

CONFORMED COPY

LOAN NUMBER 3430 PH

(Highway Management Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 5, 1992

LOAN NUMBER 3430 PH

LOAN AGREEMENT

AGREEMENT, dated February 5, 1992, 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;

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" of the Bank, dated January 1, 1985, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "CIAP" means the Construction Industry Authority of the Philippines, an agency of the Borrower established pursuant to Presidential Decree No. 1746 dated November 28, 1980, as amended by Executive Order Nos. 679/81, 768/82, 1008/85, and 133/87, and includes any successor or successors thereto; and

(b) "DPWH" means the Department of Public Works and Highways of the Borrower and includes any successor or successors thereto.

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, various currencies that shall have an aggregate value equivalent to the amount of one hundred fifty million dollars (\$150,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be June 30, 1999 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each

date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. 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 Parts A, B, and C.1 of the Project through DPWH and Part C.2 of the Project through CIAP, all with due diligence and efficiency and in conformity with appropriate engineering, management, and 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. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles 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, the 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 said records and accounts and the audit thereof as the Bank shall 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 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 such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination

Section 5.01. 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:

Secretary of Finance
Department of Finance
Manila, Philippines

Cable address:	Telex:
SECFIN Manila	27550 CBP-PH 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:	Telex:
INTBAFRAD Washington, D.C.	248423 (RCA), 82987 (FTCC), 64145 (WUI) or 197688 (TRT)

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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ E. N. Pelaez
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ G. S. Kaji
Regional Vice President
East Asia and Pacific

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:

Amount of the Loan Allocated (Expressed in Dollar	% of Expenditures to be
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	Category	Equivalent)	Financed
(1)	Civil works	87,600,000	70%
(2)	Equipment and vehicles	5,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3)	Consultants' services and training	23,600,000	100%
(4)	Unallocated	33,700,000	
	TOTAL	150,000,000 =====	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the quality of the arterial highway network of the Borrower with a view to reducing transport costs and increasing economic competitiveness.

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 objective:

Part A: Road Management System

1. Development and implementation of a management system for annual and multi-year programming and budgeting of road and bridge works.

2. Provision of specialized equipment for monitoring and evaluating the condition and structural capacity of pavement and bridge structures to provide essential data for technical management of the system.

Part B: Civil Works Sub-projects

Undertaking of sub-projects involving civil works to upgrade, rehabilitate, strengthen or resurface about 1,400 kilometers of deteriorated or damaged arterial highways and sub-standard bridges.

Part C: Institutional Strengthening

1. Provision of necessary equipment and vehicles and consulting

services to assist DPWH to:

- (a) coordinate project activities;
- (b) implement procedures to improve pavement design and construction quality;
- (c) initiate remedial measures at high-accident locations;
- (d) develop and implement a human resources planning and training program oriented toward DPWH's changing responsibilities due to decentralization and implementation of maintenance by contract; and
- (e) increase DPWH's capacity to manage the preparation of environmental impact statements for its projects.

2. Provision of consulting services to assist CIAP to carry out studies to strengthen the construction industry.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
September 15, 1997	2,735,000
March 15, 1998	2,840,000
September 15, 1998	2,950,000
March 15, 1999	3,065,000
September 15, 1999	3,185,000
March 15, 2000	3,305,000
September 15, 2000	3,435,000
March 15, 2001	3,565,000
September 15, 2001	3,705,000
March 15, 2002	3,850,000
September 15, 2002	3,995,000
March 15, 2003	4,150,000
September 15, 2003	4,310,000
March 15, 2004	4,480,000
September 15, 2004	4,650,000
March 15, 2005	4,830,000
September 15, 2005	5,020,000
March 15, 2006	5,210,000
September 15, 2006	5,415,000
March 15, 2007	5,625,000
September 15, 2007	5,840,000
March 15, 2008	6,065,000
September 15, 2008	6,300,000
March 15, 2009	6,545,000
September 15, 2009	6,795,000
March 15, 2010	7,060,000
September 15, 2010	7,330,000
March 15, 2011	7,615,000
September 15, 2011	7,910,000
March 15, 2012	8,220,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan

to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Bidders for civil works shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for civil works shall be grouped into bid packages estimated to cost the equivalent of \$10,000,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraph 2 hereof, items or groups of items for goods, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items for goods, estimated to cost the equivalent of \$150,000 or less per contract, up to an aggregate

amount equivalent to \$3,700,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Civil works, estimated to cost the equivalent of \$2,500,000 or less per contract, up to an aggregate amount equivalent to \$30,800,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods, estimated to cost the equivalent of \$200,000 or more, and civil works, estimated to cost the equivalent of \$2,500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

1. The Borrower shall, by March 31, 1992, select civil works sub-projects to be carried out in 1993/4. The said sub-projects shall be selected on the basis of criteria acceptable to the Bank.

2. (a) The Borrower shall recommend in its annual budget proposal, (i) the adjusted cost per Equivalent Maintenance Kilometer to maintain in real terms at least the 1991 routine maintenance budget for national roads, and (ii) an item for periodic overlay works.

(b) The Borrower shall, by March 31 of each year commencing 1992, prepare, in consultation with the Bank, the maintenance program for the next fiscal year, including the program and budget for periodic road overlays.

3. The Borrower shall (a) by March 31, 1992, formulate and adopt, in consultation with the Bank, a three year rolling arterial highway

investment program, and (b) by March 31 each year commencing 1993, update the said program applying appropriate economic and technical criteria in consultation with the Bank.

4. The Borrower shall, by June 30, 1992, appoint a consultant to assist DPWH with project coordination.

5. The Borrower shall, by June 30, 1992, revise DPWH's design standards and contract documentation for civil works projects to include measures to ensure environmental soundness of the proposed sub-projects.

6. The Borrower shall undertake and complete a Study on Manpower Development and Training and, by June 30, 1992, discuss the results thereof with the Bank with a view to agreeing to a manpower development and training program. The Borrower shall, by September 30, 1992, initiate implementation of the agreed program to the satisfaction of the Bank.

7. The Borrower shall (a) progressively increase private sector participation in road maintenance and allocate about 80% of the maintenance budget for contracted works to the private sector by December 31, 1994, and (b) adjust the number of DPWH maintenance staff in accordance with a plan and timetable satisfactory to the Bank.

8. The Borrower shall, by June 30, 1995, develop and implement at least the following modules of the road management system in consultation with the Bank: (i) database and reporting system; (ii) road monitoring and data acquisition system; (iii) a central five year investment plan and budget forecast; (iv) a central rolling works program and budget for investment and maintenance; and (v) a regional pavement rehabilitation program.

9. The Borrower shall maintain the Project Management Office established by DPWH pursuant to Order Nos. 30/82 dated April 26, 1982 and 62/89 dated May 26, 1989.

