LOAN AGREEMENT
(Ordinary Operations)
(Power Sector Development Project)

between

INDEPENDENT STATE OF PAPUA NEW GUINEA

and

ASIAN DEVELOPMENT BANK

DATED 23 September 2022
LOAN AGREEMENT
(Ordinary Operations)

LOAN AGREEMENT dated 23 September 2022 between INDEPENDENT STATE OF PAPUA NEW GUINEA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

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

(B) by an agreement of even date herewith between the Borrower and ADB ("Concessional Loan Agreement"), ADB has agreed to make a concessional loan ("COL Loan") to the Borrower from ADB’s ordinary capital resources in an amount of twenty million Dollars ($20,000,000) for the purposes of the Project;

(C) the Project will be carried out by Borrower’s Department of Treasury ("DOT") acting through PNG Power Limited ("PPL"), and for this purpose the Borrower will make available to PPL the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB’s ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and PPL;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of ADB’s Ordinary Operations Loan Regulations, dated 1 January 2022 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(rr) is deleted and the following is substituted therefor:

"Project Agreement" means the Project Agreement of even date herewith between ADB and PPL, as such agreement may be amended from time to time; and such project agreement includes all schedules to the Project Agreement.

(b) The term "Project Executing Agency" appearing in Sections 7.01(a)(i), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "PPL".
Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Consulting Services" means consulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan and the COL Loan;

(b) "EMP" means an environmental management plan for the Project, including any update thereto, incorporated in the IEE;

(c) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(d) "FY" means financial year;

(e) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the Borrower, the Project Executing Agency and ADB;

(f) "Goods" means equipment and materials as set out in the Procurement Plan and to be financed out of the proceeds of the Loan and the COL Loan, including any related Nonconsulting Services such as transportation, insurance, installation, commissioning, training, and initial maintenance;

(g) "IEE" means an initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(h) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(i) "km" means kilometers;

(j) "KV" means kilovolt;

(k) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);

(l) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan and the COL Loan;

(m) "O&M" means operation and maintenance activities;

(n) "PAM" means the project administration manual for the Project dated 9 March 2022 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
(o) "PMU" means the project management unit established within PPL, as described in the PAM;

(p) "PPL" means PNG Power Limited, or any successor thereto acceptable to ADB;

(q) "Procurement Plan" means the procurement plan for the Project dated 9 March 2022 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Policy, the Procurement Regulations, and other arrangements agreed with ADB;

(r) "Procurement Policy" means ADB's Procurement Policy – Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);

(s) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);

(t) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means DOT or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(u) "Project facilities" means the facilities to be improved, rehabilitated, constructed, and/or maintained, and the equipment to be provided and installed under the Project;

(v) "RP" means a resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the RF and cleared by ADB;

(w) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of, and compliance with, the EMP, the RP and the IPP (as applicable), including any corrective and preventative actions;

(x) "SCADA" means supervisory control and data acquisition;

(y) "Services" means Consulting Services and Nonconsulting Services;

(z) "SPS" means ADB’s Safeguard Policy Statement (2009);

(aa) "Subsidiary Loan Agreement" means the agreement entered into between the Borrower and PPL, satisfactory to ADB, referred to in Section 3.01 of this Loan Agreement; and

(bb) "Works" means construction or civil works as set out in the Procurement Plan and to be financed out of the proceeds of the Loan and the COL Loan, including any related Nonconsulting Services, and project related services that are provided as part of a single responsibility or turnkey contract.
ARTICLE II
The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB’s ordinary capital resources an amount of one hundred eighty-eight million six hundred thousand Dollars ($188,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term “grace period” as used in subsection (b) hereinafore means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

(a) SOFR;

(b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and

(c) a maturity premium of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwritten, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
(iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinafore that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(f) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan together with other funds required for the Project to PPL under a Subsidiary Loan Agreement upon the same terms and conditions as the Loan, in a form satisfactory to ADB. The foreign exchange risk will be borne by the Borrower.

(b) The Borrower shall cause the proceeds of the Loan to be applied exclusively to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn 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, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 2027 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 4 to this Loan Agreement.
Section 4.02. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB’s confirmation of their acceptability by posting them on ADB’s website.

Section 4.03. The Borrower shall enable ADB’s representatives to inspect the Project, the Goods, Works and Services, and any relevant records and documents.

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable PPL to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

**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 9.01(m) of the Loan Regulations: the Borrower or PPL shall have failed to perform any of its obligations under the Subsidiary Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

**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 10.01(f) of the Loan Regulations: the Concessional Loan Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and all conditions precedent to its effectiveness, other than a condition requiring the effectiveness of this Loan Agreement, shall have been fulfilled.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Concessional Loan Agreement has been duly authorized or
ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with their terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Treasury of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Secretary, Department of Treasury
The Treasury Building, Waigani Drive
P.O. Box 542
Waigani 131, National Capital District
Papua New Guinea

Facsimile Number:

(675) 313 3761.

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 8636-2444
(632) 8636-2338.
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 as of the day and year first above written and to be delivered at the principal office of ADB.

INDEPENDENT STATE OF PAPUA NEW GUINEA

By

IAN LING-STUCKEY, CMG, MP
Minister for Treasury

ASIAN DEVELOPMENT BANK

By

DAVID HILL
Country Director
Papua New Guinea Resident Mission
SCHEDULE 1

Description of the Project

1. The objective of the Project is to increase consumption of clean and reliable power supply in Project areas.

2. The Project shall consist of:

   (a) constructing approximately 111km of new 66kV transmission line and approximately 11 new/upgraded substations (including 3 switchyards), in Gazelle (including one SCADA system), Ramu and Port Moresby, and upgrading the existing 135km of transmission line from 66kV to 132kV in Ramu;

   (b) constructing approximately 1,600km medium and low voltage new power distribution lines in Ramu (Madang), Port Moresby, and mini grids in West New Britain; and

   (c) (i) strengthening the capacity of PPL in power grid modelling and planning, procurement, and implementation; (ii) undertaking a comprehensive diagnostic assessment of PPL's performance against standard industry indicators, encompassing all aspects of operations; (iii) assessing and improving the adequacy of PPL's financial management and accounting systems and procedures; and (iv) improving women's participation in technical roles in the Borrower's energy sector.

3. The Project is expected to be completed by 30 June 2027.
SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Payment Due</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 October 2027</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 April 2028</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2028</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 April 2029</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2029</td>
<td>2.500000</td>
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<tr>
<td>15 April 2030</td>
<td>2.500000</td>
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<tr>
<td>15 October 2030</td>
<td>2.500000</td>
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<tr>
<td>15 April 2031</td>
<td>2.500000</td>
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<tr>
<td>15 October 2031</td>
<td>2.500000</td>
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<tr>
<td>15 April 2032</td>
<td>2.500000</td>
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<tr>
<td>15 October 2032</td>
<td>2.500000</td>
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<tr>
<td>15 April 2033</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2033</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 April 2034</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2034</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 April 2035</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2035</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 April 2036</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2036</td>
<td>2.500000</td>
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<tr>
<td>15 April 2037</td>
<td>2.500000</td>
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<tr>
<td>15 October 2037</td>
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<tr>
<td>15 April 2038</td>
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<tr>
<td>15 October 2038</td>
<td>2.500000</td>
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<tr>
<td>15 April 2039</td>
<td>2.500000</td>
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<tr>
<td>15 October 2039</td>
<td>2.500000</td>
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<tr>
<td>15 April 2040</td>
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<tr>
<td>15 October 2040</td>
<td>2.500000</td>
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<tr>
<td>15 April 2041</td>
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<tr>
<td>15 October 2041</td>
<td>2.500000</td>
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<tr>
<td>15 April 2042</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2042</td>
<td>2.500000</td>
</tr>
<tr>
<td>Date</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------</td>
</tr>
<tr>
<td>15 April 2043</td>
<td>2.500000</td>
</tr>
<tr>
<td>15 October 2043</td>
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<td>15 April 2046</td>
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<tr>
<td>15 October 2046</td>
<td>2.500000</td>
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<tr>
<td>15 April 2047</td>
<td>2.500000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.000000</strong></td>
</tr>
</tbody>
</table>
2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) to the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule; and

(b) any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within 2 calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either (a) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (b) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table).

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest and Commitment Charges

3. The amount allocated to Category "Interest and Commitment Charges" is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

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 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 shall be disbursed in accordance with the Loan Disbursement Handbook.
Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible 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% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement and except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account until the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, has been duly authorized and ratified by, and executed and delivered on behalf of, the Borrower and PPL.
## TABLE

### ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

<table>
<thead>
<tr>
<th>Number</th>
<th>Item</th>
<th>Total Amount Allocated for ADB Financing ($)</th>
<th>Basis for Withdrawal from the Loan Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High voltage transmission and substation Works **</td>
<td>92,100,000</td>
<td>100% of total expenditure claimed*</td>
</tr>
<tr>
<td>2</td>
<td>Medium / low voltage distribution Works and household connections (Ramu-Madang/Port Moresby/West New Britain) **</td>
<td>78,600,000</td>
<td>100% of total expenditure claimed*</td>
</tr>
<tr>
<td>3</td>
<td>Interest and Commitment Charges</td>
<td>6,700,000</td>
<td>100% of amounts due</td>
</tr>
<tr>
<td>4</td>
<td>Unallocated</td>
<td>11,200,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>188,600,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

** Subject to the condition for withdrawal described in paragraph 7 of Schedule 2.
SCHEDULE 4

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM will become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Counterpart Support

2. The Borrower shall make available, through budgetary allocations or other means, all counterpart funds required for timely, effective and efficient implementation of the Project; including funds required for any external audit, to mitigate unforeseen environmental, resettlement and other social impacts and to meet additional costs arising from any design changes, price escalation in construction costs or other unforeseen circumstances. In addition to the foregoing, the Borrower shall ensure that DOT and PPL have sufficient funds to satisfy their liabilities arising from any Works, Goods and Services contract.

3. The Borrower and PPL shall ensure the continuous operation of the PMU, and further ensure that sufficient qualified staff is employed by the PMU in a timely manner to fully implement the Project as included in the PAM for the entire duration of the Project and thereafter.

Procurement

4. The Borrower, acting through DOT, shall ensure, or cause PPL to ensure, that:

(a) the procurement of Goods, Works and Services is carried out in accordance with the Procurement Policy and the Procurement Regulations;

(b) Goods, Works and Services shall be procured based on the detailed arrangements set forth in the Procurement Plan, including the procurement and selection methods, the type of bidding documents, and ADB's review requirements. The Borrower may modify the detailed arrangements set forth in the Procurement Plan only with the prior agreement of ADB, and such modifications must be set out in updates to the Procurement Plan; and

(c) (i) all Goods and Works procured and Services obtained (including 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; and (ii) all contracts for the procurement of Goods, Works and Services contain appropriate representations, warranties and, if
appropriate, indemnities from the contractor, supplier, consultant or service provider with respect to the matters referred to in this subparagraph.

Conditions for Commencement of Works

5. The Borrower or PPL may award a Works contract involving environmental impacts with respective IEE based on preliminary design having been submitted to and cleared by ADB if the contract:

(a) is of a "design and build" or "turnkey" type under which the design must be completed for the Works contract before the IEE is updated to reflect the final project design; and

(b) expressly provides that no works shall commence until: (i) an IEE for the Works contract reflecting the final project design having been submitted to, and cleared by ADB; and (ii) the Borrower’s Conservation and Environmental Protection Authority has granted the final approval of the IEE.

6. The Borrower or PPL may award a Works contract involving involuntary resettlement impacts prior to the final RP having been submitted to and cleared by ADB if the contract:

(a) is of a "design and build" or "turnkey" type under which the design must be completed for the Works contract before the RP is finalized; and

(b) expressly provides that the installation and construction phase (and commencement thereof) is conditional upon: (i) a final RP for the Works contract based on the Works contract’s detailed design having been submitted to, and cleared by ADB; and (ii) the Borrower having notified ADB and the contractor in writing through the RP completion report that due consultation has been carried out, all required physical and/or economic displacement has been completed, compensation and other entitlements have been provided to affected people in accordance with the RP.

Environment

7. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

8. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in
accordance with the schedule agreed under the related Works contract and all land acquisition
and resettlement activities are implemented in compliance with (a) all applicable laws and
regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the
Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP,
and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

9. Without limiting the application of the Involuntary Resettlement Safeguards, the
RP, the Borrower will ensure or cause the Project Implementing Agency to ensure that no physical
or economic displacement takes place in connection with the Project until:

(a) compensation and other entitlements have been provided to affected
people in accordance with the RP; and

(b) a comprehensive income and livelihood restoration program has been
established in accordance with the RP.

Indigenous Peoples

10. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that the
Project does not have any indigenous peoples impacts, within the meaning of the SPS. In the
event that the Project does have such impacts, the Borrower take all steps required to ensure that
the Project complies with the applicable laws and regulations of Borrower and with the SPS.

Human and Financial Resources to Implement Safeguards Requirements

11. The Borrower, acting through DOT, shall make available or cause PPL to make
available necessary budgetary and human resources to fully implement the EMP and the RP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

12. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that all
bidding documents and contracts for Works contain provisions that require contractors to:

(a) comply with the measures and requirements relevant to the contractor set
forth in the respective IEE, EMP and RP (to the extent they concern
impacts on affected people during construction), and any corrective or
preventative actions set out in a Safeguards Monitoring Report;

(b) make available a budget for all such environmental and social measures;

(c) provide the Borrower with a written notice of any unanticipated
environmental, resettlement or indigenous peoples risks or impacts that
arise during construction, implementation or operation of the Project that
were not considered in the IEE, the EMP, or the RP;

(d) adequately record the condition of roads, agricultural land and other
infrastructure prior to starting to transport materials and construction; and

(e) fully reinstate pathways, other local infrastructure, and agricultural land to
at least their pre-project condition upon the completion of construction;
Safeguards Monitoring and Reporting

13. The Borrower, acting through DOT, shall or cause PPL to do the following:

(a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;

(b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, or the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and

(c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, or the RP promptly after becoming aware of the breach.

Prohibited List of Investments

14. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

15. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that the core labor standards and the applicable laws and regulations of the Borrower are complied with during Project implementation; and specific provisions are included in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the applicable labor law and regulations of the Borrower and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

16. The Borrower, acting through DOT, shall or shall cause PPL to strictly monitor compliance with the requirements set forth in paragraph 15 above and provide ADB with regular reports.

Gender and Development

17. The Borrower, acting through DOT, shall or shall cause PPL to ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output
targets, are regularly monitored and reported to ADB.

Financial Covenants

18. The Borrower shall ensure that (a) PPL, based on its audited annual financial statements prepared in accordance with accounting standards acceptable to ADB, achieves a current ratio of at least 1.2 for the FY ending on 31 December 2023 and at least 1.5 from FY2024 onwards; (b) the average overall accounts receivable of PPL does not exceed at any time the equivalent of 2 months of energy sales for FY2022; and (c) PPL’s operating ratio does not exceed 0.9 from FY2024 onwards. For purposes of this paragraph:

(i) the term “current ratio” means the ratio of current assets to current liabilities;

(ii) the term “current assets” means all assets which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories, prepaid expenses properly chargeable to operating expenses within the next FY, and cash;

(iii) the term “current liabilities” means all liabilities which will become due and payable or could under circumstances then existing be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends;

(iv) the term “average overall accounts receivable” refers to average of the opening and closing accounts receivable balances for the 12-month period;

(v) the term “operating ratio” means operating expenses divided by operating revenue;

(vi) the term “operating revenue” means is the sum of revenues from all sources related to operations collected in cash, after provisions for non-collectible debts, and including subsidies received in cash; and

(vii) the term “operating costs” means all expenses related to operations including administration, maintenance and taxes but excluding non-cash charges such as depreciation (and excluding non-operating costs such as interest) paid in cash.

19. For each FY beginning with 2024, the Borrower shall ensure PPL prepares its projected financial performance based on full cost recovery tariffs.

Electricity Tariff

20. The Borrower shall cause PPL to (a) undertake a periodic review of tariffs and fees; and (b) make continuous efforts to set electricity tariffs progressively to achieve full cost recovery, in accordance with national tariff policies and regulations or on a quarterly basis as applicable.

21. During the process of adjusting tariffs, the Borrower shall cause PPL to take into consideration (a) the minimum tariff level to cover basic operating costs, debt service and capital
replacement; (b) users’ affordability and willingness to-pay data from available surveys; and (c) recent tariff escalations. The Borrower shall also include public consultation in the tariff setting processes.

Operation and Maintenance of Project Facilities

22. The Borrower shall ensure that PPL (a) prepares (i) a sustainable O&M plan; and (ii) a budget plan on an annual basis for O&M; and (b) provides sufficient financial and staffing resources to O&M.

23. The Borrower shall ensure that PPL is fully involved in all stages of Project implementation, including professional staff from O&M agencies participating in Project design, the bidding, and implementation of contracts, and the acceptance of completed Works.

Financial Management

24. The Borrower, acting through DOT, shall ensure or cause PPL to ensure that the financial management action plan set forth in the PAM, including the PPL’s corporate reform agenda, is implemented within the timeframes detailed in the PAM.

Governance and Anticorruption

25. The Borrower, the Project Executing Agency, and PPL shall (a) comply with ADB’s Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

26. The Borrower, the Project Executing Agency, and PPL shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.