

CONFORMED COPY

LOAN NUMBER 4422 PH

Loan Agreement

(LGU Urban Water and Sanitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated January 29, 1999

LOAN NUMBER 4422 PH

LOAN AGREEMENT

AGREEMENT, dated January 29, 1999 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) a letter dated September 28, 1998, 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 eight 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 first 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 intends to seek from the Nordic Development Fund a loan in amount equivalent to five million Special Drawing Rights (SDR 5,000,000) (the NDF Loan) to assist in the financing of Part C of the Project on the terms and conditions set forth in an agreement (the NDF Loan Agreement) to be entered into between the Nordic Development Fund and the Borrower; and

(F) the Guarantor intends to seek from the European Union a grant (the European Union Grant) in an amount equivalent to one million ECU (ECU 1,000,000) to assist in financing Part B of the Project on the terms and conditions set forth in an agreement (the European Union Grant Agreement) to be entered into between the Guarantor and the European Union; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms 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 Department of Interior and Local Government, an agency of the Guarantor, and any successor thereto;

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

(f) "LGUs" means Local Government Units which are political subdivisions of the Guarantor at the provincial, city, municipal or barangay level, and "LGU" means any such Local Government Unit;

(g) "Memorandum of Agreement" or "MOA" means the agreement dated October 16, 1998, executed by the Borrower, DILG and DOF for the establishment of the Technical Working Committee, in accordance with the provisions of Section 3.05 (a) of the Guarantee Agreement and Section 3.03 (a) of this Agreement;

(h) "Operations Manual" means the manual, satisfactory to the Bank, adopted by the Technical Working Committee and referred to in Section 3.05 (c) of the Guarantee Agreement and in paragraph 2 of Schedule 5 to this Agreement, said Manual setting forth, inter alia, procedures and standards for the selection of Participating LGUs, for the preparation, appraisal and approval of LGU Sub-projects under Part A of the Project, technical standards and design, policies and procedures for environmental impact management and monitoring, for the acquisition of land and other assets and compensation therefor, and guidelines regarding LGU and community participation;

(i) "Participating LGUs" means the LGUs at the city or municipal level selected in accordance with the policies and procedures set forth in the Operations Manual to receive financing to carry out their respective Sub-projects under Part A of the Project;

(j) "PMO" means the Project Management Office to be established and maintained by the Borrower in accordance with the provisions of paragraph 1 of Schedule 5 to this Agreement;

(k) "PMU" means the Project Management Unit to be established by each Participating LGU in accordance with the provisions of paragraph 2 (f) (ii) of Schedule 5 to this Agreement;

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

(m) "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; or (iii) business, occupation, work or place of residence or habitat adversely affected;

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

(o) "Subloan" means a loan made or proposed to be made by DBP to a Participating LGU, under the provisions of a Subloan Agreement, for the carrying out of a Sub-project;

(p) "Subloan Agreements" means the agreements to be entered between DBP and Participating LGUs, pursuant to Section 2(f) of Schedule 5 to this Agreement, and "Subloan Agreement" means any such Subloan Agreement;

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

(r) "Technical Working Committee" means the committee established and maintained pursuant to the Memorandum of Agreement in

accordance with the provisions of Section 3.05 (a) of the Guarantee Agreement and Section 3.03 (a) of this Agreement; and

(s) "Water Districts" means local agencies of the Guarantor established pursuant to Title II of the Provincial Water Utilities Act of 1973, as amended to the date of this Agreement, to provide, operate and maintain water supply, wastewater collection, treatment and disposal facilities within designated geographical areas, and "Water District" means any of such Water Districts.

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 twenty-three million three hundred thousand dollars (\$23,300,000).

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for purposes of Part A of the Project, open and maintain in dollars a special deposit account in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. 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. The Closing Date shall be September 30, 2002 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 at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Guarantor and the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Guarantor or the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project Management and Operations of the Borrower

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 and C of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter, the Memorandum of Agreement and the Operations Manual.

(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 Part 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 the works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower

(a) shall, under a memorandum of agreement satisfactory to the Bank, jointly with DOF and DILG, establish and thereafter maintain a Technical Working Committee which shall be responsible for overall coordination and supervision of all components of the Project;

(b) shall not, except as the Bank shall otherwise agree, amend, abrogate or waive such memorandum or any provision thereof; and

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

Section 3.04. The Borrower shall implement Part C of the Project in accordance with guidelines and procedures satisfactory to the Bank and to NDF.

Section 3.05. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of the objectives of Part A 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. The Borrower shall establish and maintain 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 monitor and record the progress of Parts A and C of the Project and of each LGU Sub-project (including its cost and the benefits to be derived from it), and to reflect the operations and financial condition of the Borrower and to register separately the operations, resources and expenditures for and in connection with the carrying out of Parts A and C of the Project.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and 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 Section 4.01 above for such year as so audited, and (B) an opinion on such statements and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements, and the audit thereof and concerning said auditors, as the Bank may from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain, in accordance with Section 4.01 of this Agreement, 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 (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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, 2000, take all steps necessary to reduce the percentage of the arrears in its retail loan portfolio to a level not exceeding the industry average for commercial banks in the Philippines and, thereafter, the Borrower shall maintain such arrears percentage at such level.

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 Parts A and C of 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 Part C of the Project, or the right of the Guarantor to withdraw the proceeds of the European Union Grant to the Guarantor for the financing of Part B of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the respective agreements 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 or the Guarantor, as the case may be, to perform any of its obligations under the respective agreement; and (B) adequate funds for Parts B and C of the Project are available to the Borrower and the Guarantor from other sources on terms and conditions consistent with the obligation of the Guarantor under the Guarantee Agreement or 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 paragraph (a) 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 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) Subloan Agreements have been executed on behalf of the Borrower and at least ten Participating LGUs in accordance with the provisions of paragraph 2 (f) of Schedule 5 to this Agreement;

(b) the NDF Loan Agreement has been executed and delivered and

all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled; and

(c) the European Union Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Guarantor to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
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:

PHILDEBANK
Manila

Telex:

22197

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava

Authorized Representative

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Remedios Macalincag
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category Financed	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be
(1) Works including supply and installation of water and sanitation equipment under Part A of the Project	21,667,000	89%
(2) Consultants' services under Part A of the Project	1,400,000	100%
(3) Fee under of this	233,000	Amount due Section 2.04 Agreement
TOTAL	23,300,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

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 contracts costing less than \$300,000 equivalent each; and (ii) consultants' services under contracts with firms or individuals costing, respectively, less than \$100,000 equivalent each and less than \$50,000 equivalent each; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project is the first 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 to manage water utilities.

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 objective:

Part A: Water Supply, Sanitation and Drainage Services

Improvement of water supply, sanitation and drainage services in approximately forty selected cities and municipalities outside Metro Manila, through the financing of investment projects to construct, rehabilitate and expand water supply systems, on-site sanitation facilities and micro-drainage infrastructure.

Part B: Water Utilities Private Sector Participation

Facilitating of private sector participation in the delivery of water supply and sanitation services, including the operations and maintenance of municipal facilities, through the provision of technical assistance to selected LGUs and Water Districts to develop and implement municipal or regional strategies for private sector participation.

Part C: Institutional Development

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

* * *

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

SCHEDULE 3

Amortization Schedule

Principal Date Payment Due Dollars)*	Payment of (expressed in
August 15, 2004	485,000
February 15, 2005	500,000
August 15, 2005	515,000
February 15, 2006	530,000
August 15, 2006	550,000
February 15, 2007	565,000

August 15, 2007	580,000
February 15, 2008	600,000
August 15, 2008	620,000
February 15, 2009	635,000
August 15, 2009	655,000
February 15, 2010	675,000
August 15, 2010	695,000
February 15, 2011	720,000
August 15, 2011	740,000
February 15, 2012	765,000
August 15, 2012	785,000
February 15, 2013	810,000
August 15, 2013	835,000
February 15, 2014	860,000
August 15, 2014	885,000
February 15, 2015	915,000
August 15, 2015	940,000
February 15, 2016	970,000
August 15, 2016	1,000,000
February 15, 2017	1,030,000
August 15, 2017	1,060,000
February 15, 2018	1,090,000
August 15, 2018	1,125,000
February 15, 2019	1,165,000

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

SCHEDULE 4

Procurement

Section I. Procurement of 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 and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as otherwise provided in paragraph 2 of this Part B, works shall 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 \$2,760,000 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 C: 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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to: (a) each contract for works estimated to cost the equivalent of \$300,000 or more; and (b) the first five contracts for works each year, irrespective of the cost of such contracts, provided that with respect to any of these first five contracts which are to be procured in accordance with the procedures set forth in paragraph B (2) above, the following procedures shall apply:

(i) prior to the execution of any contract under the procedure for procurement of small works, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received and a copy of the specifications and the draft contract; and

(ii) 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part A of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Individual Consultants

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

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

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall establish and, thereafter, maintain a 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 Part A of the Project.

2. Except as the Bank shall otherwise agree, the Borrower shall select LGUs and Subprojects and make Subloans to such Participating LGUs in accordance with criteria, procedures and on terms and conditions acceptable to the Bank, as set forth in the Operations Manual. Such criteria, procedures and terms and conditions shall include the following:

(a) The Participating LGU shall have carried out a program of

consultation and discussion with the community, satisfactory to the Bank, regarding the level of services and gathered evidence of demand for such services from at least sixty percent (60%) of its households.

(b) The municipal council and mayor of the Participating LGU shall have passed resolutions to participate in the Project and to execute a Subloan Agreement with the Borrower, satisfactory to the Borrower and the Bank.

(c) The principal amount of a Subloan shall not exceed seventy-five percent (75%) of the total costs of the related Subproject (excluding the cost of land); and the Participating LGU shall be required to contribute at least twenty-five percent (25%) of the total Sub-project costs from internally generated revenues and from its internal revenue allocation.

(d) Repayment of each Subloan shall be made over a period not exceeding fifteen (15) years inclusive of three (3) years grace; and interest shall be at an annual rate to be agreed from time to time by the Borrower, the Guarantor and the Bank.

(e) The Borrower shall approve a Subloan to a Participating LGU only if such LGU has prepared:

(i) 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 Operations Manual; and

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

(f) in respect of each Subloan, the Borrower shall enter into a Subloan Agreement with the relevant Participating LGU 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 LGU to carry out its Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(ii) require the Participating LGU to establish 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 Subproject;

(iii) require that the works and services to be financed out of the proceeds of the Subloan shall be procured in accordance with the provisions of Schedule 4 to this Agreement and shall be used exclusively in the carrying out of the Sub-project;

(iv) require that the Participating LGU implement its environmental management plan and resettlement action plan, as the case may be, in a manner satisfactory to the

Borrower and the Bank;

(v) 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;

(vi) require that the Participating LGU 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 LGU and to the benefits to be derived from its respective Sub-project;

(vii) require the Participating LGU 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;

(viii) require that the Participating LGU 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

(ix) suspend, terminate the right of the Participating LGU 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 LGU 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.

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 the Project 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 April 30 and October 31 of each year, commencing October 31, 1999, and (ii) a mid-term report on or about April 30, 2000, in each case integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of each such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2000, 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.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 Sub-projects under Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 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 be equal to or exceed the equivalent of \$8,000,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Special Account, 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 allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or

justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

