
OFFICIAL
DOCUMENTS

LOAN NUMBER 2435 PH

Loan Agreement

(Municipal Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated

August 10

, 1984

LOAN AGREEMENT

AGREEMENT, dated *August 10*, 1984, between REPUBLIC OF THE PHILIPPINES (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated October 27, 1980, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, 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) "Central Project Office" means the Central Project Office established and operating under the order of the Minister of Public Works and Highways No. 63 dated August 18, 1983 and confirmed by Presidential Decree No. 1914 dated March 29, 1984 to prepare, implement and monitor specific development projects in municipalities and cities;

(b) "Municipal Development Fund" means the Municipal Development Fund established and operating under Presidential Decree No. 1914 dated March 29, 1984 to provide financial assistance to municipalities and cities for development projects;

(c) "Sub-loan" means a loan made or proposed to be made by the Borrower through the Municipal Development Fund out of the proceeds of the Loan to a Project City for the city component of a Sub-project;

(d) "Project City" means a municipality or a city to which the Borrower proposes to make or has made a Sub-loan;

(e) "Sub-project" means a specific development project with a component to be carried out by the Borrower (referred to as national component), and a component to be carried out by a Project City utilizing the proceeds of a Sub-loan (referred to as city component);

(f) "Special Account" means the account to be opened and thereafter maintained pursuant to Section 2.02 (b) of this Agreement; and

(g) "Memorandum of Agreement" means the memorandum of agreement among the Ministry of Finance, the Office of Budget and Management, the Ministry of Local Government, the Ministry of Public Works and Highways and the National Economic and Development Authority with regard to the policies and procedures of the Municipal Development Fund, as may be amended from time to time.

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, an amount in various currencies equivalent to forty million dollars (\$40,000,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, for:

- (i) 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) amounts paid (or, if the Bank shall so agree, for amounts to be paid) by the Borrower through the Municipal Development Fund on account of withdrawals made by a Project City under a Sub-loan to meet up to 90% of the reasonable cost of goods and services required for the city component of the Sub-project in respect of which the withdrawal from the Loan Account is requested; provided

however that no withdrawal shall be made in respect of a Sub-loan unless the Sub-loan has been approved by the Bank; and

(b) The Borrower shall, for the purposes of the Project, open and thereafter maintain in dollars a special account in the Central Bank of the Philippines on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. When presenting a Sub-loan to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with the following completed in accordance with the provisions outlined in Schedule 5 to this Agreement:

(a) an appraisal of the Sub-project including an implementation plan and a description of the expenditures to be financed out of the proceeds of the Loan;

(b) copies of the Sub-project and Sub-loan agreements satisfactory to the Bank;

(c) evidence that funds are available to carry out the Sub-project in accordance with a financing plan; and

(d) such other information as the Bank shall reasonably request.

Section 2.04. Except as the Bank shall otherwise agree, procurement of the goods and civil works 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 2.05. The Closing Date shall be June 30, 1991 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.06. (a) The Borrower shall pay to the Bank a fee equivalent to ninety-nine thousand seven hundred fifty-one dollars (\$99,751).

(b) 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 the said fee in such currency or currencies as the Bank shall determine.

Section 2.07. The Borrower shall pay to the bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.08. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.09 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost" of Qualified Borrowings means the cost, expressed as a percentage per annum, as reasonably determined by the Bank, provided that the amount of \$8,520.5 million referred to in (iii) (B) hereunder shall be reckoned at a cost of 10.93% per annum.
- (iii) "Qualified Borrowings" means (A) outstanding borrowings of the Bank drawn down after June 30, 1982; and (B) until July 1, 1985, the amount of \$8,520.5 million (representing borrowings of the Bank between July 1, 1981 and June 30, 1982) less any part thereof repaid earlier than July 1, 1985.
- (iv) "Semester" means the first six months or the second six months of a calendar year.

Section 2.09. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.10. 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. 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 and cause the Project Cities to carry out those parts of the Project for which the Project Cities are responsible, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. In order to assist in carrying out the Project, the Borrower shall employ or cause to be employed, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank, such consultants to 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.

Section 3.03. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) The Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the purposes of the Project.

Section 3.04. (a) The Borrower shall furnish or cause to be furnished to the Bank, promptly upon their preparation, the plans, specifications, reports, training programs, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower shall: (i) maintain or cause to be maintained records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in the Project; (ii) enable the Bank's representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) furnish or cause to be furnished to the Bank at regular intervals all such information as the Bank shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

(c) Upon the award of any contract for goods, works or services to be financed out of the proceeds of the Loan, the Bank may publish a description thereof, the name and nationality of the party to whom the contract was awarded and the contract price.

(d) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.

Section 3.05. The Borrower shall take or cause to be taken all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for carrying out the Project.

Section 3.06. (a) The Borrower shall maintain the Central Project Office with powers, resources and staffing satisfactory to the Bank.

(b) The Borrower shall maintain the Municipal Development Fund with functions satisfactory to the Bank, and shall not amend, waive or suspend the Memorandum of Agreement without prior consultation with the Bank.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto and at no cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Borrower, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Borrower shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property or as security for the payment of debt incurred for the purpose of financing the purchase of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Borrower, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such subdivision, including gold and foreign exchange assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Borrower.

Section 4.02. (a) The Borrower shall maintain or cause to be maintained records adequate to reflect in accordance with consistently maintained sound accounting practices the operations, resources and expenditures, in respect of the Project, of the Project Cities, Ministries or Agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) Without limitation on the foregoing, the Borrower shall: (i) maintain or cause to be maintained separate accounts reflecting all expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditures; (ii) retain, until one year after the Closing Date, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing the expenditures on account of which withdrawals are requested from the Loan Account on the basis of statements of expenditures; and (iii) enable the Bank's representatives to examine such records.

(c) The Borrower shall: (i) have the 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including, without limitation to the foregoing, a separate opinion by said auditors in respect of the expenditures and records referred to in paragraph (b) of this Section as to whether the proceeds of the Loan withdrawn from the Loan Account on the basis of statements of expenditure have been used for the purpose for which they were provided; and (iii) furnish to the Bank such other information concerning said separate accounts, records and expenditures and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. The Borrower shall cause the facilities constructed, and the goods provided under the Project to be operated and maintained in accordance with appropriate administrative, financial and engineering practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

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 Special Account has been opened in accordance with the provisions of Section 2.02 (b) of this Agreement;

(b) the Memorandum of Agreement satisfactory to the Bank, has been signed; and

(c) Sub-project and Sub-loan agreements satisfactory to the Bank, have been signed with at least four Project Cities.

Section 5.02. The date *November 13, 1984*, 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 Minister 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:

Minister of Finance
Ministry of Finance
Manila
Philippines

Cable address:

MINFIN
Manila

Telex:

7550 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:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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

151 Benjamin Comualdez
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

151 Gautam S. Kaji
Acting 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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-loans	21,000,000	100% of amounts disbursed
(2) Equipment and vehicles for Parts B and C of the Project	1,200,000	100% of foreign expenditures, 100% of local expenditures (ex- factory) and 65% of local expendi- tures for other items procured locally
(3) Consultants' services	4,500,000	100%
(4) Training	3,000,000	90%
(5) Tax mapping (including cadastral survey)	2,300,000	90%
(6) Initial deposit in Special Account to prefinance items under Categories (1), (2), (3), (4) and (5)	3,000,000	Amount due under Section 2.02 (b) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Fee	99,751	Amount due under Section 2.06 of this Agreement
(8) Unallocated	4,900,249	
	<hr/>	
TOTAL	40,000,000	
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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. The disbursement percentages have been calculated in compliance with the policy of the Bank that the proceeds of the Loan shall not be disbursed on account of payments for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; on this basis, if the amount of any such taxes levied on or in respect of items in any Category decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such Category as required to be consistent with the aforementioned policy of the Bank.

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

5. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to

finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditure for such item shall be financed out of the proceeds of the Loan, and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as, in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The Project is part of the Borrower's program to develop municipalities and cities, and aims to (i) assist local governments in expanding and upgrading urban infrastructure, (ii) establish mechanisms for local government access to long-term financial resources, (iii) strengthen local government capabilities in financial and project management, and (iv) improve local government fiscal performance. The Project consists of the following Parts:

Part A: Infrastructure and equipment

The provision of infrastructure and equipment through Sub-projects in about 15 Project Cities for:

1. Basic infrastructure and public services
 - (a) improvements in sanitation, sewerage and water distribution systems, construction and improvement of drainage systems, provision of flood control and shoreline protection measures, and management of solid waste;
 - (b) rehabilitation and construction of markets and slaughterhouses; and
 - (c) rehabilitation and construction of roads and transportation terminal facilities, and implementation of traffic engineering measures.
2. Infrastructure and equipment maintenance
 - (a) provision of equipment for maintenance of municipal services;
 - (b) upgrading and equipping of maintenance depots; and
 - (c) maintenance of municipal equipment.

Part B: Tax Mapping

Mapping and evaluation, and records management of properties principally in urban areas by the Ministry of Finance.

Part C: Training

Training for Borrower's officials and employees in:

- (a) municipal finance and revenue administration;
- (b) municipal enterprise management;
- (c) municipal planning and budgeting;
- (d) project management;
- (e) contract management; and
- (f) municipal engineering maintenance.

Part D: Technical Assistance

- (a) to the Ministry of Finance and the Central Project Office for preparation, appraisal and monitoring of development projects in cities and municipalities;
- (b) to the Ministry of Finance for development and review of municipal finance operating systems;
- (c) to the Ministry of Finance and the Office of Budget and Management for review of grants systems for local government and local government budgeting procedures; and
- (d) to the Ministry of Local Government for local government training needs analysis, and development of appropriate training programs.

* * * * *

The Project is expected to be completed by June 30, 1990.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each February 15 and August 15 beginning February 15, 1990 through February 15, 2004	1,335,000
On August 15, 2004	1,285,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal; see General Conditions, Section 3.04.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.04 (b) of the General Conditions:

<u>Time of Prepayment</u>	<u>Premium</u>
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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

A. International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in the current edition of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods to be procured on the basis of international competitive bidding, in addition to the requirements of paragraphs 1.2 of the Guidelines, the Borrower shall prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank shall reasonably request; the Bank will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods in question. The Borrower shall provide the necessary information to update such notice annually so long as any goods remain to be procured on the basis of international competitive bidding.

3. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding: (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for the imported goods, or the ex-factory price or off-the-shelf price of other goods, offered in such bid; (ii) customs duties and other import taxes levied in connection with the importation, or the sales and similar taxes levied in connection with the sale or delivery, pursuant to the bid, of the goods shall not be taken into account in the evaluation of the bids; and (iii) the cost of inland freight and other expenditures incidental to the delivery of the goods to the place of their use or installation shall be included.

4. For bidding purposes, contracts for goods shall be grouped to the extent practicable in appropriate packages, in such a manner as shall be agreed upon between the Borrower and the Bank so as to permit bulk procurement.

B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in the Philippines may be granted a margin of preference in accordance with, and subject to, the following provisions:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which will be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

2. After evaluation, responsive bids will be classified in one of the following three groups:

(1) Group A: bids offering goods manufactured in the Philippines if the bidder shall have established to the satisfaction of the Borrower and the Bank that the manufacturing cost of such goods includes a value added in the Philippines equal to at least 20% of the ex-factory bid price of such goods.

(2) Group B: all other domestic bids.

(3) Group C: bids offering any other goods.

3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A or group B is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest bid is a bid from group C, all group C bids shall be further compared with the lowest evaluated bid from group A after adding to the evaluated bid price of the imported goods offered in each group C bid, for the purpose of this further comparison only, an amount equal to: (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in

such group C bid; or (ii) 15% of the c.i.f. bid price of such goods if said customs duties and taxes exceed 15% of such price. If the group A bid in such further comparison is the lowest, it shall be selected for the award; if not, the bid from group C which as a result of the comparison under paragraph 3 is the lowest evaluated bid shall be selected.

C. Other Procurement Procedures

1. (a) Civil works, other than those referred to in paragraph (b) hereunder, shall be procured from prequalified bidders under contracts awarded in accordance with the Borrower's competitive bidding procedures satisfactory to the Bank.

(b) Rehabilitation of markets and slaughterhouses, and contracts for road improvements each costing less than the equivalent of \$50,000, may be carried out by force account.

2. Contracts for maintenance tools and miscellaneous equipment each costing less than the equivalent of \$200,000, may be awarded in accordance with the Borrower's competitive bidding procedures satisfactory to the Bank, provided that items so procured shall not exceed in the aggregate the equivalent of \$1,100,000.

3. Contracts for equipment each costing less than the equivalent of \$50,000 may be procured in accordance with the Borrower's prudent shopping procedures satisfactory to the Bank, provided that items so procured shall not exceed in the aggregate the equivalent of \$500,000.

D. Review of Procurement Decisions by the Bank

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

With respect to all contracts for equipment and vehicles awarded in accordance with the provisions referred to in Part A hereinabove, and contracts for civil works estimated to cost the equivalent of \$700,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any

further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked or prequalification was invited.

(d) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph (except for contracts on account of which withdrawals are allowed from the Loan Account on the basis of statements of expenditures), the Borrower shall furnish to the Bank, promptly after its execution and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 15% of the original price, the Borrower shall inform the Bank of the proposed modification, waiver, extension or

change order and the reasons therefor. The Bank, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform the Borrower and state the reasons for its determination.

SCHEDULE 5

**Principal Features of Sub-project
Appraisal and Implementation
and Sub-loan Terms and Conditions**

A. Sub-project Appraisal, Implementation and Monitoring

1. Appraisal

The Borrower shall cause the Central Project Office to select Sub-projects on the basis of the socio-economic merits and financial and technical viability of each such Sub-project, and shall cause the Central Project Office to appraise each Sub-project so selected in accordance with appraisal criteria satisfactory to the Bank.

2. Implementation

Implementation of each Sub-project will be based on the Sub-project Agreement concluded between a representative authorized by the Steering Committee (referred to in the Presidential Decree No. 1914 dated March 29, 1984) and the Project City, and the Sub-loan Agreement between the Borrower and the Project City. The Bank shall be consulted prior to any major amendment to the Sub-project and Sub-loan Agreement.

3. Monitoring

Monitoring of each Sub-project will be carried out on the basis of plans, schedules, commitments and projected activities contained in the Sub-project and Sub-loan Agreements.

B. Sub-loan Terms and Conditions

1. Main Terms

Maximum Sub-loan amount : 90% of city component of
total Sub-project cost

Repayment period : up to 20 years including
up to 5 years of grace

Initial interest rate : fixed at 14% per annum
(inclusive of all charges
and fees)

Review of interest rate : annually by the
to be applied to new Borrower and the Bank
Sub-loans starting May 1, 1985

Foreign exchange risk : to be borne by the Borrower

Repayments of Sub-loan principal and payments of Sub-loan interest will be deposited by the Project City in the Municipal Development Fund to provide financial assistance to municipalities and cities for development projects.

2. Main Conditions

(a) General

Sub-loans shall be made under conditions whereby the Borrower shall obtain, by written contract with the Project City or by other appropriate legal means, rights adequate to protect the interest of the Bank and the Borrower, including the right of the Borrower to: (i) require the Project City to carry out and implement the Sub-project with due diligence and efficiency and in accordance with appropriate technical, financial and managerial standards and to maintain adequate accounts and records, including, without limitation, separate accounts reflecting expenditures on the basis of statements of expenditure; (ii) require that: (A) the goods and services to be financed in whole or in part out of the proceeds of the Sub-loan be purchased at a reasonable price in accordance with procedures satisfactory to the Bank, which shall include those outlined in sub-paragraph (b) hereunder; and (B) such goods and services be used exclusively in the carrying out of the Sub-project; (iii) inspect, itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and constructions included in the Sub-project, the operation thereof, and any relevant records and documents; (iv) require that: (A) the Project City take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with appropriate business practice; and (B) without any limitation upon the foregoing, such insurance cover hazards incident to the acquisition, transportation and delivery of goods financed in whole or in part out of the proceeds of the Sub-loan to the place of use or installation; (v) obtain all such information as the Bank and the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Project City; and (vi) suspend or

terminate the right of the Project City to the use of the proceeds of the Sub-loan, and exercise any remedy agreed to by the Borrower and the Project City, upon failure by such Project City to perform its obligations under its agreement with the Borrower.

(b) Procurement

Procurement of goods and civil works for the Sub-projects and to be financed out of the proceeds of the Sub-loans shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Each Project City shall authorize the Borrower to procure equipment and vehicles required for its Sub-project in accordance with the provisions of Part A of Schedule 4 to the Loan Agreement.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "Category" means a category of items to be financed out of the proceeds of the Loan 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 Categories (1), (2), (3), (4) and (5) in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "initial deposit" means an amount in dollars equivalent to the amount allocated to Category (6) and to be withdrawn from the Loan Account and deposited in the Special Account pursuant to the first sentence of paragraph 3 to this Schedule.

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

3. The Bank shall, at the request of the Borrower, withdraw on behalf of the Borrower from the Loan Account and deposit into the Special Account the initial deposit. Thereafter and on the basis of requests by the Borrower furnished to the Bank at such intervals as the Bank shall specify, the Bank shall further so withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts equal to payments made out of the Special Account for eligible expenditures, but only to the extent that the amount of any such deposit, together with any amount remaining on deposit in the Special Account as of the date of such request, shall not exceed in the aggregate the equivalent of the initial deposit. Except as the Bank may otherwise agree, each such deposit after the initial deposit shall be withdrawn by the Bank from the Loan Account under the respective Categories (1), (2), (3), (4) and (5), and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. Prior to or at the time of each request by the Borrower for a deposit by the Bank into the Special Account after the initial deposit, the Borrower shall furnish to the Bank in respect of each payment made by the Borrower out of the Special Account such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank (a) when the Bank shall have determined at any time that all further withdrawals can be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement, or (b) unless otherwise agreed by the Bank when the total unwithdrawn amount of the Loan allocated to Categories (1), (2), (3), (4) and (5) for the Project, minus the amount of any qualified agreement to reimburse made by the Bank and of any special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the initial deposit, whichever shall be sooner. Withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to Categories (1), (2), (3), (4) and (5) for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower and shall, except as the Bank shall otherwise agree, be made only after and to the extent the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice have been or will be utilized in making payments for eligible expenditures.

6. If the Bank shall have determined at any time that:

(a) any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank and, unless otherwise agreed by the Bank, prior to any further deposit into the Special Account by the Bank, 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; or

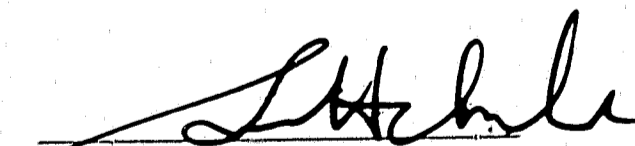
(b) any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, and unless otherwise agreed by the Bank, refund to the Bank such amount then outstanding in the Special Account.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CERTIFICATE

I hereby certify that the foregoing is a true copy of the original in the archives of the International Bank for Reconstruction and Development.

In witness whereof I have signed this Certificate and affixed the Seal of the Bank thereunto this 10th day of August, 1984.


FOR SECRETARY