

CONFORMED COPY

LOAN NUMBER 4300 PH

Loan Agreement

(SZOPAD Social Fund Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated April 8, 1998

LOAN NUMBER 4300 PH

LOAN AGREEMENT

AGREEMENT, dated April 8, 1998, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) the Project will be carried out by the SZOPAD Social Fund (the Fund) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Fund the proceeds of the Loan as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended

through December 2, 1997 (the General Conditions) constitute an integral part of this Agreement.

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

- (a) "Bangko Sentral ng Pilipinas" means the central bank, an agency of the Borrower, and any successor thereto;
- (b) "DBM" means the Department of Budget and Management, an agency of the Borrower, and any successor thereto;
- (c) "DOF" means the Department of Finance, an agency of the Borrower, and any successor thereto;
- (d) "Executive Order" means Executive Order No. 445 issued by the President of the Republic of the Philippines on October 1, 1997 establishing the Fund;
- (e) "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;
- (f) "LGUs" means local government units, political subdivisions of the Borrower at the provincial, city or municipal level; and "LGU" means any such local government unit;
- (g) "NEDA" means the National Economic and Development Authority, an agency of the Borrower and any successor thereto;
- (h) "NGOs" means non-governmental organizations, and "NGO" means any such organization;
- (i) "Operations Manual" means the manual referred to in paragraph 5 of Section I of Schedule 5 to this Agreement, adopted by the Executive Committee of the Fund on February 27, 1998 and setting forth the operational procedures of the Fund in respect of the eligibility, preparation, appraisal, financing, implementation and supervision of Sub-project;
- (j) "Peace Agreement" means the agreement entered into between the Government of the Philippines and the Moro National Liberation Front on September 2, 1996 for the cessation of armed conflict in the southern region of the Philippines;
- (k) "Personnel, Finance and Administration Manual" means the manual referred to in paragraph 6 of Section I of Schedule 5 to this Agreement, adopted by the Executive Committee of the Fund on February 27, 1998 and setting forth the Fund's administrative and financial procedures, including its accounting, financial reporting and auditing procedures;
- (l) "Policies and Guidelines" means the policies and guidelines of the Fund adopted by its Board of Directors on February 9, 1998, and referred to in paragraph 4 of Section I of Schedule 5 to this Agreement;
- (m) "SPCPD" means the Southern Philippines Council for Peace and Development established by Executive Order No. 371 on October 2, 1996;
- (n) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (o) "Sponsors" means LGUs, NGOs or community groups which shall apply for grants from the Fund to carry out Sub-projects in accordance with the procedures of the Operations Manual and the terms and conditions of their respective Sub-project Agreements; and "Sponsor" means any such entity;
- (p) "Sub-grants" means grants made from the proceeds of the Loan to eligible Sponsors to finance the respective Sub-projects in accordance with procedures and

criteria established in the Operations Manual and pursuant to the terms and conditions of the relevant Sub-project Agreements; and "Sub-grant" means any such grant;

(q) "Sub-projects" means specific development projects approved for financing under Part A of the Project in accordance with procedures and criteria established in the Operations Manual and pursuant to the terms and conditions of the relevant Sub-project Agreements; and "Sub-project" means any such Sub-project;

(r) "Sub-project Agreements" means the agreements referred to in paragraph 9 of Section I of Schedule 5 to this Agreement, to be entered between the Fund and the Sponsors in respect of Sub-projects to be financed from the proceeds of the Loan; and "Sub-project Agreement" means any such Agreement;

(s) "SZOPAD" means the Special Zone of Peace and Development established by Executive Order No. 371 on October 2, 1996; and

(t) "SZOPAD Social Fund" and "Fund" mean the entity established by the Executive Order on October 1, 1997 to support the development of the SZOPAD.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to ten million dollars (\$10,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Fund: (i) in respect of the reasonable cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the Loan; and (ii) on account of withdrawals made by a Sponsor under a Sub-grant to meet the reasonable cost of goods and services required for a Sub-project in respect of which the withdrawal from the Loan Account is requested.

(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 the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

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

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London

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

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable June 15 and December 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, 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 the Fund Agreement, with due diligence and efficiency and in conformity with appropriate administrative, managerial, economic, financial and environmental practices; shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Fund to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the Fund.

(b) The Borrower shall make the proceeds of the Loan available to the Fund on a non-reimbursable grant basis, under a fund agreement to be entered into between the Borrower and the Fund, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in Section I of 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 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of the 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 establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition, and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall cause the Fund to:

(i) have the records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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) Any of the following: (i) the Peace Agreement, (ii) the Executive Order, (iii) the Fund Agreement, (iv) the Policies and Guidelines, (v) the Personnel, Finance and Administration Manual, or (vi) the Operations Manual, 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) any event specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Fund Agreement has been executed on behalf of the Borrower and the Fund;

(b) the Fund has furnished to the Bank a data base of unit costs for the SZOPAD, satisfactory to the Bank; and

(c) the Fund has put into effect a computerized accounting system satisfactory to the Bank.

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

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Cable address:

SECFIN
Manila

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Salvador Enriquez

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
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(1)	Sub-grants under Part A of the Project	7,500,000	70%
(2)	Goods under Part B of the Project	300,000	90% of foreign expenditures, 90% of local expenditures (ex-factory costs) and 75% of local expenditures for other items procured locally
(3)	Consultants' services and training under Part B of the Project:		
	(a) Services of contracted staff of the Fund	1,000,000	80%
	(b) Other	450,000	100%
(4)	Unallocated	750,000	
	TOTAL	10,000,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; 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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 1998.

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

(a) Sub-grants;

(b) goods under contracts costing less than \$50,000 equivalent;

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

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

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to improve access for the population affected by the conflict in the Special Zone for Peace and Development and for the poorer communities therein to basic economic and social infrastructures and services and to greater employment opportunities, through the rapid mobilization of

resources.

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 objective:

Part A: Sub-projects

Financing of specific development projects, including the provision of supplies, equipment and technical services, for the following:

1. Construction, rehabilitation and improvement of small scale social and economic infrastructures, including farm-to-market roads, rural water supply and sanitation systems, small scale irrigation schemes, communal schools and clinics; and
2. Delivery of basic community health and education services.

Part B: Institutional Support for the Fund

Strengthening of the operational, managerial and administrative capacity of the Fund through the provision of equipment, consultants' services and training.

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
December 15, 2003	210,000
June 15, 2004	215,000
December 15, 2004	225,000
June 15, 2005	230,000
December 15, 2005	235,000
June 15, 2006	245,000
December 15, 2006	250,000
June 15, 2007	260,000
December 15, 2007	265,000
June 15, 2008	275,000
December 15, 2008	285,000
June 15, 2009	290,000
December 15, 2009	300,000
June 15, 2010	310,000
December 15, 2010	320,000
June 15, 2011	325,000
December 15, 2011	335,000
June 15, 2012	345,000
December 15, 2012	360,000
June 15, 2013	370,000
December 15, 2013	380,000
June 15, 2014	390,000
December 15, 2014	405,000
June 15, 2015	415,000
December 15, 2015	425,000
June 15, 2016	440,000
December 15, 2016	455,000
June 15, 2017	465,000
December 15, 2017	480,000
June 15, 2018	495,000

* The figures in this column represent the amount in dollars to be repaid, except

as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. 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.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as otherwise provided in paragraphs 2, 3 and 4 of this Part C, (i) works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, and (ii) goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$280,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Direct Contracting

Works costing less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$7,300,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines, provided that the total value of contracts awarded to any one contractor under the provisions of said paragraph of the Guidelines shall not exceed \$300,000 equivalent.

3. National Shopping

Except as otherwise provided in paragraph 4 of this Part B, goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$350,000 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.

4. Procurement from UN Agencies Vehicles under Part B of the Project, in an aggregate amount not to exceed \$120,000 equivalent, may be procured through the UN Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

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) With respect to each contract for (i) works and (ii) goods, estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first ten (10) contracts for works estimated to cost less than \$50,000 equivalent the following procedures shall apply: (i) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection.

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants under Part B of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection Services (i) provided by NGOs, (ii) for very small assignments, or (iii) for assignments in remote areas, and costing \$50,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

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

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

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

SCHEDULE 5

Terms and Conditions of the Fund Agreement
Terms and Conditions of Sub-project Agreements

Section I Terms and Conditions of the Fund Agreement

The Borrower shall enter into a Fund Agreement with the Fund, satisfactory to the Bank, said Fund Agreement to include, inter alia, the following terms and conditions:

1. The Borrower shall make the proceeds of the Loan available to the Fund on a non-reimbursable grant basis.

2. The Borrower shall:

(a) cause its responsible line agencies to cooperate with and support the Fund in the carrying out of the Project by, inter alia: (i) reviewing proposed Sub-projects and giving their no-objection or explanation for their objection, as the case may be, within ten (10) working days of submission of the Sub-project proposal from the Fund; and (ii) in the event the relevant Sub-project is within their jurisdiction, undertaking the obligation to operate and maintain such Sub-project; and

(b) ensure and promote the autonomy of the Fund in the carrying out of the Project, including in: (i) the selection, appraisal, financing and supervision of Sub-projects; and (ii) the internal administration and management of the Fund.

3. (a) The Fund shall carry on its operations and conduct its affairs at all time with due diligence and efficiency, in accordance with sound administrative, managerial, economic and financial practices, under the supervision of qualified and experienced managerial personnel assisted by competent staff in adequate number who shall be provided with appropriate functions, responsibilities and resources satisfactory to the Bank.

(b) The Fund shall, by no later than August 31, 1998, appoint a director for each of its essential operational units, with qualifications and experience, and functions and responsibilities acceptable to the Bank, said essential operational units to include, inter alia, the Finance and Administration Unit, Promotion and Outreach Unit and Appraisal Unit.

4. The Fund shall not amend, delete, suspend, or waive any of its Policies and Principles, without the prior concurrence of the Bank.

5. The Fund:

(a) shall continue to maintain in effect the Operations Manual satisfactory to the Bank and shall carry out its operations in accordance with the provisions thereof, including: (i) operational procedures for the eligibility of Sponsors and of Sub-projects and the appraisal and financing criteria therefor; (ii) procedures for procurement, disbursement, supervision and impact evaluation in respect of eligible Sub-projects; (iii) policy and procedures to provide compensation and rehabilitation for persons whose property or livelihood is adversely affected by the implementation of any Sub-project; (iv) policy and procedures to ensure the participation of indigenous peoples in the design and implementation of Sub-projects; (v) cost-sharing arrangements between the Fund and the Sub-project beneficiaries; and (vi) procedures for the monitoring and reporting of Sub-project activities;

(b) shall not amend, delete, suspend or waive any part of the Operations Manual without the prior approval of the Bank;

(c) shall ensure that the proposal for each infrastructure Sub-project under Part A.1 of the Project is approved only if: (i) an analysis of the environmental effects of such Sub-project has been undertaken; and (ii) if applicable, an environmental impact assessment or other environmental requirement provided for under Philippine laws, satisfactory to the Bank, shall have been undertaken, and mitigation measures designed, on the basis of environmental standards acceptable to the Bank as set forth in the Operations Manual;

(d) shall ensure that the proposal for each infrastructure Sub-project under Part A.1 of the Project incorporates a plan for the appropriate compensation and rehabilitation of persons whose property or livelihood is affected by such Sub-project, in accordance with principles acceptable to the Bank and set forth in the Operations Manual, and that such plan has been approved by the Bank; and

(e) shall ensure that the proposal for each Sub-project involving communities with indigenous population incorporates mechanisms for the participation of indigenous peoples in the design and implementation of such Sub-project, in accordance with policy and procedures acceptable to the Bank and set forth in the Operations Manual, and that such plan has been approved by the Bank.

6. Until completion of the Project, the Fund shall:

(a) continue to maintain in effect the Personnel, Finance and Administration Manual satisfactory to the Bank and shall not modify the provisions thereof without prior consultation with the Bank;

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

(c) by September 30, 1998, develop and, thereafter, maintain a computerized management information system satisfactory to the Bank, in accordance with the provisions of such Manual; and

(d) maintain a computerized accounting system satisfactory to the Bank in accordance with the provisions of such Manual.

7. The Fund shall review and update the unit cost data base at least once every six months and shall provide the Bank with such data base promptly upon completion of its review and update.

8. The Fund shall comply, and shall cause the Sponsor for each Sub-project which

has been approved for financing under Part A of the Project, to comply with the provisions for the procurement of goods, works and consultants' services set forth in Section 3.02 of and Schedule 4 to this Loan Agreement.

9. The Fund: (a) shall enter into a Sub-project Agreement with the relevant Sponsor in regard to each Sub-project approved for financing through a Sub-grant under Part A of the Project, under terms and conditions satisfactory to the Bank which shall include those set forth in Section II of this Schedule; and (b) shall not make available the proceeds of a Sub-grant for financing a Sub-project until the Sub-project Agreement has been entered into with the relevant Sponsor.

10. The Fund shall exercise its rights under each Sub-project Agreement in such manner as to protect the interests of the Fund and the Bank and to accomplish the purposes of the relevant Sub-grant, and except as the Bank shall otherwise agree, the Fund shall not assign, amend, abrogate or waive such Sub-project Agreement or any provision thereof.

11. The Fund shall:

(a) carry out the work plan for 1998 approved by its Board of Directors, in a manner satisfactory to the Bank; and

(b) by November 10 of each year, starting in November 1998, furnish an annual work plan to the Bank for its review and comments and, thereafter, put such plan into effect taking into consideration the Bank's views on the matter.

12. The Fund shall prepare and furnish to the Bank on January 31, April 30, July 31 and October 31 of each year, commencing on October 31, 1998, a quarterly report based on the management information system referred to in paragraph 6 (c) of this Section I, in respect of the implementation of Sub-projects and the evaluation of the impact thereof.

13. The Fund shall:

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

(b) (i) prepare, under terms of reference satisfactory to the Bank, and furnish to the Borrower and the Bank, on January 31 and July 31 of each year, commencing on January 31, 1999, semi-annual reports, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 13, on the progress achieved in the carrying out of the Project during the period preceding the date of each such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(ii) review with the Borrower and the Bank each report referred to in sub-paragraph (b) (i) of this paragraph 13, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of the said report and the view of the Borrower and the Bank on the matter;

(c) (i) by June 30, 1999, prepare under terms of reference satisfactory to the Bank and furnish to the Borrower and the Bank, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 13, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(ii) review with the Borrower and the Bank the report referred in sub-paragraph (c) (i) of this paragraph 13, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of the said report and the views of the Borrower and the Bank on the matter; and

(d) 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.

Section II Terms and Conditions of Sub-project Agreements

1. The Fund shall not disburse a Sub-grant to finance any Sub-project, unless the relevant Sponsor has entered into a Sub-project Agreement with the Fund, under terms and conditions satisfactory to the Bank which shall include, inter alia, those set forth in the following paragraphs of this Section II.

2. The amount of the Sub-grant shall not exceed ninety-five percent (95%) of the estimated aggregate costs of the eligible Sub-project. The beneficiaries of such Sub-project shall be required to contribute at least five percent (5%) of the total Sub-project costs, in material or cash or in services in the design and supervision of the Sub-project.

3. The Sponsor undertakes in respect of its respective Sub-project to:

(a) implement such Sub-project with due diligence and efficiency, in accordance with sound administrative, economic, financial, engineering and environmental standards and practice and pursuant to the Sub-project proposal approved by the Fund;

(b) ensure that goods, works and consultants' services financed out of the Sub-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 Sub-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 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; and

(f) carry out, where applicable: (i) mitigation measures designed on the basis of environmental standards acceptable to the Bank; (ii) a plan for the appropriate compensation and rehabilitation of persons whose property or livelihood is affected by the Sub-project; and (iii) a plan for the participation of indigenous peoples in the design and implementation of the Sub-project. Both plans shall be in accordance with policy and procedures acceptable to the Bank and set forth in the Operations Manual.

4. 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 Sub-grant, and records and documents relevant to the performance of the obligations of the Sponsor under the Sub-project Agreement;

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

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

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 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 \$4,000,000.

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 with respect to the Project, 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.

