per diems, but excluding salaries 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 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 April 30, 2013.

**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 Minister for Treasury and Finance of the Recipient.

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

Facsimile:

(675) 3128808 or (675) 3128804

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

Cable: Telex: Facsimile:

INTBAFRAD INDEVAS 248423 (MCI) or 1-202-477-6391  
Washington, D.C. 64145 (MCI)