

CONFORMED COPY

LOAN NUMBER 4522 - PH

Loan Agreement

(Mindanao Rural Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 14, 1999

LOAN NUMBER 4522 - PH

LOAN AGREEMENT

AGREEMENT, dated December 14, 1999, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated June 22, 1999, describing a program designed to reduce poverty among the rural communities within the twenty-four provinces in Mindanao, Philippines, by improving their incomes and food security (the Program, as hereinafter defined) and declaring the Borrower's commitment to the execution of said Program;

(B) the Borrower has requested that the Bank assist in the financing of the Program, through a series of loans, over a period of approximately twelve years;

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

(D) the Borrower intends to obtain from the Global Environment Facility (GEF) a grant (the Grant) in an amount equivalent to one million Special Drawing Rights to assist in the financing of Part D of the Project, on the terms and conditions set forth in an agreement (the Grant Agreement) to be entered into between GEF 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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modifications 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:

(a) "ADP" means one or more agricultural development programs under Part A, B, C(1) or C(2) of the Project, which satisfies the requirements set forth or referred to in paragraphs 4 through 9 of Schedule 5 to this Agreement; and "ADPs" means, collectively, all such programs.

(b) "Allocated Amount" means, in respect of each LGU, an amount of the Loan allocated by the Borrower to said LGU and to be utilized by said LGU for purposes of carrying out its ADP.

(c) "Bangko Sentral ng Pilipinas" means the Borrower's central bank, and any successor thereto.

(d) "Barangay" means an administrative unit within a city or municipality.

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

(f) "DA" means the Borrower's Department of Agriculture, and any successor thereto.

(g) "DENR" means the Borrower's Department of Environment and Natural Resources, and any successor thereto.

(h) "DOF" means the Borrower's Department of Finance, and any successor thereto.

(i) "Implementation Agreement" means the agreement to be entered into between the Borrower, through DA, and a LGU in accordance with the provisions of paragraph 10 of Schedule 5 to this Agreement.

(j) "LGUs" means Local Government Units, which are political subdivisions of the Borrower at the provincial, city, municipal or barangay level, within the twenty-four provinces of Mindanao, and "LGU" means any such Local Government Unit.

(k) "MDFO" means the Municipal Development Fund established under Presidential Decree No. 1914 dated March 29, 1984, and reorganized, functionally and structurally as Municipal Development Fund Office under President's Executive Order Number 41 dated November 20, 1998, and administered by DOF, to make financial resources available to local governments for duly approved specific projects or activities, and any successor thereto.

(l) "Memorandum of Agreement" means the agreement referred to in Section 3.01(c) of this Agreement, to be entered between DOF and DA.

(m) "MPDO" means, in respect of a municipal LGU, the Municipal Planning and Development Office to be maintained by said LGU in accordance with the provisions of paragraph (1)(a)(ii) of Section II of the Annex to Schedule 5 to this Agreement.

(n) "Multisectoral Committee" means, in respect of a municipal LGU, the committee to be established and maintained by said LGU in accordance with the provisions of paragraph (1)(b) of Section II of the Annex to Schedule 5 to this Agreement.

(o) "NIA" means the National Irrigation Administration, a government-owned entity established pursuant to Republic Act 3601, as amended by Presidential Decree No. 552 and No.1702, under the jurisdiction of DA, responsible for irrigation development, including the design and construction of communal irrigation systems, and any successor thereto.

(p) "Operations Manual" means a manual to be developed pursuant to paragraph 2 of Schedule 5 to this Agreement, as such manual may be revised from time to time with the prior approval of the Bank.

(q) "Participating LGU" means a LGU carrying out an ADP being financed by the proceeds of the Loan.

(r) "PCO" means the Program Coordination Office to be maintained by the Borrower in accordance with the provisions of paragraph 1(b) of Schedule 5 to this Agreement.

(s) "PMB" means the Program Management Board established pursuant to Executive Order No. 474 of the President dated March 24, 1998, and to be maintained by the Borrower in accordance with the provisions of paragraph 1(a) of Schedule 5 to this Agreement.

(t) "PPIU" means, in respect of a provincial LGU, the project implementation unit to be established and maintained by said LGU in accordance with the provisions of paragraph (1)(a)(i) of Section II to the Annex to Schedule 5 to this Agreement.

(u) "Program" means the Borrower's Mindanao Rural Development Program as set out in the letter from the Borrower referred to in paragraph (A) of the Preamble to this Agreement.

(v) "Special Accounts" means the two special accounts referred to in Section 2.02(b) of this Agreement; and "Special Account" means any of the Special Accounts.

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-seven million five hundred thousand dollars (\$27,500,000).

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

(b) The Borrower may, for purposes of the Project, open and maintain in dollars two special deposit accounts in commercial banks 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: (i) one such account for purposes of Parts A and B of the Project (the Parts A and B Special Account); and (ii) one such account for purposes of Part C of the Project (Part C Special Account). Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a 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 dollar 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 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 Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless 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 on June 15 and December 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

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end, shall carry out: (i) Parts A(1), A(3) and B of the Project through LGUs; (ii) Part A(2) of the Project through NIA; (iii) Part C of the Project through DA; and (iv) Part D of the Project through DA and DENR, with due diligence and efficiency, in conformity with appropriate administrative, management, economic, financial and environmental practices and in accordance with the Operations Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) The Borrower shall:

(i) in respect of Parts A(1), A(3) and B of the Project, make available to LGUs, through MDFO, the Loan proceeds allocated for said parts of the Project;

(ii) in respect of Part A(2) of the Project, make available to NIA, through MDFO, the Loan proceeds allocated for said part of the Project; and

(iii) in respect of Part C of the Project, make available to DA the Loan proceeds allocated for said part of the Project, all under terms and conditions satisfactory to the Bank. To that end, the Borrower shall make such funds available to the LGUs, NIA and DA under a memorandum of agreement to such effect, satisfactory to the Bank, between DOF and DA.

(d) The Borrower shall exercise its rights under the Memorandum of Agreement entered into pursuant to the provisions of paragraph (c) above, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such Memorandum of Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. 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 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 purposes of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the

Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts 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 and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 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 June 30, 2003, or such later date as the Bank shall agree, to prepare quarterly 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

calendar quarter a Project Management Report for such period.

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 Grant Agreement shall have failed to become effective by April 30, 2000, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for Part D of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b)(i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b)(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) The Borrower, through DA, shall have entered into Implementation Agreements with at least two provincial LGUs.

(b) DOF shall have executed a Memorandum of Agreement with DA pursuant to the provisions of Section 3.01(c) of this Agreement.

(c) DA shall have adopted and put into effect the Operations Manual in accordance with paragraph 2 of Schedule 5 to this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Implementation Agreement with each of the provincial LGUs referred to in Section 6.01(a) of this Agreement has been duly authorized or ratified by the Borrower and said LGU, and is legally binding upon the Borrower and said LGU in accordance with its terms.

Section 6.03. 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 Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General

Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance
Department of Finance Building
Roxas Blvd.
Manila
Republic of the Philippines

Cable address:

SECFIN
Manila

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Edgardo B. Espiritu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava

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	Amount of the Loan allocated Expressed in Dollars	% of Expenditures to be financed
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(1)	Works under Part A of the Project	19,900,000	80%
(2)	Goods under:		
	(a) Part A of the Project	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
	(b) Part C of the Project	1,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(3)	Works, goods and services under Part B of the Project	3,300,000	55%
(4)	Consultants' services and training under:		
	(a) Part A of the Project	200,000	100%
	(b) Part C of the Project	900,000	100%
(5)	Incremental Operating Costs for:		
	(a) calendar year 2000	200,000	30%
	(b) calendar year 2001	200,000	30%
	(c) calendar year 2002	100,000	30%
(6)	Fee	275,000	Amount due under Section 2.04 of this Agreement
(7)	Unallocated	1,225,000	
	TOTAL	27,500,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Operating Costs" means: (i) the cost of fixed-term staff contracted by the PCO and remuneration of staff seconded to the PCO to work on the Project; and (ii) the cost of office supplies, operating equipment and vehicles and staff travel incurred by PCO in the implementation of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$300,000 may be made in respect of Categories 1 and 2 on account of payments made for expenditures before that

date but after June 1, 1999.

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

(a) goods under contracts costing less than \$100,000 equivalent each (other than those referred to in Section I.D.2(iv) of Schedule 4 to this Agreement);

(b) works under contracts costing less than \$100,000 equivalent each (other than those referred to in Section I.D.2(iii) of Schedule 4 to this Agreement);

(c) consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent or less than \$50,000 equivalent, respectively; and

(d) Incremental Operating Costs and training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (i) improving the income and food security of selected agricultural and fishing communities within the twenty-four provinces of Mindanao; (ii) strengthening institutional and technical capacities of local governments and institutions; and (iii) protecting and conserving marine biodiversity.

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

Part A: Rural Infrastructure

1. Rural Roads

Development and implementation of programs to improve rural roads, consisting of: (a) rehabilitation of provincial and farm-to-market roads (FMR); and (b) routine maintenance of such roads.

2. Communal Irrigation

Development and implementation of programs to improve communal irrigation systems, consisting of: (a) rehabilitation of community owned and managed run-of-river communal irrigation schemes; and (b) selective construction of new communal irrigation systems.

3. Water Supply

Development and implementation of programs to provide safe potable water, consisting of the establishment and upgrading of spring development schemes.

Part B: Community Development Sub-projects

Development and implementation of programs to address diverse investment priorities of rural communities, consisting of the financing of sub-projects which meet community preferences and respond to national government priorities for supporting small-scale agricultural and fishery development.

Part C: Institutional and Implementation Support

1. Microfinance Institutions and Cooperatives

Development and implementation of programs to improve the institutional capacity of rural financial institutions, including cooperatives and microfinance institutions, to deliver small-scale credit and other financial services to rural communities.

2. Local Government Units

Development and implementation of programs to: (a) strengthen communities' and LGUs' capacity to identify, prioritize, design, implement, monitor and evaluate projects and maintain assets created thereunder; (b) enhance municipal and provincial governments' capacity for rural development planning, providing agricultural and fishery technical services, undertaking mini-demonstrations to link research and extension, project implementation, monitoring and evaluation, financial management and resource allocation; and (c) strengthen the capacity of the Borrower's agencies to deliver advisory services to LGUs.

3. Program Coordination Office

Strengthening the capacity of the Program Coordination Office to provide implementation support to LGUs and coordinate overall Project implementation and facilitate preparation of the next phase of the Program through the provision of consultants' services and goods.

Part D: Coastal and Marine Biodiversity Conservation

Promotion of coastal and marine biodiversity conservation in, and sustainable use of, the coastal waters of Mindanao by:

1. establishing marine sanctuaries at two pilot sites;
2. developing and carrying out sub-projects to enhance alternative income generation activities for coastal communities;
3. strengthening community-based surveillance of coastal resources and capacity of communities and regulators in the enforcement of marine resources regulations through the provision of goods, consultants' services, and training; and
4. developing skills of communities and government staff in marine biodiversity conservation methods through the provision consultants' services and training.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
June 15, 2005	590,000
December 15, 2005	610,000
June 15, 2006	625,000
December 15, 2006	645,000
June 15, 2007	660,000
December 15, 2007	680,000
June 15, 2008	700,000
December 15, 2008	720,000
June 15, 2009	740,000
December 15, 2009	760,000
June 15, 2010	785,000
December 15, 2010	805,000
June 15, 2011	830,000
December 15, 2011	855,000
June 15, 2012	875,000
December 15, 2012	905,000
June 15, 2013	930,000
December 15, 2013	955,000
June 15, 2014	980,000
December 15, 2014	1,010,000
June 15, 2015	1,040,000
December 15, 2015	1,070,000
June 15, 2016	1,100,000

December 15, 2016	1,130,000
June 15, 2017	1,165,000
December 15, 2017	1,195,000
June 15, 2018	1,230,000
December 15, 2018	1,265,000
June 15, 2019	1,300,000
December 15, 2019	1,345,000

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

SCHEDULE 4

Procurement

Section I. Procurement of Works and Goods

Part A: General

Works and goods 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 and goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate not to exceed \$11,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$ 100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,500,000 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.

4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and estimated to less than \$4,100,000 equivalent in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Community Participation

Goods and works required for Parts A(2) and B of the Project that are estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent and provided that the aggregate amount per NGO shall not exceed \$300,000, may be procured in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) Subject to the provisions of paragraph (b) of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to the following contracts (but excluding contracts to be procured using force account and community participation procedures in accordance with Parts C.4 and C.5 of this Section I): each contract for works and goods to be procured using international competitive bidding procedures in accordance with Part B of this Section I; each contract for works or goods estimated to cost \$100,000 equivalent or more and to be procured using national competitive bidding procedures in accordance with Part C.1 of this Section I; (iii) in each calendar year, the first contract for works, regardless of the cost thereof, procured by each LGU for which invitations to bid are issued in that calendar year; and (iv) the first three contracts for goods, regardless of the cost thereof.

(b) Notwithstanding the provisions of paragraph (a) of this Section, if any of the contracts referred to in subparagraph (i) thereof is to be procured under national shopping procedures in accordance with Part C.2 of this Section or small works procurement procedures in accordance with Part C.3 of this Section, the following procedures shall apply:

(i) prior to the selection of any supplier under national shopping procedures or contractor under small works procurement procedures, 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 procured under such procedures, 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 to be provided by non-governmental organizations (NGO) which are estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent per NGO, 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 tasks 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 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 equal or more than \$200,000 equivalent, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost equal or more than \$100,000 equivalent, but less than \$200,000 equivalent, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

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.

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

Project Management

1. The Borrower shall maintain throughout the period of implementation of the Project, with composition, terms of reference, staffing and other resources acceptable to the Bank:

(a) a Program Management Board, chaired by the Secretary, DA, to be responsible for providing overall direction and guidance for Project implementation; and

(b) a Program Coordination Office within DA and located in Mindanao, to be responsible for: (i) the overall facilitation and coordination of Project activities implementation; (ii) promotion of the ADPs; (iii) providing implementation support to Participating LGUs; (iv) supporting Participating LGUs in the development of their ADP annual work plans and budgets and consolidating said plans and budgets; and (v) consolidating the annual audited financial statements for the Project for submission to the Bank.

2. The Borrower shall:

(a) develop in accordance with guidelines acceptable to the Bank and furnish to the Bank for approval, a manual of operations for Parts A, B, C(1) and C(2) of the Project, which sets forth, inter alia, procedures and standards for the selection of LGUs to participate in an ADP and for the preparation, appraisal and approval of said ADP; ADP technical standards and design; policies and procedures for environmental impact management and monitoring of said ADP, for the acquisition of land and other assets under said ADP and compensation therefor; and guidelines regarding LGU and community participation in said ADP;

(b) thereafter, carry out Parts A, B and C of the Project in accordance with such manual as shall have been approved by the Bank; and

(c) shall not amend, delete, suspend or waive any part of said manual, without the prior approval of the Bank.

3. With respect to Parts A, B and C of the Project, the Borrower shall, through the PCO: (a) furnish to the Bank, not later than March 31 in each year, for review and approval, an annual work plan for the implementation of Parts A, B and C of the Project in the following year; and (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan and, thereafter, promptly take all actions necessary to implement said plan, taking into account the views of the Bank on the matter.

ADPs

4. A program referred to in Parts A, B, C(1) or C(2) of the Project, of which: Parts A(1), A(3) and B are to be carried out by a LGU; Part A(2) is to be carried out by NIA; and Parts C(1) and C(2) are to be carried out by DA, shall all qualify as an ADP eligible for financing out of the proceeds of the Loan only if:

(a) the Borrower has determined in accordance with guidelines acceptable to the Bank, including the Operations Manual, that the requirements set out in paragraphs 5 through 9 below have been met;

(b) the Bank has notified the Borrower of the Bank's approval of the proposed program; and

(c) the Borrower has entered into an Implementation Agreement with the LGU in respect of an ADP under Parts A(1), A(3) and B of the Project, which is legally binding on the parties in accordance with its terms.

5. The proposed program shall be economically and financially viable, and technically feasible, and shall have been designed in accordance with appropriate standards and practices as set forth in the Operations Manual.

6. The LGU shall have the organization, management and resources required for the proper carrying out of the proposed program, and to this end, has established a PPIU, MPDO or Multisectoral Committee, in accordance with the provisions of paragraphs 1(a) and 1(b) respectively of Section II of the Annex to this Schedule.

7. A program proposed for inclusion under Part A of the Project shall satisfy the following requirements:

(a) (i) an analysis of the environmental effects of activities under such program has been prepared; (ii) if applicable according to the provisions of the Operations Manual, an environmental impact assessment, satisfactory to the Bank, has been undertaken and mitigation measures designed, on the basis of environmental standards acceptable to the Bank, including those set forth in said manual; and (iii) in the event an environment compliance certificate is required under Philippines laws or regulations, such certificate has been obtained from the Borrower's Environmental Management Bureau or its instrumentality at the regional level in respect of the activities under said program;

(b) if the activities under such program involve resettlement of persons or property or livelihood of persons will be affected by said activities, such persons have been resettled, compensated, and/or rehabilitated in accordance with a resettlement action plan, prepared in accordance with policies and procedures acceptable to the Bank, including those in the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Project Affected Persons set forth in the Operations Manual;

(c) if the activities under such program involve communities with indigenous peoples, a plan that incorporates mechanisms for the informed participation of such peoples in the design and implementation of such program, has been designed in accordance with policies and procedures acceptable to the Bank, including those in the Indigenous Peoples Development Framework as set forth in the Operations Manual.

(d) in the case of a program under Part A(1) of the Project: (i) the rural roads proposed for inclusion in said program have been prioritized by the Multisectoral Committee; and (ii) each proposed rural road is: (A) designed to link with an existing all weather road and to establish a vital link with existing or potential key production areas; and (B) the construction of said rural road is economically justified by the projected traffic usage of such road;

(e) in the case of a program under Part A(2) of the Project, the community irrigation system proposed for inclusion in said program:

(i) (A) was constructed more than five (5) years prior to the date of said proposal for inclusion and has not been rehabilitated during said five-year period; or (B) has been damaged by a natural calamity within said five-year period;

(ii) that is located, in whole or part, on land eligible for redistribution under the Borrower's Comprehensive Agricultural Reform shall be included in said proposal only where less than 20% of said land is eligible for distribution. For land with more than 20% of its area eligible for redistribution, it may be included in said proposal only after a certificate for land ownership award has been issued for said land; and

(iii) the farmers who will utilize said irrigation system have actively participated in the preparation of the system design and feasibility study; and

(f) in the case of a program under Part A(3) of the Project,:

(i) the proposed site for the water supply scheme to be included in said program has been demonstrated to have a reliable water

supply throughout the year and water samples obtained from said site are certified by relevant authorities to be free from contamination; and

(ii) a community association with adequate resources has been established to be responsible for managing said water supply scheme.

8. A program proposed for inclusion under Part B of the Project shall satisfy the following requirements:

(a) the sub-project proposed to be included in said program has been prepared and submitted by community members organized as a group;

(b) said sub-project consists exclusively of eligible activities set forth in the Operations Manual; and

(c) forty percent (40%) of the expenditures proposed under said program is earmarked for activities targeted at women and ethnic minorities.

9. A program proposed for inclusion under Part C(1) or C(2) of the Project shall include a detailed implementation plan, including a budget and financing plan therefor, satisfactory to the Bank.

Implementation Agreements

10. For purposes of carrying out the Project, the Borrower shall make available to each LGU, the latter's respective Allocated Amount on terms and conditions acceptable to the Bank and as set forth in an implementation agreement, which shall be entered into between the Borrower, through DA, and said LGU in accordance with the provisions of the Annex to this Schedule.

11. The Borrower shall: (a) cause each LGU to perform, in accordance with the provisions of the Implementation Agreement to which said LGU is a party, all of the obligations of said LGU therein set forth; (b) take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said LGU to perform such obligations; and (c) not take or permit to be taken any action which would prevent or interfere with such performance.

12. The Borrower shall: (a) exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (b) except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Implementation Agreement or any provision thereof.

Part D of the Project

13. The Borrower shall carry out, and cause each LGU to carry out, Part D of the Project in accordance with the provisions of the Grant Agreement.

Financial Management Assessment

14. The Borrower shall cause each provincial LGU carrying out an ADP, within twelve (12) months from the Bank's notification of its approval of said ADP under paragraph 4(b) of this Schedule, jointly with DOF: (a) to conduct a financial management assessment of municipal LGUs participating in said ADP; (b) to develop a financial management improvement plan based on said assessment, acceptable to the Bank; and (c) to cause said municipal LGUs to implement said plan.

Monitoring and Reporting

15. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance 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, by March 31 and September 30 of each year, a consolidated semi-annual report integrating the information provided in the reports, submitted by the LGUs pursuant to paragraph 7 of the Annex to this Schedule, in respect of the preceding calendar semester;

(c) prepare under terms of reference satisfactory to the Bank and furnish to the Bank by March 31, 2002, a consolidated report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 15(a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said 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

(d) review with the Bank, by June 30, 2002, or such later date as the Bank shall request, the report referred to in paragraph 15(c) of this Schedule, 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's views on the matter.

Annex To Schedule 5

For purposes of paragraph 10 of Schedule 5 to this Agreement, each Implementation Agreement between the Borrower and a LGU shall contain the terms and conditions set forth below.

Section I. Borrower's Rights and Obligations

1. The Allocated Amount shall be made available by the Borrower to each LGU, that proposes to carry out an ADP under Parts A(1), A(3) and B of the Project, as a mix of grant and loan, provided that (a) the minimum contribution (in cash or kind) from each LGU shall not be less than ten percent (10%) of total cost of said LGU's ADP; and the loan portion, if any, shall be for a term not exceeding 15 years at a rate of interest equal to fourteen percent (14%) per annum, as such term and rate of interest may be amended from time to time by resolution of the MDFO Policy Governing Board.

2. The Borrower shall have the right to suspend the right of a LGU to withdraw the proceeds of the Allocated Amount upon failure by such LGU to perform any of its obligations under its Implementation Agreement.

Section II. LGU's Rights and Obligations

Each LGU shall be obligated to carry out the following actions: Management of Each LGU's Respective Part of the Project

1. Each LGU that proposes to carry out an ADP:

(a) under Part A(1), A(3) or B of the Project: (i) shall, if it is a provincial LGU, establish and, thereafter, maintain a project implementation unit throughout the period of Project implementation; or (ii) if it is a municipal LGU, maintain throughout the period of Project implementation its Municipal Planning and Development Office, in either case, with composition, terms of reference, staffing and other resources acceptable to the Bank, to be responsible for supporting project implementation activities, preparing annual work plans and budgets, undertaking monitoring and evaluation and overall accounting and financial management; and

(b) under Part A(1) or B of the Project, shall establish and, thereafter, maintain throughout the period of Project implementation, with composition, terms of reference, staffing and other resources acceptable to the Bank, a multisectoral committee to be responsible for supporting implementation of said part of the Project.

General Implementation of each LGU's Respective Part of the Project

2. Each LGU shall carry out its ADP with due diligence and efficiency, and in

conformity with appropriate engineering, economic, financial, administrative, technical and environmental practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

3. Each LGU proposing to carry out:

(a) an ADP under Part A of the Project, shall implement, where applicable: (i) environmental mitigation measures developed in accordance with paragraph 7(a) of Schedule 5 to this Agreement in respect of its ADP; and (ii) a plan for the participation of indigenous peoples in the design and implementation of its ADP, developed in accordance with paragraph 7(c) of Schedule 5 to this Agreement; and

(b) an ADP under Part B of the Project, shall implement, where applicable: (i) mitigation measures designed on the basis of environmental standards acceptable to the Bank; (ii) a plan for the appropriate compensation and rehabilitation of persons whose property or livelihood is affected by activities under said ADP; and (iii) a plan for the participation of indigenous peoples in the design and implementation of its ADP. All plans and measures shall be developed in accordance with policy and procedures acceptable to the Bank, including those set forth in the Operations Manual.

4. Each LGU shall ensure that:

(a) the goods, works and services required for its ADP and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement;

(b) said goods shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the purchaser thereof to replace or repair such goods; and

(c) said goods, works and services shall be utilized exclusively for the purpose of carrying out its ADP.

5. Each LGU shall enable the Borrower and the Bank to examine all goods, facilities, sites and works included in its ADP, the operation thereof, and any relevant records and documents.

6. Each LGU shall ensure that any facilities, equipment and other property relevant to its ADP shall at all times be operated and maintained, and that all necessary repairs and renewals thereof shall be promptly made, as needed, all in accordance with sound financial, administrative and technical practices.

7. Each LGU shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators satisfactory to the Bank, the carrying out of its ADP and the achievement of the objectives thereof; and

(b) prepare, under terms of reference satisfactory to the Bank, a semi-annual report summarizing the results of the monitoring and evaluation activities performed pursuant to paragraph 7(a) of this Annex, on progress achieved in the carrying out of its ADP during the preceding calendar semester and setting out the measures recommended to ensure the efficient carrying out of its ADP and the achievement of the objectives thereof during the next semi-annual period following such date and furnish the same to the Borrower to enable the Borrower to consolidate and submit the information pursuant to paragraph 15(b) of Schedule 5 to this Agreement.

Financial Reporting

8. In carrying out its ADP, each LGU shall establish and maintain, records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to said ADP.

9. Each LGU shall:

(a) have the records, accounts and financial statements, referred to in paragraph 8 of this Annex, for each fiscal year audited, in accordance with appropriate auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Borrower as soon as available for consolidation and forwarding to the Bank, but in any case not later than three months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph 9(a) of this Annex for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

Programs under Part A(1) of the Project

10. Each LGU that proposes to carry out an ADP under Part A(1) of the Project, shall from March 31, 2000 (a) begin routine maintenance of sections of road networks agreed with the Bank; (b) in accordance with a maintenance program (including standards) acceptable to the Bank and (c) allocate funds, facilities, services and other resources required for said maintenance.

Programs under Part B of the Project

11. Each LGU that proposes to carry out an ADP under Part B of the Project, shall disseminate information (including the maintenance of a bulletin board) on all sub-project proposals within its jurisdiction (including those approved and rejected under this Project) and the status of ongoing sub-projects, all in accordance with standards acceptable to the Bank.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means: (i) in respect of the Parts A and B Special Account, an amount equivalent to \$1,800,000 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 \$9,000,000; and (ii) respect of the Part C Special Account, an amount equivalent to \$200,000 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 \$100,000 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 \$800,000.

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

3. After the Bank has received evidence satisfactory to it that a Special Account

has been duly opened, withdrawals of said Special Account's Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into 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 a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of said Special Account's 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 Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

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

(or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any 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 a 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 any 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.

