

CONFORMED COPY

LOAN NUMBER 7080 PH

Loan Agreement

(LGU Urban Water and Sanitation Project - Phase II)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated November 19, 2001

LOAN NUMBER 7080 PH

LOAN AGREEMENT

AGREEMENT, dated November 19, 2001 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DEVELOPMENT BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) the Bank has received from Republic of the Philippines (the Guarantor) letters dated September 28, 1998, and August 15, 2001, describing a program designed to ensure access to sustainable water supply, sanitation and drainage services for the greater portion of the population in approximately two hundred fifty cities and municipalities outside Metro Manila in the Philippines (the Program, as hereinafter defined) and declaring the Guarantor's commitment to the execution of said Program;

(B) the Guarantor has requested that the Bank support the Guarantor's execution of the Program through a series of loans over a period of approximately twelve years to be utilized in the implementation of the Program;

(C) the Guarantor and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the second phase of the Program, have requested the Bank to assist in the financing of the Project;

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

(E) the Borrower has obtained from the Nordic Development Fund a loan in amount equivalent to five million Special Drawing Rights (SDR 5,000,000) (the NDF

Loan), a portion of which is to be used to assist in the financing of Parts A(2) and B(1) and B(3) of the Project, on terms and conditions set forth in an agreement dated December 28, 1998, (the NDF Loan Agreement) entered into between the Nordic Development Fund and the Borrower; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before 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 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings wherever used in this Agreement:

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

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "Charter" means the charter of the Borrower dated December 3, 1986, as amended to the date of this Agreement.

(d) "DILG" means the Guarantor's Department of Interior and Local Government, an agency of the Guarantor, and any successor thereto.

(e) "DOF" means the Guarantor's Department of Finance, an agency of the Guarantor, and any successor thereto.

(f) "Eligible Categories" means Categories 1 and 2 set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(g) "Eligible Expenditures" means the expenditures for services referred to in Section 2.02 of this Agreement.

(h) "Financial Institution" means a financial institution, including a commercial bank, a rural bank, a thrift bank and credit cooperative; and "Financial Institutions" means, collectively, all such financial institutions.

(i) "LGU" means a Local Government Unit which is a political subdivision of the Guarantor at the provincial, city, municipal or barangay level; and "LGUs" means, collectively, all such Local Government Units.

(j) "Memorandum of Agreement" and "MOA" mean the agreement dated October 16, 1998, executed by the Borrower, DILG and DOF for the establishment of the Technical Working Committee and referred to in Section 2.03(d)(i) of the Guarantee Agreement and Section 3.03 of this Agreement.

(k) "NEDA" means the Guarantor's National Economic and Development Authority, established pursuant to the Borrower's Executive Order No. 230, dated July 22, 1987.

(l) "Operational Manual" means the manual, satisfactory to the Bank, adopted by the Technical Working Committee on August 1, 2001, and referred to in Section 2.03(d)(ii) of the Guarantee Agreement and in paragraph 2 of Schedule 5 to this Agreement. The said Manual sets forth, inter alia, (i) procedures and standards for the selection of Participating Entities and for the preparation, appraisal and approval of Sub-projects; (ii) technical standards and design of Sub-projects; (iii) policies and procedures for environmental impact assessment, mitigation, management and monitoring and for involuntary resettlement and acquisition of land and other assets and compensation therefore; and (iv) guidelines regarding LGU, Private Operator, Financial Institution and community participation.

(m) "Participating Entity" means a LGU, Private Operator or Financial Institution, selected in accordance with the policies and procedures set forth in the Operational Manual to receive financing out of the proceeds of the Loan to carry out its respective Sub-project under Part A of the Project; and "Participating Entities" means, collectively, all such LGUs, Private Operators and Financial Institutions.

(n) "Peso" means the currency of the Guarantor.

(o) "Project Management Office" and "PMO" mean the project management office established by the Borrower on January 29, 1999, and to be maintained pursuant to paragraph 1 of Schedule 5 to this Agreement.

(p) "PMU" means the Project Management Unit to be established by each Participating Entity in accordance with the provisions of paragraph 2(h)(ii) of Schedule 5 to this Agreement.

(q) "Private Operator" means a private enterprise that proposes to build, lease and operate water supply systems owned by LGUs; and "Private Operators" means, collectively, all such private enterprises.

(r) "Program" means the Guarantor's LGU Urban Water and Sanitation Development Program as set out in the letters from the Guarantor referred to in paragraph (A) of the Preamble to this Agreement.

(s) "Project Affected Persons" means persons who, on account of the execution of Part A of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Project Affected Person" means any of the Affected Persons.

(t) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement.

(u) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

(v) "Subloan" means a loan made or proposed to be made by the Borrower to a Participating Entity, under the provisions of a Subloan Agreement, for the carrying out of a Sub-project; and "Subloans" means, collectively, all such loans.

(w) "Subloan Agreement" mean a agreement to be entered between the Borrower and a Participating Entity, pursuant to Section 2(h) of Schedule 5 to this Agreement, and "Subloan Agreements" means, collectively, all such agreements.

(x) "Subsidiary Loan Agreement" means an agreement to be entered into between a Participating Entity pursuant to the provisions in paragraph 6 of the Annex to Schedule 5 of this Agreement.

(y) "Sub-projects" means, collectively, all Type A Sub-projects, Type B Sub-projects and Type C Sub-projects, and "Sub-project" means any such Type A Sub-project, Type B Sub-project or Type C Sub-project.

(z) "Type A Sub-project" means a specific investment project which includes the construction, expansion or rehabilitation of water supply and drainage systems to be carried out by a LGU under Part A of the Project, utilizing the proceeds of its

respective Subloan; and "Type A Sub-projects" means, collectively, all such investment projects.

(aa) "Type B Sub-project" means a specific investment project which includes the construction, expansion or rehabilitation of a LGU-owned water supply system to be carried out by a Private Operator under Part A of the Project, utilizing the proceeds of its respective Subloan and, which water supply system shall be leased and operated by said Private Operator upon completion; and "Type B Sub-projects" means, collectively, all such investment projects.

(bb) "Type C Sub-project" means a specific investment project which includes the construction, expansion or rehabilitation of sanitation systems to be carried out by a household under Part A of the Project, utilizing the proceeds of a Subloan made by the Borrower to a LGU, Private Operator or Financial Institution for onlending to said household to carry out said sanitation system works; and "Type C Sub-projects" means, collectively, all such investment projects.

(cc) "Type C Sub-project Subsidiary Loan" means a loan made or proposed to be made by a Participating Entity, using the proceeds of its Subloan, to a household under the provisions of a Subsidiary Loan Agreement for said household to carry out a Type C Sub-project.

(dd) "Technical Working Committee" means the committee established on October 16, 1998, and maintained pursuant to the Memorandum of Agreement in accordance with the provisions of Section 2.03(d)(i) of the Guarantee Agreement and Section 3.03(a) 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 the Loan Agreement, an amount equal to three billion, seven hundred and seventeen million, nine hundred thousand Yen (JPY 3,717,900,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

(b) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

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

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the

Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on February 1 and August 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A, B(1) and B(2) and the relevant part of Part B(3)(a) of the Project in selected cities and municipalities with due diligence and efficiency and in conformity with appropriate financial, administrative, banking, water supply, environmental and social standards and practices, and shall provide, cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Parts A, B(1) and B(2) and the relevant part of Part B(3)(a) of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of works required for Type A Sub-projects and Type C Sub-projects under Part A(1) of the Project and procurement of consultants' services under Part B(2) of the Project, to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement. Procurement of works required for Type B Sub-projects under Part A(1) of the Project, to be financed out of the proceeds of the Loan shall

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

Section 3.03. The Borrower:

(a) shall, jointly with DILG and other relevant national agencies, maintain the Technical Working Committee, which was set up pursuant to the Memorandum of Agreement, to be responsible for overall coordination and supervision of all components of the Project; and

(b) shall not amend, delete, suspend or waive the Operational Manual or any provision thereof without the prior consent of the Bank.

Section 3.04. By January 1, 2002, the Borrower shall commence implementation of the time-bound action plan, dated August 16, 2001, for the implementation of Part A (2) of the Project.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before 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 objectives 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 not later than December 31, 2001, and, thereafter, maintain at all times a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 financial statements, 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 Project Management Reports or statements of expenditure, the Borrower shall:

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

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from

the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2002, or such later date as the Bank shall agree, to prepare semi-annual Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each six-month period a Project Management Report for such period.

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. The Borrower shall take all actions within its powers to distribute annual dividends on its shares only after adequate provisions have been made for, inter alia: (a) taxes; (b) loan loss provisions; and (c) adjustments to its equity caused by within-year inflation.

Section 4.05. The Borrower shall, by December 31, 2001, take all steps necessary to reduce the percentage of the arrears in its retail loan portfolio to a level not exceeding the industry average of the past three consecutive fiscal years for commercial banks in the Philippines and, thereafter, the Borrower shall maintain such arrears percentage at such level. The provisions of this Section 4.05 supercede the provisions of Section 4.05 of the Loan Agreement dated January 29, 1999, and entered into between the Borrower and the Bank for Loan Number 4422-PH (LGU Urban Water and Sanitation Project).

Section 4.06. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain its profitability in real terms of not less than the average of the past three consecutive fiscal years and maintain the following financial ratios for each fiscal year commencing in fiscal year 2002: (i) ratio of risk assets to equity of not more than 8:1; and (ii) ratio of liquid assets to short term deposits of not less than 45 %.

(b) For purposes of this Section:

(i) The term "risk assets" means total assets excluding cash, short-term deposits in banks, investment in government securities and fixed assets used in the course of the Borrower's operations.

(ii) The term "equity" means the sum total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.

(iii) The term "liquid assets" means cash, short-term deposits in banks and investment in government securities up to one year.

(iv) The term "profitability in real terms" means audited net profits at the end of the fiscal year minus the equity net of fixed assets at the beginning of the same fiscal year, multiplied by the annual inflation rate.

ARTICLE V

Remedies of the Bank

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

(a) The Charter 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 its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) An event shall have occurred which shall make it improbable that the Program or a significant part thereof will be carried out.

(c) (i) Subject to clause (ii) of this paragraph (c): (A) the right of the Borrower to withdraw the proceeds of the NDF Loan to the Borrower for the financing of Parts A(2), B(1) and B(3) of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the NDF Loan Agreement providing therefor; or (B) the NDF Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Clause (i) of this paragraph (c) shall not apply if the Borrower or the Guarantor, as the case may be, establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the NDF Loan Agreement; and (B) adequate funds for Parts A(2), B(1) and B(3) of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under the Loan Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur.

(b) The event specified in paragraph (c)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso in paragraph (c)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions; namely, Subloan Agreements satisfactory to the Bank have been executed on behalf of the Borrower and at least ten (10) Participating Entities in accordance with the provisions of paragraph 2 (h) of Schedule 5 to this Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is

hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The President 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 Bank:

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

| | | | |
|----------|------------------|-----------------|------------|
| | Cable address: | Telex: | Facsimile: |
| 477-6391 | INTBAFRAD | 248423 (MCI) or | (202) |
| | Washington, D.C. | 64145 (MCI) | |

For the Borrower:

Development Bank of the Philippines
Sen. Gil Puyat Avenue Corner
Makati Avenue
Makati, Metro Manila
Republic of the Philippines

| | | | |
|--|----------------------------|---|--------------|
| | Cable address: | Telex: | Facsimile: |
| | PHILDEBANK 22197 Manila | PHILCOM 22197 DBP PH GLOBE TELECOM 45128 DBP PM EASTERN TELECOMS 63771 DBP PN | 632-815-1517 |

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jemal-ud-din Kassum
Authorized Representative

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Remedios Macalincag
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

| Category | Amount of the Loan Allocated (Expressed in Yen) | % of Expenditures to be Financed |
|---|--|---|
| 1. Works, including supply and installation of water and sanitation systems, under: | | |
| (a) Type A Sub-projects and Type C Sub-projects | 2,521,975,500 | 90% |
| (b) Type B Sub-projects | 446,148,000 | 90% |
| 2. Consultants' services under Part B of the Project | 204,484,500 | 100% |
| 3. Interest accrued on or before July 31, 2006 | 508,113,000 | Amounts due pursuant to Section 2.02(b) of this Agreement |
| 4. Fee | 37,179,000 | Amount due under Section 2.04 of this Agreement |
| TOTAL | 3,717,900,000 | |

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

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) works under Type A Sub-projects costing less than \$50,000 equivalent each; and (ii) consultants' services under contracts with firms costing less than \$100,000 equivalent each and under contracts with individuals, regardless of cost, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

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

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

(a) until the Bank shall have received (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not

be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

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

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

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

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

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

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

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to JPY 310,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to JPY 150,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of JPY 1,860,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the

Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of JPY 446,000,000.

SCHEDULE 2

Description of the Project

The Project is the second phase of the Program of LGU Urban Water and Sanitation Development of the Republic of the Philippines (the Program). The objective of the Project is to assist selected LGUs to: (i) provide sustainable water and sanitation services; and (ii) strengthen their institutional and technical capacity for planning, budgeting and financial management of local services, including the water supply and sanitation.

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

Part A: Water Supply, Sanitation and Drainage Services

(1) Improvement of water supply, sanitation and drainage services in selected cities and municipalities through the financing of investment projects to construct,

rehabilitate and expand water supply systems, on-site sanitation facilities and micro-drainage infrastructure.

(2) Strengthening the capacity of selected LGUs for: (a) preparation of investment projects to improve water supply, sanitation and drainage services, operation and maintenance, including adequate treatment of the environmental and health aspects of water supply and sanitation services; and (b) implementation (including procurement) of investment projects, in each case through the provision of consultants' services, training and equipment.

Part B: Institutional Development in Preparation, Implementation and Supervision of Investment Projects

(1) Strengthening the capacity of selected LGUs for investment planning and financial management, through the provision of consultants' services, training and equipment.

(2) Strengthening the capacity of the Borrower, with respect to Sub-projects, for: (a) (i) supervision of construction carried out by Participating Entities; and (ii) supervision of environmental management, in each case through the provision of consultants' services; and (b) monitoring and evaluation, through the provision of relevant data generated by consultants.

(3) Strengthening the capacity of: (a) the Borrower and DILG for overseeing the preparation and appraisal of investment projects, through the provision of consultants' services, training and equipment; and (b) DOF, DILG and NEDA for overseeing the Program, through regular knowledge sharing.

The Project is expected to be completed by May 31, 2006.

SCHEDULE 3

Procurement for Works under Type A Sub-projects and Type C Sub-projects

Section I. Procurement of Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, 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 works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for town clusters works contracts estimated to cost \$1,000,000 equivalent or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, works shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each.

(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

1. National Competitive Bidding

Works estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$7,940,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,770,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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 works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to each contract for works to be procured in accordance with the procedure referred to in: (i) paragraph 1 of Part B of this Section, regardless of cost; and (ii) paragraph 1 of Part C of this Section and estimated to cost the equivalent of \$50,000 or more.

(b) With respect to the first three contracts each year to be procured in accordance with the procedures referred to in paragraph 2 of Part C of this Section, the following procedures shall apply:

- (i) prior to the selection of any contractor, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the

procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for institutional development under Part B(2) of the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for institutional development under Part B(2) of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

Procurement for Works under Type B Sub-projects

Part A: General

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

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Schedule, works shall be procured under contracts awarded in accordance with the provisions of Section II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 and paragraph 5 of Appendix 1 thereto.

Part C: Private Sector or Commercial Practices

Works that are estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent may, with the Bank's prior agreement and in accordance with the provisions of paragraph 3.12 of the Guidelines, be procured in accordance with established local private sector or commercial practices that are acceptable to the Bank.

SCHEDULE 5

Implementation Program

Project Management

1. The Borrower shall maintain the Project Management Office with functions, responsibilities and resources satisfactory to the Bank, managed and staffed with qualified and experienced personnel in adequate number, to coordinate, supervise and monitor the implementation of the Project. The Project Management Office shall collaborate with DILG in the carrying out of its responsibilities.

Sub-projects and Subloans

2. Except as the Bank shall otherwise agree, the Borrower shall select Participating Entities and Sub-projects and make Subloans to such Participating Entities in accordance with the Borrower's credit criteria and procedures and on terms and conditions acceptable to the Bank, as set forth in the Operational Manual. Such criteria, procedures and terms and conditions shall include the following:

Criteria

(a) Sub-project activities, such as construction, rehabilitation and expansion of water supply systems, on-site sanitation facilities and micro-drainage infrastructure, are eligible for financing under Subloans, provided that they are deemed technically feasible, financially viable and environmentally sound.

(b) The Participating Entity shall have carried out a program of informed consultation with the beneficiary community, satisfactory to the Bank, regarding the level of water supply or drainage services, as the case may be, and gathered evidence of demand for such services from either (i) at least sixty percent (60%) of its households or (ii) the number of connections that will ensure full cost recovery for the proposed investments, whichever is lower.

(c) Where the Participating Entity is a LGU, the municipal council and mayor of the LGU shall have passed resolutions to participate in the Project and to execute a Subloan Agreement with the Borrower, satisfactory to the Borrower.

Terms of Subloans

(d) The principal amount of a Subloan shall not exceed ninety percent (90%) of the total civil works (including detailed design) costs of the related Sub-project (but excluding the cost of land) and 100% of capitalized interest of such Subloan and of construction supervision costs of the related Sub-project; and, except for Type C Sub-projects, the Participating Entity shall be required to contribute at least ten (10%) of the total Sub-project costs from internally generated revenues, from its internal revenue allocation, or from other sources.

(e) Repayment of each Subloan shall be made over a period not exceeding fifteen (15) years, inclusive of three (3) years grace.

(f) Interest payable on each Subloan shall be at a rate freely negotiated between the Borrower and the Participating Entity and shall take into consideration the Borrower's cost of funds, operating costs and credit risk.

Procedure, Terms and Conditions

(g) The Borrower shall approve a Subloan to a Participating Entity only if such Participating Entity:

(i) has prepared an environmental assessment and an environmental management plan on the basis of standards satisfactory to the Bank and in accordance with the principles set forth in the Operational Manual;

(ii) has prepared a resettlement action plan satisfactory to the Bank, in accordance with the principles set forth in the Operational Manual, in the event the Sub-project involves resettlement of Project Affected Persons; and

(iii) has carried out consultations with and a process of informed participation by indigenous people, in accordance with principles set forth in the Operational Manual, in the event that the Sub-project impacts such people and to ensure that the design and implementation of the Sub-project adequately addresses the needs and cultural preferences of such people.

(h) In respect of each Subloan, the Borrower shall enter into a Subloan Agreement with the relevant Participating Entity whereby the Borrower shall obtain rights adequate to protect the interests of the Bank and the Borrower, including without limitation the rights to:

(i) require the Participating Entity to carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, financial, managerial, social and environmental standards and practices, and to maintain adequate records;

(ii) require the Participating Entity to establish prior to approval of a Subloan and, thereafter, maintain a Project Management Unit with responsibilities and resources satisfactory to the Borrower and the Bank, and managed and staffed with qualified personnel in adequate number to manage the implementation of its Sub-project;

(iii) require that the works to be financed out of the proceeds of the Subloan shall be procured in accordance with: (A) the provisions of Schedule 3 to this Agreement for a Type A Sub-project and a Type C Sub-project and shall be used exclusively in the carrying out of the Sub-project; and (B) the provisions of Schedule 4 to this Agreement for a Type B Sub-project and shall be used exclusively in the carrying out of the Sub-project;

(iv) require that, for a Type C Sub-project, the Participating Entity shall undertake to onlend the proceeds of the Subloan as a Type C Sub-project Subsidiary Loan to a household in accordance with the Borrower's credit criteria and procedures and on terms and conditions acceptable to the Bank and the Borrower, as set out in the Operational Manual. Such criteria, procedures and terms and

conditions shall include those set out in the Annex to this Schedule. Additionally, the Participating Entity shall be required to: (a) exercise its right in relation to each Subsidiary Loan Agreement in such manner as to protect the interests of the Participating Entity, the Borrower and the Bank, with its obligations under this Agreement and achieve the purposes of the Project; and (b) not, except as the Bank shall otherwise agree, take or concur in any action which would have the effect of assigning, amending, abrogating or waiving any Subsidiary Loan Agreement or any provision thereof. comply

(v) require that the Participating Entity implement its environmental management plan, resettlement action plan and program of consultation with and informed participation by indigenous people, as the case may be, in a manner satisfactory to the Borrower and the Bank;

(vi) inspect, by itself or jointly with representative of the Bank such goods and the sites, works, plans and construction included in the Sub-project, the operation thereof and any relevant records and documents;

(vii) require that the Participating Entity provide to the Borrower and the Bank all such information as the Borrower or the Bank may reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating Entity and to the benefits to be derived from its respective Sub-project;

(viii) require the Participating Entity to: (A) establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Borrower and the Bank, adequate to reflect the operations, resources and expenditures related to its Sub-project; (B) have the records, accounts and financial statements referred to in clause (A) above for each fiscal year audited, in accordance with auditing standards acceptable to the Borrower and the Bank, consistently applied, by independent auditors acceptable to the Bank; and (C) furnish to the Borrower and the Bank, copies of the financial statements referred to in clause (A) above as so audited together with an opinion on such statements, records and accounts and report of such audit by said auditors;

(ix) require that the Participating Entity take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and

(x) suspend, terminate the right of the Participating Entity to the use of the proceeds of the Subloan, or declare the principal of the Subloan then outstanding to be due and payable immediately together with interest thereon and all charges connected therewith, upon failure by such Participating Entity to perform its obligations under its Subloan Agreement with the Borrower.

3. The Borrower:

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

(b) shall not, except as the Bank shall otherwise agree, take or concur in any action which would have the effect of assigning, amending, abrogating or waiving any Subloan Agreement or any provision thereof.

Monitoring and Evaluation

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Parts A, B(1) and B(2) and the relevant part of Part B(3)(a) of the Project (including implementation of environmental management plans, resettlement action plans and program of consultation with and informed participation by indigenous people referred to in paragraph 2(g) of this Schedule) and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) a semi-annual report on or about June 30 and December 31 of each year, commencing June 30, 2002, and (ii) a mid-term report on or about December 31, 2003, in each case integrating the results of the monitoring and evaluation activities performed pursuant to clause (a) of this paragraph, on the progress achieved in the carrying out of the said Parts of the Project (including implementation of environmental management plans and resettlement action plans referred to in paragraph 2(g) of this Schedule) during the period preceding the date of each such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by January 31, 2004, or such later date as the Bank shall request, the report referred to in clause (b)(ii) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

Annex to Schedule 5

Type C Sub-project Subsidiary Loans

Criteria

1. Type C Sub-project activities, such as construction, rehabilitation and expansion of a sanitation system, are eligible for financing under a Type C Sub-project Subsidiary Loan, provided that they are deemed technically feasible, financially viable and environmentally sound.

2. Type C Sub-project activities, such as construction, rehabilitation and expansion of a sanitation system, are eligible for financing under a Type C Sub-project Subsidiary Loan, provided that there is an existing connection to the water supply system financed under the Project and to which the proposed sanitation system may be linked.

Terms of Type C Sub-project Subsidiary Loans

3. The principal amount of a Type C Sub-project Subsidiary Loan shall not exceed ninety percent (90%) of the total costs of the related Sub-project (excluding the cost of land); and the household shall be required to contribute at least ten (10%) of the total Sub-project costs from its own resources.

4. Repayment of each Type C Sub-project Subsidiary Loan shall be made over a period not exceeding fifteen (15) years, inclusive of three (3) years grace.

5. Interest payable on each Type C Sub-project Subsidiary Loan shall be at a rate freely negotiated between the Participating Entity and the household and shall take into consideration the Participating Entity's cost of funds, operating costs and credit risk.

6. In respect of each Type C Sub-project Subsidiary Loan, the Participating Entity shall enter into a Subsidiary Loan Agreement with the household whereby the Participating Entity shall obtain rights adequate to protect the interests of the Participating Entity, the Borrower and the Bank, including without limitation the

rights to:

(a) require the household to carry out its Type C Sub-project with due diligence and efficiency and in accordance with sound technical, financial and environmental standards and practices, and to maintain adequate records;

(b) require that the works to be financed out of the proceeds of the Type C Sub-project Subsidiary Loan shall be procured in accordance with the provisions of Schedule 3 to this Agreement and shall be used exclusively in the carrying out of the Type C Sub-project;

(c) inspect, by itself or jointly with representative of the Bank such goods and the sites, works, plans and construction included in the Type C Sub-project, the operation thereof and any relevant records and documents;

(d) require that the household provide to the Participating Entity, Borrower and the Bank all such information as the Participating Entity, Borrower or the Bank may reasonably request relating to the foregoing; and

(e) suspend, terminate the right of the household to the use of the proceeds of the Type C Sub-project Subsidiary Loan, or declare the principal of the said subsidiary loan then outstanding to be due and payable immediately together with interest thereon and all charges connected therewith, upon failure by such household to perform its obligations under the Subsidiary Loan Agreement with the Participating Entity.

SCHEDULE 6

Amortization Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Payment Date | Installment Share (Expressed as a %) |
|---|---|
| On each February 1 and August 1 Beginning February 1, 2010 through February 1, 2021 | 4.17% |
| On August 1, 2021 | 4.09% |

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts

referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

