

CONFORMED COPY

LOAN NUMBER 3244 PH

Loan Agreement

(Second Elementary Education Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 9, 1990

LOAN NUMBER 3244 PH

LOAN AGREEMENT

AGREEMENT, dated July 9, 1990, 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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "DECS" means the Department of Education, Culture and Sports of the Borrower;

(b) "PICU" means the Project Implementation Coordinating Unit to be established within the DECS; and

(c) "Action Plan" means the series of administrative, financial and educational actions and activities to be carried out by the Borrower in order to achieve the objectives of the Project.

## 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 two hundred million dollars (\$200,000,000) as 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 The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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 December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

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 (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding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

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

(c) For the purposes of this Section:

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

Agreement is signed.

- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six 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 March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

#### ARTICLE III

##### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DECS with due diligence and efficiency and in conformity with appropriate administrative, financial and educational 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 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 and works 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 or cause to be

maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; 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:



(1) Works:		
(a)	51,700,000	90%
(b)	66,600,000	70%
(c)	20,400,000	20%

(2) Desks:		
(a)	5,900,000	90%
(b)	8,400,000	70%
(c)	2,600,000	20%

(3) Printing and distribution of textbooks:		
(a)	2,200,000	90%
(b)	4,400,000	70%
(c)	1,000,000	20%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(4) Equipment and printing paper for textbooks	31,700,000	100X of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally

(5) Unallocated 5,100,000

TOTAL 200.000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$20,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1990; (b) expenditures under Category (1)(b) until \$51,700,000 under Category (1)(a) is fully disbursed; (c) expenditures under Category (1)(c) until \$66,600,000 under Category (1)(b) is fully disbursed; (d) expenditures under Category (2)(b) until \$5,900,000 under Category (2)(a) is fully disbursed; (e) expenditures under Category (2)(c) until \$8,400,000 under Category (2)(b) is fully disbursed; (f) expenditures under Category (3)(b) until \$2,200,000

under Category (3)(a) is fully disbursed; and (g) expenditures under Category (3)(c) until \$4,400,000 under Category 3(b) is fully disbursed.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to increase the quality, efficiency and equity of the Borrower's elementary education subsector through assistance to the DECS investment program and the Action Plan for the Borrower's fiscal years 1990-92.

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: Expanding Elementary Educational Infrastructure and Material Supplies

1. Construction, and rehabilitation of classrooms, multi-purpose workshops and toilet facilities.
2. Production of school desks.
3. Supply of school equipment.
4. Production and distribution of textbooks and other instructional materials.

Part B: Improving Elementary Teacher and Administrator Performance

1. In-service training of local supervisors, school principals and teachers.
2. Review of the pre-service teacher training programs, followed by the formulation of policy recommendations and investment needs.

Part C: Expanding Basic Education Attainment

1. Introduction of dropout prevention measures in selected elementary schools.
2. Evaluation of the relative cost-effectiveness of school and non-school factors in preventing dropouts from elementary schools.
3. Expansion of DECS's ongoing literacy training programs.

Part D: Strengthening Planning and Management

1. Introduction of annual assessment of elementary student performance.
2. Establishment of an integrated data base at DECS.
3. Development of a distribution system for organizational information throughout DECS.
4. Improvement in planning data and methodologies.

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The Project is expected to be completed by December 31, 1992.

## SCHEDULE 3

### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 15, 1996	3,640,000.00
September 15, 1996	3,780,000.00
March 15, 1997	3,930,000.00
September 15, 1997	4,080,000.00
March 15, 1998	4,240,000.00
September 15, 1998	4,405,000.00
March 15, 1999	4,575,000.00
September 15, 1999	4,750,000.00
March 15, 2000	4,935,000.00
September 15, 2000	5,125,000.00
March 15, 2001	5,325,000.00
September 15, 2001	5,530,000.00
March 15, 2002	5,745,000.00
September 15, 2002	5,970,000.00
March 15, 2003	6,200,000.00
September 15, 2003	6,440,000.00
March 15, 2004	6,690,000.00
September 15, 2004	6,950,000.00
March 15, 2005	7,220,000.00
September 15, 2005	7,500,000.00
March 15, 2006	7,790,000.00
September 15, 2006	8,090,000.00
March 15, 2007	8,405,000.00
September 15, 2007	8,730,000.00
March 15, 2008	9,070,000.00
September 15, 2008	9,420,000.00
March 15, 2009	9,785,000.00
September 15, 2009	10,165,000.00
March 15, 2010	10,555,000.00
September 15, 2010	10,960,000.00

\* 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	0.90



more than 18 years  
before maturity

More than 18 years before maturity 1.00

#### SCHEDULE 4

#### Procurement

#### Procurement of Goods and Works

#### Part A: International Competitive Bidding

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

#### Part B: Preference for Domestic Manufacturers

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

#### Part C: Other Procurement Procedures

1. Civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedure satisfactory to the Bank. Works in remote locations where contracting is impractical, may be procured through force account.

2. Desks may be procured under contracts awarded on the basis of local competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Contracts estimated to cost less than \$ 50,000, upto an aggregate amount not to exceed the equivalent of \$ 3,800 000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Packages for printing paper for textbooks may be procured under contracts awarded on the basis of local competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank provided that said contracts shall not exceed \$ 200,000 per contract and up to an amount of \$ 4,100,000 in the aggregate.

4. Printing of textbooks may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

5. Items or groups of items of equipment estimated to cost less than the equivalent of \$ 50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$ 500,000, 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.

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

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

(a) With respect to each contract estimated to cost the equivalent of \$ 200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

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

(c) The provisions of the preceding sub paragraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals 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.

#### SCHEDULE 5

##### Implementation Program

The Borrower shall:

1. conduct a review meeting with Bank's participation to be held annually, in time for the DECS annual work and financial planning and budget proposal reviews;
  2. ensure that a minimum amount equivalent to 4% of book production cost will be set aside by the DECS in order to cover the cost of transportation of books to schools;
  3. maintain PICU with powers, functions and membership acceptable to the Bank; and
  4. carry out the Action Plan as agreed with the Bank.
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