

CONFORMED COPY

LOAN NUMBER 7393-PH

Loan Agreement

(National Program Support for Basic Education Project)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 3, 2006

LOAN NUMBER 7393-PH

LOAN AGREEMENT

AGREEMENT, dated October 3, 2006, 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 (the Project), 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 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”; and

(b) Section 6.03(c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Bangko Sentral ng Pilipinas” means the central bank of the Republic of the Philippines, and any successor thereto.

(b) “Basic Education Sector Reform Agenda” means the Borrower’s basic education sector reform agenda set forth in DepEd Memorandum No. 370 dated December 6, 2005.

(c) “DepEd” means the Borrower’s Department of Education, and any successor thereto.

(d) “Education Development Projects Implementing Task Force” means the task force referred to in paragraph 1(c) of Schedule 4 to this Agreement, and any successor thereto.

(e) “Executive Committee” means the committee referred to in paragraph 1(b) of schedule 4 to this Agreement.

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

(g) “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 the national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

(h) “Indigenous Peoples Planning Framework” means the indigenous peoples planning framework dated March 31, 2006, duly adopted by DepEd, which sets forth the guidelines, satisfactory to the Bank, to address any social or cultural impact on Indigenous Peoples caused by the execution of the Project, including screening and monitoring procedures and the development of Indigenous Peoples development plan or plans, where applicable.

(i) “Management Committee” means committee referred to in paragraph 1(a) of Schedule 4 to this Agreement.

(j) “Operations Manual” means the manual referred to in paragraph 2(b) of Schedule 4 to this Agreement.

(k) “Project Implementation Plan” means the plan referred to in paragraph 2(a) of Schedule 4 to this Agreement.

(l) “Procurement Plan” means the Borrower’s procurement plan, dated May 2, 2006, 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.

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

(n) “School Grant Beneficiary” means a government elementary or secondary school selected to participate in Part A.2 of the Project, to whom, and for whose benefit, a School Grant is made or proposed to be made, and the term “School Grant Beneficiaries” means, collectively, the plural thereof.

(o) “School Grant Sub-project” means a specific school-based management activity that meets the eligibility criteria set forth in the Operations Manual, to be carried out by a School Grant Beneficiary utilizing the proceeds of a School Grant; and the term “School Grant Sub-projects” means, collectively, the plural thereof.

(p) “Technical Working Groups” means the working groups referred to in paragraph 1(d) of Schedule 4 to 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 this Agreement, an amount equal to two hundred million Dollars (\$200,000,000), 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 School Grant under Part A.2 of the Project to meet the reasonable cost of goods, works, or services required for said Part of the Project, in respect of which the withdrawal from the Loan

Account is requested; (ii) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of Transfer Assistance and Hardship Allowances under Part B.3 of the Project to meet the reasonable cost of goods, works, or services required for said Part of the Project, in respect of which the withdrawal from the Loan Account is requested; (iii) for 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; (iv) in respect of the front-end fee referred to in Section 2.04 of this Agreement; and (v) 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 December 31, 2011, 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($3/4$ of 1%) per annum on the unwithdrawn loan balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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 December 15 and June 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 DepEd, with due diligence and efficiency and in conformity with appropriate educational, administrative, economic, 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 4 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 5 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through DepEd, 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, through DepEd, 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 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 10 of Schedule 4 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely that the Basic Education Sector Reform Agenda or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as one additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely that the Borrower, through DepEd, has adopted the Project Implementation Plan and the Operations Manual, acceptable to the Bank, pursuant to the provisions of paragraph 2 of Schedule 4 to this Agreement.

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

Cable address:	Facsimile:
SECFIN	(63-2) 526-9990
Manila	(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:	Facsimile:
INTBAFRAD	(1-202) 477-6391
Washington, D.C.	

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/ Margarito Teves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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) School Grants		100% of amounts of School Grants disbursed
(a) under Parts A.2(a) and 2(b) of the Project	25,000,000	
(b) under Part A.2(c) of the Project	4,000,000	
(2) Goods, works, services, training, and Operating costs Except for Parts A.2, B.3 of the Project	156,000,000	100%
(3) Transfer assistance and hardship allowances under Part B.3 of the Project	7,000,000	100%
(4) Unallocated	7,500,000	
(5) Front-end fee	500,000	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement
TOTAL	<u><u>200,000,000</u></u>	

2. For the purposes of this Schedule:

(a) the term “Transfer Assistance and Hardship Allowances” means the reasonable expenditures incurred by the Borrower for: (i) transferring selected teachers to hard-to-staff areas under Part B.3 of the Project, including expenditures for such teachers’ housing and transportation costs in connection with said teacher’s job transfer; and (ii) providing hardship allowances to teachers working in hard-to-staff areas; and

(b) the term “Operating costs” means the reasonable expenditures directly related to the Project incurred by the Borrower, on account of the Project implementation, specifically including the operating and maintenance expenditures of schools under the Project, in respect of transportation costs, school facilities’ maintenance, school supplies, utilities and communications costs, but excluding salaries of the Borrower’s civil servants.

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

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$10,000,000, may be made in respect of Category (2) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after April 1, 2006; and

(b) in respect of payments made for expenditures under Category 1(b) in the table in paragraph 1 of Schedule 1 to this Agreement, unless and until the Borrower has taken all necessary measures or actions to review and revise the policies and procedures governing the operation of the school feeding programs, in a manner and substance, satisfactory to the Bank.

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 \$500,000 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 Operating costs; (f) School Grants; and (g) Transfer Assistance and Hardship Allowances; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve quality and equity in learning outcomes for all Filipinos in basic education.

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: School-based Management

Strengthening School-based Management (SBM) through the following activities:

1. Formulating policies on school-based management, developing school improvement plans and associated annual improvement plans.
2. Provision of School Grants and operating support for implementation of SBM policies, specifically for: (a) establishment of school-based management structures; (b) implementation of the above-mentioned school improvement plans; and (c) implementation of school feeding programs.
3. Capacity Building through training of school or cluster heads to implement SBM and training of school and division staff in financial accountability and use of basic education information data.
4. Developing and operationalizing a school report card system for schools to report to their communities on school inputs, performances, and outcomes against national standards and indicators in their respective school improvement plans.

Part B: Teaching Effectiveness

Improving teaching effectiveness through carrying out the following activities:

1. Supporting policy development for refinement and application of competency based standards for teachers.
2. Supporting training on the application of competency based standards for teachers.
3. Providing Transfer Assistance and Hardship Allowances to teachers to facilitate equitable deployment of teachers.

Part C: Quality and Equity in Basic Education:

Enhancing quality and equity in the education sector through the following activities:

1. Developing nationwide standards for key learning subject matters based on revised basic education curriculum and setting minimum service standards for education inputs, such as textbooks, classrooms, and operational costs.
2. Developing and implementing national strategies to support key learning areas in order to achieve the minimum service standards for education inputs and outcomes under DepEd's quality assurance framework.
3. Developing a comprehensive information and communications technology framework for the education sector in order to provide ready access to educational information by schools and other stakeholders.
4. Providing key textbooks and other teaching and learning materials to selected schools.
5. Providing training, technical assistance, and operational support to teachers, school heads and other education managers to improve quality in basic education.
6. Supporting school building programs in selected schools through construction or rehabilitation of classrooms.

Part D: Resource Mobilization

Improving DepEd's budget planning, management, and resource mobilization, specifically through the following activities:

1. Developing a financing framework to ensure effective delivery of education as well as systematic planning through continuing support for major reform programs.
2. Developing policy and mechanisms to promote cost sharing between national and local governments and to generate incentives for public-private partnerships.
3. Developing policies to integrate demand side financing dimensions into the above-mentioned financing framework to improve the effectiveness of existing policy interventions.
4. Supporting policy review on options for the delivery of demand-side interventions and public and private partnerships.

* * *

The Project is expected to be completed by June 30, 2011.

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 December 15 and June 15 Beginning December 15, 2014 through December 15, 2025	4.17%
On June 15, 2026	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

Implementation Program

Project Management

1. The Borrower shall maintain until completion of the Project:
 - (a) the Management Committee, assigned with such functions, membership, and responsibilities for the Project, satisfactory to the Bank, to be responsible for providing policy advice to the Executive Committee;
 - (b) the Executive Committee, assigned with such functions, membership, and responsibilities for the Project, satisfactory to the Bank, to be responsible for providing overall guidance and oversight of implementation of the Project;
 - (c) the Education Development Projects Implementing Task Force within DepEd, assigned with such functions, responsibilities and funds for the Project, satisfactory to the Bank, and with competent staff in adequate numbers, to be responsible for the overall coordination of the Project activities;
 - (d) the Technical Working Groups at central level, each assigned with such functions, responsibilities and funds for the Project, satisfactory to the Bank, and with competent staff in adequate numbers (including representatives from regional offices and division offices of DepEd, and other relevant government and non-government agencies), to be responsible for implementation of the Project; and
 - (e) the operational units of DepEd at central, region, division, and school levels, assigned with such functions, responsibilities and funds for the Project, satisfactory to the Bank, and with competent staff in adequate numbers, to be responsible for implementation of the Project activities at their respective levels.

Project Implementation

2. The Borrower shall:
 - (a) adopt and thereafter implement the Project Implementation Plan, acceptable to the Bank, which shall include the description of: (i) financial management and disbursement procedures consistent with the provisions of Article IV of this Agreement; (ii) environmental and social safeguards requirements and measures for the Project; (iii) procurement procedures consistent with the provisions of Schedule 5 to this Agreement; (iv) the Project implementation arrangements; and (v) monitoring and evaluation procedures;

(b) adopt and thereafter implement the Operations Manual, acceptable to the Bank, which shall include the description of: (i) eligibility criteria, procedures and guidelines for the selection, approval, administration and supervision of School Grant Sub-projects; (ii) selection criteria for School Grant Beneficiaries; (iii) the intended purposes of provision of School Grants, and a negative list of items or activities not to be financed by the proceeds of the School Grants; (iv) the terms and conditions governing the use of School Grants; (v) environmental and social safeguards requirements and measures for the Project; and (vi) the operational guidelines and procedures for provision of Transfer Assistance and Hardship Allowances and the eligibility criteria of the beneficiaries of receiving the Transfer Assistance and Hardship Allowances; and

(c) not amend, abrogate, suspend, or waive any provision of said Project Implementation Plan and the Operations Manual without the prior concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of the Project Implementation Plan or the Operations Manual, the provisions of this Agreement shall prevail.

3. The Borrower shall implement the Project in accordance with the Indigenous Peoples Planning Framework in a manner satisfactory to the Bank; and shall also ensure that School Grant Beneficiaries implement their respective School Grant Sub-projects in accordance with the Indigenous Peoples Planning Framework in a manner satisfactory to the Bank.

4. In carrying out Part D.5 of the Project, the Borrower shall: (i) incorporate appropriate environmental mitigation measures into the design and implementation of school buildings' repairs or constructions in accordance with guidelines satisfactory to the Bank as set forth in the Project Implementation Plan and the Operations Manual, to ensure that this Part of the Project is implemented in accordance with sound environmental practices and standards; and (ii) not carry out school building repairs or construction which require the acquisition of land.

5. The Borrower, through DepEd, shall not later than December 31, 2006, establish the Project's school-level baseline data for the purpose of monitoring and evaluation of the Project's progress, in a manner, satisfactory to the Bank.

School Grants and School Grants Sub-projects

6. The Borrower shall ensure that: (a) School Grants Sub-projects shall be selected, approved, and monitored in accordance with the provisions of the Operations Manual, acceptable to the Bank; and (b) School Grants shall be made in accordance with procedures and on conditions set forth in the Operations Manual acceptable to the Bank.

7. The Borrower shall ensure that each School Grant for a School Grant Sub-project shall be made to a School Grant Beneficiary, who meets the eligibility criteria set forth in the Operations Manual.

8. The Borrower shall through DepEd obtain through a written contract with each of the School Grant Beneficiaries, or by other appropriate arrangements satisfactory to the Bank, rights adequate to protect the interests of the Borrower and the Bank, including that the Borrower shall cause each School Grant Beneficiary to undertake to:

(a) (i) carry out the School Grant Sub-project with due diligence and efficiency and in accordance with appropriate administrative, financial, technical, managerial and educational practices and sound environmental and social standards; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the School Grant Sub-project; (iii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the School Grant Sub-project; and (iv) carry out the School Grant Sub-project in accordance with the Indigenous Peoples Planning Framework, in a manner, satisfactory to the Bank;

(b) require that goods, works, or services to be financed from the proceeds of the School Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 5 to this Agreement; and (ii) be used exclusively in the carrying out of the School Grant Sub-project or Sub-projects; and

(c) 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 School Grant 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 School Grant Beneficiary; and

(iii) suspend or terminate the right of the eligible School Grant Beneficiary to use the proceeds of the School Grant upon the failure by the eligible School Grant Beneficiary to perform any of its obligations under contract entered into between DepEd and the concerned School Grant Beneficiary or under the other appropriate arrangements acceptable to the Bank.

9. The Borrower shall submit an independent validation report to the Bank, no later than three months after the end of each fiscal year, in scope and detail, and under terms of reference, satisfactory to the Bank, including an opinion as to whether the School Grants have been awarded according to the criteria set forth in the Operations Manual.

Monitoring and Evaluation:

10. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and set forth in Schedule 6 to this Agreement, 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, the following reports:

(i) annual reports, not later than February 15 in each calendar year, beginning on February 15, 2007: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project by it during the twelve-month period preceding the date of said report; and (B) 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; and

(ii) a mid-term report, not later than June 30, 2009, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraphs (a) and (b)(i) of this paragraph, 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; and

(c) after furnishing:

(i) each report referred to in sub-paragraph (b)(i) of this paragraph, review said report with the Bank, and promptly 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; and

(ii) the report referred to in sub-paragraph (b)(ii) of this paragraph, review said report with the Bank, by July 31, 2009, or such later date as the Bank shall request, 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.

SCHEDULE 5

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: 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 Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, 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 \$500,000 equivalent per contract and works estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions of the Annex to this Schedule.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

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-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. 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.

2. 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. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$500,000 or more procured on the basis of International Competitive Bidding, or National Competitive Bidding; (b) the first contract for goods, works and services (other than consultants' services) in each calendar year, regardless of its contract value and procurement method; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and (d) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more. All other contracts shall be subject to Post Review by the Bank.

**Annex
to
SCHEDULE 5**

National Competitive Bidding Procedures

With respect to goods, works and services (other than consultants' services) to be procured in accordance with the procedures referred to in paragraph 1 of Part B of Section II to Schedule 5, 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. Eligibility screening shall not be applied. However, bids that do not contain any of the following documents will not pass the documentary compliance check: (a) evidence of the required financial, technical or production capability; (b) audited financial statements; (c) credit line, or cash deposit certificate; (d) bid security; and (e) authority of the bid signatory.
2. In the case of prequalification, if any bidder is 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.
3. A ceiling may be applied to bid prices, with prior concurrence of the Bank in advance of bidding. However, the Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.
4. Domestic or regional preferences will not be applied in the evaluation of bids, and other preferences in effect in the Philippines will not be used except with the prior concurrence of the Bank.
5. Suppliers and contractors will not be required to purchase only local goods or supplies or materials.
6. In case of contracts for prior review, modifications exceeding 15% of contract amount and material changes in the conditions during implementation require prior Bank concurrence.
7. Foreign suppliers and contractors shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture with, local firms. Moreover, foreign bidders shall be allowed to bid, even without registration, licensing, and other government authorizations, leaving these requirements for after award and before signing of contract.

8. For works contract, the experience qualification requirement shall be: (a) at least one previous contract at eighty percent (80%) of the estimated cost of the contract being procured; and (b) an annual turnover from all works averaged over the last three years equal to one hundred percent (100%) of the estimated cost of the contract being procured.

SCHEDULE 6

Project Performance Indicators

Outcome Indicators (Government schools)	Baseline 2003-2004	Target Values				
		YR1 2006- 2007	YR2	YR3	YR4	YR5
<i>Elementary participation</i>						
③ Partic. rate, 6-11 years	88.58%	90.0%	91.0%	92.0%	92.5%	93.0%
③ Cohort survival (EFA)	63.57%	65.0%	68.0%	71.0%	75.0%	78.0%
③ Completion rate	62.06%	64.5%	67.0%	71.0%	74.0%	77.0%
③ Dropout rate	8.9%	7.0%	6.5%	5.8%	5.0%	4.3%
<i>High school participation</i>						
③ Partic. rate, 12-15 years	61.16%	67.5%	71.4%	75.5%	79.8%	83.7%
③ Cohort survival (EFA)	63.11%	65.0%	67.5%	69.0%	70.6%	71.5%
③ Completion rate (Yr 1)	58.22%	61.0%	63.0%	65.0%	67.0%	69.0%
③ Dropout rate	14.3%	12.2%	11.4%	10.5%	9.2%	8.1%
<i>Quality and efficiency</i>						
Gd 6 Achievement (2005) (mean & SD) ¹ in						
Mathematics	59.1					
Filipino	61.7					
English	59.1					
Science	54.1					
Hekasi (Social Studies)	59.5					
Inter-quartile ratio ² for elem. schools	2.00	1.90	1.75	1.60	1.50	1.40
Inter-quartile ratio for high schools	2.54	2.40	2.30	2.15	2.00	1.80
		10%	10%	10%	10%	10%

¹ Assumes the National Education Testing and Research Center will test equate to allow valid comparisons across years; only means reported for 2004-2005

² Defined as the proportion of teachers available to most favored 25% of students among individual schools/proportion available to least favored 25%

Results Indicators for Each Component	Baseline	Target Values				
		YR1	YR2	YR3	YR4	YR5
Component 1.1: <ul style="list-style-type: none"> Schools/clusters with a SIP Schools/clusters meeting SBM criteria 		Orders and IRR in place	30% 30%	50% 50%	70% 60%	80% 75%
Component 1.2: <ul style="list-style-type: none"> Schools/clusters eligible to receive School Grants Schools/clusters with adequate FM system 		20%	25%	40%	50%	65%
		20%	25%	40%	50%	65%
Component 1.3: <ul style="list-style-type: none"> Schools/clusters where school heads have been trained in SBM 		25%	50%	65%	75%	85%
Component 1.4: <ul style="list-style-type: none"> Schools/clusters using School Report Card Divisions engaged in tracking students at risk 		20%	25%	40%	50%	75%
		Trial	20%	33%	33%	33%
Component 2.1: <ul style="list-style-type: none"> Teacher performance standards developed and agreed Divisions where CBTS used in at least 50% of schools CBTS applied to pre-service training CBTS used in promotion and hiring 		DepEd Admin Order	Used to self appraise			
		Trial	25%	50%	65%	85%
		MOU with CHED	New curric.	Implement		
			Trial and refine	Revise and Refine	Revise an Refine	Revise an Refine

Outcome Indicators	Baseline	Target Values				
		YR1	YR 2	YR3	YR4	YR5
<p>Component 2.2:</p> <ul style="list-style-type: none"> • 5 year staffing plan devised for allocation and redeployment of teachers • Improved equity in pupil/teacher ratios • Strategies devised: teachers' compensation, incentives and benefits 			Plan devised Transfer Allowance policy approved Proposals made	Plan Updated 25% Div improve Wide Consultation	Plan Updated 50% improve Request to Congress	Plan Updated 75% improve Before Congress
<p>Component 3.1:</p> <ul style="list-style-type: none"> • National strategies and Action Plan (includes teaching materials) • English proficiency for teachers • Student achievement standards defined • Schools receive feedback from national assessment 		Policy in place Base measure DepEd policy DepEd policy	Phase 1 rollout Support target Phase 1 INSET	Phase 2 rollout Support target Phase 2 INSET	Phase 3 rollout Support target Phase 3 INSET	Phase 4 rollout Support target Phase 4 INSET
<p>Component 3.2:</p> <ul style="list-style-type: none"> • National standards framework developed for inputs (minimum service standards) and outcomes (participation, completion, achievement) • Divisions (with their schools) receive feedback from EMIS 		Policy in place	50%	60%	67%	75%
<p>Component 3.3:</p> <ul style="list-style-type: none"> • ICT policy framework developed • Policy implemented 		Policy in place	Phase 1 rollout	Phase 2 rollout	Phase 3 rollout	Phase 4 rollout

Outcome Indicators	Baseline	Target Values				
		YR1	YR2	YR3	YR4	YR5
<p>Component 4.1:</p> <ul style="list-style-type: none"> • Financing framework developed • Cost sharing between GOP and LGU applied to classroom construction, including equity factors 		<p>Policy in place</p> <p>Development of guidelines</p>	<p>10% of classroom constr. follows scheme</p>	<p>25% of classroom constr. follows scheme</p>	<p>40% of classroom constr. follows scheme</p>	<p>65% of classroom constr. follows scheme</p>
<p>Component 4.2:</p> <ul style="list-style-type: none"> • Demand side financing mechanisms introduced to support needy students and their families 		<p>Review existing policy and guidelines</p>	<p>Use results of the policy review to apply finance to feeding programs or other demand-side interventions. New policy should guide those applied centrally and those to operate through school improvement plans. Listing of national and local programs annually. Monitoring and evaluation of impact of programs on student outcomes as well as evaluation of efficiency and effectiveness</p>			
<p>Component 4.3:</p> <ul style="list-style-type: none"> • Private sector participation 		<p>Review of current Educ. Service Contracting Scheme (ESC); policy set in place for future</p> <p>Other private sector schemes listed with baseline data</p>	<p>Depending on review, ESC extended to offer extra high school places</p>	<p>Subject to policy review, ESC principle extended to other areas and categories of basic educ. provision.</p>	<p>Subject to policy review, ESC principle extended to other services (health, nutrition, ICT, etc)</p>	<p>Policy reviewed based on M & E of schemes</p>