

CONFORMED COPY

LOAN NUMBER 2948 PH

(Irrigation Operations Support Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 13, 1988

LOAN NUMBER 2948 PH

LOAN AGREEMENT

AGREEMENT, dated June 13, 1988, between the 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, 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "NIA" means the National Irrigation Administration, a government-owned corporation established by the Republic Act No. 3601 of the Borrower, as amended to the date of this Agreement;

(b) "Irrigators' Association" means an association of farmers in an irrigation system, registered in accordance with Presidential Decrees No. 681 and 1595 of the Borrower, as amended to the date of this Agreement; and

(c) "Peso" means the currency of the Borrower.

## 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 in various currencies equivalent to forty-five million dollars (\$45,000,000).

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 The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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.

Section 2.03. The Closing Date shall be December 31, 1991 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second

six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 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 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through NIA with due diligence and efficiency and in conformity with appropriate financial, administrative, engineering and agricultural practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project, including adequate budgetary support to ensure funding for operation and maintenance at levels agreed with the Bank.

(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 through NIA in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the 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.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall cause NIA to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of NIA.

(b) The Borrower shall cause NIA to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) 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 such records, accounts and financial statements and the audit thereof as the Bank shall 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 NIA to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and 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.

#### ARTICLE V

##### Other Covenants

Section 5.01. The Borrower shall cause NIA:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and agricultural practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agricultural practices.

#### ARTICLE VI

##### Termination

Section 6.01. 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:

Secretary of Finance  
Department of Finance  
Manila  
Republic of the Philippines

Cable address:

Telex:

SECFIN  
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:

INTBAFRAD  
Washington, D.C.

Telex:

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/ Emmanuel Pelaez  
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. 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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Works	19,500,000	95%
(2) Goods and equipment reconditioning	7,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local ex- penditures for other items pro- cured locally
(3) Technical assistance and training	2,700,000	100%
(4) Operating and		

maintenance costs		
(a)	4,300,000	33%
(b)	4,400,000	28%
(c)	3,900,000	21%
(5) Unallocated	3,200,000	
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TOTAL	45,000,000	
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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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,500,000, may be made on account of payments made for expenditures before that date but after October 15, 1987;

(b) expenditures under Category 4 (b) until \$4,300,000 under Category 4 (a) is fully disbursed; and

(c) expenditures under Category 4 (c) until \$4,300,000 under Category 4 (a) and \$4,400,000 under Category 4 (b) are fully disbursed.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to increase the ability of NIA and private Irrigators' Associations to improve and maintain the efficiency of the National Irrigation Systems.

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:

Minor rehabilitation works to about 127 National Irrigation Systems.

Part B:

The carrying out of improved nationwide system operations and system maintenance.

Part C:

The strengthening of NIA's capability to perform operations and maintenance and to recover the cost of such work from the beneficiaries.

Part D:

The development of NIA's Irrigators' Associations.

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The Project is expected to be completed by June 30, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
February 15, 1994	820,000
August 15, 1994	855,000
February 15, 1995	885,000
August 15, 1995	920,000
February 15, 1996	955,000
August 15, 1996	995,000
February 15, 1997	1,030,000
August 15, 1997	1,070,000
February 15, 1998	1,110,000
August 15, 1998	1,155,000
February 15, 1999	1,200,000
August 15, 1999	1,245,000
February 15, 2000	1,295,000
August 15, 2000	1,345,000
February 15, 2001	1,395,000
August 15, 2001	1,450,000
February 15, 2002	1,505,000
August 15, 2002	1,565,000
February 15, 2003	1,625,000
August 15, 2003	1,685,000
February 15, 2004	1,750,000
August 15, 2004	1,820,000
February 15, 2005	1,890,000
August 15, 2005	1,965,000
February 15, 2006	2,040,000
August 15, 2006	2,115,000
February 15, 2007	2,200,000
August 15, 2007	2,285,000
February 15, 2008	2,370,000
August 15, 2008	2,460,000

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\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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	0.55

not more than 11 years before maturity	
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Packages of goods not exceeding the amount of \$50,000 per contract and up to an aggregate amount of \$2,600,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the Bank.

2. Items estimated to cost less than the equivalent of \$2,500 per contract, up to an aggregate amount not to exceed the equivalent of \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the guidelines, in accordance with procedures acceptable to the Bank.

3. Subject to the provisions of Part C.4 hereunder, civil works, parcellary mapping, irrigation system maintenance and equipment reconditioning may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

4. Minor civil works, parcellary mapping, irrigation system maintenance and equipment reconditioning may be carried out by NIA under force account, provided that the aggregate cost of such works carried out under force account shall not, without prior consent of the Bank, exceed 50% of the total cost of such works.

##### Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more and for civil works estimated to cost the equivalent of \$300,000 or more, the



procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 5

#### Implementation Program

The Borrower shall cause NIA to:

1. By June 30, 1988, revise its staff's Viability Incentives Grants in order to provide for separate incentive payments, one for the quality of operations and maintenance work and another for the Irrigation Service Fee collections.
  2. Ensure that its investment for irrigation system restoration will not exceed an average of 3,000 Pesos (valued at end-1987 prices) per hectare in any Project region and will be restricted to repairs essential to supply required irrigation deliveries.
  3. Enter into two separate contracts with Irrigators' Associations, the first contract for the quality of operation and maintenance and the second contract for the Irrigation Service Fee collections in accordance with a schedule agreed with the Bank.
  4. By June 30 of each year, furnish an annual work program and funding proposals thereof, for the following year, to the Bank for its review and comment.
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