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LOAN NUMBER 2496-PNG(SF)

LOAN AGREEMENT  
(Special Operations)

(Highlands Region Road Improvement Investment Program - Project 1)

between

THE INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 19 FEBRUARY 2009

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LAS:PNG 40173

**LOAN AGREEMENT  
(Special Operations)**

LOAN AGREEMENT dated 19 February 2009 between THE INDEPENDENT STATE OF PAPUA NEW GUINEA (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has entered into a Framework Financing Agreement (hereinafter called the FFA) with ADB to seek ADB financing for an investment program for the road system in the Highlands region of the Borrower (hereinafter called the Investment Program);

(B) the Borrower has submitted a periodic financing request (hereinafter called PFR) to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) by an agreement of even date herewith between the Borrower and ADB (hereinafter called the Hard-Term Special Operations Loan Agreement), ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to nineteen million three hundred seventy-eight thousand Special Drawing Rights (SDR 19,378,000) in connection with the Project;

(D) the Borrower has applied to ADB for advisory technical assistance on a grant basis to the Government of the Independent State of Papua New Guinea (hereinafter called the Government) to assist in preparing a National Transport Development Plan for the period 2011 through 2020 in an aggregate amount equivalent to seven hundred thousand dollars (\$700,000);

(E) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement; and

(F) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2007, as amended from time to time);

(b) "DOT" means the Department of Transport of the Borrower or any successor thereto;

(c) "DOW" means the Department of Works of the Borrower or any successor thereto;

(d) "EARF" means the environmental assessment review framework dated 14 August 2008;

(e) "EMP" means an environmental management plan;

(f) "Facility" means the multitranche financing facility provided by ADB to the Borrower in accordance with ADB's policy on *Pilot Financing Instruments and Modalities* (R194-05, 4 August 2005);

(g) "FFA" means the Framework Financing Agreement dated 19 November 2008 between ADB and the Borrower, for the Facility;

(h) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(i) "HCRN" means the Highlands core road network;

(j) "HRMG" means the Highlands Road Management Group;

(k) "IEE" means an initial environmental examination;

(l) "km" means kilometer;

(m) "NRA" means the National Roads Authority of the Borrower or any successor thereto;

(n) "NRSC" means the National Road Safety Council of the Borrower;

(o) "NTDP" means the National Transport Development Plan of the Borrower;

(p) "PIU" means the Project Implementation Unit as described further in paragraph 2 to Schedule 5 to this Loan Agreement;

(q) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(r) "Procurement Plan" means the procurement plan for the Project dated 14 November 2008 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(s) "RAMS" means the road asset management system;

(t) "RF" means the Resettlement Framework dated 14 August 2008;

(u) "RP" means a resettlement plan as described in paragraph 11 of Schedule 5 to this Loan Agreement;

(v) "TSCMIC" means the Transport Sector Coordination, Monitoring and Implementation Committee of the Borrower; and

(w) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and Project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## **ARTICLE II**

### **The Loan**

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to forty-seven million nine hundred eight thousand Special Drawing Rights (SDR 47,908,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan**

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2013 or such other date as may from time to time be agreed between the Borrower and ADB.

## ARTICLE IV

### Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six (6) months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement, all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project and the Works financed out of the proceeds of the Loan, and any relevant records and documents.

## ARTICLE V

### Suspension; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Borrower shall have failed to perform any of its obligations under the Hard-Term Special Operations Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event of suspension described in Section 5.01 hereinabove.

## ARTICLE VI

### Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Hard-Term Special Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and shall have become legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Hard-Term Special Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and shall have become legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## ARTICLE VII

### Miscellaneous

Section 7.01. The Minister for Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

#### For the Borrower

Secretary  
Department of Treasury  
Vulupindi Haus  
P.O. Box 542  
Waigani, National Capital District  
Papua New Guinea

Facsimile Numbers:

(675) 312-8804  
(675) 312-8808

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

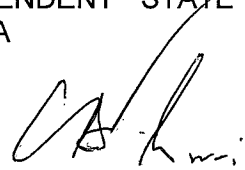
Facsimile Numbers:

(632) 636-2444  
(632) 636-2446.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

THE INDEPENDENT STATE OF PAPUA  
NEW GUINEA

By



H.E. CHRISTIAN ANTHONY VIHRURI  
Authorized Representative

ASIAN DEVELOPMENT BANK

By



C. LAWRENCE GREENWOOD, JR.  
Vice-President (Operations 2)

## SCHEDULE 1

### Description of the Project

1. The outcome of the Project will be improved accessibility and reduced transport costs in the Highlands region. The outputs of the Project will be (i) an improved HCRN, (ii) sustainable maintenance arrangements for HCRN, (iii) improved capacity of NRA to plan and manage long-term road maintenance contracts, (iv) a more efficiently organized DOW to deliver road improvements, and (v) a new NTDP for the period 2011 to 2020.

2. The Project is comprised of the following components:

#### **A. Investment Subprojects**

Improvements of 211 km of national roads that are part of the priority corridors identified in the National Transport Development Plan (NTDP; 2006-2010) as follows:

- (i) Nipa-Magarima (26 km);
- (ii) Magarima-Ambua (41 km);
- (iii) Hiwinda Junction-Koroba (29 km);
- (iv) Mendi-Kandep (50 km); and
- (v) Laiagam-Porgera (65 km).

#### **B. Investment Program Support Consulting Services**

The investment support consulting services include (a) detailed engineering design, preparation of bid documents and procurement support to DOW for 1,400 km of road improvement works, (b) preparation of feasibility studies and reports to address ADB's environmental and social safeguard policies, (c) supervision of road improvement contracts for 211 km of roads under the Project, (d) preparation of bid documents and procurement support to NRA for maintenance of the 2,500 km of roads constituting HCRN under the Investment Program, (e) supervision of long-term maintenance contracts for 211 km of roads improved under the Project and an additional 360 km of roads that are already in maintainable condition, (f) capacity development of DOW, NRA and NRSC, and (g) implementation of policy to improve road maintenance funds through road user charges.

#### **C. Socio-economic Monitoring Study**

The study will track Investment Program impacts and monitor the social and economic benefits of improving and maintaining roads in the Highlands region, including benchmarking and follow up studies of villages within the road influence areas and within control villages unaffected by the development.

#### **D. Project Preparation and Detailed Design**

The detailed engineering design and bid documents will be prepared through the Investment Program Support Consulting Services.

3. The Project is expected to be completed by 31 December 2012.

## SCHEDULE 2

### Amortization Schedule (Highlands Region Road Improvement Investment Program – Project 1)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 May 2017	998,083
15 November 2017	998,083
15 May 2018	998,083
15 November 2018	998,083
15 May 2019	998,083
15 November 2019	998,083
15 May 2020	998,083
15 November 2020	998,083
15 May 2021	998,083
15 November 2021	998,083
15 May 2022	998,083
15 November 2022	998,083
15 May 2023	998,083
15 November 2023	998,083
15 May 2024	998,083
15 November 2024	998,083
15 May 2025	998,083
15 November 2025	998,083
15 May 2026	998,083
15 November 2026	998,083
15 May 2027	998,083
15 November 2027	998,083
15 May 2028	998,083
15 November 2028	998,083
15 May 2029	998,083
15 November 2029	998,083
15 May 2030	998,083
15 November 2030	998,083
15 May 2031	998,083
15 November 2031	998,083
15 May 2032	998,083
15 November 2032	998,083
15 May 2033	998,083
15 November 2033	998,083
15 May 2034	998,083
15 November 2034	998,083
15 May 2035	998,083
15 November 2035	998,083
15 May 2036	998,083
15 November 2036	998,083
15 May 2037	998,083

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 November 2037	998,083
15 May 2038	998,083
15 November 2038	998,083
15 May 2039	998,083
15 November 2039	998,083
15 May 2040	998,083
15 November 2040	<u>998,099</u>
Total	<u><u>47,908,000</u></u>

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\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

### SCHEDULE 3

#### Allocation and Withdrawal of Loan Proceeds

##### General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

##### Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

##### Interest Charge

3. The amount allocated to Category 4 is for financing the interest charge on the Loan during the implementation period of the Project.

##### Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

##### Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with items to be retroactively financed, subject to a maximum amount equivalent to 20 percent of the Loan amount.

**TABLE**

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Highlands Region Road Improvement Investment Program - Project 1)</b>				
<b>CATEGORY</b>				<b>ADB FINANCING</b>
<b>Number</b>	<b>Item</b>	<b>Amount Allocated [SDR]</b>		<b>Percentage and Basis for Withdrawal from the Loan Account</b>
		<b>Category</b>	<b>Subcategory</b>	
1	Works	19,176,000		34 percent of total expenditure
2	Consulting Services	17,360,000		100 percent of total expenditure*
3	Project Administration	3,499,000		100 percent of total expenditure*
4	Interest Charge	1,144,000		100 percent of amounts due
5	Unallocated	6,729,000		
	Total	47,908,000		

\* Exclusive of taxes and duties imposed within the territory of the Borrower.

## SCHEDULE 4

### Procurement of Goods and Works, and Consulting Services

#### A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.
5. National Competitive Bidding. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

#### D. Selection of Consulting Services

6. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

**E. Industrial or Intellectual Property Rights**

7. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

8. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**F. ADB's Review of Procurement Decisions**

9. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### **Execution of Project and Operation of Project Facilities; Financial Matters**

#### Implementation Arrangements

1. The Borrower shall cause DOW to be the Project Executing Agency for the Investment Program and the Project. DOW shall also be the implementation agency (IA) for the road improvement works, and NRA shall be the IA for road maintenance, including for all road maintenance works contracted directly by NRA or transferred from DOW. A Program Steering Committee shall oversee implementation of Investment Program and the Project, monitor progress, approve roads for subsequent projects, and provide guidance to the Project Executing Agency and IAs. The PSC shall meet at least quarterly and shall be chaired by the Secretary of DOW or his designee. Other members of the PSC shall include the Secretary of DOT or his designee, the Chief Executive Officer of NRA, the Executive Director of NRSC, senior level officials of the Departments of National Planning and Monitoring, Treasury, and Finance, the Valuer General of the Department of Land and Physical Planning, representative of the Department of Environment and Conservation, provincial administrators from the five Highlands provinces, and representatives of the Highlands Police Force and the Chamber of Commerce.

2. HRMG, the DOW project implementation unit for ongoing ADB loans, shall be responsible as PIU for implementing road improvement works with the Project Director for ADB loans responsible for the Project. HRMG shall also be responsible for engaging all consulting services and road improvement contracts under the Project. With respect to road maintenance, NRA shall establish a PIU consisting of key NRA staff and supported by the Investment Program consultants.

#### Transfer of HCRN Roads and Long-Term Maintenance

3. Pursuant to Government Gazette, the Borrower shall cause DOW, in a phased manner, to transfer to NRA maintenance responsibility for maintainable roads under HCRN, so that maintenance of all 2,500 km of HCRN roads will be the responsibility of NRA upon Investment Program completion. NRA shall award and manage the long-term maintenance contracts for the 211 km of roads improved under the Project and for an additional portion of maintainable HCRN roads of about 360 km.

#### Road Maintenance Funding

4. Taking into account assistance provided under the Investment Program, the Borrower and NRA shall take the necessary actions to continue to increase maintenance resources for the Road Fund through road user charges, road damage charges, tax credit scheme, and other measures. In the event of any shortfall in maintenance funds, the Borrower shall continue to meet such shortfall from its budgetary resources.

National Transport Development Plan

5. For preparation of the National Transport Development Plan (2011-2020), the Borrower shall ensure that the Transport Sector Coordination, Monitoring and Implementation Committee facilitates harmonization of the approach and inputs to such Plan, and that the Committee includes a representative from ADB.

NRA Staffing

6. The Borrower shall ensure that NRA is staffed to a sufficient number and with the necessary expertise to carry out its responsibilities.

Capacity Development

7. With the support of the Investment Program consultants and resources from other development partners' programs such as the AusAID Transport Sector Support Program, the Borrower shall undertake capacity development for DOW, NRA and NRSC.

Road Safety

8. The Borrower through DOW shall (i) undertake road safety audits of all Investment Program roads; (ii) install appropriate road safety facilities during Project implementation, including pavement markings, traffic signs and signals, warning signs, and hazard barriers; and (iii) work with NRSC in improving road safety awareness in roadside communities.

Project Management Staff

9. The Borrower shall ensure that the necessary and qualified staff are engaged by DOW/HRMG and NRA/PIU during Project implementation, and that such staff are integrated into DOW and NRA upon completion of the Investment Program.

Environment

10. The Borrower through DOW and NRA shall ensure that (a) the Project is carried out in accordance with Project design, and construction and operations will comply with all applicable Government environmental laws and ADB's Environment Policy (2002) and guidelines; (b) the EARF is applied to ensure compliance with ADB's Environment Policy (2002); (c) the EMPs in the IEEs are updated and made site-specific, as required, during final design; (d) the environmental mitigation measures specified in the EMPs are incorporated in the bidding documents to be released only after the relevant IEEs and EMPs have been approved by ADB, and civil works contractor's specifications include requirements to comply with the environmental mitigation measures in the EMPs; (e) civil works contractors are closely supervised to ensure compliance; (f) the Investment Program consultants undertake environmental monitoring, and reflect the results in the Project progress reports and Project completion report; (g) adequate support is provided to the environmental staff in HRMG and their capacity is increased to enable appropriate implementation of the EARF and environmental supervision and monitoring during construction and operations; (h) training is provided to the HRMG environment staff to ensure that they can undertake the tasks; and

when necessary, additional environmental staff are recruited to supplement the capacity of HRMG.

#### Land Acquisition

11. The Borrower and DOW shall ensure that, to the extent possible, road improvement works are undertaken within the existing right-of-way. In the event of any requirement for additional land, the Government shall inform ADB and prepare and implement an RP; the RP shall be prepared in accordance with the RF, which complies with relevant PNG laws and regulations and ADB's Policy on Involuntary Resettlement (1995). The Borrower shall allocate adequate resources to prepare and implement the RP and supervise and monitor its implementation. The Borrower, through DOW, shall ensure that (i) national or provincial funds as appropriate are allocated and disbursed to pay compensation for affected assets; (ii) land acquisition will not commence before the RP has been reviewed and approved by ADB; and (iii) civil works will not start before the RP has been approved by ADB.

#### Labor Laws

12. The Borrower shall cause DOW and NRA to ensure that civil works contractors comply with all applicable labor laws and related international treaty obligations, and do not employ child labor for any rehabilitation or maintenance activities. The DOW shall ensure that specific provisions to this effect are included in the bidding documents and civil works contracts, and shall strictly monitor compliance.

#### Gender and Development

13. The Borrower shall cause DOW and NRA to (a) encourage local contractors to have 30% of their workforce for road improvement and maintenance works be women, (b) provide equal pay to men and women for work of equal type in accordance with national laws and international treaty obligations, and (c) provide safe working conditions for both male and female workers. Specific provisions to this effect shall be included in the bidding documents. The DOW shall reflect progress in achieving the employment targets for women in the Project progress reports and Project completion report.

#### Health Risks

14. The Borrower through DOW shall ensure that all civil works contractors participate in the sexually transmitted infections (STI) prevention program to be funded under the Investment Program in the construction campsites. The DOW shall also ensure that similar information on the risk of transmission of STIs is disseminated to local communities in the corridor of influence, in coordination with national agencies working on this issue. The DOW shall include specific provisions to this effect in civil works contracts, and compliance shall be strictly monitored by a qualified international NGO, which will be engaged and will operate in collaboration with the Provincial AIDS Councils and Health Administration.

#### Audit

15. The Borrower through DOW and NRA shall ensure that contracts financed under the Project include provisions specifying the right of ADB to audit and examine the records and accounts of DOW and all contractors, suppliers, consultants, and other service providers as

they relate to the Project. The Borrower shall engage independent private audit firms to conduct annual financial audits and procurement audits, and submit reports to ADB.

#### Accounting

16. The Borrower through DOW and NRA shall engage independent accounting support to build capacity and to ensure, among other things, timely and rigorous reconciliations, orderly record keeping, strict adherence to financial management policies and internal controls, and an orderly and timely year-end process for the preparation and audit of annual Project accounts.

17. The Borrower shall ensure that (a) the Project is carried out in compliance with all applicable anticorruption regulations of the Borrower and ADB's Anticorruption Policy (1998, as amended to date); (b) all DOW and NRA staff participate in the training in PNG's anticorruption regulations and ADB's Anticorruption Policy; and (c) a DOW website is developed and maintained to disclose the audited annual Project accounts, Project progress, and procurement activities.

#### Mid-term Review

18. The Borrower and ADB shall undertake a midterm review of the Project within two (2) years of commencement of Project implementation. Such midterm review shall focus on (i) Investment Program and Project impacts, (ii) implementation progress, (iii) progress on the Design and Monitoring Framework for the Project, (iv) performance of the consultants and contractors, (v) status of compliance with covenants in this Loan Agreement and the Hard-Term Special Operations Loan Agreement, and (vi) the need for any adjustments in Project design and implementation arrangements to ensure full achievement of the expected Project outcome and outputs.