

CONFORMED COPY

LOAN NUMBER 4446 PH

Loan Agreement

(Local Government Finance and Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

Dated September 8, 1999

LOAN NUMBER 4446-PH

LOAN AGREEMENT

AGREEMENT, dated September 8, 1999, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

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;

NOW THEREFORE the parties hereto hereby agree as follows:

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 December 2, 1997) (the General Conditions) constitute an integral part of this Agreement.

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 wherever used in this Agreement have the following meanings:

(a) "Affected Person" means a person who, on account of the execution of Part A of the Project, had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, and "Affected Persons" means collectively all persons who qualify as an Affected Person.

(b) "Bangko Sentral ng Pilipinas" means the Central Bank of the Republic of the Philippines, and any successor thereto.

(c) "DILG" means the Borrower's Department of Interior and Local Government, and any successor thereto.

(d) "DOF" means the Department of Finance, an agency of the Borrower with jurisdiction over MDF and MDFO, and any successor thereto.

(e) "LGA" means the Local Government Academy established in 1987 under Executive Order Number 262 of the Borrower.

(f) "LGUs" means local government units, political subdivisions of the Borrower at the provincial, city or municipal level; and "LGU" means any such Local Government Unit.

(g) "LGU Resource Mobilization and Performance Monitoring Plan" means the plan, which may be revised from time to time with the approval of the Bank, to be implemented by the Borrower pursuant to paragraph 8 of Schedule 6 to this Agreement.

(h) "MDF" means the Municipal Development Fund established under Presidential Decree No. 1914 dated March 29, 1984, administered by DOF through the Bureau of Local Government Finance, to make financial resources available to local governments for duly approved specific projects or activities, and any successor thereto.

(i) "MDFO" and "Municipal Development Fund Office" means the MDF as reorganized, functionally and structurally, under President's Executive Order Number 41 dated November 20, 1998, to be administered by DOF.

(j) "MDFO-PGB" means the MDFO Policy Governing Board established pursuant to Section 4 of President's Executive Order Number 41 dated November 20, 1998, and maintained pursuant to paragraph 2 of Schedule 6 to this Agreement, and any successor thereto.

(k) "MDF Reorganization Action Plan" means the plan, which may be revised from time to time with the approval of the Bank, to be implemented by the Borrower pursuant to paragraph 9 of Schedule 6 to this Agreement.

(l) "Operations Manual" means the manual, satisfactory to the Bank, adopted by MDFO and MDFO-PGB pursuant to paragraph 3(a) of Schedule 6 to this Agreement, as such Manual may be revised from time to time with the prior approval of the Bank.

(m) "Participating LGUs" means LGUs responsible for carrying out Subprojects in accordance with the procedures of the Operations Manual and the terms and conditions of their respective Subproject Agreements; and "Participating LGU" means any such entity.

(n) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(o) "Subproject Appraisal Report" means the subproject appraisal report prepared by MDFO, in accordance with the guidelines set forth in Operations Manual, which includes a description of the subproject proposed, its cost and financing and implementation arrangements and the LGU's historical and projected income and expenditure.

(p) "Subprojects" means specific development Subprojects approved for financing under Part A of the Project in accordance with procedures and criteria established in the Operations Manual and pursuant to the terms and conditions of the relevant Subproject Agreements; and "Subproject" means any such Subproject.

(q) "Subproject Agreements" means the agreements referred to in paragraph 6 to Schedule 6 of this Agreement, to be entered into between DOF and Participating LGUs in respect of Subprojects to be financed from the proceeds of the Loan; and "Subproject Agreement" means any such Agreement.

(r) "Subproject Financing" means loans and/or grants made, in part, from the proceeds of the Loan to Participating LGUs to finance their respective Subprojects in accordance with procedures and criteria established in the Operations Manual, and pursuant to the terms and conditions of the relevant Subproject Agreements and, where the context so requires, any such loan and/or grant.

## 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 one hundred million dollars (\$100,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement: (i) 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 Parts B, C and D of the Project and to be financed out of the proceeds of the Loan; and (ii) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a LGU under Subproject Financing to meet the reasonable cost of goods and services required for a Subproject in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain a special deposit account in dollars in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. 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 said 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 dollar 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 quarters 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 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 of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower 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 May 15 and November 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DOF, with due diligence and efficiency and in conformity with appropriate administrative, economic, environmental, financial and management 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 6 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan; and shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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 for the continued achievement of the purposes of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the

Borrower on said plan.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof, 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 statements of expenditure, the Borrower shall:

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for 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;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. 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:

(a) The Borrower shall have appointed an executive director and a Project manager, procurement specialist, accountant and environmental specialist to work in MDFO, with qualifications and experience as set forth in paragraph 1 of Schedule 6 to this Agreement;

(b) MDFO and MDFO-PGB shall have adopted and put into effect the Operations

Manual in accordance with paragraph 3(a) of Schedule 6 to this Agreement;

(c) A memorandum of agreement shall have been entered into between DOF and DILG, setting forth the role of LGA in assisting DOF in the implementation of Part B of the Project and on terms and conditions satisfactory to the Bank.

Section 5.02. 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 VI

##### Representative of the Borrower; Addresses

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance  
Department of Finance Building  
Roxas Blvd.  
Manila  
Republic of the Philippines

Cable address:

SECFIN  
Manila

Telex:

40268 CB-CONF

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)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Edgardo B. Espiritu

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bernard Funck

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Subproject Financing amounts under Part A of the	77,100,000	90% of  disbursed under Subproject Financing
(2) Goods  expenditures (ex-factory costs) and  expenditures  procured locally	5,340,000	100% of foreign expenditures, 100% of local  80% of local  for other items
(3) Consultants' services and training	12,440,000	100%
(4) Incremental Operating costs	4,120,000	80%
(5) Fee	1,000,000	Amount due under Section 2.04 of this  Agreement
TOTAL	100,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Operating Costs" means the operating costs of MDFO related to the implementation of the Project, including costs for office supplies and project staff travel and operating costs of equipment and facilities, but excluding salaries.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) Subproject Financing;

(b) civil works and goods under contracts costing less than \$300,000 equivalent each;

(c) consultants' services under contracts with firms or individuals costing

less than \$100,000 equivalent or \$50,000 equivalent, respectively;

(d) Incremental Operating Costs; and

(e) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in: (1) expanding and upgrading basic infrastructure, services and facilities under the jurisdiction of Participating LGUs; (2) strengthening LGUs' capacity in municipal governance, investment planning, revenue generation, and project development and implementation; and (3) enhancing the Borrower's capacity to support and finance local government development and investment.

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

#### Part A: LGU Subprojects

1. Carrying out of specific LGU investment projects through the provision of loans and/or grants for:

(a) expansion, rehabilitation and improvement of:

(i) basic infrastructure, such as public markets, slaughterhouses, bus terminals, local roads and drainage;

(ii) social service facilities, such as health centers and school buildings; and

(iii) environmental facilities and management, such as sanitation systems, river and seashore protection, solid waste management facilities, traffic management and engineering, and public memorial parks, and

(b) preparation of feasibility studies for said LGU investment projects and LGU urban development plans.

#### Part B: LGU Training and Capacity Building

1. Strengthening of LGUs' training and management capacities, through the provision of equipment, consultants' services and training, for:

(a) subproject development and implementation; and

(b) municipal planning, finances and management.

2. Strengthening of the Borrower's training and management capacities, through the provision of equipment, consultants' services and training, for:

(a) training modules and delivery mechanisms; and

(b) development and implementation of new training programs, including distance learning, LGU twinning arrangements, MDFO conferences and workshops, and rapid-response technical assistance.

#### Part C: LGU Resource Mobilization and Performance Monitoring

1. Enhancement of LGUs' resource mobilization and performance monitoring capacities by:

(a) expanding DOF's Real Property Tax Administration Program to provide technical assistance to local governments for improvement of property tax billing and



collection, to achieve nation-wide coverage;

(b) developing and implementing new initiatives to assist LGUs improve their creditworthiness and revenue generation; and

(c) developing and implementing systems to improve the monitoring of LGU fiscal performance and local financial reporting and disclosure, through provision of consultants' services, training, and equipment.

Part D: MDF Reorganization and Strengthening

1. Enhancement of the Borrower's capacity to support and finance local government development and investment through the reorganization and strengthening of MDF to implement, on a phased basis, new institutional structures, streamlined procedures and approvals and decentralized operations by providing equipment and technology, consultants' services and training.

\*\*\*\*\*

The Project is expected to be completed by December 31, 2005.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
November 15, 2004	2,160,000
May 15, 2005	2,225,000
November 15, 2005	2,285,000
May 15, 2006	2,350,000
November 15, 2006	2,415,000
May 15, 2007	2,485,000
November 15, 2007	2,555,000
May 15, 2008	2,630,000
November 15, 2008	2,700,000
May 15, 2009	2,780,000
November 15, 2009	2,855,000
May 15, 2010	2,940,000
November 15, 2010	3,020,000
May 15, 2011	3,105,000
November 15, 2011	3,195,000
May 15, 2012	3,285,000
November 15, 2012	3,375,000
May 15, 2013	3,470,000
November 15, 2013	3,570,000
May 15, 2014	3,670,000
November 15, 2014	3,775,000
May 15, 2015	3,880,000
November 15, 2015	3,990,000
May 15, 2016	4,105,000
November 15, 2016	4,220,000
May 15, 2017	4,340,000
November 15, 2017	4,460,000
May 15, 2018	4,585,000
November 15, 2018	4,715,000
May 15, 2019	4,860,000

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

### SCHEDULE 4

#### Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Except as otherwise provided in paragraph 2 of this Part C, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost \$200,000 equivalent or less per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or less.

2. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$9,700,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

## 2. Prior Review

(a) Subject to the provisions of paragraph (b) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to the following contracts:

(i) in each calendar year, the first five contracts each for works and goods, regardless of the cost thereof, for which invitations to bid are issued in that calendar year;

(ii) each contract for works estimated to cost the equivalent of \$300,000 or more; and

(iii) each contract for goods estimated to cost the equivalent of \$100,000 or more.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any of the contracts referred to in subparagraph (i) thereof are to be procured under small works or national shopping procedures in accordance with the provisions of Part C.2 or Part C.3 of this Section I, the following procedures shall apply:

(i) prior to the selection of any contractor under such procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under such procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

## 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Part B and D of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the

Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services under Parts B, C and D of the Project, which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for Parts B and D of the Project that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$50,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the

Project, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 6

##### Implementation Program

For the purposes of Section 3.01(b) of this Agreement, the Implementation Program shall consist of the following: Part A of the Project

1. The Borrower shall maintain within DOF, MDFO, which shall be:

(a) headed by an executive director, with appropriate qualifications and experience, to be responsible exclusively for the management and supervision of MDFO operations and MDFO project offices to be established under Part D of the Project; and

(b) staffed, inter alia, with a Project manager, procurement specialist, accountant and environmental specialist, all with qualifications and experience satisfactory to the Bank, to: (i) promote, appraise, manage and supervise subprojects under Part A of the Project; and (ii) make recommendations on proposed Subproject feasibility and eligibility to MDFO-PGB.

2. The Borrower shall maintain MDFO-PGB, which shall be responsible for reviewing and approving proposed subprojects for Subproject Financing.

3. The Borrower:

(a) shall cause MDFO and MDFO-PGB to adopt, and maintain in effect, a manual of operations for Part A of the Project acceptable to the Bank, which manual shall include: (i) operational procedures for determining the eligibility of eligible Participating LGUs and Subprojects and the appraisal and financing criteria therefor; (ii) procedures for procurement, disbursement, supervision and impact evaluation in respect of eligible Subprojects; (iii) policy and procedures to provide compensation and rehabilitation for persons whose property or livelihood is adversely affected by the implementation of any Subproject; (iv) policy and procedures to ensure the participation of indigenous peoples in the design and implementation of Subprojects; (v) the financing arrangements (loan, grant and equity mix, interest rate and loan maturity) applicable to each type of Subprojects; and (vi) procedures for the

monitoring and reporting of Subproject activities;

(b) shall carry out Part A of the Project in accordance with such manual as shall have been approved by the Bank, and the Borrower shall ensure that:

(i) MDFO shall promote, appraise, review and supervise Subprojects; and (ii) MDFO-PGB shall review and approve Subprojects, all in accordance with the criteria, conditions and procedures set out in the Operations Manual; and

(c) shall not amend, delete, suspend, or waive any part of the Operations Manual, without the prior approval of the Bank.

4. The Borrower shall cause MDFO to furnish to the Bank for comments, the Subproject Appraisal Report for: (a) the first twenty (20) subprojects proposed under Part A of the Project; and (b) each proposed subproject costing three million dollars (\$3,000,000) equivalent or more, prior to submitting such Subproject Appraisal Report to MDFO-PGB for review and approval.

5. The Borrower shall ensure that the proposal for each subproject under Part A of the Project is approved by MDFO-PGB only if:

(a) the proposed Subproject satisfies the technical, economic and financial eligibility criteria for Subproject Financing set forth in the Operations Manual;

(b) (i) an analysis of the environmental effects of such Subproject has been prepared; and (ii) if applicable, an environmental impact assessment, satisfactory to the Bank, has been undertaken and mitigation measures designed, on the basis of environmental standards acceptable to the Bank, in accordance with the principles set forth in the Operations Manual;

(c) a resettlement action plan has been prepared in accordance with principles acceptable to the Bank and set forth in the Operations Manual and such plan has been approved by the Bank, if the proposed Subproject involves resettlement of Affected Persons; and

(d) the Bank has approved a plan that incorporates mechanisms for the participation of indigenous peoples in the design and implementation of such Subproject, if the proposed Subproject involves communities with indigenous population, in accordance with the principles acceptable to the Bank and set forth in the Operations Manual.

6. For purposes of carrying out Part A of the Project, the Borrower shall, through DOF, enter into a Subproject Agreement with the relevant Participating LGU in regard to each Subproject approved for financing under the Project, in accordance with procedures and on terms and conditions acceptable to the Bank and as set out in the Operations Manual, which conditions shall include the following:

(a) Except as the Bank may otherwise agree, the amount of the Subproject Financing shall not exceed ninety percent (90%) of the estimated aggregate costs of an eligible Subproject (excluding the cost of land). The Participating LGU of such Subproject shall be required to contribute at least ten percent (10%) of the total Subproject costs, in material, cash or services in the planning and supervision of the Subproject.

(b) Except as the Bank may otherwise agree, for the loan portion of the Subproject Financing, repayment shall be made over a period not exceeding fifteen (15) years, including a maximum of three (3) years of grace; and interest payable on such loan portion shall be market-based and determined by the Borrower as prescribed in the Operations Manual.

(c) The Participating LGU undertakes, inter alia, to:

(i) carry out its respective Subproject with due diligence and efficiency in accordance with sound managerial, financial, technical, environmental and relevant sector practices acceptable to the Bank, and provide promptly as needed the resources required for the purposes, and maintain adequate records and accounts;

(ii) carry out, where applicable: (A) mitigation measures designed on the basis of environmental standards acceptable to the Bank; and (B) an action plan, approved by the Bank, for the participation of indigenous peoples in the design and implementation of the Subproject;

(iii) (A) take measures to avoid or minimize the acquisition of land or assets of Affected Persons and avoid displacement of Affected Persons; and (B) where acquisition of land or assets or the displacement of Affected Person is unavoidable under a proposed Subproject, the Participating LGU shall before carrying out the works which would result in such acquisition or displacement, make available to such Affected Persons, compensation and rehabilitation in accordance with a resettlement action plan approved by the Bank;

(iv) utilize the proceeds of the Subproject Financing exclusively in the carrying out of its respective Subproject;

(v) enable the Borrower and the Bank to inspect the goods, facilities and sites, if any, included in its respective Subproject; copies of any studies or reports prepared for the purposes of said Subproject; and any other relevant records and documents;

(vi) furnish to the Borrower and the Bank all such information as the Borrower or the Bank may reasonably request relating to the foregoing; and

(vii) ensure that goods, works and consultants' services financed out of the Subproject Financing shall be procured in accordance with the provisions of Schedule 4 to this Agreement.

7. The Borrower shall undertake, inter alia:

(a) to exercise its rights in relation to each Subproject Agreement in such manner as to protect the interests of the Borrower and the Bank, comply with its obligations under this Agreement and achieve the purposes of the Project;

(b) except as the Bank shall otherwise agree, not to assign, amend, abrogate or waive any of its agreements providing for a Subproject Agreement, or any provision therefor, without the prior approval of the Bank; and

(c) to suspend the rights of the Participating LGU of a Subproject Financing upon failure by such Participating LGU to perform any of its obligations under its Subproject Agreement. Part C and D of the Project

8. The Borrower shall carry out Part C of the Project in accordance with the LGU Resource Mobilization and Performance Monitoring Plan, which sets out time-bound actions to be taken to improve LGUs' resource mobilization and performance monitoring in a manner satisfactory to the Bank, including the development of a computer-assisted local business tax model, actions to increase tax collection, completion of the installation of the Real Property Tax Administration system, revision of the fiscal report format, computerization of the financial information system and dissemination of fiscal monitoring reports.

9. The Borrower shall carry out Part D of the Project in accordance with the MDF Reorganization Action Plan, which sets out time-bound actions to be taken to reorganize and strengthen MDF in a manner satisfactory to the Bank, including the creation of MDFO; an assessment, in consultation with the Bank, of modalities for MDFO to better support and finance local government development and investment; determination, in consultation with the Bank, of the modality to be adopted; and implementation of actions necessary to adopt such modality. Project Monitoring and Reporting

10. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and



evaluate on an ongoing basis, in accordance with performance indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) (i) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on February 15 and August 15 of each year, commencing in February 15, 2000, semi-annual reports, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 10, on the progress achieved in the carrying out of the Project during the period preceding the date of each such 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; and

(b)(i) review with the Bank each report referred to in sub-paragraph (b)(i) of this paragraph 10, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of the said report and the view of the Bank on the matter;

(c) (i) by May 31, 2002, prepare under terms of reference satisfactory to the Bank and furnish to the Bank, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (b)(i) of this paragraph 10, 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 during the period following such date; and

(ii) review with the Bank by June 30, 2002, or such later date as the Bank shall request, the report referred in sub-paragraph (c) (i) of this paragraph 10, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of the said report and the views of the Bank on the matter.

