

CONFORMED COPY

LOAN NUMBER 7236-PH

Loan Agreement

(Diversified Farm Income and Market Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 24 , 2004

LOAN NUMBER 7236-PH

LOAN AGREEMENT

AGREEMENT, dated August 24, 2004, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower aims to stimulate rural growth and employment, and thereby to increase farmers' income; and for this purpose, the Borrower intends, in the long-term to: (i) make its Department of Agriculture more service- and market-oriented, and (ii) arrest and reverse the decline in competitiveness of the agriculture and fisheries sector by creating better conditions for agribusiness diversification and productivity-enhancing investments by the private sector (the Program);

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project) which is part of the Program, 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 for Fixed-Spread Loans" of the Bank, dated September 1, 1999 with the following modification (the General Conditions) constitute an integral part of this Agreement: the text in Section 5.01 which reads "(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)" is deleted in its entirety.

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) “Agriculture and Fisheries Market Information System” and the acronym AFMIS mean the information system established by the Borrower’s Department of Agriculture pursuant to paragraph 3 of Schedule 5 to this Agreement.

(b) “Bangko Sentral ng Pilipinas” means the Central Bank of the Republic of the Philippines, and any successor thereto.

(c) “Beneficiary” means an LGU, or a private sector group registered as a legal entity, which meets the eligibility criteria set forth in the Operations Manual, to receive a Sub-grant from DA, out of the proceeds of the Loan, for purposes of market development and expansion of employment opportunities for farm households, and the term “Beneficiaries” means, collectively, the plural thereof.

(d) “Competitive Research Grant” means a grant made, or proposed to be made, by the Borrower, out of the proceeds of the Loan, to a Competitive Research Grant Beneficiary for the purposes of carrying out a Competitive Research Grant Sub-project, and the term “Competitive Research Grants” means, collectively, the plural thereof.

(e) “Competitive Research Grant Agreement” means the agreement entered into between the Borrower and a Competitive Research Grant Beneficiary pursuant to paragraph 11 of Schedule 5 to this Agreement, and the term “Competitive Research Grant Agreements” means, collectively, the plural thereof.

(f) “Competitive Research Grant Beneficiary” means any public or private sector research organization, university, or any other qualified person or organization involved in agriculture, livestock or fisheries, to whom, and for whose benefit, a Competitive Research Grant is made or proposed to be made.

(g) “Competitive Research Grant Manual” means the manual setting forth, inter alia, eligibility criteria, procedures and guidelines for the identification, approval, administration and supervision of a Competitive Research Grant Sub-project and to be adopted by the Borrower pursuant to paragraph 2(b) of Schedule 5 to this Agreement, as the same may be amended from time to time with the prior agreement of the Bank, and such term includes any schedules to the Competitive Research Grant Manual.

(h) “Competitive Research Grant Sub-project” means a specific research project that meets the eligibility criteria set forth in the Competitive Research Grant Manual, to be carried out by a Competitive Research Grant Beneficiary utilizing the proceeds of a Competitive Research Grant; and the term “Competitive Research Grant Sub-projects” means, collectively, the plural thereof.

(i) “DA” means the Borrower’s Department of Agriculture and any successor thereto.

(j) “Displaced Person” means a person who, on account of the execution of the Sub-projects, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof.

(k) “Eligible Categories” means Categories set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(l) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement.

(m) “Environmental Guidelines” means the guidelines, adopted by the Borrower on January 30, 2004, which set forth the rules and procedures for the carrying out the environmental assessments and preparing environmental management plans for the Sub-projects to be implemented under Part B of the Project during the period of the Project implementation, as the same may be amended from time to time with the prior agreement of the Bank.

(n) “Environmental Management Plan” and its acronym “EMP” mean the environmental management plan prepared in accordance with the procedures set forth in the Environmental Guidelines, adopted by the Borrower on January 30, 2004, which sets out environmental protection measures in respect of the Sub-projects for the first year of the Project implementation, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as the same may be amended from time to time with the prior agreement of the Bank.

(o) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(p) “Fiscal Year” means the Borrower’s fiscal year, which begins on January 1 and ends on December 31 of each year.

(q) “Focus Areas” means, collectively, the areas in Region 6, Region 7, Region 10, the Cordillera Administrative Region (CAR), and such other areas agreed between the Borrower and the Bank.

(r) “Implementation Procedures” means the procedures to be followed by DA’s Regional Field Units in the approval, management and supervision of Sub-projects.

(s) “Indigenous Peoples” means social groups with a distinct social and cultural identity that makes them vulnerable to being disadvantaged in the development

process, including the presence in varying degrees of the following characteristics: (i) a close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from Pilipino, the Recipient's national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

(t) "Indigenous Peoples Policy Framework" means the framework, adopted by the Borrower on January 30, 2004, providing procedures, rules, and guidelines for: (i) the informed involvement of Indigenous Peoples, through a process of informed consultation, in the design and implementation of the Sub-projects in locations in which such people reside or which they use for their livelihood, and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of the Sub-projects, as such framework may be amended from time to time with the prior agreement of the Bank.

(u) "Local Government Unit" and the acronym "LGU" mean a local government unit which is a political subdivision of the Republic of the Philippines at the provincial, city, municipal, or Barangay level, and "Local Government Units" and the acronym "LGUs" mean, collectively, the plural thereof.

(v) "Major Final Outputs" means the goods and services DA is responsible for and relating to DA's mandate as agreed with the Department of the Budget Management (DBM) and the National Economic and Development Authority in the budget guidelines of DBM.

(w) "Operations Manual" means the manual for the Beneficiaries to prepare and implement the Sub-projects, satisfactory to the Bank, referred to in paragraph 2(a) of Schedule 5 to this Agreement, as said manual may be revised from time to time with the prior agreement of the Bank.

(x) "Procurement Plan" means the Borrower's procurement plan, dated March 23, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(y) "Regional Field Units" means DA's regional field units in the Focus Areas.

(z) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement.

(aa) “Resettlement Policy Framework” means the framework, adopted by the Borrower on January 22, 2004, providing procedures, rules, and guidelines for: (i) the involuntary taking of land and other assets from Displaced Persons, (ii) resettlement and rehabilitation of, and compensation to, Displaced Persons, and (iii) reporting and monitoring arrangements to ensure compliance with such framework, as such framework may be amended from time to time with the prior agreement of the Bank.

(bb) “Special Accounts” means, collectively: (i) the DA Special Account; (ii) the DA Regional Field Unit 6 Special Account; (iii) the DA Regional Field Unit 7 Special Account; (iv) the DA Regional Field Unit 10 Special Account; and (v) the DA CAR Regional Field Unit Special Account; referred to in Section B(1) of Schedule 1 to this Agreement, and “Special Account” means any of said Special Accounts.

(cc) “Sub-grant” means a grant made or proposed to be made by the Borrower, through DA, to a Beneficiary, out of the proceeds of the Loan, through a Sub-grant Agreement, to finance the carrying out of a Sub-project, in accordance with the relevant provisions of this Agreement and the Operations Manual; and the term “Sub-grants” means, collectively, the plural thereof.

(dd) “Sub-grant Agreement” means the agreement to be entered into between the Borrower, through DA, and a Beneficiary for purposes of providing a Sub-grant, as the same may be amended from time to time with the prior agreement of the Bank, and the term “Sub-grant Agreements” means, collectively, the plural thereof.

(ee) “Sub-project” means a specific market development investment project under Part B of the Project that meet the eligibility and selection criteria and the Borrower’s cost-sharing requirements set forth in the Operations Manual, to be carried out by a Beneficiary utilizing the proceeds of a Sub-grant, and the term “Sub-projects” means, collectively, the plural 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 this Agreement, an amount equal to sixty million Dollars (\$60,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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: (i) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Competitive Research Grant under Part D(1) of the Project to meet the reasonable cost of goods,

works and services required for a Competitive Research Grant Sub-project, in respect of which the withdrawal from the Loan Account is requested; and for amounts paid (or, if the Bank so agree, to be paid) by the Borrower on account of a Sub-grant under Part B of the Project to meet the reasonable cost of works required for a Sub-project; in respect of which the withdrawal from the Loan Account is requested; (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for other parts of the Project and to be financed out of the proceeds of the Loan; (iii) in respect of the front-end fee referred to in Section 2.04 of this Agreement; and (iv) and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, through the Department of Agriculture, with due diligence and efficiency and in conformity with appropriate agricultural, administrative, economic, engineering, financial and managerial practices

and sound social and environmental standards acceptable to the Bank, 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 the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through DA, shall update the Procurement Plan in accordance with terms of reference acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 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 future operation 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 maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 12 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Environmental Management Plan, the Environmental Guidelines, Resettlement Policy Framework, and Indigenous Peoples Policy Framework have been adopted in accordance with the Borrower's applicable laws and regulations and are legally binding upon the Borrower.

Section 5.02. 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:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Blvd.
Manila, Philippines

Cable address:

SECFIN
Manila

Facsimile:

(63-2) 526-9990
(63-2) 523-9216

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.

Facsimile:

(1-202) 477-6391

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

REPUBLIC OF THE PHILIPPINES

By /s/ Juanita D. Amatong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

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:

<u>Category</u>	<u>Amount of the Loan (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Competitive Research Grants under Part D(1) of the Project	3,773,000	100 % of amounts of disbursed
(2) Sub-grants under Part B of the Project for:		80% of the amounts disbursed
(a) DA	4,000,000	
(b) DA Regional Field Unit 6	3,000,000	
(c) DA Regional Field Unit 7	3,000,000	
(d) DA Regional Field Unit 10	3,000,000	
(e) DA CAR Regional Field Unit	3,000,000	
(3) Works under Part C(2) of the Project	3,770,000	80%
(4) Goods	16,638,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally

(5) Consultants' Services		87% of expenditures for
(a) DA	3,520,000	services of firms and 82%
(b) DA Regional Field Unit 6	250,000	of expenditures for services
(c) DA Regional Field Unit 7	250,000	of individual consultants
(d) DA Regional Field Unit 10	250,000	
(e) DA CAR Regional Field Unit	250,000	
(6) Training and Workshops		100%
(a) DA	5,209,000	
(b) DA Regional Field Unit 6	250,000	
(c) DA Regional Field Unit 7	250,000	
(d) DA Regional Field Unit 10	250,000	
(e) DA CAR Regional Field Unit	250,000	
(7) Operating Costs		80%
(a) DA	7,490,000	
(b) DA Regional Field Unit 6	250,000	
(c) DA Regional Field Unit 7	250,000	
(d) DA Regional Field Unit 10	250,000	
(e) DA CAR Regional Field Unit	250,000	
(8) Front-end fee	600,000	Amount due under Section 2.04 of this Agreement
(9) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>60,000,000</u>	

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;

(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; and

(c) the term "operating costs" means the reasonable expenditures incurred by the Borrower on account of the Project implementation (which expenditures would not have been incurred absent of the Project), including expenditures for the cost of office

supplies, rental of facilities, and travel of the Project staff, fuel, repair and maintenance of vehicles used by the Project, but excluding salaries of the Project staff.

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

(a) in respect of a Competitive Research Grant under Category (1) of the table in paragraph 1 of this Schedule, unless and until: the Competitive Research Grant Manual, satisfactory to the Bank, has been duly adopted by the Borrower pursuant to paragraph 2(b) of Schedule 5 to this Agreement; and

(b) in respect of a Sub-grant under Part B of the Project under Category (2) of the table in paragraph 1 of this Schedule, unless and until: the Operational Manual and the Implementation Procedures, all satisfactory to the Bank, have been duly adopted by the Borrower, pursuant to paragraph 2(a) of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms costing less than \$100,000 equivalent per contract; (e) training and workshops; (f) Competitive Research Grants; (g) Sub-grants; and (h) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Accounts

1. The Borrower may open and maintain in Dollars: (a) a DA Special Account; (b) a DA Regional Field Unit 6 Special Account; (c) a DA Regional Field Unit 7 Special Account; (d) a DA Regional Field Unit 10 Special Account; and (e) a DA CAR Regional Field Unit Special Account; each 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.

2. After the Bank has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Accounts shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Accounts, 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Accounts:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Accounts in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Accounts was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Accounts (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Accounts 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 determines at any time that any amount outstanding in the Special Accounts will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 Accounts.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Accounts
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “eligible Categories” means:
 - (a)
 - (i) in respect of the DA Special Account, Categories (1), (2)(a), (3), (4), (5)(a), (6)(a) and (7)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (ii) in respect of DA Regional Field Unit 6 Special Account, Categories (2)(b), (5)(b), (6)(b) and (7)(b);
 - (iii) in respect of DA Regional Field Unit 7 Special Account, Categories (2)(c), (5)(c), (6)(c) and (7)(c);
 - (iv) in respect of DA Regional Field Unit 10 Special Account, Categories (2)(d), (5)(d), (6)(d) and (7)(d); and
 - (v) in respect of DA CAR Regional Field Unit Special Account, Categories (2)(e), (5)(e), (6)(e) and (7)(e).
 - (b) the term “Authorized Allocation” means in respect of: (i) the DA Special Account, an amount equal to \$150,000; and (ii) each of the DA Regional Field Unit 6 Special Account, DA Regional Field Unit 7 Special Account, DA Regional Field Unit 10 Special Account, and DA CAR Regional Field Unit Special Account, an amount equal to \$100,000; in each case to be withdrawn from the Loan Account and deposited into the respective Special Accounts all pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 Respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Respective Special Account such amount as the Borrower shall have requested.
 - (b) For replenishment of the Special Accounts, the Borrower shall furnish to the Bank requests for deposit into the Respective Special Account at such intervals as the

Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 Respective 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 respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Accounts shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Accounts, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 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 respective Special Accounts as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the respective Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Accounts an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the project is to assist the Borrower to strengthen its Department of Agriculture's capacity to provide market-oriented services to increase agricultural competitiveness and rural incomes.

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:

A. Market Development Services

1. Establishment and operation of the Agriculture and Fisheries Market Information System (AFMIS) and local market information systems in the Focus Areas, including the provision of equipment, technical assistance, training and operational support.
2. Strengthening the capacity of the Agriculture Marketing Assistance Service (AMAS) of DA in market development, including: market promotion, enhanced web-based information dissemination, market analysis and data collection, training and workshops facilitating linkages between growers, traders, processors and exporters.
3. Enhancement of DA's web sites and improvement of the National Information Network of DA, including provision of equipment, technical assistance and operational support.

B. Market Development Investments

Provision of Sub-grants to eligible Beneficiaries for the implementation of market development Sub-projects in the Focus Areas.

C. Quality Assurance Systems Strengthening

1. Strengthening the functions of DA's regulatory agencies, through enhancing their web-based information system for access to quality assurance regulations and procedures; increasing the number of the accredited agricultural and fishery food and product safety inspectors; and developing safety and quality standards for agricultural and fishery products.
2. Strengthening the capacity of DA to operate and maintain its laboratories to meet agricultural products safety and quality assurance requirements, and assisting DA in: (i)

updating guidelines for independent accreditation of public and private laboratories and for private sector participation in laboratories and related services; (ii) introducing commercial practice in the management of its laboratories; (iii) developing financing mechanisms to sustain the operations of its laboratories; and (iv) rehabilitating and upgrading its laboratory buildings and facilities.

3. Supporting DA in streamlining its quarantine and inspection processes, including: (i) consolidating the quarantine and inspection responsibilities; (ii) upgrading the quarantine and inspection facilities and equipment and providing training to inspectors at major ports; (iii) developing quarantine protocols designed to expedite the import and export clearance process; and (iv) establishing a computerized database for the quarantine service and linking said database with the customs computer system.

4. Strengthening the capacity of DA in increasing farmer access to certified seeds and horticultural planting materials; and in effectively enforcing the Borrower's laws and regulations governing intellectual property rights.

D. Market-related Technology Development and Dissemination

1. Strengthening the Competitive Research Grant scheme for development of agricultural, fishery and livestock technology, including: (i) provision of Competitive Research Grants to Competitive Research Grant Beneficiaries for market-oriented agriculture technology development; and (ii) provision of training to Competitive Research Grant Beneficiaries in research formulation and market related issues.

2. Strengthening the primary role of the Agriculture Training Institute (ATI) of DA in strategic planning, coordinating and funding of training programs and information dissemination, including upgrading its communication facilities and equipment and provision of technical assistance and operating support therefor.

E. Budget Resource Allocation and Planning and Project Management

1. Strengthening the capacity of DA in planning and prioritizing budget resources in line with its core functions and its Major Final Outputs.

2. Supporting policy studies and advocacy actions on issues, including, but not limited to: (i) the need to reform cabotage regulations; (ii) reducing transportation costs of collection and distribution of agricultural products; and (iii) comparison of agricultural inputs with those in other Asian countries.

3. Strengthening the capacity of DA in managing, monitoring and evaluating the Project, including provision of communication equipment, technical assistance, and operational support.

* * *

The Project is expected to be completed by December 31, 2008

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning October 15, 2012 through October 15, 2023	4.17%
On April 15, 2024	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second

Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works (including those under Sub-projects) estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and the additional provisions in the Annex to this Schedule 4.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works (including those under Sub-projects) estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting. Goods which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Bank's prior agreement, be procured in accordance with the provisions of said paragraphs.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of quality in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review. Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to: (i) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$200,000 or more; (ii) each contract for works estimated to cost the equivalent of \$500,000 or more;

and (iii) the first three contracts for works procured in each Focus Area in accordance with provisions in paragraphs (B)(1) and (B)(2) of Section II of this Schedule.

(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(c) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Annex to Schedule 4

National Competitive Bidding Procedures

With respect to goods and works to be procured in accordance with the procedures referred to in paragraph 1 of Part B of Section II to Schedule 4, the National Competitive Bidding (NCB) procedures of the Borrower shall apply, except that, unless otherwise agreed by the Bank in writing, the following procedures shall apply:

1. National Competitive Bidding (NCB) opportunities shall be advertised in national newspapers of general circulation, with sufficient time for bidders to prepare offers, which shall not be less than 30 days, unless a different time is specifically agreed upon by the Bank. Posting shall also be done in the Government Electronic Procurement System (GEPS) or the Procuring Entity's website.
2. Foreign suppliers and contractors from eligible countries shall be allowed to participate, if interested, without first being required to associate with, or enter into joint ventures with, local firms. However, joint ventures will be encouraged.
3. Eligibility screening may be carried out prior to bidding with the prior concurrence of the Bank.
4. If any bidder is to be denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall be sought.
5. A ceiling may be applied to bid prices, with the prior concurrence of the Bank in advance of bidding. The Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.
6. The Bank's domestic preferences shall not be applied in the evaluation of bids, and other preferences in effect in the Philippines shall also not be used, except with the prior concurrence of the Bank.
7. Price negotiation shall not be allowed. However, in the case of a budget limitation, an adjustment in the quantities of goods or the scope of work may be agreed upon, subject to the prior concurrence of the Bank.
8. Bid opening shall be open to those who wish to attend, and the deadline for submission of bids shall be the same as that for bid opening. All bids received on time shall be opened and read publicly.
9. Within 72 hours from bid opening, but prior to bid evaluation, a copy of the certified minutes of bid opening shall be furnished to the Bank, which shall contain the following: (a) names of the bidders provided with bid documents; (b) original amount (unevaluated) of the bid of each bidder, as read; (c) date, time and place of bid opening;

(d) summary of bid proceedings; and (e) names of the bidders' representatives and other persons present.

10. Suppliers and contractors shall not be required to purchase only local goods or supplies, or to hire local labor, except for unskilled labor.

11. Explicit bid evaluation criteria shall be set forth in the bid documents based on monetarily quantifiable elements.

12. Modifications exceeding 15% of the contract amount and material changes in the conditions during implementation require prior concurrence of the Bank.

13. For foreign suppliers and contractors, prior registration (such as with the Bureau of Food and Drugs for the registration for drugs, agency accreditation, etc.), licensing (such as licensing by the Philippine Contractors Accreditation Board, etc.), and/or other government authorizations (such as a Mayor's permit, etc.), shall not be a requirement for purposes of participating in bidding competitions. Such registration, licensing and/or other government authorizations may, however, be required from the selected bidder as a condition of signing of the contract, and the Borrower shall not be stopped from asserting such requirement where this is mandated under national law.

14. Bid and performance securities shall be specified in the bidding documents, which may be in the form of a certified check, letter of credit, or bank guarantee from a reputable bank.

15. To obtain the best market prices available, open competitive bidding shall be maximized. For this purpose, requirements shall not include restrictive importation permits from private associations or protective preferences for Philippine Flag vessels.

16. Two-envelope system procedures shall not be used unless prior concurrence by the Bank has been obtained.

17. Privileges granted to Provincial bidders to match the lowest bid submitted by a contractor with the principal office address outside the province in which the project is located, shall not be allowed.

18. The use of GEPS for procurement of goods may be allowed with the prior concurrence of the Bank.

SCHEDULE 5

Implementation Program

Project Management

1. The Borrower shall maintain, until completion of the Project:

(a) the Project Advisory Board, assigned with such functions, membership, and responsibilities, satisfactory to the Bank, as shall be required for the overall guidance and oversight of implementation of the Project;

(b) the Project Coordination Office, headed by qualified and experienced officer and assigned with such functions, responsibilities and funds, satisfactory to the Bank, and with competent staff in adequate numbers, as shall be required for the day-to-day operation, management, and coordination of the Project at the national level;

(c) the Regional Project Advisory Board, assigned with such functions, membership, and responsibilities, satisfactory to the Bank, as shall be required for the overall guidance and oversight of implementation of the Project at the regional level; and

(d) the Regional Project Coordination offices, each headed by qualified and experienced officer assigned with such functions and responsibilities, satisfactory to the Bank, and with competent staff in adequate numbers, as shall be required for management and facilitation of the Project at the regional level.

Project Implementation

2. The Borrower shall:

(a) adopt and thereafter implement the Operations Manual and the Implementation Procedures in the selection, approval and supervision of Sub-projects, in a manner and substance satisfactory to the Bank, which shall include the description of: (i) financial management and disbursement procedures; (ii) environmental and social safeguards requirements and measures for Sub-projects; (iii) the eligibility criteria of selection of Beneficiaries for carrying out Sub-projects; (iv) the procedure and criteria for appraisal and selection of Sub-projects; (v) terms and conditions governing the Sub-grant Agreements; (vi) procurement procedures under the Sub-projects; and (vii) the Sub-projects Implementation arrangements;

(b) adopt and thereafter implement the Competitive Research Grant Manual in the selection, approval and supervision of the Competitive Research Grant Sub-projects, in a manner and substance satisfactory to the Bank, which shall include the description of: (i) eligibility criteria, procedures and guidelines for the identification, approval, administration and supervision of a Competitive Research Grant Sub-project,

(ii) selection criteria for Competitive Research Grant Beneficiaries; (iii) procurement procedures; and (iv) financial management and disbursement procedures; and

(c) not amend, abrogate, suspend, or waive any provision of said Operational Manual, the Implementation Procedures, and the Competitive Research Grant Manual without the prior concurrence of the Bank.

3. In carrying out Part A(1) of the Project, by December 31, 2004, the Borrower, through DA, shall establish AFMIS to provide adequate, timely and reliable information to growers, traders, processors, and exporters on agricultural commodities, to be administered by an AFMIS Management Group, with terms of reference satisfactory to the Bank.

4. In carrying out Part C(2) of the Project, by June 30, 2005, the Borrower through DA, shall: (i) undertake a review of the technical, physical and financial needs of DA's laboratories; and (ii) develop a time-bound action plan, taking due consideration of the Bank comments thereon, and thereafter implement said plan to strengthen, operate and maintain said laboratories following commercial principles and practice.

5. In carrying out Part C(3) of the Project, by May 31, 2005, the Borrower through DA, shall: (i) complete a review and consultation process with DA's regulatory agencies responsible for quarantine services; and (ii) develop a time-bound action plan taking due consideration of the Bank's comments thereon, and thereafter implement said plan to streamline quarantine services and processes.

6. In carrying out Part D(2) of the Project and in line with the goals of the Borrower's Agriculture and Fisheries Modernization Act, the Borrower, through DA, shall, by March 31, 2005, redefine the role of the Agriculture Training Institute as being primarily responsible for strategic planning, coordination, and funding of agriculture training and agricultural information dissemination.

7. In carrying out Part E(1) of the Project, no later than March 31 of each Fiscal year, commencing in FY 2005 and thereafter until completion of the Project, the Borrower, shall through DA, the Department of Budget and Management, and the National Economic and Development Authority, review with the Bank, the proposed DA's budget allocation for next Fiscal Year, and thereafter, taking due consideration of the Bank's comment thereon, and take all such action as shall be necessary to ensure that the DA budgets for next Fiscal Year are in line with DA's Major Final Outputs.

Sub-projects and Sub-grants

8. No Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Borrower is satisfied that the Sub-project meets the eligibility criteria specified below, and the provisions set forth in the Operations Manual, which shall include, the following:

(a) each Sub-project shall be a market development investment project which is technically and financially viable and environmentally and socially sound;

(b) each Sub-project shall be promoted, appraised and approved in accordance with the procedures and other provisions set forth in the Operations Manual; and

(c) each Beneficiary applying for any Sub-grants provided under the Project shall meet relevant criteria set out in the Operations Manual.

9. The Borrower shall through DA enter into Sub-grant agreements with Beneficiaries satisfactory to the Bank as a condition for the making of Sub-grants for Sub-projects. The terms and conditions of each Sub-grant Agreement shall, inter alia:

(a) require that the eligible Beneficiary: (i) carry out the Sub-project with due diligence and efficiency and in accordance with appropriate administrative, financial, technical, managerial and agricultural practices and sound environmental and social standards; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the Sub-project; and (iii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Sub-project;

(b) require that the works to be financed from the proceeds of the Sub-grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 4 to this Agreement; and (ii) be used exclusively in the carrying out of the Sub-project or Sub-projects; and

(c) require eligible Beneficiaries to carry out the Environmental Guidelines, the Environmental Management Plan, the Resettlement Policy Framework and the Indigenous Peoples Development Framework, in a manner and substance, satisfactory to the Bank, including, whenever required pursuant to said guidelines and frameworks, to prepare and implement an environmental management plan, resettlement action plan and indigenous people development plan for Sub-projects to be identified during the Project implementation, all in a manner satisfactory to the Bank; and

- (d) reserve for the Borrower the right to:
 - (i) inspect by itself, or jointly with the Bank, if the Bank shall so request, the goods, works, sites, plants and construction included in the Sub-project or Sub-projects, the operations thereof and any relevant records and documents;
 - (ii) obtain all information as the Borrower or the Bank shall reasonably request regarding the administration, operation and financial conditions of the eligible Beneficiary; and
 - (iii) suspend or terminate the right of the eligible Beneficiary to use the proceeds of the Sub-grant upon the failure by the eligible Beneficiary to perform any of its obligations under the Sub-grant Agreement.

Competitive Research Grant

10. No Competitive Research Grant Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Borrower is satisfied that the Competitive Research Grant Sub-project meets the eligibility criteria specified below, and the provisions set forth in the Competitive Research Grant Manual, which shall include, the following:

(a) each Competitive Research Grant Sub-project shall be a research project for crops, livestock, and fisheries products with strong market potential, which is scientifically and technically sound;

(b) each Competitive Research Grant Sub-project shall be promoted, appraised and approved in accordance with the procedures and other provisions set forth in the Competitive Research Grant Manual; and

(c) each Competitive Research Grant Beneficiary applying for any Competitive Research Grant provided under the Project shall meet the relevant criteria set out in the Competitive Research Grant Manual.

11. The Borrower shall through DA enter into Competitive Research Grant Agreements with Competitive Research Grant Beneficiaries, satisfactory to the Bank, as a condition for the making of Competitive Research Grants for Competitive Research Grant Sub-projects. The terms and conditions of each Competitive Research Grant Agreement shall, inter alia:

(a) require that the eligible Competitive Research Grant Beneficiary: (i) carry out the Competitive Research Grant Sub-project with due diligence and efficiency and in accordance with appropriate administrative, financial, technical, managerial and agricultural practices and sound environmental and social standards; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the Competitive Research Grant Sub-project; and (iii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Competitive Research Grant Sub-project;

(b) require that the goods, works and services to be financed from the proceeds of the Competitive Research Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 4 to this Agreement; and (ii) be used exclusively in the carrying out of the Competitive Research Grant Sub-project or Competitive Research Grant Sub-projects; and

(c) reserve the Borrower is the right to:

(i) inspect by itself, or jointly with the Bank, if the Bank shall so request, the equipment, experimentation plots and laboratories, sites, services and training included in the Competitive Research Grant Sub-project, the operations thereof and any relevant records and documents;

(ii) obtain from the Competitive Research Grant Beneficiaries all information as the Borrower or the Bank shall reasonably request regarding the administration, operation and financial conditions of the Competitive Research Grant Sub-project; and

(iii) suspend or terminate the right of the Competitive Research Grant Beneficiaries to use the proceeds of the Competitive Research Grant for the Competitive Research Grant Sub-projects upon the failure by the Competitive Research Beneficiaries to perform any of their obligations under their Competitive Research Grant Agreements.

Monitoring, Evaluation, Reporting

12. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2006, an external mid-term evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said 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;

(c) review with the Bank, by December 31, 2006, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2008, an external terminal evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure sustainability of the Project achievement; and

(e) review with the Bank, by December 31, 2008, or such later date as the Bank shall request, the report referred to in paragraph (d) of this Section, and, thereafter, take all measures required to ensure sustainability of the Project achievement, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Performance Indicators

Outcome Indicators	Mid-term Review	Project Completion
Better client satisfaction with DA's delivery of market information, development services and market related investments	15% increase over the 2004 baseline level of client satisfaction	35% increase over the 2004 baseline level of client satisfaction
Strengthening core functions of the DA on support of market development services, quality assurance, market-linked technology development and dissemination, and agricultural development planning and resource allocation	Indicative budget targets as a % of the total annual DA budget: Market Development Services 4%, Regulatory Services 10%, Information Services 3%, Infrastructure Services 10%, Research and Technology 7%, Planning, M&E, and Financial Management 6%	Indicative budget targets as a % of the total annual DA budget: Market Development Services 7%, Regulatory Services 10%, Information Services 5%, Infrastructure Services 10%, Research and Technology 8%, Planning, M&E, and Financial Management 7%
Output Indicators		
Operationalization of the AFMIS in the four focus areas	35% of targeted farmers in the focus areas regularly accessing AFMIS	75% of targeted farmers in the focus areas regularly accessing AFMIS
All infrastructure investments supported by the DA in Focus Areas would be executed following the procedures described in the Operations Manual, consistent with the framework of devolution and NG-LGU financing framework.	All market development investments in the focus areas are being carried out in accordance with the Operations Manual and the Implementation Procedures for market development.	All market development investments in the focus areas are being carried out in accordance with the Operations Manual and the Implementation Procedures for market development.

Full disclosure of regulatory procedures, charges, forms etc. through a web-based information system

Protocols for web-based system developed and tested

User-friendly, comprehensive web-based system operating and publicized

Full cost charge-out rates applied for services connected with provision of clearances, certification, provision of improved genetic material etc.

Action plan for full-cost recovery put into effect

Full cost recovery for all services achieved

Increase in the number of accredited private sector operated seed production units, nurseries, and analytical laboratories, servicing the sector

Adoption of DA private sector accreditation guidelines

Increase in the number of DA private sector accreditation guidelines by at least 20%

Loan funds provided through the Competitive Grants Program support research with clear linkages to market demand and opportunities

Research subprojects being undertaken in accordance with the Competitive Research Grants Manual

Technologies being developed have clear linkages with market demand and opportunities