

LOAN NUMBER 3539 PH

(Economic Integration Loan)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 23, 1992

LOAN NUMBER 3539 PH

LOAN AGREEMENT

AGREEMENT, dated December 23, 1992, 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 October 16, 1992, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports and services required during such execution; and

WHEREAS: (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 (2) tranches as hereinafter provided.

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, shall be modified to read:

"'Project' means the imports and other activities 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) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) Section 9.07 (c) shall be 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."; and

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) "Central Bank" means the Central Bank of the Philippines, established and operating pursuant to the Borrower's Republic Act No. 265, dated June 15, 1948, as amended;

(b) "Energy Sector Plan" means the Borrower's proposed plan, satisfactory to the Bank, for reforming the Borrower's energy and power sectors and promoting energy efficiency, both at the national and local levels, to be implemented by the Borrower and its electricity power generation and transmission utilities and related power entities;

(c) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(d) "Government Corporation" means a corporation which is established by a law or decree of the Borrower, or incorporated and organized under the Borrower's Corporation Code and in which the Borrower possesses, directly or indirectly, ownership of the majority of the capital or has voting control, and which corporation has been selected for privatization under the Program, and such term includes any subsidiary of any such corporation;

(e) "Peso" means the Borrower's currency unit; and

(f) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 343 (1986).

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, 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, 1993, 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 (6) 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 semi-annually on August 1 and February 1 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. The Borrower's Department of Finance shall have the 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; such withdrawal applications shall to the extent practicable be consolidated so as to apply for withdrawal of aggregate amounts of not less than the equivalent of one hundred thousand dollars (\$100,000).

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 actions specified in Schedule 4 to this Agreement.

(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, in such detail as the Bank shall reasonably request.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained separate 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 six (6) 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.

(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 accounts reflecting such expenditures;
- (ii) retain, until at least one (1) 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 audits 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 IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) 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 a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. 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 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
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:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT).

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

/s/ Pablo R. Suarez

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ Gautam S. Kaji

By

Regional Vice President
East Asia and Pacific

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 reasonable cost of goods and services required during the execution of the Program and to be financed out of such proceeds.

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

(a) expenditures for goods included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semi-precious

		stones, unworked or worked
718	718.1	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, nonmonetary (excluding gold ores and concentrates)

(b) Expenditures in the currency of the Borrower, or for goods or services supplied from the territory of the Borrower, excluding, if the currency of the Borrower is also that of another country, expenditures in such currency for goods or services supplied from the territory of such other country;

(c) Payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of forty million dollars (\$40,000,000) may be made on account of payments made for such expenditures before that date but after September 1, 1992;

(d) Expenditures for goods procured under contracts costing less than the equivalent of one hundred thousand dollars (\$100,000);

(e) Expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance;

(f) Expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(g) Expenditures in excess of an aggregate amount equivalent to forty million dollars (\$40,000,000) for petroleum products and foodstuffs.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost less than five million dollars (\$5,000,000) may be required by the Bank upon the basis of statements of expenditure under such terms and conditions as the Bank shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of one hundred twenty million dollars (\$120,000,000), unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (a) with the progress achieved by the Borrower in the carrying out of the Program; and (b) that the actions described in Schedule 4 to this Agreement have been taken.

5. If, after the exchange of views described in paragraph 4 above, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (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.

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
August 1, 1998	3,685,000.00
February 1, 1999	3,825,000.00
August 1, 1999	3,970,000.00
February 1, 2000	4,125,000.00
August 1, 2000	4,280,000.00
February 1, 2001	4,445,000.00
August 1, 2001	4,610,000.00
February 1, 2002	4,785,000.00
August 1, 2002	4,970,000.00
February 1, 2003	5,155,000.00
August 1, 2003	5,355,000.00
February 1, 2004	5,555,000.00
August 1, 2004	5,770,000.00
February 1, 2005	5,985,000.00
August 1, 2005	6,215,000.00
February 1, 2006	6,450,000.00
August 1, 2006	6,695,000.00
February 1, 2007	6,950,000.00
August 1, 2007	7,215,000.00
February 1, 2008	7,490,000.00
August 1, 2008	7,775,000.00
February 1, 2009	8,070,000.00
August 1, 2009	8,375,000.00
February 1, 2010	8,695,000.00
August 1, 2010	9,025,000.00
February 1, 2011	9,365,000.00
August 1, 2011	9,725,000.00
February 1, 2012	10,090,000.00
August 1, 2012	10,475,000.00
February 1, 2013	10,875,000.00

*The figures in this column represent dollar equivalents, determined as of the respective dates of withdrawal. See General Conditions, at 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 not more than eighteen years before maturity 0.90

More than eighteen years before maturity 1.00

SCHEDULE 3

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of five million dollars (\$5,000,000) or more each shall be awarded through international competitive bidding 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 1992 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for pre-qualification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for the procurement of goods estimated to cost the equivalent of less than five million dollars (\$5,000,000) shall be awarded:

(a) By purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Bank; and

(b) By other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation comparison of quotations obtained from suppliers from at least two (2) countries, except that direct contracting procedures acceptable to the Bank may be used where considered appropriate under paragraph 3.5 of the Guidelines.

3. Subject to the prior approval of the Bank, commonly traded commodities may be procured through organized international commodity

markets or other channels of competitive procurement acceptable to the Bank, in accordance with procedures acceptable to the Bank.

4. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two (2) conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

5. With respect to each contract referred to in paragraphs 2 and 3 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

6. The provisions of the preceding paragraph 5 of this Schedule shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

SCHEDULE 4

Actions Referred to in Paragraph 4 (b) of Schedule 1 to this Agreement

1. Continued maintenance by the Borrower of a macro-economic framework consistent with the objectives of the Program, as determined on the basis of indicators acceptable to the Bank.

2. Completion of all actions (including offering for sale) necessary towards the transfer to private persons of title to the capital presently owned by, or on behalf of, the Borrower in at least ninety-five (95) Government Corporations the aggregate assets of which shall represent at least seventy-five percent (75%) of the value, in Fiscal Year 1985, of the Borrower's assets of Government Corporations which have been approved for privatization under the Program.

3. The Borrower has taken all action necessary, including the submission to its Congress of required legislation, to eliminate all quantitative restrictions on imports of all goods, except for those goods which have been previously specified in agreement with the Bank.

4. The Borrower has proposed for adoption by its Congress draft legislation, satisfactory to the Bank, providing for the change in the method of computation of import tariffs and related structures to one based on fair market valuation, or such other valuation acceptable to the Bank.

5. The Borrower has adopted the Energy Sector Plan, satisfactory to the Bank, and has implemented all energy related price reform measures as scheduled in said Plan.

6. The Borrower has proposed for adoption by its Congress draft legislation, satisfactory to the Bank and certified as priority legislation by the Borrower's Executive, reforming the Borrower's laws on land and maritime transport.

7. The Central Bank has: (a) adopted policy resolutions, satisfactory to the Bank, enabling the Central Bank to achieve and maintain a positive level of net foreign assets; and (b) the Central Bank has achieved a positive level of net foreign assets.

8. The Borrower has proposed for adoption by its Congress measures (including budgetary action), satisfactory to the Bank, providing for the unencumbered payment to, or transfer of debt from, the Central Bank in the amount of at least Peso 9.99 billion.

