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**CONFORMED COPY**

**LOAN NUMBER 4019 PH**

# **Agreement Amending Loan Agreement**

**(Manila Second Sewerage Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM**

**Dated March 17, 1998**

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**LOAN NUMBER 4019 PH**

**AGREEMENT AMENDING LOAN AGREEMENT**

AGREEMENT, dated March 17, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM (the Borrower).

WHEREAS (A) By the Loan Agreement dated June 19, 1996 between the Bank and the Borrower for a Manila Second Sewerage Project (the Loan Agreement), the Bank agreed to extend Loan No. 4019 PH to the Borrower to assist in financing the project described in Schedule 2 to the Loan Agreement (the Project) on the terms and conditions set forth in the Loan Agreement;

(B) by an agreement of even date with the Loan Agreement (the Guarantee Agreement), the REPUBLIC OF THE PHILIPPINES (the Guarantor) agreed to guarantee the obligations of the Borrower under the Loan Agreement and to undertake such obligations as set forth in the Guarantee Agreement;

(C) the Borrower has entered into concession arrangements with Manila Water Company, Inc. (MWCI) and Maynilad Water Services, Inc. (MWSI) whereby MWCI and MWSI will operate the Borrower's system of waterworks and sewerage services within their respective concession areas;

(D) the Borrower has requested the Bank to amend the Loan Agreement to permit MWCI and MWSI to carry out the portion of the Project within their respective concession areas;

(E) the Guarantor agrees with the request of the Borrower to amend the Loan Agreement and, by a letter agreement dated March 17, 1998 has reconfirmed its guarantee of the obligations of the Borrower under the Loan Agreement as amended; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

Articles I through VIII and Schedules 1 through 6 of the Loan Agreement are hereby amended to read 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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (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."

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the

Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled.”

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 wherever used in this Agreement:

(a) “Act” means Republic Act No. 6243 of the Guarantor, as amended to the date of this Agreement, establishing the Metropolitan Waterworks and Sewerage System as an agency of the Guarantor responsible for developing, operating and maintaining water supply, sewerage and sanitation systems in and around Metro Manila;

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

(c) “Concessionaires” means, collectively, MWCI and MWSI; and “Concessionaire” means either one of the Concessionaires;

(d) “Concession Agreements” means, collectively, the agreements entered into between the Borrower and each of the Concessionaires, dated 21 February 1997; and “Concession Agreement” means either of the Concession Agreements;

(e) “DPWH” means the Department of Public Works and Highways of the Guarantor and any successor thereto;

(f) “East Service Area” means the area within Metro Manila covered by the Concession Agreement with MWCI;

(g) “East Area Special Account” means the account referred to in Section 2.02 (b) (i) of this Agreement;

(h) “EMP” means the environmental management plan dated January 1996 prepared by the Borrower, which sets out the basic measures to protect, or to mitigate the effects on, the environment during the construction and the operation phases of the Project,

and the administrative and monitoring arrangements to ensure the implementation of said measures;

(i) “Project Management Office” and “PMO” mean the office established by the Borrower and referred to in Section 3.02 of this Agreement;

(j) “Respective Part of the Project” means, in respect of MWCI, Part A of the Project, and in respect of MWSI, Part B of the Project, as set forth in Schedule 2 to this Agreement;

(k) “Special Accounts” means, collectively, the East Area Special Account and the West Area Special Account; and “Special Account” means one of said Special Accounts;

(l) “Sub-project Agreements” means, collectively, the agreements referred to in Section 3.01 (b) of this Agreement; and “Sub-project Agreement” means either of the Sub-project Agreements;

(m) “Supervision Agreements” means the Agreements on the Supervision of Existing Projects, dated July 31, 1997, entered into between the Borrower and each of the Concessionaires; and “Supervision Agreement” means either of the Supervision Agreements;

(n) “West Service Area” means the area within Metro Manila covered by the Concession Agreement with MWSI; and

(o) “West Area Special Account” means the account referred to in Section 2.02 (b) (ii) of this Agreement.

## **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 this Agreement, various currencies that shall have an aggregate value equivalent to the amount of forty eight million dollars (\$48,000,000), 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. (a) 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 works, 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars:

- (i) a special deposit account for Part A of the Project (the East Area Special Account); and
- (ii) a special deposit account for Part B of the Project (the West Area Special Account);

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 or attachment. Deposits into, and payments out of, said Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 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 January 1 and July 1 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Concessionaires to carry out the Project in accordance with the provisions of their respective Sub-project Agreement, with due diligence and efficiency and in conformity with appropriate engineering, environmental, managerial and public utility practices; shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Concessionaires to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the Concessionaires.

(b) For purposes of carrying out the Project, the Borrower shall enter into a Sub-project Agreement with each Concessionaire in regard to its Respective Part of the Project, under terms and conditions acceptable to the Bank, including, inter alia, the obligations of the Concessionaire to:

- (i) carry out its Respective Part of the Project in accordance with a project implementation plan acceptable to the Bank;
- (ii) prior to commencing work on each of Parts A.1 and A.2, and Parts B.1, B.2, B.3 and B.4, respectively, prepare in respect of each such Part a detailed environment management plan acceptable to the Bank and in accordance with the general measures set forth in the EMP, and thereafter carry out each such plan in a manner satisfactory to the Bank;
- (iii) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the carrying out of such environmental management plans, in accordance with indicators acceptable to the Bank; and commencing on December 31, 1998 submit to MWSS for consolidation in an annual report by MWSS to the Bank, an annual monitoring report regarding the implementation of such plans;
- (iv) commencing June 30, 1999, furnish reports of annual audits performed by an independent agency acceptable to the Bank of its procedures to monitor and evaluate compliance with the environmental management plans; and take all actions necessary to ensure compliance with such plans taking into consideration the

recommendations from such audits and the Bank's comments thereon;

- (v) take all actions necessary to adhere to a timetable for cessation of sea disposal of septage acceptable to the Bank;
- (vi) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, including those set forth in Schedule 6 to this Agreement, the carrying out of its Respective Part of the Project and the achievement of the objectives thereof; and
- (vii) submit to the Borrower periodic reports sufficient to enable the Borrower to prepare the reports referred to in Section 3.04 of this Agreement.

(c) The Borrower shall exercise its rights under the Sub-project Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and the objectives of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Sub-project Agreements or any provision thereof.

Section 3.02. The Borrower shall maintain its Project Management Office, managed and staffed with personnel in adequate number and with qualifications and experience satisfactory to the Bank to monitor the carrying out of the Project by the Concessionaires.

Section 3.03. 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 shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower shall, on the basis of guidelines acceptable to the Bank:

(a) by March 31 and September 30 of each year, commencing on September 30, 1998, prepare and submit to the Bank a semi-annual progress report on the implementation of all components of the Project, which shall include revised cost estimates and implementing schedules; and

- (b) (i) by March 31, 2000 prepare and submit to the Bank a report 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 implementation of the Project and the achievement of the objectives thereof during the period following such date; and

- (ii) by April 30, 2000 review such report with the Bank, and thereafter, take or cause to be taken all necessary action to ensure the efficient completion of the Project and the achievement of the objectives thereof on the basis of the conclusion and recommendations of said report and taking into consideration the Bank's view thereon.

Section 3.05. 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 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 Accounts 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, 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 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**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A Concessionaire shall have failed to perform any of its obligations under its respective Sub-project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Concessionaire will be able to perform its obligations under its respective Sub-project Agreement.

(c) Either Concession Agreement or Supervision Agreement or any provision thereof shall have been amended, breached, suspended, voided or waived so as to affect

materially and adversely the ability of a Concessionaire to perform any of its obligations under its respective Sub-project Agreement.

(d) The Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower, or the ability of the Borrower to carry out the Project or any part thereof, or to perform any of the obligations of the Borrower under this Agreement.

(e) The Guarantor or any other authority 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 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (d) and (e) of 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 this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Sub-project Agreement with MWSI has been executed on behalf of the Borrower and MWSI in accordance with Section 3.01 (b) of this Agreement; and

(b) a supplementary legal opinion acceptable to the Bank has been provided to the Bank showing on behalf of the Borrower, that: (i) this Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms; and (ii) the Sub-project Agreement referred to in paragraph (a) of this Section has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and the Concessionaire and is legally binding upon the Borrower and the Concessionaire in accordance with its terms

Section 6.02. March 17, 1998 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 Administrator 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:

PANGASIWAAN NG TUBIG AT  
ALKANTARILYA SA METRO MANILA  
Metropolitan Waterworks and Sewerage System  
Katipunan Road, Balara  
Quezon City 1105, Philippines

Cable address:

Telex:

MWSS PH

(722) 27947 MWSS PH

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 (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.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava

Authorized Representative

METROPOLITAN WATERWORKS  
AND SEWERAGE SYSTEM

By /s/ Reynaldo B. Veal

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:

	<u>Category to be financed</u>	<u>Amount of the Loan Allocated ( Expressed in Dollar Equivalent)</u>	<u>% of Expenditures</u>
(1)	Civil works		100% of foreign expenditures, 50% of local expenditures
	(a) under Part A of the Project	6,400,000	
	(b) under Part B of the Project	21,100,000	
(2)	Goods and materials		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items pro- cured locally
	(a) under Part A of the Project	3,500,000	
	(b) under Part B of the Project	3,500,000	
(3)	Consultants' services		100%
	(a) under Part A of the Project	4,000,000	
	(b) under Part B of the Project	4,000,000	
(4)	Unallocated	5,500,000	
		<hr/>	
	TOTAL	<u>48,000,000</u>	

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:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$300,000 equivalent, may be made in respect of Categories (3) (a) and (3) (b) of the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after July 15, 1995; and

(b) (i) under Categories (1) (a), (2) (a) and (3) (a), and (ii) under Categories (1) (b), (2) (b) and (3) (b), unless a Sub-project Agreement satisfactory to the Bank has been entered into between the Borrower and MWCI, and between the Borrower and MWSI, respectively.

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

(a) civil works under contracts not exceeding \$5,000,000 equivalent;

(b) goods and materials under contracts not exceeding \$1,000,000 equivalent;  
and

(c) consultants' services under contracts with firms or individuals not exceeding \$100,000 and \$50,000 equivalent, respectively;

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to assist the Borrower to: (a) reduce the pollution of Metro Manila waterways and Manila Bay; (b) reduce the health hazards associated with human exposure to sewage in Metro Manila; and (c) establish a gradual low-cost improvement of sewerage services in Metro Manila.

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 A: East Service Area

1. Construction of a barge loading station at Napindan with a capacity to transfer about 500 cubic meters per day (m<sup>3</sup>/d) of septage from collecting vehicles to barges.
2. Upgrading of the Ayala sewerage system, including the repair of the pumping station and sedimentation tanks to provide mechanical treatment of septage.
3. Strengthening of MWCI's central laboratory, through the provision of specialized instruments, equipment, furniture and materials.
4. Strengthening of the technical capabilities of MWCI to operate and maintain sewerage systems in the East Service Area, through the provision of vehicles, machinery and tools.
5. Strengthening of the technical capabilities of MWCI in construction supervision, development of septage treatment experiments, environmental monitoring and preparation of follow-up sewerage projects, through the provision of consultants' services.

#### PART B: West Service Area

1. Construction of a septage treatment plant at Dagat-Dagatan with a capacity of about 200 m<sup>3</sup>/d.
2. Construction of barge-loading stations at Estero de Vistas and Paranaque, each with a capacity to transfer about 500 m<sup>3</sup>/d of septage from collecting vehicles to barges.
3. Upgrading of the Manila central sewerage system, including the repair of defective pipes and pumping stations and minimizing of the entry of rain water into the system.

4. Construction of about 10,000 new sewer connections in the West Service Area.
5. Strengthening of the MWSI's central laboratory, through the provision of specialized instruments, equipment, furniture and materials.
6. Strengthening of the technical capabilities of MWSI to operate and maintain sewerage systems in the West Service Area, through the provision of vehicles, machinery and tools.
7. Strengthening of the technical capabilities of MWSI in construction supervision, development of septage treatment experiments, environmental monitoring and preparation of follow-up sewerage projects, through the provision of consultants' services.

\* \* \*

The Project is expected to be completed by December 31, 2002.

### SCHEDULE 3

#### Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
January 1, 2002	965,000
July 1, 2002	995,000
January 1, 2003	1,030,000
July 1, 2003	1,065,000
January 1, 2004	1,100,000
July 1, 2004	1,135,000
January 1, 2005	1,170,000
July 1, 2005	1,210,000
January 1, 2006	1,250,000
July 1, 2006	1,290,000
January 1, 2007	1,330,000
July 1, 2007	1,375,000
January 1, 2008	1,420,000
July 1, 2008	1,465,000
January 1, 2009	1,515,000
July 1, 2009	1,565,000
January 1, 2010	1,615,000
July 1, 2010	1,670,000
January 1, 2011	1,725,000
July 1, 2011	1,780,000
January 1, 2012	1,840,000
July 1, 2012	1,900,000
January 1, 2013	1,960,000
July 1, 2013	2,025,000
January 1, 2014	2,090,000
July 1, 2014	2,160,000
January 1, 2015	2,230,000
July 1, 2015	2,300,000
January 1, 2016	2,375,000
July 1, 2016	2,450,000

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\* 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:

<u>Time of Prepayment</u>	<u>Premium</u>
	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 eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

## **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 the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (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 and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification

Bidders for all contracts for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) 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 Guarantor.

(c) 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

National Competitive Bidding

(a) Goods estimated to cost \$200,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,510,000 equivalent, and (b) works under Parts A (1) and B (2) of the Project estimated to cost up to an aggregate amount not to exceed \$1,530,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

With respect to each contract for (a) works estimated to cost \$5,000,000 equivalent or more; and (b) goods estimated to cost \$1,000,000 equivalent or more, the procedures set forth in paragraphs 2 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Parts A (5) and B (7) of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Tasks that meet the requirements set forth in paragraph 5.01 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 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2 (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 estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, 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.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means for the East Area Special Account Categories (1) (a), (2) (a) and (3) (a) (collectively, the East Area Categories) and for the West Area Special Account Categories (1) (b), (2) (b) and (3) (b) (collectively the West Area Categories), all as 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

(i) \$ 1,000,000 for the East Area Special Account; and

(ii) \$ 1,000,000 for the West Area Special Account;

to be withdrawn from the Loan Account and deposited into such 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 \$500,000 for the East Area Special Account and \$ 500,000 for the West Area Special Account 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 \$ 5,000,000 for the East Area Categories and the amount of \$ 5,000,000 for the West Area Categories, respectively.

2. Payments out of a 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said 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 said 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 said Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Bank requests for deposits into said 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 said 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 said 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 a 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 a 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 said 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 said 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 a 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 said 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 said 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 said 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 said 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

### Performance Indicators

#### A. West Service Area - Maynilad Water Services Inc.

##### 1. Provision of Sewerage Services

Year	<u>2001</u>	<u>2003</u>	<u>2006</u>
Population with sewer connections <sup>1</sup>	16	17	20
Population with septic tanks cleaned <sup>2</sup>	43	44	46

##### 2. Improvement of Environment

Year	<u>2001</u>	<u>2003</u>	<u>2006</u>
Septage treated (m3/d)	Nil	200	640
Septage disposed at ocean (m3/d)	450	300	Nil
Residential wastewater treated <sup>3</sup>	-	-	-

##### 3. Quality of Service, Customer Relations

Year	<u>Beginning January 1998</u>
Number of queries, complaints and notices on septic tank servicing	at least 10% decrease annually
Number of responses	at least 10% decrease annually
Response time	at least 10% decrease annually

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<sup>1</sup> Expressed as a percentage of the total population in the service area connected to the Concessionaire's water system at the time of the target.

<sup>2</sup> Expressed as a percentage of the total population in the service area connected to the Concessionaire's water system at the time of the target.

<sup>3</sup> Investment program being developed, performance indicators will be agreed in a separate letter.

B. East Service Area - Manila Water Company Inc.

Year	<u>2001</u>	<u>2003</u>	<u>2006</u>
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1. Provision of Sewerage Services

Population with sewer connections <sup>4</sup>	3	8	16
Population with septic tanks cleaned <sup>5</sup>	38	36	32

2. Improvement of Environment

Year	<u>2001</u>	<u>2003</u>	<u>2006</u>
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Septage treated (m3/d)	Nil	100	450
Septage disposed at ocean (m3/d)	350	300	Nil
Residential wastewater treated <sup>6</sup>	-	-	-

3. Quality of Service, Customer Relations      Beginning January 1998

Number of queries, complaints and notices on septic tank servicing	at least 10% decrease annually
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Number of responses	at least 10% decrease annually
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Response time	at least 10% decrease annually
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<sup>4</sup> Expressed as a percentage of the total population in the service area connected to the Concessionaire's water system at the time of the target.

<sup>5</sup> Expressed as a percentage of the total population in the service area connected to the Concessionaire's water system at the time of the target.

<sup>6</sup> Expressed as a percentage of the total population in the service area connected to the Concessionaire's water system at the time of the target.

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