
CONFORMED COPY

LOAN NUMBER 4833-PH

Loan Agreement

(Support for Strategic Local Development and Investment Project)

between

LAND BANK OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 3, 2006

LOAN NUMBER 4833-PH

LOAN AGREEMENT

AGREEMENT, dated October 3, 2006, between LAND BANK OF THE PHILIPPINES (Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (Bank).

(A) the Republic of the Philippines (the Guarantor) and the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) dated of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations set forth in the Guarantee Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the

amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Affected Person” means a person who, on account of the execution of the Project has experienced or would experience direct economic and/or social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Affected Persons” means, collectively, the plural thereof;

(b) “Approved Subproject” in respect of each Participating LGU or Participating Institution, means a project described in Part 1(a) or Part 1(b) of Schedule 2 to this Agreement meeting the eligibility requirements set out in the Project Operations Manual and approved in accordance with the terms;

(c) “Bangko Sentral ng Pilipinas” means the central bank of the Guarantor and any successor thereto;

(d) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004;

(e) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(g) “Environment and Social Safeguards Framework” means the policy framework including the Land Acquisition and Resettlement Framework, the environmental assessment framework and management plan, the framework for

protection of indigenous peoples and the framework for protection of cultural property, satisfactory to the Bank, adopted by the Borrower on May 10, 2006 and set out in the Project Operations Manual, as the same may be amended from time to time with the prior agreement of the Bank;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “IRA” means an internal revenue allotment from the central government of the Republic of the Philippines to a local government unit in accordance with the laws of the Republic of the Philippines prevailing from time to time;

(j) “Land Acquisition, Resettlement and Rehabilitation Policy Framework” means the framework included in the Environment and Social Safeguards Framework adopted by the Borrower on May 10, 2006, providing procedures, rules and guidelines for: (i) involuntary taking of land and other assets from Affected Persons; (ii) resettlement and rehabilitation of, and compensation to, Affected Persons; and (iii) reporting and monitoring arrangements to ensure compliance with such framework, as such framework may be amended from time to time with the agreement of the Bank;

(k) “LBP Charter” means the charter of the Borrower, the Republic Act 3844, dated August 8, 1963, as amended;

(l) “Participating LGU” means each local government unit selected to participate in an Approved Subproject pursuant to the requirements of the Project Operations Manual;

(m) “Participating Institution” means each public utility or private sector entity providing local infrastructure services selected to participate in an Approved Subproject pursuant to the requirements of the Project Operations Manual and satisfactory to the Borrower and the Bank;

(n) “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004;

(o) “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 10, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs;

(p) “Project Management Office” and “PMO” mean the office established and maintained by the Borrower in accordance with paragraph 1 of Schedule 5 to this Agreement;

(q) “Project Management Unit” and “PMU” mean the unit to be established and maintained by each Participating LGU and each Participating Institution in accordance with paragraph 2 of Schedule 5 to this Agreement;

(r) “Project Operations Manual” means the operations manual setting out the requirements for Project implementation, including Subproject Proposal selection criteria, financial management requirements, procurement procedures, reporting procedures and anti-corruption measures, to be adopted by the Borrower acceptable to the Bank; as the same may be amended from time to time with the prior agreement of the Bank;

(s) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement;

(t) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(u) “Subloan” means each loan made or proposed to be made by the Borrower to a Participating LGU or a Participating Institution pursuant to a Subsidiary Loan Agreement;

(v) “Subproject Proposal” means a proposal submitted for consideration to the Borrower by a Participating LGU or a Participating Institution for a project described in Part 1(a) or Part 1(b) of Schedule 2 to this Agreement;

(w) “Subsidiary Loan Agreement” means each agreement to be entered into between the Borrower and a Participating LGU or Participating Institution pursuant to paragraph 8 of Schedule 5 to this Agreement and on the terms and conditions set forth in the Annex to Schedule 5 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available for the Approved Subproject; and

(x) “Yen” and “JPY” each means the lawful currency of Japan.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to eleven billion seven hundred ten million Yen (JPY11,710,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and

services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2012 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Yen for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's

outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the sustainability of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements,

and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 12 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified, namely, that:

(a) the LBP Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement; or

(b) the Guarantor or any other entity having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or the suspension of its operations.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely that any of the events specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that:

(a) the Borrower shall have adopted the Project Operations Manual acceptable to the Bank; and

(b) at least two Participating LGUs shall have entered into Subsidiary Loan Agreements with the Borrower, satisfactory to the Bank, in accordance with paragraph 8 of Schedule 5 to this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that:

(a) each Subsidiary Loan Agreement referred to in Section 6.01(b) has been duly authorized or ratified by the Borrower and the respective Participating LGU, and is legally binding upon the Borrower and the respective Participating LGU in accordance with its terms; and

(b) the provisions of the Environmental and Social Policy Framework are legally valid and enforceable in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The President and Chief Executive Officer of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Land Bank of the Philippines
1598 M. H. del Pilar Cor Dr. J. Quintos Street
Malate, 1004 Manila
Republic of the Philippines

Telex:

64045 LBP PH

Facsimile:

632-528-8523

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Manila, Republic of the Philippines, as of the day and year first above written.

LAND BANK OF THE PHILIPPINES

By: /s/ Gilda E. Pico

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan (Expressed in Yen)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works and consultants' services for Approved Subprojects for the Part 1 of the Project	10,539,000,000	100% of amounts disbursed
(2) Goods and consultants' services for the Part 2 of the Project	1,141,725,000	100% of amounts disbursed
(3) Front-end Fee	29,275,000	Amount payable pursuant to Section 2.04 of this Agreement
TOTAL AMOUNT	<u>11,710,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made:

(a) for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding JPY1,171,000,000, may be made on account of payments made for expenditures before that date but after March 20, 2006; or

(b) under Category 2 unless a contract satisfactory to the Bank for the consulting services of the implementation support consultant as set out in the Procurement Plan satisfactory to the Bank has been signed.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) works costing less than \$5,000,000 equivalent per contract; (c) services of individual consultants costing less than \$100,000 equivalent per contract; and (d) services of consulting firms under contracts costing less

than \$350,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Yen a special deposit account in a commercial bank specifically authorized by the Bangko Sentral ng Pilipinas and acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule 1, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 1 if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of one billion one hundred seventy one million Yen (JPY1,171,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.
 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve local public service provision and management by facilitating access by local government units to viable financing to implement strategic infrastructure investments.

The Project consists of the following parts subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part 1: Subprojects for Infrastructure and Finance Improvement

- (a) Provision of Subloans to enable Participating LGUs and Participating Institutions to implement Approved Subprojects for individual infrastructure investments or for a program of infrastructure investments, including: water supply and sanitation facilities; mini hydropower development; solid waste management facilities; wastewater treatment and disposal; housing and new site development; roads and bridges; drainage and flood protection facilities; schools and health clinics; municipal enterprise structures such as public markets; and procurement of heavy equipment for local infrastructure construction and maintenance.
- (b) Provision of Subloans to enable Participating LGUs and Participating Institutions to implement Approved Subprojects for improving financial management and revenue generating capacity, including: acquisition of information communication technology; development and improvement of real property tax assessment and business permits and licensing systems; development of treasury operations management systems; and improving financial reporting for municipal enterprises and public service facilities.

Part 2: LGU Capacity Building and Project Implementation Support

- (a) Assisting Participating LGUs with Subproject preparation, procurement, supervision and management including monitoring of outcomes during construction and improved management and operation of municipal enterprises and services.
- (b) Supporting the Borrower in screening and evaluation of Subproject Proposals.

- (c) Strengthening the capacity of the Borrower to provide technical assistance to Participating LGUs and Participating Institutions, including through training and study visits.

The Project is expected to be completed by December 31, 2011.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Yen)*</u>
December 15, 2011	377,195,000
June 15, 2012	378,080,000
December 15, 2012	378,970,000
June 15, 2013	379,860,000
December 15, 2013	380,750,000
June 15, 2014	381,645,000
December 15, 2014	382,545,000
June 15, 2015	383,445,000
December 15, 2015	384,345,000
June 15, 2016	385,245,000
December 15, 2016	386,150,000
June 15, 2017	387,060,000
December 15, 2017	387,970,000
June 15, 2018	388,880,000
December 15, 2018	389,795,000
June 15, 2019	390,710,000
December 15, 2019	391,630,000
June 15, 2020	392,550,000
December 15, 2020	393,470,000
June 15, 2021	394,395,000
December 15, 2021	395,325,000
June 15, 2022	396,255,000
December 15, 2022	397,185,000
June 15, 2023	398,115,000
December 15, 2023	399,055,000
June 15, 2024	399,990,000
December 15, 2024	400,930,000
June 15, 2025	401,875,000
December 15, 2025	402,815,000
June 15, 2026	403,765,000

* The figures in this column represent the amount in Yen to be repaid, except as provided in Section 4.04(d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule 4.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule 4.

C. The capitalized terms used below in this Schedule 4 to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the provisions set out in the Annex to this Schedule 4.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Commercial Practices. Goods estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract and to be financed under Subloans to private sector Participating Institutions for Subprojects under Part 1 of the Project, may be procured in accordance with commercial practices acceptable to the Bank.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior review of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

ANNEX to SCHEDULE 4

National Competitive Bidding Procedures

With respect to goods, works and services (other than consultants' services) to be procured in accordance with the procedures referred to in paragraph 1 of Part B of Section II of Schedule 4, the National Competitive Bidding (NCB) procedures of the Guarantor shall apply, except that, unless otherwise agreed by the Bank in writing, the following procedures shall be followed:

1. Eligibility screening shall not be applied. However, bids that do not contain any of the following documents will not pass the documentary compliance check: (a) evidence of the required financial, technical or production capability; (b) audited financial statements; (c) credit line, or cash deposit certificate; (d) bid security; and (e) authority of the bid signatory.
2. In the case of prequalification, if any bidder is denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall be sought.
3. A ceiling may be applied to bid prices, with prior concurrence of the Bank in advance of bidding. However, the approved budget estimate may be disclosed in the advertisement or in the bidding documents.
4. Domestic or regional preferences will not be applied in the evaluation of bids, and other preferences in effect in the Philippines will not be used except with the prior concurrence of the Bank.
5. Suppliers and contractors will not be required to purchase only local goods or supplies or materials.
6. In case of contracts for prior review, modifications exceeding fifteen percent (15%) of contract amount and material changes in the conditions during implementation require prior Bank concurrence.
7. Foreign suppliers and contractors shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture with, local firms. Moreover, foreign bidders shall be allowed to bid, even without registration, licensing, and other government authorizations, leaving these requirements for after award and before signing of contract.
8. For works contract, the experience qualification requirement shall be: (a) at least one previous contract at eighty percent (80%) of the estimated cost of the contract being procured; and (b) an annual turnover from all works averaged over the last three (3) years equal to one hundred percent (100%) of the estimated cost of the contract being procured.

SCHEDULE 5

Implementation Program

Project Management

1. The Borrower shall maintain the Project Management Office (PMO), satisfactory to the Bank, with adequate staff in adequate numbers throughout project implementation.
2. The Borrower shall ensure that each Participating LGU and each Participating Institution shall have established and shall maintain throughout project implementation, a Project Management Unit (PMU) with adequate staff in adequate numbers, satisfactory to the Bank.

Project Implementation

3. The Borrower shall ensure that the Project is implemented in accordance with the Project Operations Manual and shall not amend or otherwise change the Project Operations Manual except with the prior written consent of the Bank. Without limiting the generality of the foregoing, the Borrower shall ensure that Approved Subprojects are identified, appraised, documented, implemented, supervised, monitored and evaluated in accordance with the Project Operations Manual.
4. Notwithstanding the foregoing paragraph 3, the Borrower shall submit to the Bank for prior approval the following: (a) each Subproject Proposal that is submitted by a Participating Institution rather than a Participating LGU, except as may be otherwise agreed by the Bank; (b) the first Subproject Proposal that involves a program of infrastructure investments rather than a single infrastructure investment; (c) each Subproject Proposal with procurement requiring prior review as set out in the Procurement Plan; (d) each Subproject Proposal with a resettlement action plan required by the Environment and Social Safeguards Framework; and (e) the first environmental impact statement report prepared in each of the areas of housing and new site development, sewerage, sanitary landfill, drainage and flood control, hospital and medical facilities, and the first initial environmental examination report prepared for a category B Subproject, as defined in the Environment and Social Safeguards Framework, in each of the following three areas: water supply systems; roads; and bridges, each in accordance with the Environment and Social Safeguards Framework.
5. The Borrower shall submit to the Bank for its review and approval no later than January 31 in each year a draft annual plan of Project activities, including a work program, proposed budget, and proposed commitment plan for that year.
6. In each case where an Approved Subproject involves a program of infrastructure investments, the Borrower shall ensure that such program has received the prior approval of the relevant Participating LGU's council.

7. The Borrower shall submit to the Bank for prior approval the terms of reference for consulting firms proposed to be procured by the Borrower for capacity building activities under Part 2 of the Project.

Subsidiary Loan Agreements

8. The Borrower shall make the proceeds of the Loan under Part 1 available to each Participating LGU and each Participating Institution pursuant to a subsidiary loan agreement (each a "Subsidiary Loan Agreement") between the Borrower and such Participating LGU or Participating Institution. Each Subsidiary Loan Agreement shall contain such terms and conditions as are set forth in the Borrower's form of standard subsidiary loan agreement approved by the Bank, which shall include without limitation, those set forth in the Annex to this Schedule 5.

9. No expenditures for goods, works or consultants' services required by a Participating LGU or a Participating Institution to carry out its Approved Subproject shall be eligible for financing out of the proceeds of the Loan unless: (a) the expenditure meets the eligibility requirements set out in the Project Operations Manual; (b) the Participating LGU or Participating Institution shall have entered into its respective Subsidiary Loan Agreement with the Borrower; and (c) the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the respective Participating LGU or Participating Institution, and is legally binding upon the Borrower and the respective Participating LGU or Participating Institution in accordance with its terms.

10. The Borrower shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Without limiting the generality of the foregoing, the Borrower shall take all steps necessary to ensure that each Participating LGU and each Participating Institution: (a) shall have taken all actions required by the confirmations set out in Section 2(a) of the Annex to this Schedule 5 to be taken prior to commencement of its Approved Subproject; and (b) shall take as and when required all actions set out in Section 2(b) of the Annex to this Schedule 5.

11. Except as the Bank shall otherwise agree, the Borrower shall not assign, abrogate or waive each Subsidiary Loan Agreement or any of its provisions; or amend any Subsidiary Loan Agreement or any of its provisions other than in a manner consistent with the Project Operations Manual and the Borrower's standard form of subsidiary loan agreement as agreed by the Bank.

Monitoring and Evaluation

12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about each April 30 and October 31, or such other dates as the Bank may agree, beginning April 30, 2007, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the six-month period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Bank, by one (1) month following each such report, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about May 31, 2009 or such later date as the Bank shall request a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraphs (a) and (b) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof; and

(e) include in each of the progress reports referred to in Section 4.02 of this Agreement a report on the implementation of the Environment and Social Safeguards Framework.

ANNEX to SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Loan Agreements

For the purposes of paragraph 8 of Schedule 5 to this Agreement, the Borrower shall ensure that Loan proceeds under Part 1 of the Project shall be made available to Participating LGUs and Participating Institutions only on terms and conditions set forth in this Annex.

Section 1. Terms of Availability

- (a) Each Subsidiary Loan Agreement shall include the following terms:
 - (i) a loan amount based on the requirements of the Approved Subproject, but in no case to exceed the net borrowing capacity of the Participating LGU or the projected Subproject cash flow for the Participating Institution, in each case determined in accordance with the Project Operations Manual;
 - (ii) a maximum term of fifteen (15) years with a maximum grace period of three (3) years;
 - (iii) a rate of interest determined by the Borrower in accordance with the Project Operations Manual;
 - (iv) a collateral requirement acceptable to the Borrower including, but not limited to, any or a combination of: (A) real estate mortgage; (B) hold-out on deposit; (C) chattel mortgage; and (D) assignment of IRA (for Participating LGUs); and
 - (v) disbursement procedures in accordance with the Project Operations Manual.

Section 2. Conditions

(a) Each Subsidiary Loan Agreement shall include the representation by the Participating LGU or Participating Institution that, prior to the commencement of the Approved Subproject, it has:

- (i) prepared the Approved Subproject consistent with the participatory multi-year local development plan of the Participating LGU where the Approved Subproject will be undertaken;

- (ii) adopted and agreed to carry out and implement its Approved Subproject in accordance with the Project Operations Manual and the Environment and Social Safeguards Framework;
- (iii) established, in the case of Participating LGUs through an executive order and in the case of a Participating Institution in accordance with its internal procedures, and agreed to maintain a Project Management Unit managed and staffed with qualified personnel in adequate numbers to supervise the implementation of its Approved Subproject;
- (iv) completed the acquisition of all land necessary for its Approved Subproject and obtained clear title thereto in accordance with the Land Acquisition and Resettlement Policy Framework;
- (v) for each Approved Subproject where the number of Affected Persons is higher than 200, prepared and furnished to the Borrower and the Bank a detailed resettlement action plan documenting the implementation arrangements for resettlement, including compensation, relocation and rehabilitation in accordance with the terms of the Environment and Social Safeguards Framework, satisfactory to the Borrower and the Bank, and taken all steps required to be taken thereunder prior to commencement of the Approved Subproject;
- (vi) undertaken an environmental assessment and prepared an environmental management plan to the extent required by and in accordance with the Environment and Social Safeguards Framework, satisfactory to the Borrower and the Bank, and taken all steps required to be taken thereunder prior to commencement of the Approved Subproject;
- (vii) as applicable in accordance with the Environment and Social Safeguards Framework, identified any indigenous peoples in the Approved Subproject area, and prepared an indigenous peoples plan to the extent required by and in accordance with the Environment and Social Safeguards Framework, satisfactory to the Borrower and the Bank, and taken all steps required to be taken thereunder prior to commencement of the Approved Subproject; and
- (viii) as applicable in accordance with the Environment and Social Safeguards Framework, identified any cultural property in the Approved Subproject area, and prepared a plan for management thereof to the extent required by and in accordance with the

Environment and Social Safeguards Framework, satisfactory to the Borrower and the Bank and taken all steps required to be taken thereunder prior to commencement of the Approved Subproject.

(b) Each Subsidiary Loan Agreement shall include undertakings by the Participating LGU or Participating Institution that it shall:

- (i) to the extent that a resettlement action plan is required by and in accordance with the Environment and Social Safeguards Framework, implement such resettlement action plan in accordance with its terms in a manner satisfactory to the Borrower and the Bank;
- (ii) obtain all environmental compliance certificates required under Philippine laws and regulations for the operation and maintenance of its Approved Subproject, and to the extent that an environmental management plan is required by the Environment and Social Safeguards Framework, implement such environmental management plan in accordance with its terms in a manner satisfactory to the Borrower and the Bank;
- (iii) to the extent that an indigenous peoples plan is required by the Environment and Social Safeguards Framework, implement such indigenous peoples plan in accordance with its terms in a manner satisfactory to the Borrower and the Bank;
- (iv) to the extent that a plan for management of cultural property is required by the Environment and Social Safeguards Framework, implement such plan in accordance with its terms in a manner satisfactory to the Borrower and the Bank;
- (v) provide adequate resources to carry out, operate and maintain its Approved Subproject with due diligence and efficiency in accordance with sound technical, financial, managerial and environmental standards and practices;
- (vi) ensure that the goods, works and consultants' services to be financed out of the proceeds of the Subsidiary Loan Agreement shall be procured in accordance with the Procurement Guidelines and that such goods, works and services shall be used exclusively in the carrying out of the Approved Subproject; and
- (vii) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent

with sound business practice, and without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Subsidiary Loan Agreement to the place of use or installation, any indemnity thereunder to be made payable in currency freely usable by the Participating LGU or Participating Institution.

(c) Each Subsidiary Loan Agreement shall include the rights of the Borrower to:

- (i) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Approved Subproject, and the operation thereof, and any relevant records and documents;
- (ii) obtain all such information as the Bank or the Borrower shall reasonably request relating to the Approved Subproject or the use of the proceeds of the Loan; and
- (iii) suspend or terminate the right of the Participating LGU or Participating Institution to the use of the proceeds of the Loan upon failure by such Participating LGU or Participating Institution to perform its obligations under its Subsidiary Loan Agreement.

(d) Each Subsidiary Loan Agreement shall include the condition that no disbursement shall occur:

- (i) until the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the respective Participating LGU or Participating Institution, and is legally binding upon the Borrower and the respective Participating LGU or Participating Institution in accordance with its terms, and the Subsidiary Loan Agreement shall have become effective in accordance with its terms;
- (ii) for any expenditures other than those meeting the eligibility requirements set out in the Project Operations Manual; and
- (iii) until the Participating LGU or Participating Institution shall have taken the actions specified under subparagraphs (a)(ii) through (viii) above.

SCHEDULE 6

Project Performance Indicators

1. Number of households benefiting from the Project with improved access to basic social, economic and environmental infrastructure services in Participating LGUs from baseline year to end of Project year.
2. Increase in proportion of capital expenditure to total expenditure among Participating LGUs by end of Project.
3. Satisfactory completion of fifty (50) priority investment Approved Subprojects by Participating LGUs.
4. The Borrower's non-performing loan percentage for Participating LGUs remains below two percent (2%).