

CONFORMED COPY

LOAN NUMBER 4108 PH

Loan Agreement

(Third Elementary Education Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 1996

LOAN NUMBER 4108 PH

LOAN AGREEMENT

AGREEMENT, dated December 20, 1996, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) 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;

(B) the Borrower intends to contract from the Overseas Economic Cooperation Fund of Japan (OECF) a loan (the OECF Loan) in an amount equivalent to one hundred twelve million dollars (\$112,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the OECF Loan Agreement) to be entered into between the Borrower and OECF; 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 Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(a) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, 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."

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) "Affected Person" means a person who on account of the execution of Part B.2 (c) of the Project had or would have his/her: (a) standard of living adversely affected; or (b) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, in whole or in part, temporarily or permanently, for use under the Project; or (c) business, occupation, work or place of residence or habitat adversely affected, and "Affected Persons" means collectively all persons who qualify as an Affected Person.

(b) "DECS" means the Department of Education, Culture and Sports, an agency of the Borrower, and any successor thereto.

(c) "Divisional Elementary Education Development Plan" and "DEDP" mean a comprehensive plan of action for the improvement of student participation, completion and learning achievement for a Project Province, approved for financing under Part B.2 of the Project in accordance with the TEEP Guidelines referred to in Section A.3 of Schedule 5 to this Agreement.

(d) "DECS-DO" means a Divisional Office of DECS, which is responsible in each province for planning, managing and budgeting for public education and supervising all elementary and secondary schools.

(e) "DECS Special Account" means the Special Account referred to in Section 2.02 (b) (i) of this Agreement.

(f) "DOF" means the Department of Finance, an agency of the Borrower, and any successor thereto.

(g) "Framework for Resettlement" means a framework of policy and procedures to compensate, resettle and rehabilitate Affected Persons, acceptable to the Bank, adopted by the Borrower, through DECS, which shall be incorporated into the TEEP Guidelines.

(h) "INSET" means the In-Service Training Program for public school teachers and administrators under Part B.2 (b) of the Project.

(i) "LGU" means a Local Government Unit, a political subdivision of the Borrower at the barangay, municipal or provincial level.

(j) "Memorandum of Policy" means the memorandum dated July 30, 1996 entitled Proposed Policies Governing Public Investment in Elementary Education, prepared by DECS and adopted by the Borrower at the meeting on September 17, 1996 of the Joint Social Development Committee-Cabinet Level/ Cabinet Cluster C.

(k) "MDF" means the Municipal Development Fund established pursuant to Presidential Decree No. 1914 dated March 29, 1984, administered by DOF through the Bureau of Local Government Finance to make financial resources available to LGUs for duly approved specific projects or activities.

(l) "MDF Special Account" means the Special Account referred to in Section 2.02 (b) (ii) of this Agreement.

(m) "Project Director" means the official of DECS specifically designated by the Secretary of DECS as Project Director for the Third Elementary Education Project with overall authority and responsibility for the implementation of the Project.

(n) "Project Implementation Support Unit" and "PISU" mean the central unit within DECS established and maintained pursuant to the terms of Section A.2 of Schedule 5 to this Agreement.

(o) "Project Provinces" means the provinces listed in Annex A of Schedule 2 to this Agreement and such other provinces of the Borrower which may from time to time be designated as Project Provinces by agreement between the Borrower and the Bank.

(p) "School Improvement and Innovation Facility" and "SIIF" mean the facility established by DECS under Part B.2 (d) of the Project, pursuant to the provisions of the TEEP Guidelines and those set forth in paragraph 6 of Schedule 5 to this Agreement.

(q) "SIIF Grant" means a grant in Pesos made or proposed to be made by DECS to a DECS-DO for an SIIF Sub-project under the School Improvement and Innovation Facility, funded out of the proceeds of the Loan made available under the respective contractual arrangement provided for in paragraph 6(c) of Schedule 5 to this Agreement.

(r) "SIIF Sub-project" means a specific demand-side intervention project to be carried out by a DECS-DO utilizing the proceeds of an SIIF Grant.

(s) "TEEP Guidelines" means the guidelines, acceptable to the Bank, referred to in Section A.3 of Schedule 5 to this Agreement, to be adopted and put into effect by DECS, which set forth, inter alia, the procedures and criteria for the preparation and approval of DEDPs and for the administration of SIIF Grants, as the same may be amended from time to time with the prior concurrence of the Bank.

(t) "TEEP Project Management Advisory Committee" and "PMAC" mean the committee established for the purposes of providing management guidance and advice to the Project Director in accordance with the provisions of Section A.1 of Schedule 5 to this Agreement.

(u) "Special Accounts" means the DECS Special Account and the MDF Special Account, collectively, and "Special Account" means one of the Special Accounts.

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 equal to one hundred thirteen million four hundred thousand dollars (\$113,400,000).

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:

- (i) 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 Parts A, B.1 and B.2 (a), (b) and (c) of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and
- (ii) for amounts paid (or, if the Bank shall so agree to be paid) by the Borrower on account of withdrawals made by a DECS-DO under an SIIF Grant to meet the reasonable cost of goods, works and services required for an SIIF Sub-project under Part B.2 (d) of the Project, in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars:

- (i) a special deposit account for Parts A, B.1, B.2 (a), B.2 (b) and B.2 (d) of the Project; and
- (ii) a special deposit account for Part B.2 (c) of the Project; each in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2004 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 per cent (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the

Bank and expressed as a percentage per annum.

- (iv) "LIBOR Total Spread" means, for each Interest Period:
(A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable on January 15 and July 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 objective 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 management practices for quality elementary education, 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.

(c) The Borrower shall, in respect of each DEDP under Part B.2 of the Project, through the respective DECS-DO enter into a memorandum of agreement satisfactory to the Bank with the respective provincial and municipal LGUs, parent representatives and other concerned parties, which shall set forth the obligations of each party to implement such DEDP in accordance with the TEEP Guidelines.

(d) The Borrower shall, in respect of Part B.2 (c) of the Project, ensure that:

- (i) DECS and DOF enter into a memorandum of agreement, satisfactory to the Bank, whereby the Borrower shall make available to LGUs, through MDF, proceeds of the Loan allocated from time to time to Categories 1 and 2 of the table set forth in paragraph 1 of Schedule 1 to this Agreement, under terms and conditions satisfactory to the Bank; and

- (ii) DECS and the Department of Public Works and Highways enter into a memorandum of agreement, satisfactory to the Bank, whereby the administration and implementation of the school building program for elementary schools in the Project Provinces shall be the responsibility of the respective LGUs.

(e) The Borrower shall ensure that DECS and the Department of Budget and Management enter into a memorandum of agreement whereby all central government funding for public elementary education in the Project Provinces will be allocated by divisions, incorporated into the corresponding annual divisional budget and released directly to DECS-DOs.

(f) The Borrower shall exercise its rights under each of the memoranda of agreement entered into pursuant to the provisions of paragraphs (c), (d) and (e) of this Section 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 such memoranda or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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 designed to ensure the sustainability of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial and Other 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 including those for the Special Accounts 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 six 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 or payment out of the Special Accounts 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.

Section 4.02. The Borrower shall exchange views with the Bank prior to any modification to the Memorandum of Policy or to any of the memoranda of agreement referred to in paragraphs (d) (i), (d) (ii) and (e) of Section 3.01 of this Agreement, that would materially and adversely affect the carrying out of the Project.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (a) (ii) of that Section.

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) all conditions precedent to the effectiveness of the OECF Loan Agreement shall have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) the memoranda of agreement referred to in paragraphs (d) (i), (d) (ii) and (e) of Section 3.01 of this Agreement shall have been executed and become effective.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the provisions of the Framework for Resettlement are legally valid and enforceable in accordance with Filipino law.

Section 6.03. 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 Building
Bangko Sentral ng Pilipinas Complex
Manila
Republic of the Philippines

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

Telex:

INTBAFRAD 248423 (MCI) or
Washington, D.C. 64145 (MCI)

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/ Raul Ch. Rabe

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javad Khalizadeh-Shirazi
Authorized Representative

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 Dollars)	% of Expenditures to be Financed
(1) Civil works	46,500,000	50%
(2) Goods (other than textbooks and instructional materials):		
(a) School and classroom kits	23,000,000	35%
(b) School furniture	2,200,000	50%
(c) Other Goods	3,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(3) Textbooks and instructional materials	12,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(4) Training	12,400,000	100% of foreign expenditures and 25% of local expenditures
(5) SIIF Grants under Part B.2 (d) of the Project	2,100,000	90%
(6) Consultants' Services	1,800,000	100%
(7) Unallocated	10,100,000	

TOTAL 113,400,000
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2. For the purposes of this Schedule:

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

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

(c) the term "instructional materials" means multigrade, multilevel, supplementary and other print and non-print instructional materials other than textbooks.

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 to exceed \$3,000,000 equivalent, may be made in respect of Categories (1), (2)(a), (2)(b), (2)(c), (3), (4) and (6) on account of payments made for expenditures before that date but after July 1, 1996; and

(b) payments for expenditures in respect of Categories (1), (2)(a), (2)(b), (2)(c), (4), (5) and (6) until:

- (i) the TEEP Guidelines, satisfactory to the Bank, shall have been adopted and put into effect by DECS;
- (ii) the memoranda of agreement referred to in Section 3.01 (c) of this Agreement shall have been executed in respect of the following Project Provinces: Agusan del Sur, Antique, Benguet, Guimaras, Ifugao and Surigao del Sur; and
- (iii) the following key staff of the PISU shall have been appointed: facilities specialist, procurement specialist and one advisor in each DECS-DO in the Project Provinces.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods under contracts costing less than \$ 1,000,000 equivalent;

(b) works under contracts costing less than \$ 5,000,000 equivalent or under force account;

(c) consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent and \$50,000 equivalent respectively; and

(d) training;

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 assist the Borrower to improve elementary education in poor provinces in the Philippines through:

(i) strengthening the capacity of DECS to deliver public elementary education more effectively, and (ii) improving student participation, learning achievement and reducing student dropout rates in elementary education in the Project Provinces.

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 objective:

Part A: Institutional Strengthening

1. Strengthening of the capacity of DECS at the central and regional level to, inter alia: carry out evaluations of the determinants of student participation and the impacts of proposed reforms; develop and administer national sample-based assessment tests; carry out public awareness programs; improve data quality and the effective use of data for planning and policy making; conduct benefit monitoring and impact evaluation; allocate funds; improve budget presentations and monitoring; and deploy efficient education personnel more productively, through the provision of training, equipment and the services of specialists/consultants.

2. Establishment and operation of the PISU to coordinate, support and monitor the implementation of the Project.

Part B: Educational Improvement in the Project Provinces

1. Strengthening of the capacity of DECS-DOs, the district offices of DECS and LGUs in the Project Provinces to perform their planning, budgeting, management and monitoring functions with respect to public elementary education, through the provision of training, equipment and the services of specialists/consultants, and the construction or rehabilitation of premises for DECS-DOs and the district offices of DECS.

2. Development and implementation of Divisional Elementary Education Plans consisting of:

(a) Provision of textbooks and instructional material to students and teachers in all elementary schools in the Project Provinces;

(b) Preparation and carrying out of the In-Service Training Program for teachers and school administrators in the Project Provinces through the provision of training, equipment and the services of specialists/consultants;

(c) Expansion of student access to public elementary education in the Project Provinces through: (i) the construction of about 9,150 new classrooms; (ii) the repair and rehabilitation of about 23,700 classrooms; (iii) the construction of other auxiliary facilities in selected schools; and (iv) the provision of furniture and equipment; and

(d) Support of experimental or pilot demand-side intervention programs at the divisional level for the improvement of elementary schools and elementary school education through the establishment and maintenance of a School Improvement and Innovation Facility and the extension of SIIF Grants to selected DECS-DOs.

* * *

The Project is expected to be completed by December 31, 2003.

Annex to Schedule 2

List of Project Provinces

Abra
Agusan Del Sur
Antique
Apayao
Aurora
Basilan
Batanes
Benguet
Biliran

Capiz
 Eastern Samar
 Guimaras
 Ifugao
 Kalinga
 Leyte
 Maguindanao
 Masbate
 Mountain Province
 Negros Oriental
 North Cotabato
 Romblon
 Southern Leyte
 Sulu
 Surigao Del Sur
 Tawi-Tawi
 Zamboanga Del Sur

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
July 15, 2002	2,385,000
January 15, 2003	2,455,000
July 15, 2003	2,530,000
January 15, 2004	2,605,000
July 15, 2004	2,685,000
January 15, 2005	2,765,000
July 15, 2005	2,845,000
January 15, 2006	2,930,000
July 15, 2006	3,020,000
January 15, 2007	3,110,000
July 15, 2007	3,205,000
January 15, 2008	3,300,000
July 15, 2008	3,400,000
January 15, 2009	3,500,000
July 15, 2009	3,605,000
January 15, 2010	3,715,000
July 15, 2010	3,825,000
January 15, 2011	3,940,000
July 15, 2011	4,060,000
January 15, 2012	4,180,000
July 15, 2012	4,305,000
January 15, 2013	4,435,000
July 15, 2013	4,565,000
January 15, 2014	4,705,000
July 15, 2014	4,845,000
January 15, 2015	4,990,000
July 15, 2015	5,140,000
January 15, 2016	5,295,000
July 15, 2016	5,455,000
January 15, 2017	5,605,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA

Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Except as provided in paragraphs 3, 4 and 5 of this Part C, works estimated to cost less than \$500,000 and more than \$50,000 per contract, up to an aggregate amount not to exceed \$3,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than \$250,000 and more than \$50,000 per contract, up to an aggregate amount not to exceed \$28,300,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods for Part B.2 (c) of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$7,600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$201,400,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Community Participation

Goods and works required for Part B.2 (c) of the Project may be procured through community participation in accordance with procedures acceptable to the Bank.

5. Force Account

Works under Part B.2 (c) of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$39,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to:

(a) each contract for civil works estimated to cost US\$5,000,000 equivalent or more;

(b) each contract for goods estimated to cost \$1,000,000 equivalent or more; and

(c) in respect of each Project Province, the first three contracts for works or goods irrespective of their estimated cost.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as reasonably determined by the Bank; (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Project Management

1. The Borrower shall establish and thereafter maintain the Project Management Advisory Committee with membership, functions and procedures, acceptable to the Bank, set forth in the TEEP Guidelines. The PMAC shall be responsible, inter alia, for: (i) providing overall management advice and assistance to the Project Director; (ii) reviewing and recommending

for approval by the Project Director any proposed modification to the TEEP Guidelines; (iii) providing intra-departmental coordination in project operations and activities; and (iv) providing a venue for the articulation of the perspectives and concerns of the LGUs, communities and parent representatives, and incorporating such perspectives and concerns in its guidance of the operations of the Project.

2. The Borrower shall establish and thereafter maintain the Project Implementation Support Unit which shall be managed and staffed by personnel in adequate number and with qualifications and experience satisfactory to the Bank. The PISU shall report directly to the Project Director and shall be provided with such functions, responsibilities and resources as necessary to enable it to coordinate, monitor and evaluate project activities, and to review and recommend for approval by the Project Director DEDPs submitted by the DECS-DOs of the Project Provinces.

3. The Borrower shall carry out the Project in accordance with the principles set forth in the Memorandum of Policy and with the TEEP Guidelines. Without limitation thereto, the Borrower shall follow the criteria and procedures set forth in the TEEP Guidelines for: (i) the preparation, implementation and monitoring of DEDPs, in particular the promotion of participation therein by the LGUs, parent-teacher associations, universities and non-governmental organizations; (ii) the informed participation of, and consultation with, a variety of representative communities, in particular communities with indigenous peoples, to ensure that the design and implementation thereafter of the DEDPs adequately addresses the needs and cultural preferences of such communities; (iii) the assessment of the educational needs of particularly vulnerable population including, inter alia, working children, children with disabilities and children in disaster-prone areas; and (iv) the preparation and evaluation of applications for grants, including the SIIF Grants, and the administration thereof.

4. The Borrower undertakes not to amend, suspend, abrogate, repeal or waive the TEEP Guidelines without the prior approval of the Bank.

5. The Borrower shall ensure that each DEDP shall be prepared and appraised in consultation with the Bank. To this end, at the annual review of Project activities to be held jointly by the Borrower and the Bank referred to in Section 2(B) of Part B of this Schedule, the Borrower shall furnish to the Bank for its comments all DEDPs proposed for the immediately following year, including their proposed workplans and budget, and the PISU's assessment thereof.

6. For the purposes of carrying out Part B.2 (d) of the Project, and without limitation to the provisions of subsections 2, 3 and 4 of this Section A, the Borrower shall ensure that each SIIF Grant shall be made in accordance with procedures and on terms and conditions agreed to by the Bank as set out in the TEEP Guidelines, which conditions shall include the following:

(a) the Borrower shall only make available SIIF Grants for the financing of SIIF Sub-projects which are incorporated into an approved DEDP;

(b) the Borrower shall ensure that all SIIF Sub-projects will include adequate provisions for the monitoring and evaluation on an ongoing basis, and in accordance in each case with indicators satisfactory to the Bank, of the carrying out of the SIIF Sub-projects and the achievement of the objectives thereof;

(c) the Borrower shall, through DECS, enter into contractual arrangements with each DECS-DO which receives a SIIF Grant whereby such DECS-DO undertakes, inter alia, to:

(i) carry out its respective SIIF Sub-project with due diligence and efficiency in accordance with sound managerial, financial and relevant sector practices acceptable to the Bank, and provide promptly as needed the resources required for the purposes, and maintain adequate records and accounts;

- (ii) utilize the proceeds of the SIIF Grant exclusively in the carrying out of its respective SIIF Sub-project;
 - (iii) enable the Borrower and the Bank to inspect: the goods, facilities and sites, if any, included in its respective SIIF Sub-project; copies of any studies or reports prepared for the purposes of said Sub-project; and any other relevant records and documents; and
 - (iv) furnish to the Borrower and the Bank all such information as the Borrower or the Bank may reasonably request relating to the foregoing; and
- (d) The Borrower shall:
- (i) exercise its rights in relation to each SIIF Sub-project in such manner as to protect the interests of the Borrower and the Bank, comply with its obligations under this Agreement and achieve the purposes of the Project; and
 - (ii) not assign, amend, abrogate or waive any of its agreements providing for a SIIF Grant, or any provision therefor, without the prior approval of the Bank.

7. In the event of acquisition of land and other assets needed or required to implement a DEDP under Part B.2 (c) of the Project, the Borrower shall, in a manner and substance satisfactory to the Bank, apply the Framework for Resettlement for purposes of providing compensation, resettlement and rehabilitation measures to the Affected Persons.

8. Whenever the Framework for Resettlement shall be applicable to a DEDP pursuant to the provisions of paragraph A.7 of this Schedule and without limitation to the provisions of Section B of this Schedule, the Borrower shall, by not later than 30 days after completion of compensation, resettlement and rehabilitation of the Affected Persons retain an independent monitoring agency with qualified and experienced staff under terms of reference satisfactory to the Bank which shall:

- (i) undertake the external monitoring and supervisions of the implementation of the Framework for Resettlement in each DEDP under Part B.2 (c) of the Project;
- (ii) prepare and furnish to DECS and the Bank annual monitoring reports thereof, the first of such reports to be furnished by September 30, 1997; and
- (iii) prepare and furnish to DECS and the Bank final reports on completion of each DEDP on the implementation of the Framework for Resettlement.

9. The Borrower shall administer the national sample-based assessment tests in all Project Provinces in 1998, 2000 and 2002; and in accordance with methods acceptable to the Bank.

10. The Borrower shall, by September 30, 1997, prepare and furnish to the Bank for its review and comment, a proposed strategy to address demand side issues in the provision of elementary education, including with respect to health and nutrition, and thereafter implement said strategy, taking into account the Bank's comments thereon.

11. The Borrower shall, by March 31, 1997, prepare, in consultation with the Bank, a plan for the distribution of textbooks on a nationwide basis with the goal of providing a set of two textbooks per pupil in all public elementary schools including in the most remote areas, and thereafter implement said plan.

B. Monitoring and Reporting

1. The Borrower shall ensure that the Project Director and the PISU maintain policies and procedures to enable it to monitor and evaluate, on an ongoing basis, in accordance with the performance indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof. In particular, for the purpose of assisting in the preparation of the reports referred to in subparagraphs (ii) and (iii) of paragraph (a) of Section 2 of this Part B, the Project Director and the PISU shall engage persons with qualifications and experience acceptable to the Bank to conduct annually, with the participation of the beneficiaries of the Project, and under terms of reference acceptable to the Bank, a full assessment of the implementation of the Project, in a manner satisfactory to the Bank; and shall furnish to the Bank a copy of the report of such annual assessment promptly upon its completion.

2. The Borrower shall: (a) prepare under terms of reference acceptable to the Bank, and furnish to the Bank:

- (i) a quarterly report by February 28, May 31, August 31 and November 30 of each year commencing in 1997, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of this Part B, on the progress achieved in the carrying out of the Project during the period preceding the dates of such reports;
- (ii) an annual report by August 31 of each year, commencing in 1997, integrating the data and other information contained in reports prepared in the twelve month period preceding the date thereof pursuant to subparagraph (a)(i) of this Section 2, including, in particular, a summary of the participatory performance audit to be conducted in each Project Province, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the twelve months following said date; and
- (iii) a mid-term report, on or about August 31, 2000, integrating the data and other information contained in the annual reports prepared prior to said date pursuant to subparagraph (a)(ii) of this Section 2 and setting out the measures to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(b) review with the Bank by such dates as the Bank shall request the reports referred to in paragraph (a) of this Section 2 and, thereafter, take all measures required to ensure the efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of such reports and the Bank's view on the matter.

SCHEDULE 6

Performance Indicators

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means for the DECS Special Account Categories (3), (4), (5) and (6) (collectively the DECS Categories) and for the MDF Special Account Categories (1) and (2) (collectively the MDF Categories), all as 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 for 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; and

(c) the term "Authorized Allocation" means an amount equal to:

(i) \$3,000,000 for the DECS Special Account; and

(ii) \$3,000,000 for the MDF Special Account;

to be withdrawn from the Loan Account and deposited in such Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,500,000 for the DECS Special Account and \$1,500,000 for the MDF Special Account until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the amount of \$20,000,000 for the DECS Categories and the amount of \$20,000,000 for the MDF Categories, respectively.

2. Payments out of a 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said 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 into said Special Account of an amount or amounts 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 into said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Bank requests for deposits into said 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 said Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of said Special Account for eligible expenditures.

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

4. For each payment made by the Borrower out of a 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 a 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for said Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 said Categories shall equal 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 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 said 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 a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (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 said 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 said 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 a 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 a 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.