

CONFORMED COPY

LOAN NUMBER 7153 PH

Loan Agreement

**(Autonomous Region in Muslim Mindanao (ARMM)
Social Fund Project)**

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 20, 2003

LOAN NUMBER 7153 PH

LOAN AGREEMENT

AGREEMENT, dated January 20, 2003, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (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 additional terms wherever used in this Agreement have the following meanings:

(a) "AFMO" and "Area Fund Management Office" mean the local offices established and maintained pursuant to the provisions of paragraph 2 (b) (ii) of Schedule 5 to this Agreement; "AFMOs" and "Area Fund Management Offices" mean more than one local office;

(b) "ARMM" means the Borrower's Autonomous Region in Muslim Mindanao;

(c) “ARMM Regional Government” means the regional government established by Republic Act No 6734 dated August 01, 1989 as amended by Republic Act No. 9054 of March 31, 2001 for the ARMM, as the same may be amended from time to time;

(d) “Bangko Sentral ng Pilipinas” means the Borrower’s central bank and any successor thereto;

(e) “Barangay” means a political sub-division within a city or a municipality;

(f) “Beneficiary” means the ARMM Regional Government, a LGU, a non-governmental organization established in accordance with the Borrower’s laws and regulations, a women’s group, an out-of-school youth group and a community group, all selected in accordance with the provisions of the Operations Manual and which has obtained a Grant from the Fund to carry out a Sub-project under Parts A and B.1 of the Project in accordance with the procedures set forth in the Operations Manual and the terms and conditions of the Sub-project Memorandum of Agreement ;

(g) “Central Fund Management Office” or “CFMO” means the Office established and maintained pursuant to the provisions of paragraph 2 (b) (i) of Schedule 5 to this Agreement;

(h) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means more than one Displaced Person;

(i) “Environmental Framework” means the Environmental Framework, adopted by the ARMM Regional Government on September 3, 2002, describing the rules, guidelines and procedures to assess environmental impacts of Sub-projects and defining measures to reduce, mitigate or offset adverse environmental impacts and enhance positive impacts of Sub-projects, referred to in paragraph 2 (d) (vi) of Schedule 5 to this Agreement, and the same may be amended from time to time with the prior approval of the Bank;

(j) “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(k) “Fiscal Year” or “FY” means the Borrower’s fiscal year commencing January 1 and ending December 31;

(l) “Fund” means the entity established by Executive Order No. 124 of September 12, 2002 of the President of the Republic of Philippines, to support the development of the ARMM region and consisting of a Board of Directors, a Sub-project Approval Committee and a Fund Management Office comprised of the CFMO and AFMOs;

(m) “Fund Agreement” means the agreement to be entered into between the Borrower and the Fund, in accordance with the provisions of Section 3.01 (b) of this Agreement, as the same may be amended from time with the prior approval of the Bank;

(n) “Framework for the Treatment of Indigenous Peoples” means the framework adopted by the ARMM Regional Government on September 3, 2002, which provides guidelines and procedures for the preparation, adoption and implementation of a plan or plans for the consultation with and informed participation of Indigenous Peoples residing or cultivating lands in areas under the Project, and referred to in paragraph 2 (d) (viii) of Schedule 5 to this Agreement, as said framework may be amended from time to time with the prior approval of the Bank;

(o) “Grant” means a grant made available by the Fund to a Beneficiary out of the proceeds of the Loan to finance, in part, a Sub-project under Parts A, and B.1 of the Project pursuant to the provisions of Schedule 6 to this Agreement, and “Grants” mean more than one Grant;

(p) “Indigenous Peoples” means social groups with a distinct social and cultural identity that makes them vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) a close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from the national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production;

(q) “Indigenous Peoples Development Plan” and “IPDP” mean a plan for the informed participation of Indigenous Peoples in the design and implementation of Sub-project pursuant to the Framework for the Treatment of Indigenous Peoples and paragraph 2 (h) of Schedule 5 to this Agreement;

(r) “Land Acquisition and Resettlement Action Plan” means an action plan for the compensation, resettlement and rehabilitation of Displaced Persons, acceptable to

the Bank, to be prepared and implemented pursuant to the Land Acquisition and Resettlement Policy Framework and paragraph 2 (g) of Schedule 5 to this Agreement, as such plan may be amended from time to time with the prior approval of the Bank;

(s) “Land Acquisition and Resettlement Policy Framework” means the policy framework adopted by the ARMM Regional Government on September 3, 2002, providing procedures and guidelines for the preparation, adoption, implementation and monitoring of a Land Acquisition and Resettlement Action Plan or Plans and referred to in paragraph 2 (d) (vii) of Schedule 5 to this Agreement, as said Framework may be amended from time to time with the prior approval of the Bank;

(t) “LGUs” means local government units, political subdivisions of the Borrower at the provincial, city, municipal or barangay level; and “LGU” means any such local government unit;

(u) “Memorandum of Agreement” and the acronym “MOA” means the agreement to be entered into between the Fund and the ARMM in accordance with the provisions of paragraph 1 (a) of Schedule 5 to this Agreement and referred to in Section 6.01(b) of this Agreement, as the same may be amended from time to time with the prior approval of the Bank;

(v) “Operations Manual” means the manual to be adopted by the Board of Directors of the Fund in accordance with the provisions of paragraph 2 (d) of Schedule 5 to this Agreement as the same may be amended from time to time with the Bank’s prior approval;

(w) “Policies and Guidelines” means the policies and guidelines of the Fund to be adopted by the Board of Directors of the Fund pursuant to paragraph 2 (c) of Schedule 5 to this Agreement as the same may be amended from time to time with the Bank’s prior approval;

(x) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(y) “Sub-project” means a specific development project under Parts A and B.1 of the Project, selected in accordance with procedures and criteria defined in the Operations Manual and utilizing the proceeds of a Grant;

(z) “Sub-project Memorandum of Agreement” or “Sub-project MOA” means the agreement to be entered into between the Fund and a Beneficiary for purposes of implementing a Sub-project under Parts A and B.1 of the Project in accordance with the provisions of Schedule 6 to this Agreement; and

(aa) "Sub-project Approval Committee" or "SPAC" means the committee to be established and maintained in accordance with paragraph 2 (b) (iii) of Schedule 5 to this Agreement and "SPACs" or "Sub-project Approval Committees" means more than one committee.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to thirty three million six hundred thousand Dollars (US\$33,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement: (i) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Grant under Parts A and B.1 of the Project to meet the reasonable cost of goods, works and services required for a Sub-project and in respect of which the withdrawal from the Loan Account is requested; (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B.2, and C of the Project and to be financed out of the proceeds of the Loan; (iii) in respect of the front-end fee referred to in Section 2.04 of this Agreement; and (iv) any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project open and maintain a special deposit account in a commercial bank specifically authorized for this purpose by Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, 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 front-end 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 such fee.

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

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semi-annually in arrears on April 15 and October 15 in each year.

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

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

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

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

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Fund to carry out the Project in accordance with the provisions of this Agreement and the Fund Agreement, with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and management practices, and sound environmental and social standards; shall take or cause to be taken all action, including the adequate and timely provision of funds, facilities, services and other resources, necessary or appropriate to enable the Fund to carry out the Project and fulfill its obligations under the Fund Agreement, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project and the fulfillment of its obligations by the Fund.

(b) The Borrower shall make the proceeds of the Loan available to the Fund on a non-reimbursable grant basis, under an agreement to be entered into between the Borrower and the Fund, under terms and conditions which shall have been approved by the Bank and which shall include the terms and conditions set forth in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights under the Fund Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and the objectives of the Project, and, except as the Bank shall

otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Fund 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 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of the purposes of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Fund to, 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 cause the Fund to:

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

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

such statements, 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 cause the Fund to:

- (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 Fund's progress reporting obligations set out in paragraph 2 (r) of Schedule 5 to this Agreement, the Borrower shall cause the Fund to prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

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 Borrower or the Fund shall have failed to perform any of its obligations under the Fund Agreement.

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

(c) (i) the Executive Order establishing the Fund, (ii) the Fund Agreement, (iii) the Policies and Guidelines, (iv) the Operations Manual, or (v) the MOA, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Fund to perform any of its obligations under the Fund Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Fund or for the suspension of its operations.

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 and shall continue for a period of ninety days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any event specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) the Fund Agreement has been entered into between the Borrower and the Fund pursuant to Section 3.01 (b) of this Agreement;

(b) Memorandum of Agreement has been entered into between the Fund and the ARMM pursuant to paragraph 1(a) of Schedule 5 to this Agreement;

(c) the Policies and Guidelines of the Fund and the Operations Manual, in each case satisfactory to the Bank, have been approved by the Board of Directors of the Fund pursuant to paragraphs 2(c) and 2(d) of Schedule 5 to this Agreement;

(d) the Sub-project Approval Committees have been established pursuant to paragraph 2 (b) (iii) of Schedule 5 to this Agreement; and

(e) the Fund has entered into Sub-project Memoranda of Agreements with at least ten Beneficiaries under Part A of the Project.

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: (i) the Fund Agreement referred to in Section 6.01 (a) above has been duly authorized or ratified by the Borrower and the Fund and is legally binding upon the Borrower and the Fund respectively in accordance with their terms; (ii) the MOA referred to in Section 6.01 (b) above has been duly authorized or ratified by the Fund and the ARMM Regional Government and is legally binding upon the Fund and the ARMM Regional Government respectively in accordance with their terms; and (c) the Environmental Framework, the Framework for the Treatment of

Indigenous Peoples, and the Land Acquisition and Resettlement Policy Framework have been adopted in accordance with applicable laws and regulations and are legally binding upon the Borrower, the ARMM Regional Government and the Fund.

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
Bangko Sentral Complex
Roxas Boulevard
Manila, Republic of the Philippines

Cable address:	Telex:	Facsimile:
SECFIN Manila	40268CB-CONF	(63-2) 526-9990

For the Bank:

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

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

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/ Juanita D. Amatong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert Vance Pulley

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Grants		
(a) for Part A	17,512,000	100% of Grant amount disbursed
(b) for Part B.1	4,418,000	
(2) Goods under Parts B and C of the Project	260,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 70% of local expendi- tures for other items procured locally
(3) Incremental operating costs	1,450,000	85%
(4) Consultants' services	4,329,000	82% of expenditures for services of individual consultants; 87% of expenditures for services for consulting firms
(5) Training	3,646,000	80%
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(7) Front-End Fee	336,000	due under Section 2.04 of this Agreement
(8) Unallocated	1,649,000	
	<hr/>	
TOTAL	<u>33,600,000</u>	

2. For the purposes of this Schedule:

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

(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 reasonable expenditures incurred by the Fund for staff travel, per diem, communications and consumables, but excluding staff salaries, which expenditures would not have been incurred absent 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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works under contracts costing less than \$200,000 equivalent each; (ii) goods under contracts costing less than \$200,000 equivalent each; (iii) contracts for the employment of consulting firms costing less than \$100,000 equivalent each; (iv) contracts for the employment of individual consultants costing less than \$50,000 equivalent each, (v) grants; (vi) training; and (vii) Incremental operating costs; 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 reducing poverty by fostering sustainable development in the Autonomous Region in Muslim Mindanao.

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

PART A: Community Development Assistance

Development and implementation of a community development program through: (i) Provision of Grants to community groups for the construction, rehabilitation and improvement of small scale social and economic infrastructures, including rural water supply and sanitation systems, small scale irrigation schemes, rainwater tank, Barangay health stations, communal schools, community learning centers, post-harvest facilities, farm-to-market and Barangay roads, timber ports bridges and rehabilitation of damaged houses, (ii) provision of community-oriented training and training for community development groups and service providers to improve access of the people to community services; and (iii) provision of capacity building, technical and financial assistance to women's groups and out-of-school youth groups selected under criteria defined in the Operations Manual for improving food security and household incomes.

PART B: Strategic Regional Infrastructure

1. Provision of Grants to the ARMM Regional Government for the construction and rehabilitation of strategic regional infrastructure, including facilities for health, education, manpower development, social services, and port facilities.
2. Provision of technical assistance to the ARMM Regional Government in the procurement, management and monitoring of strategic regional infrastructure investments.

PART C: Institutional Strengthening and Governance

1. Carrying out of information, education and communication activities to support institutional strengthening and governance at ARMM, LGUs, CFMO and AFMOs levels and develop public awareness on the Project development objectives and processes.

2. Strengthening of ARMM, LGUs CFMO and AFMOs capacity for Project implementation, including staff training and development of specific operational and administrative guidelines.

3. Enhancing the community-based education system in ARMM for mainstreaming in the formal national education system including the development of curricula and educational materials, piloting of selected community-based schools and training.

4. Project management and implementation support, including audits of Project accounts and strengthening of the operational, managerial and administrative capacity of the Fund, the ARMM Regional Government, LGUs, community groups and non-governmental organizations involved in Project implementation, including the provision of training, consultants' services and equipment.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning April 15, 2011 through April 15, 2022	4.17%
On October 15, 2022	4.09%

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

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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

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

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

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of 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

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraphs 3 and 4 below, works for Part B of the Project, estimated to cost less than \$700,000 equivalent per contract, up to an aggregate amount not to exceed \$5,470,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with the provisions of the Supplemental Letter on National Competitive Bidding Procedures of even date with this Agreement.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 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. Community Participation

Goods and works required for Parts A and C.1 of the Project may be procured in accordance with procedures acceptable to the Bank.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$3,800,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to 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) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

- (i) with respect to each contract for the procurement of works estimated to cost the equivalent of \$200,000 or more and the first three contracts for works procured each year under Part C.1 of this Section, and estimated to cost more than \$50,000; and
- (ii) with respect to the first three contracts for works and goods, procured each year.

(b) With respect to the first three contracts for goods procured under Part C.2 and C.4 the following procedures shall apply:

- (i) prior to the selection of any supplier or small works contractor or the execution of any contract under shopping procedures or small works procedures, as the case may be, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; and
- (ii) the procedures set forth in paragraphs 2(f) and 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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultant's Qualifications

Services for training and workshops estimated to cost less than \$100,000 equivalent per contract, up to an aggregate not to exceed \$1,200,000 equivalent may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate not to exceed \$500,000 equivalent may, with the Bank's prior approval, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

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 2, 3 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 report on the comparison of the qualifications and experience of candidates, the 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to such contracts.

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:

(a) cause the ARMM Regional Government and the Fund to enter into a Memorandum of Agreement, satisfactory to the Bank, to define the roles, obligations and responsibilities of the ARMM Regional Government and the Fund in the carrying out of the Project; and

(b) take all such action as shall be necessary to provide the Fund with such responsibilities, functions and resources, satisfactory to the Bank, to enable the Fund to carry out the Project, including: (i) the selection, appraisal, financing, supervision and monitoring of Sub-projects; and (ii) the internal administration and management of the Fund.

2. The Fund Agreement shall include the following undertakings by the Fund to:

(a) carry on its operations and conduct its affairs at all times with due diligence and efficiency, in accordance with appropriate administrative, managerial, economic, and financial practices, and sound environmental and social standards, under the supervision of qualified and experienced management personnel assisted by competent staff in adequate numbers;

(b) establish and maintain throughout the period of implementation of the Project:

(i) a Central Fund Management Office, headed by an executive director with qualifications and experience satisfactory to the Bank, responsible for the overall coordination of Project implementation and for reviewing and endorsing Sub-project selection and appraisal prior to its submission for approval to the Board of Directors of the Fund;

(ii) two Area Fund Management Offices, each of which headed by an area manager, with qualification and experience satisfactory to the Bank, one for the provinces of Lanao del Sur, Maguindanao and Marawi City, and the other for the provinces of Basilan (except Isabela City), Sulu and Tawi-Tawi, said Offices to be responsible for (A) field-level supervision of

Project activities: (B) overseeing activities carried out by Beneficiaries; (C) reviewing and endorsing proposed Sub-project selection prior to its submission for approval by appropriate SPAC; and (D) supervising Sub-project implementation; and

- (iii) two Sub-project Approval Committees satisfactory to the Bank, one for the provinces of Lanao del Sur, Maguindanao and Marawi City, and the other for the provinces of Basilan (except Isabela City), Sulu and Tawi-Tawi, and responsible for the selection and approval of Sub-project proposals in accordance with the rules and procedures set forth in the Operations Manual.

(c) adopt Policies and Guidelines for its operations and management satisfactory to the Bank and shall not amend, delete, suspend, abrogate or waive any provision thereof, without the prior approval of the Bank;

(d) adopt and thereafter apply in the implementation of the Project, an Operations Manual satisfactory to the Bank which shall include, inter alia: (i) the description of the Fund's administrative and financial procedures, including its accounting, financial reporting and auditing procedures; (ii) the Policies and Guidelines; (iii) eligibility criteria and operational procedures for the selection of Beneficiaries, Sub-projects appraisal, approval and financing criteria including those terms and conditions referred to in Schedule 6 to this Agreement; (iv) procedures for procurement, disbursement, supervision, monitoring and impact evaluation in respect of eligible Sub-projects consistent with the provisions of this Agreement; (v) a sample Sub-project Agreement, (vi) the Environmental Framework, referred to in Section 1.02 (i) of this Agreement; (vii) the Land Acquisition and Resettlement Policy Framework, referred to in Section 1.02 (s) of this Agreement; (viii) the Framework for the Treatment of Indigenous Peoples, referred to in Section 1.02 (n) of this Agreement; (ix) cost-sharing arrangements between the Fund and the Sub-project beneficiaries; and (x) procedures for the monitoring and reporting of Sub-project activities;

(e) not amend, delete, suspend or abrogate or waive any provision of the Operations Manual without the prior approval of the Bank;

(f) ensure that proposals for Sub-projects under Parts A and B.1 of the Project shall be approved only if: (i) an analysis of the environmental impacts of such Sub-project has been undertaken pursuant to the Environmental Framework; and (ii) if applicable, an environmental impact assessment or other environmental requirements provided for under Philippine laws, satisfactory to the Bank, shall have been undertaken, and mitigation measures designed acceptable to the Bank, on the basis of environmental standards as set forth in the Environmental Framework;

(g) ensure that the proposal for each Sub-project under Parts A and B.1 of the Project incorporates where applicable, a Land Acquisition and Resettlement Action Plan, satisfactory to the Bank, for the compensation, resettlement and rehabilitation of Displaced Persons in accordance with the Land Acquisition and Resettlement Policy Framework;

(h) ensure that the proposal for each Sub-project involving communities with Indigenous Peoples incorporates an Indigenous Peoples Development Plan satisfactory to the Bank for the informed participation of Indigenous Peoples in the design and implementation of such Sub-project, in accordance with the Framework for the Treatment of Indigenous Peoples;

(i) comply with the accounting, financial reporting and auditing procedures set forth in the Operations Manual; and

(j) appoint by June 30, 2003 an internal auditor within CFMO under terms of reference satisfactory to the Bank;

(k) comply, and ensure that the Beneficiary for each Sub-project which has been approved for financing under Parts A and B.1 of the Project shall comply with the provisions for the procurement of goods, works and consultants' services set forth in Section 3.02 of the Loan Agreement and Schedule 4 to the Loan Agreement.

(l) enter into a Sub-project Memorandum of Agreement with the relevant Beneficiary in regard to each Sub-project approved for financing through a Grant under Parts A and B.1 of the Project, under terms and conditions satisfactory to the Bank which shall include those set forth in Schedule 6 to the Loan Agreement;

(m) not make available the proceeds of a Grant for financing a Sub-project until the Sub-project Memorandum of Agreement has been entered into with the relevant Beneficiary.

(n) exercise its rights under each Sub-project Memorandum of Agreement in such manner as to protect the interests of the Fund, Borrower and the Bank and to accomplish the purposes of the relevant Grant, and except as the Bank shall otherwise agree, the Fund shall not assign, amend, abrogate or waive such Sub-project Memorandum of Agreement or any provision thereof;

(o) by October 1 of each year, starting October 1, 2003, adopt an annual work plan, including training and technical assistance program, and budget and furnish said plan to the Bank for its review and comments and, thereafter, implement said plan taking into account the Bank's comments thereon, if any;

(p) not later than December 31, 2002 approve the work plan for 2003 approved by its Board of Directors, in a manner satisfactory to the Bank; and thereafter carry out such work plan;

(q) contract independent auditor, satisfactory to the Bank, to prepare a annual management and operation audit of the CFMO and AFMOs, to monitor compliance with the Operations Manual, and provide the Bank with said audits not later than August 30 of each Fiscal Year;

(r) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(s) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) by January 31 and July 31 of each year, commencing on July 31, 2003, a semi-annual report; and (ii) on or about August 31, 2005, a mid-term report; each such report 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 including on the implementation of Sub-projects and the evaluation of the impact thereof, 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;

(t) review with the Borrower and the Bank, by September 30, 2005, or such later date as the Bank shall request, the report referred to in paragraph 2 (s) (ii) of this Section, 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 Borrower and Bank's views on the matter; and

(u) assist the Borrower in preparing the plan referred to in Section 3.03 (a) of the Loan Agreement for the continued achievement of the objectives of the Project.

Schedule 6

Terms and Conditions of Sub-project Memoranda of Agreement

1. The amount of the Grant shall not exceed eighty-five per cent (85%) of the estimated aggregate costs of the eligible Sub-project for Sub-projects under Part A and B.1 of the Project. The beneficiaries of such Sub-project shall be required to contribute at least fifteen percent (15%) of the total Sub-project costs, in material or cash or in services in the design, implementation, operation, maintenance and supervision of the Sub-project.

2. The Beneficiary of the Grant undertakes in respect of its respective Sub-project under Part A and B.1 of the Project to:
 - (a) implement such Sub-project with due diligence and efficiency, in accordance with appropriate administrative, economic, financial and engineering practices and sound environmental and social standards pursuant to the Sub-project proposal approved by the Fund;

 - (b) ensure that goods, works and consultants' services financed out of the Grant shall be procured in accordance with the provisions of Schedule 4 to this Agreement;

 - (c) ensure that all goods and services financed under the Grant shall be used exclusively for the purposes of such Sub-project;

 - (d) furnish to the Fund and the Bank any relevant documents, records and reports in respect of such Sub-project, of such scope and in such detail as the Bank may reasonably request;

 - (e) furnish the Fund and the Bank with an operation and maintenance plan satisfactory to the Bank, to ensure the sustainability of such Sub-project, in accordance with the guidelines and standards set forth in the Operations Manual, and thereafter, carry out, or cause to be carried out, such plan satisfactory to the Fund and the Bank; and

 - (f) where applicable, carry out, in a manner satisfactory to the Bank:
 - (i) mitigation measures designed in accordance with the provisions of the Environmental Framework; (ii) a plan for the compensation, resettlement and rehabilitation of Displaced Persons in accordance with the Land Acquisition and Resettlement Policy Framework; and (iii) a plan acceptable to the Bank for the informed participation of Indigenous Peoples in the design and implementation of the Sub-project in accordance with the Framework for the Treatment of Indigenous Peoples.

3. The Fund shall have the right:

(a) to inspect by itself, or jointly with the Bank and/or the Borrower, any facilities or sites included in an eligible Sub-project, and to examine the goods financed out of the proceeds of the Grant, and records and documents relevant to the performance of the obligations of the Beneficiary under the Sub-project Memorandum of Agreement;

(b) to obtain all such information and data as the Fund and the Bank may reasonably request relating to the carrying out of a Sub-project, to the administration, operations and financial condition of the respective Beneficiary, and to the benefits derived from such sub-project; and

(c) to suspend the rights of the Beneficiary of a Grant upon failure by such Beneficiary to perform any of its obligations under its Sub-project Memorandum of Agreement.

SCHEDULE 7

Performance Indicators

Component	Performance Indicator by End of 2007
Community Development Assistance (CDA)	<ol style="list-style-type: none">1. Participatory mechanisms for barangay selection and project implementation (e.g., municipal stakeholder meetings and barangay assemblies) installed in municipalities.2. Households up to purok level reached by IEC.3. Community groups in about 500 barangays formed and trained on community planning, financial management, and monitoring and evaluation.4. Infra and non-infra subprojects successfully implemented (i.e., completed per design, and operated and maintained by community groups in partnership with LGUs).
Strategic Regional Infrastructure (SRI)	<ol style="list-style-type: none">1. Feasibility studies/detailed engineering designs and plan of works for SRI are completed.2. SRI sub-projects are completed according to specifications and safeguards requirements.3. SRI sub-projects have O&M plans which are implemented.
Institutional Strengthening and Governance (ISG)	<ol style="list-style-type: none">1. Social Fund effectively managed by CFMO, AFMOs and ARMM Regional Government according to agreed criteria, processes, financial and procurement guidelines as laid out in the Operational Manual.2. Strengthened awareness and commitment by LGUs, ARMM and local stakeholders to ASF objectives and processes.3. Broadened participation of LGUs in project development, community processes and support and allocation of counterparts for community identified subprojects.4. Plans are prepared for accrediting and mainstreaming informal community education systems into formal education systems.

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories 1 through 5 as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works 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 the amount of \$2,300,000 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 the amount of \$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 \$10,000,000.
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, 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.