

CONFORMED COPY

LOAN NUMBER 3038 PH

(Fourth Small and Medium Industries
Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 31, 1989

LOAN NUMBER 3038 PH

LOAN AGREEMENT

AGREEMENT, dated May 31, 1989, between THE REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to receive from the Japanese Grant Facility a grant (the Japanese Grant) in an amount of ₱470,000,000 to assist in financing Part B of the Project.

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Schedule 3 to this Agreement (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 have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Accredited Institution" means any financial institution, established and operating in the Borrower's territory in accordance with the laws of the Borrower, which the Central Bank has accredited on the basis of criteria satisfactory to the Bank, to participate in making Sub-loans for cottage, small and medium industries which are, or are proposed to be, refinanced by the Central Bank from IGLF, under Part A of the Project;

(b) "Beneficiary Enterprise" means an enterprise to which an Accredited Institution proposes to make or has made a Sub-loan;

(c) "Bureau" means the Bureau of Small and Medium Business Development within DTI;

(d) "Central Bank" means the Central Bank of the Philippines acting as administrator of the Industrial Guarantee and Loan Fund of the Borrower;

(e) "cottage industry" means a manufacturing or service enterprise with total assets at the time of application for a Sub-loan exceeding peso 50,000 but not exceeding peso 500,000;

(f) "IGLF" means the Industrial Guarantee and Loan Fund, a fund established by the Borrower and administered by the Central Bank in accordance with the provisions of the Master Agreement;

(g) "Master Agreement" means the agreement dated November 27, 1979 between the National Economic and Development Authority of the Borrower and the Central Bank governing the operations of IGLF and such term includes all annexures to the Master Agreement;

(h) "medium industry" means a manufacturing or service enterprise with total assets at the time of application for a Sub-loan exceeding peso 5,000,000 but not exceeding peso 20,000,000;

(i) "DTI" means the Department of Trade and Industry of the Borrower;

(j) "peso" means the currency unit of the Borrower;

(k) "small industry" means a manufacturing or service enterprise with total assets at the time of application for a Sub-loan exceeding peso 500,000 but not exceeding peso 5,000,000;

(l) "Sub-loan" means a loan made, or proposed to be made, by an Accredited Institution to a Beneficiary Enterprise for a Sub-project and which is, or is proposed to be, refinanced from IGLF;

(m) "Sub-project" means a specific project for cottage, small or medium industry to be carried out by a Beneficiary Enterprise under the Project;

(n) "Philguarantee" means the Philippine Export and Foreign Loan Guarantee Corporation of the Borrower or any successor thereto; and

(o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to sixty million dollars (\$60,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Beneficiary Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in the Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1994 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semi-annually on March 1 and September 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, economic and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 8 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Japanese Grant shall be governed by the provisions of Schedule 6 to this Agreement.

Section 3.04. The Borrower shall exercise its rights under the Master Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any provision of the Master Agreement.

Section 3.05. The Borrower shall ensure that the repayment of principal in respect of Sub-loans made under the Project through IGLF shall be used exclusively to finance such further Sub-projects as would have been eligible to receive financing out of the proceeds of the Loan.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain or cause to be maintained separate accounts and records adequate to reflect in accordance with consistently maintained 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 any Part thereof.

Section 4.02. (a) The Borrower shall:

- (i) have the records referred to in Section 4.01 of this Agreement, the accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of said financial statements for such year as so audited, and

(B) 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 the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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, in accordance with Section 4.01 of this Agreement, 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 (a) 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.

Section 4.03. The Borrower shall cause the Central Bank to make arrangements with the Accredited Institutions receiving funds out of IGLF to have their IGLF related accounts audited in accordance with regulations and standards of the Central Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the Borrower shall have taken any action to discontinue the operations of IGLF.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (a) of Section 5.01 shall occur.

ARTICLE VI

Effective Date; Termination

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

- (a) that the Japanese Grant has become effective; and
- (b) that the revised IGLF Policy Manual, referred to in Paragraph 1 of Schedule 8 to this Agreement, has been issued.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Department of Finance
Manila
Republic of the Philippines

Cable address:	Telex:
MINFIN Manila	7550 CBP-PH 42068 CB-CONF

For the Bank:

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

Cable address:	Telex:
INTBAFRAD Washington, D.C.	440098 (ITT) 248423 (RCA) or 64145 (WUI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Emmanuel Pelaez
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Attila Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans for Part A of the Project	60,000,000	100% of amount disbursed

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:

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement; and

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$6,000,000, may be made in respect of the Project on account of payments made for expenditures before that date but after December 1, 1988.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in furthering the development of cottage, small and medium industries (SMI) and in strengthening the operational capability of the financial and technical assistance institutions involved in the financing and counseling of said industries within the Borrower's territory.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A:

The refinancing by the Central Bank, out of IGLF, of Sub-loans made by the Accredited Institutions to the Beneficiary Enterprise for Sub-projects.

Part B:

(1) Improve the availability and quality of services for SMI exporters in the areas of:

- (i) duty drawback/exemption;
- (ii) product specialist program;
- (iii) domestic trade fair program;
- (iv) trade information; and
- (v) export finance/guarantee.

(2) Improve DTI's support for cottage and SMI firms by:

- (i) strengthening DTI's regional operations, and
- (ii) providing technical assistance for policy formulation and program design in the areas of export and industry development and finance.

* * *

The Project is to be completed by June 30, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
September 1, 1994	1,100,000
March 1, 1995	1,145,000
September 1, 1995	1,185,000
March 1, 1996	1,235,000
September 1, 1996	1,280,000
March 1, 1997	1,330,000
September 1, 1997	1,380,000
March 1, 1998	1,430,000
September 1, 1998	1,485,000
March 1, 1999	1,545,000
September 1, 1999	1,605,000
March 1, 2000	1,665,000
September 1, 2000	1,730,000
March 1, 2001	1,795,000
September 1, 2001	1,865,000
March 1, 2002	1,935,000
September 1, 2002	2,010,000
March 1, 2003	2,085,000
September 1, 2003	2,165,000
March 1, 2004	2,250,000
September 1, 2004	2,335,000
March 1, 2005	2,425,000
September 1, 2005	2,515,000
March 1, 2006	2,610,000
September 1, 2006	2,710,000
March 1, 2007	2,815,000
September 1, 2007	2,925,000
March 1, 2008	3,035,000
September 1, 2008	3,150,000
March 1, 2009	3,260,000

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

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years	0.15

before maturity	
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) The words "the Bank may, by notice to the Borrower terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 1 (b) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under said subparagraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Procedures for and Terms and Conditions of Sub-loans

1. (a) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Sub-loan shall contain (i) a summary description of the Beneficiary Enterprise and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(b) Applications and requests made pursuant to the provisions of this paragraph shall be presented to the Bank on or before December 31, 1992.

2. Sub-loans shall be made on terms whereby the Borrower shall obtain or cause to be obtained, by written contract with the Beneficiary Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower,

including, in the case of any Sub-loan and, the right to:

(a) require the Beneficiary Enterprise to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-project and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Beneficiary Enterprise to the use of the proceeds of the Loan upon failure by such Beneficiary Enterprise to perform its obligations under its contract with the Borrower.

SCHEDULE 6

Procurement and Consultants' Services

Section I. Procurement of Goods

1. Vehicles up to an aggregate amount not exceeding the equivalent amount of \$60,000, may be procured through local shopping in accordance of the standard procedures of the Borrower.

2. Duty Drawback System hardware, software and related services may be procured under contract awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines) and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by

World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required under the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, payments for expenditures to be financed out of the proceeds of Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other

evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Category under the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories under the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 8

Implementation Program

1. The Borrower shall (i) revise IGLF's Policy Manual to include the policies stipulated in the Annex to this Schedule; (ii) ensure that the Policy Manual as revised is made applicable to all Sub-loans financed from the proceeds of the Loan under Part A of the Project; and (iii) not amend, abrogate or waive the application of the Policy Manual as revised except by mutual agreement between the Borrower and the Bank.

2. By June 30, 1990, the Borrower shall prepare measures to

improve the IGLF guarantee facility together with implementation schedule and furnish the same to the Bank for review and comment.

3. The Borrower shall and shall cause Philguarantee: (i) to introduce measures to expand the coverage of the pre-shipment export guarantee; and (ii) to adopt said measures by incorporating them in Philguarantee's Policy Manual.

4. The Borrower shall cause IGLF to review no later than June 30, 1990, the preferential rates for IGLF Sub-loans established pursuant to paragraph (iv) of the Annex to this Schedule and promptly thereafter adopt a plan, satisfactory to the Bank, to phase out no later than June 30, 1991 the Subsidy provided under such preferential rates.

ANNEX TO SCHEDULE 8

With reference to Paragraph 1 of Schedule 8, the Borrower shall ensure that IGLF Policy Manual will stipulate, the following:

- (i) The maximum size for assets of firms eligible for IGLF funding under the Project will be peso 20 million and the maximum Sub-loan will be peso 20 million;
- (ii) IGLF sub-borrowers shall comply with all laws and regulations of the Philippines related to environmental protection. Specifically, they shall comply with P.D. 1067 Water Code 1976, and P.D. 1152 Environmental Code 1977;
- (iii) Interest rates to be charged from IGLF to the Accredited Institutions will be based on market rates, and will be offered at either fixed or variable rates. Under the fixed rate option, the rate to the Accredited Institutions will be set equal to the weighted average interest rate during the previous six months on all time deposits of two years and over in maturity. The rate will be fixed for five years. The variable rate will be set semi-annually and will be equivalent to the weighted average interest rate during the previous six months on all time deposits of six months or lower maturities. The variability of the interest rate will be limited by a cap such that the maximum increase within a six month period will be 1%;
- (iv) A rate reduction of up to 3% for specific regions but totalling no more than 2% on average may be offered by IGLF to the Accredited Institutions for Sub-loans outside the National Capital Region, Central Luzon Region, Southern Tagalog Region and Central Visayas Region and Sub-loans for specific economically depressed provinces within the aforementioned regions as agreed with the Bank;
- (v) Interest rates to be charged to end-users will not be regulated by IGLF, and the Accredited Institutions will be free to set rates at their discretion. The Accredited Institutions will continue to take the credit risk on their IGLF-funded loans to end-users.
- (vi) To reflect the foreign exchange risk incurred, IGLF will establish an equity reserve account in which the differential between IGLF lending and borrowing rates for foreign currency financed Sub-loans, less proportionate administrative fees, will be accumulated;
- (vii) For all sub-loans made using Bank funds, a minimum

participation of 10% of the total loan amount must be made by the Accredited Institutions, and a minimum equity contribution of 20% of the total Sub-project cost will be required from the entrepreneur;

(viii) For the IGLF export pre-shipment window, a fixed interest rate generally aligned with the Central Bank rediscount rate and a continuation of 100% rediscounting; and

(ix) For all Sub-loans of peso 5,000,000 or more financial rate of return will be computed.

