

CONFORMED COPY

LOAN NUMBER 3149 PH

Loan Agreement

(Debt Management Program)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 22, 1989

LOAN NUMBER 3149 PH

LOAN AGREEMENT

AGREEMENT, dated December 22, 1989, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Bank has received a letter dated December 7, 1989, from the Borrower describing the Borrower's macro-economic policies, debt strategy, and proposed actions designed to improve the efficiency and level of public and private investment (the Program), declaring the Borrower's commitment to the execution of the Program and requesting assistance from the Bank in the financing of debt reduction operations during the execution of the Program;

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two tranches on 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" of the Bank, dated January

1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, is modified to read:

"'Project' means the debt reduction operations that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) The last sentence of Section 3.02 is deleted;

(c) Sections 9.04, 9.05, 9.07 (b), 9.08 and 9.09 are deleted;

(d) Section 9.07 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program referred to in the Preamble to the Loan Agreement, 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) "Closing Agent" means the Closing Agent or similar agent appointed by the Borrower or its nominee for the purposes of concluding the Debt Purchase Agreements.

(b) "Debt Purchase" means the purchase of debt by the Borrower pursuant to the Debt Purchase Agreements.

(c) "Debt Purchase Agreements" mean the agreements resulting from the acceptance by the Borrower of the tenders received in response to the Debt Purchase Offer dated October 11, 1989 by the Central Bank of the Philippines or any subsequent similar offer that may be approved by the Bank for financing under the Loan.

(d) "Debt Cancellation Certificate" means the certificate required to be submitted by the Closing Agent under Paragraph 5 (b) of Schedule 1 to this Agreement, certifying cancellation of the debt pursuant to the Debt Purchase Agreements.

(e) "Financing Package" means the Borrower's 1989-90 Commercial Bank Financing Package.

(f) "Loan Trust Receipt and Undertakings" means the trust receipt and undertaking required to be submitted by the Closing Agent under Paragraph 5 (b) of Schedule 1 to this Agreement undertaking trust obligations and acknowledging receipt of the Loan proceeds for the purpose of Debt Purchase.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred million dollars (\$200,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1990 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Section 2.08. (a) The Central Bank of the Philippines is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 and Schedule 1 of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts the Central Bank of the Philippines with responsibility for the preparation of withdrawal applications under the Loan and for the collection of the documents and other evidence to be furnished to the Bank in support of such applications.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the Project.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program and the Project, in such detail as the Bank shall reasonably request.

Section 3.02. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

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

- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program or Financing Package, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that the Borrower has concluded Debt Purchase Agreements covering debt aggregating at least \$1.3 billion (or its equivalent in other currencies);
- (b) that the Borrower has adequate resources available for the Debt Purchase;
- (c) that the Borrower has obtained the necessary waivers from its creditor commercial banks to enable it to make the Debt Purchase; and
- (d) that the Borrower has adequate new money available under the Financing Package.

Section 5.02. The following are specified as additional matters, 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:

- (a) that the Debt Purchase Agreements have been duly authorized by the Borrower and are legal, valid, binding and enforceable in accordance with their respective terms;
- (b) that the waivers, referred to in Section 5.01 (c) hereof, are legally binding and enforceable in accordance with their respective terms.

Section 5.03. The date fifteen (15) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.08 of this Agreement, 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions

For the Borrower:

Secretary of Finance
Department of Finance
Manila
Philippines

Cable Address:	Telex:
MINFIN Manila	7550 CBP-PH 40268 CB-CONF

For the Bank:

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

Cable address:	Telex:
INTBAFRAD Washington, D.C.	440098 (ITT) 248423 (RCA) or 64145 (WUI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Franklin M. Ebdalin
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the Debt Purchase to be financed out of such proceeds and any other debt reduction operation approved by the Bank for financing under the Loan.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawal shall, unless otherwise agreed to by the Bank, be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) Debt Purchase or any other debt reduction which any national or international financing institution or agency other than the Bank or the Borrower's financing institutions shall have financed or agreed to finance pursuant to any debt reduction arrangement.

3. No withdrawal shall be made in respect of expenditures to be financed out of the proceeds of the Loan unless:

(a) the Borrower furnishes evidence satisfactory to the Bank that the actions specified in Schedule 3, Part A to this Agreement have been taken by the Borrower;

(b) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$150,000,000, the Bank is satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program, (ii) that the actions described in Schedule 3, Part B to this Agreement have been taken, and (iii) the Borrower has obtained the approval of the Bank for any offer of debt purchase or other debt reduction operation.

4. If, after the exchange of views described in paragraph 3 (b) above, the Bank shall have given notice to the Borrower that the progress achieved, actions taken or proposals made are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

5. (a) The Borrower shall, subject to the provisions of paragraphs (b) and (c) below, be entitled to withdraw the proceeds of the Loan against the submission of the Debt Cancellation Certificate or Loan Trust Receipt and Undertaking or other instrument, in form and substance, acceptable to the Bank.

(b) Except as the Borrower and the Bank may otherwise agree, the proceeds of the Loan shall, in case of the Debt Purchase, be disbursed directly to the Closing Agent who is hereby authorized by the Borrower to: (i) issue and submit the Debt Cancellation Certificate, Loan Trust Receipt and Undertaking or other instrument as may be required by the Bank, and (ii) receive the proceeds of the Loan on behalf of the Borrower and give a valid receipt there for.

(c) Disbursements for debt reduction operations, other than the Debt Purchase, to be financed out of the proceeds of the Loan shall be made in accordance with procedures acceptable to the Bank.

SCHEDULE 2

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in dollars)
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September 15, 1995	3,645,000
March 15, 1996	3,785,000
September 15, 1996	3,930,000
March 15, 1997	4,085,000
September 15, 1997	4,240,000
March 15, 1998	4,405,000
September 15, 1998	4,575,000
March 15, 1999	4,755,000
September 15, 1999	4,940,000
March 15, 2000	5,130,000
September 15, 2000	5,325,000
March 15, 2001	5,535,000
September 15, 2001	5,745,000
March 15, 2002	5,970,000
September 15, 2002	6,200,000
March 15, 2003	6,440,000
September 15, 2003	6,690,000
March 15, 2004	6,950,000
September 15, 2004	7,220,000
March 15, 2005	7,495,000
September 15, 2005	7,790,000
March 15, 2006	8,090,000
September 15, 2006	8,400,000
March 15, 2007	8,725,000
September 15, 2007	9,065,000
March 15, 2008	9,415,000
September 15, 2008	9,780,000
March 15, 2009	10,160,000
September 15, 2009	10,550,000
March 15, 2010	10,965,000

* 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.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but	0.90

not more than eighteen years
before maturity

More than eighteen years 1.00
before maturity

SCHEDULE 3

Actions Referred to in Paragraph 3 of Schedule 1 to this Agreement

1. Issuance of revised Rules and Regulations or a new order regarding procurement, satisfactory to the Bank, to inter alia, improve the efficiency of procurement practices in respect of Government purchases.
2. Establishment of a Monitoring Unit within the Committee on Official Development Assistance (CODA) of the Borrower.
3. Initiation of a program for awarding operation and maintenance works to private contractors.
4. Submission of terms of reference regarding the study referred to in Paragraph 10 of Part B hereof.

Part B

1. Satisfactory progress in the implementation of the programs and compliance with the conditionalities under the following loan agreements between the Borrower and the Bank: (a) Economic Recovery Program (Loan No. 2787 PH), (b) Reform Program for Government Corporations (Loan No. 2956 PH), and (c) the Financial Sector Adjustment Loan (Loan No. 3049 PH).
2. Maintenance of an adequate level and content of public sector investment, by the Borrower, satisfactory to the Bank.
3. Administrative action required to streamline the Borrower's overall procurement rules and procedures so as to, inter alia: (a) permit greater delegation of authority to implementing agency managers, and (b) devise and apply specific standards in order to shorten contract award period.
4. Revision of Borrower's guidelines for the retention of consultants to, inter alia, (a) lay down clear criteria for obtaining specialists and firms, (b) delegate substantial authority to implementing agencies, and (c) establish specific standards with the aim of ensuring that selection and award of consulting contracts can be completed within sixty days.
5. Delineation of scope and responsibility for internal audits with the aim of: (a) reducing ex ante control and establishing ex post accountability, and (b) establishing clear demarkation lines in respect of ongoing internal audits of agencies, annual audit of accounts, and management audit; preparation and implementation of an action plan in this regard.
6. Simplification of administrative procedures and implementation of an action plan, developed in consultation with the Bank, to ensure timely and dependable release of budgetary funds of the Borrower allocated for public expenditures.
7. Provision of an updated Medium-term Public Investment Program integrated with the Medium Term Technical Assistance Program of the Borrower to ensure

consistency and to direct such technical assistance towards specific project preparation activities. Development of an overall Financing Plan consistent with the Medium Term Technical Assistance Program aimed at: (a) ensuring coordination between project agencies and official donors for project preparation, and (b) facilitating timely commitment of funds and subsequent implementation.

8. Establishment of a Project Preparation Facility administered by CODA with simple rules for agencies to seek project preparation funding for projects included in the Medium-term Public Investment Program.

9. Implementation of the debt-equity conversion program of the Borrower.

10. Undertaking and completion of a study, satisfactory to the Bank, concerning enhancement of the environment for private investment, both domestic and foreign, focusing in particular on the following issues: (a) fiscal incentives, (b) regulatory framework, (c) role of Board of Investments of the Borrower, and (d) technology transfer arrangements.

11. (a) Undertaking and completion of a study, based on generally established engineering and economic criteria, to define the appropriate cycles and intensity of maintenance efforts for major sectors, and (b) revising and, where necessary, developing and adopting maintenance manuals in respect thereof, satisfactory to the Bank.

