

CONFORMED COPY

LOAN NUMBER 3455 PH

(Third Municipal Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 15, 1992

LOAN NUMBER 3455 PH

LOAN AGREEMENT

AGREEMENT, dated April 15, 1992, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, 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 modifications set forth below (the General Conditions) constitute an

integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) 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."

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 Project Office" means the Central Project Office within the Department of Public Works and Highways of the Borrower established and operating under Presidential Decree No. 1914 dated March 29, 1984;

(b) "DOF" means the Department of Finance of the Borrower;

(c) "DPWH" means the Department of Public Works and Highways of the Borrower;

(d) "DILG" means the Department of the Interior and Local Government of the Borrower;

(e) "LGA" means the Local Government Academy established in 1987 under Executive Order No. 262 of the Borrower;

(f) "Local Government Unit" or "LGU" means a municipality or a city to which the Borrower proposes to make or has made a Sub-loan;

(g) "Local Loans Account" means the account established under Section 1.2 of Resolution No. 01-92-MDF of the Borrower entitled "Providing General Policies for the Lending and Program Support Operations of the MDF" by the MDF Policy Governing Board dated February 5, 1992;

(h) "Municipal Development Fund" or "MDF" means the Municipal Development Fund established and operating under Presidential Decree No. 1914 dated March 29, 1984 to provide financial assistance to municipalities and cities for development projects;

(i) "Program Support Account" means the account established under Section 1.3 of Resolution No. 01-92-MDF of the Borrower entitled "Providing General Policies for the Lending and Program Support Operations of the MDF" by the MDF Policy Governing Board dated February 5, 1992;

(j) "Project Steering Committee" means the Project Steering Committee, established pursuant to Presidential Decree No. 1914 dated March 29, 1984, and comprising representatives of various departments and agencies of the Borrower responsible for or involved in the Project;

(k) "SPMS" means the Special Projects Management Service within DOF's Bureau of Local Government Finance established under Executive Order No. 127, S. 1987;

(l) "Sub-loan" means a loan made or proposed to be made out of the proceeds of the Loan by the Borrower through DOF from the Municipal Development Fund to a Local Government Unit for the local component of a Sub-project (as defined in paragraph (n) of this Section);

(m) "Sub-loan Agreement" means an agreement for a Sub-loan

to be entered into between the Borrower, through DOF, and a Local Government Unit;

(n) "Sub-project" means a specific development project with a component to be carried out by the Borrower (referred to as the national component), and a component to be carried out by a Local Government Unit utilizing the proceeds of a Sub-loan (referred to as the local component); and

(o) "Sub-project Agreement" means an agreement to be entered into between the Borrower, through DPWH, and a Local Government Unit for the carrying out of a Sub-project, or a component thereof.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of sixty eight million dollars (\$68,000,000), 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 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 June 30, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

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

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

otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

Section 2.06. Interest and other charges shall be payable semiannually on 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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(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 and cause Local Government Units to carry out the Project 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 maintain and cause to be maintained records and accounts in respect of the Project and Sub-projects adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of the departments or agencies of the Borrower and Local Government Units responsible for carrying out the Project or a Sub-project or any part thereof.

(b) The Borrower shall:

- (i) have and cause, through each Sub-project Agreement respectively the Local Government Units to 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 nine months after the end of each such year, a consolidated report of such audit by its 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 audits 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 and cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain and cause to be retained, 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 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 consolidated report of such audits contains a separate opinion by its 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

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

Representative 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
Philippines

Cable address:

SECFIN
Manila

Telex:

27550 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:

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/ F. Ebdalin

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/ G. Kaji

By

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans for Sub-projects under Part A.2 of the Project	27,500,000	70% of amounts disbursed under the Municipal Development Fund

(2) Civil works under Part A.1 of the Project	9,500,000	60%
(3) Goods and services under Part B of the Project	7,500,000	100% of amounts disbursed by DOF
(4) Maintenance programs under Part C of the Project	2,500,000	100% of amounts disbursed by DPWH
(5) Consultants' services	5,500,000	100%
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(6) Training under Part D of the Project	2,000,000	100%
(7) Unallocated	13,500,000	
TOTAL	68,000,000	=====

2. 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;

(b) paragraph 1, Categories (1) and (2) above for a Sub-project under a Sub-project Agreement unless the Sub-project has been made in accordance with the procedures and on the terms and conditions set forth in Schedule 5 to this Agreement; and

(c) paragraph 1, Categories (1) and (2) above, until the Borrower has provided evidence satisfactory to the Bank that the Local Loans Account and the Program Support Account are in existence.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in expanding and upgrading the infrastructure, services and facilities of its cities and municipalities by: (a) strengthening the Borrower's institutional framework for assisting local governments; (b) strengthening the local governments' investment planning, financing and implementation capacity; (c) strengthening the local governments' maintenance capacity; and (d) improving local fiscal performance.

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: Sub-projects

1. National Component

(a) Infrastructure: Construction and/or rehabilitation of basic infrastructure and facilities including shore protection, flood control measures, primary drainage systems, and primary roads and bridges.

(b) Consultancies: For Sub-project preparation, evaluation and monitoring.

2. Local Components

(a) Infrastructure: Construction and/or rehabilitation of basic infrastructure including secondary and tertiary drainage systems, sanitary landfills, municipal water systems, local roads, traffic management measures, and municipal piers/wharves.

(b) Facilities: Construction and/or rehabilitation of basic facilities including public markets, slaughterhouses, bus terminals, motorpools, health centers and school buildings.

(c) Equipment: Provision of maintenance equipment, solid waste collection and disposal equipment, and computers.

(d) Consultancies: Provision of consultants' services for detailed engineering and construction supervision.

Part B: Real Property Tax Administration

(a) The carrying out of a program to improve real property tax management by, inter alia, the preparation of tax maps, assessments and surveys for improvement in land use identified by such surveys, updating tax records, improving tax collection and tax management, and computerization of real property information together with the provision of manpower, training, supplies and equipment therefor.

(b) The hiring of consultants for the purposes of implementation of the program referred to in paragraph (a) above.

Part C: Maintenance Program

Provision of assistance in the form of grants to cities and municipalities to improve maintenance planning and implementation in selected pilot cities and municipalities.

Part D: Municipal Training Program

(a) Establishment and carrying out of a municipal training program to train local officials in, inter alia, municipal planning, fiscal management, and contract management.

(b) The hiring of consultants for the implementation of the program referred to in paragraph (a) above.

Part E: Studies

The carrying out of studies on: (i) municipal lending covering institutional options for further lending to local governments; and (ii) urban environment and solid waste management covering environmental sanitation and solid waste disposal strategies.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 1997	1,240,000
June 15, 1998	1,290,000
December 15, 1998	1,340,000
June 15, 1999	1,390,000
December 15, 1999	1,445,000

June 15, 2000	1,500,000
December 15, 2000	1,555,000
June 15, 2001	1,615,000
December 15, 2001	1,680,000
June 15, 2002	1,745,000
December 15, 2002	1,810,000
June 15, 2003	1,880,000
December 15, 2003	1,955,000
June 15, 2004	2,030,000
December 15, 2004	2,110,000
June 15, 2005	2,190,000
December 15, 2005	2,275,000
June 15, 2006	2,365,000
December 15, 2006	2,455,000
June 15, 2007	2,550,000
December 15, 2007	2,645,000
June 15, 2008	2,750,000
December 15, 2008	2,855,000
June 15, 2009	2,965,000
December 15, 2009	3,080,000
June 15, 2010	3,200,000
December 15, 2010	3,325,000
June 15, 2011	3,450,000
December 15, 2011	3,585,000
June 15, 2012	3,725,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
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: Procurement Procedures

1. Except as provided in paragraph 3 (a) hereof, items or groups of items for goods shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Except as provided for in paragraph 3 (b) hereof civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. (a) Materials for maintenance, up to an aggregate amount equivalent to \$1,900,000, 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.

(b) Contracts for maintenance, up to an aggregate amount equivalent to \$2,000,000, may be carried out by force account.

Part B: Review by the Bank of Procurement Decisions

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

(a) With respect to the first of each contract for goods and civil works respectively 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 subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

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 Implementation; Terms and Conditions of Sub-loans

A. Implementation

1. The Borrower shall maintain the Project Steering Committee and cause it to provide overall policy guidance and coordination among the various agencies responsible for or involved in the Project.

2. (a) The Borrower shall maintain the Central Project Office with powers, functions, resources and staffing satisfactory to the Bank.

(b) The Borrower shall, through the Central Project Office, prepare and furnish to the Bank a consolidated project implementation progress report every quarter commencing December 31,

1992.

3. The Borrower shall maintain the Municipal Development Fund within the DOF with powers and functions satisfactory to the Bank.

4. The Borrower shall carry out Parts A.1, B, D and E of the Project through DPWH, DOF and LGA and shall cause, through each Sub-project Agreement respectively, Part A.2 and Part C of the Project to be carried out by the Local Government Units selected by the Borrower in consultation with the Bank.

5. Part B of the Project shall be carried out by the Borrower through DOF through certain cities and municipalities selected by the Borrower in consultation with the Bank. The Borrower, through DOF, shall provide grants for such purpose not exceeding in any particular case eighty percent (80%) of the amount expended by the selected cities and municipalities, which shall provide at least in any particular case twenty percent (20%) of such amount from each such city or municipality's own funds, on procurement of goods and services under Part B of the Project.

6. Part C of the Project shall be carried out by the Borrower through DPWH through certain cities and municipalities selected by the Borrower in consultation with the Bank. The Borrower, through DPWH, shall provide grants in respect of each annual maintenance program agreed between DPWH and each respective city or municipality selected by the Borrower in consultation with the Bank for maintenance of infrastructure utilities and public facilities in amounts equal to in the first year seventy percent (70%), in the second year fifty percent (50%) and in the third year thirty percent (30%) respectively, and in each such year the selected cities and municipalities shall provide in each case the appropriate additional amount necessary to carry out such annual maintenance program. In the fourth year the full amount of carrying out its annual maintenance program shall be borne by the selected city or municipality, as the case may be.

7. The Borrower shall, at all times: (a) maintain the Local Loans Account and the Program Support Account within the Municipal Development Fund, and (b) shall not, unless otherwise agreed with the Bank, amend, abrogate, or fail to enforce the MDF Policy Governing Board Resolution No. 01-92-MDF, or any provision thereof.

8. The Borrower shall, by December 31, 1992, reorganize the SPMS and provide adequate staffing thereto satisfactory to the Bank.

9. The Borrower shall, by December 31, 1992, prepare an action plan, satisfactory to the Bank, for carrying out the computerization of real property information under Part B of the Project including an assessment of the established microcomputer-based systems and shall thereafter implement such action plan.

10. The Borrower shall maintain the LGA with resources and staffing satisfactory to the Bank.

B. Sub-projects and Sub-loans

1. The Borrower shall cause the Central Project Office to select Sub-projects on the basis of the socio-economic merits and financial and technical viability of each Sub-project, and shall cause the Central Project Office to appraise each Sub-project so selected in accordance with appraisal criteria satisfactory to the Bank.

2. The Borrower shall, prior to the award of a Sub-loan for a Sub-project, submit or cause the Central Project Office to submit to the Bank for review and acceptance, an application, in form satisfactory to the Bank, together with the following: (i) an appraisal of the Sub-project including an implementation plan and a description of the expenditures to be financed out of the proceeds of the Loan, a review of potential environmental risks of the Sub-project satisfactory to the Bank, analysis of the measures incorporated into its location, design, construction and operation

to avoid or mitigate such risks, and also a resettlement and compensation plan and program in cases (if any) where a population will, or may, be dislocated from a Sub-project site; (ii) copies of the Sub-project Agreement and Sub-loan Agreement; and (iii) such other information as the Bank may reasonably request.

3. The Borrower shall, to enable the Local Government Units to carry out the Sub-projects, enter into Sub-project Agreements in relation thereto, and on-lend the proceeds of the Loan allocated in Category (1) of Schedule 1 to this Agreement through Sub-loans to Local Government Units under Sub-loan Agreements on the terms and conditions satisfactory to the Bank including the main terms and conditions set out herein. The Sub-loans shall be on-lent to the Local Government Units by DOF through the Municipal Development Fund.

4. The Borrower shall not, without the concurrence of the Bank, make any amendment to any Sub-project Agreement or Sub-loan Agreement relating to, in the case of Sub-loans, any of the terms and conditions of Sub-loans outlined hereinbelow or, in the case of Sub-projects, any terms and conditions that might materially affect the Sub-project.

C. Principal Terms and Conditions of Sub-loan Agreements

The following are the principal terms and conditions of Sub-loans:

1. (a) Maximum Sub-loan amount : 90% of local component of the Sub-project (under Part A.2 of the Project)
- (b) Repayment period : up to 15 years including up to 3 years of grace with equal payments of interest and principal
- (c) Interest rate : fixed rate, to be fixed in the case of each Sub-loan at the date of entering into the Sub-loan Agreement

2. Procurement: Procurement of goods, services and civil works for the Sub-projects and to be financed out of the proceeds of the Sub-loans shall be governed by the provisions of Schedule 4 to the Loan Agreement.

