

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7552-PH

Loan Agreement

(National Roads Improvement and Management Program Phase II)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 24, 2008

LOAN AGREEMENT

AGREEMENT dated October 24, 2008, between REPUBLIC OF THE PHILIPPINES (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

WHEREAS (A) the Bank has received from the Borrower a letter dated November 29, 1999, describing a program designed to establish management systems that would ensure the upgrading and preservation of the national roads system in an environmentally, socially and financially sustainable fashion (the Program) and declaring the Borrower’s commitment to the execution of the Program;

(B) the Borrower has requested that the Bank assist in the financing of the Program, through a series of loans, over a period of approximately nine and one-half (9-1/2) years;

(C) the Borrower and the Bank entered into a Loan Agreement dated April 10, 2000 to assist in financing phase I of the National Roads Improvement and Management Project under the Program;

(D) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement (the Project), which Project forms the second phase of the Program, has requested the Bank to assist in the financing of the Project;

(E) the Borrower is committed to allocate an amount equivalent to ten million five hundred thousand United States Dollars (\$10,500,000), out of two existing grant facilities provided by the Government of Australia to the Borrower, under a Subsidiary Arrangement dated April 2005 for the Philippines-Australia Partnership for Economic Governance Reforms and a Subsidiary Arrangement dated August 20, 2004 for the Philippines-Australia Human Resource Development Facility, for financing technical assistance activities under Parts B.1(b), B.2(a), B.2(b) and B.2(d) 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

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – LOAN

- 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 of two hundred and thirty two million United States Dollars (\$232,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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 the 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 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 for 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 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 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 – PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall through DPWH carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – EFFECTIVENESS

- 4.01. The Additional Conditions of Effectiveness consists of the following:
- (a) the Borrower, through DPWH, has established the Program Steering Committee and the Program Management Office in accordance with the provisions of paragraph 1(a) under Section I of Schedule 2 to this Agreement;
 - (b) an independent audit firm with qualifications and under terms of reference acceptable to the Bank has been engaged to assist the Borrower in strengthening DPWH’s internal audit capacity;
 - (c) the Borrower, through DPWH, has appointed a financial management manager, supported by financial management staff in adequate numbers, each with qualifications and experience and under terms of reference acceptable to the Bank, to be responsible for the financial management of the Project; and
 - (d) the Borrower, through DPWH, has adopted the Project Implementation Plan, acceptable to the Bank, in accordance with the provisions of paragraph 2 of Section I of Schedule 2 to this Agreement.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower’s Representative is the Secretary of Finance.
- 5.02. The Borrower’s Address is:

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

Cable address:

SECFIN

Facsimile:

(63-2) 526-9990

Manila

(63-2) 523-9216

5.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Manila, Republic of the Philippines, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ Margarito B. Teves
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in improving the operation, organizational effectiveness, and fiduciary control in the management and financing of the national road system to enhance road user satisfaction in the Project area and to improve efficiency in the use of financial resources in the road sector.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part A: National Road Improvement and Asset Preservation

1. Improving national roads, including: roads upgrading, rehabilitation, and widening; bridge replacement; and landslide area rehabilitation; totaling about 450 kilometers (km) of roads and about 1,000 meters (m) of bridges in the arterial national road network.
2. Preserving assets in the national road network, including: (a) comprehensive maintenance of about 1,000 km of the arterial national road network under long-term performance-based contracts; and (b) preventive maintenance of about 1,200 km of the national road network.

Part B: Institutional and Capacity Development

1. Institutionalizing and expanding the application of the technical and business processes developed and piloted under the Program phase I and other measures for improving the performance of DPWH in road management through provision of technical assistance, training and workshops, including: (a) planning, procurement, communications, project implementation, monitoring, and research; and (b) financial management, internal controls, and internal audit.
2. Improving the operational effectiveness and institutional integrity in DPWH through provision of technical assistance, training and workshops, including: (a) modernizing the organizational structure of DPWH to improve DPWH's effectiveness; (b) developing a multi-stakeholder partnership involving road users and non-governmental organizations for improving transparency and monitoring of the road sector performance; (c) piloting commercialization of road management and public works service delivery at the district level; and (d) strengthening the fiduciary oversight of the Project implementation.
3. Supporting road sector reforms through provision of technical assistance, training and workshops, including: (a) strengthening the operations of the Road Board;

(b) updating the mandates of the Road Board; (c) reviewing road cost recovery mechanisms; and (d) assessing the options for restructuring the road sector in the areas of management and service delivery.

SCHEDULE 2**Project Execution****Section I. Institutional and Other Arrangements****Project Management**

1. Throughout the period of implementation of the Project, with compositions, terms of reference, staffing and other resources acceptable to the Bank, the Borrower shall:
 - (a) establish and maintain: (i) a Program Steering Committee to be responsible for the overall Project management, coordination, monitoring, and evaluation of the Project; and (ii) a Program Management Office to be responsible for implementing Parts A.1, A.2, B.1, and B.2 of the Project; and
 - (b) maintain the Road Board Secretariat to be responsible for implementing Part B.3 of the Project.

Project Implementation

2. The Borrower shall:
 - (a) carry out the Project in accordance with Borrower's Republic Act 8794, its implementing rules and regulations, and the Project Implementation Plan. The Project Implementation Plan shall set forth, *inter alia*, the descriptions of: (i) the Project implementation arrangements; (ii) financial management, disbursement and internal control procedures consistent with the provisions of Section II.B of this Schedule; (iii) procurement procedures consistent with the provisions of Section III of this Schedule; (iv) monitoring and evaluation procedures; (v) Integrity Strengthening Action Plan; and (vi) Resettlement Action Plans, Land Acquisition, Resettlement, Rehabilitation Policy Framework, Indigenous Peoples Policy Framework, Environment Management Systems Policy Framework and Environmental Management plans; and
 - (b) except as the Bank shall otherwise agree, not amend, abrogate, suspend, or waive any provision of the Borrower's Republic Act 8794, its implementing rules and regulations and the Project Implementation Plan so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement. In case of any conflict between the provisions of this Agreement and those of the

Project Implementation Plan, the provisions of this Agreement shall prevail.

3. In carrying out Part B.1(b) of the Project, the Borrower, through DPWH shall:
 - (a) with the assistance of the independent audit firm engaged in accordance with Section 4.01(b) of this Agreement: (i) complete a preliminary baseline assessment of DPWH's internal control system not later than two (2) months after the engagement of such firm; and (ii) by June 30 and December 31 each year, commencing December 31, 2008, and ending June 30, 2010, undertake semi-annual internal audits for DPWH's operations and Project accounts; and
 - (b) thereafter undertake semi-annual internal audits for DPWH's operations and Project accounts for the duration of the Project.
4. In carrying out Part B.2(d) of the Project, the Borrower, through DPWH, shall: (i) take all necessary measures, including ensuring access to all relevant information, to facilitate the work of a consulting firm to be engaged by the Co-financier to enable it to provide integrity support services for DPWH; and (ii) act promptly upon the findings and recommendations of the consulting firm resulting from its work in the areas of: technical audits on Project expenditures and implementation of Project activities; independent evaluation of the procurement activities under the Project; and monitoring implementation of the Integrity Strengthening Action Plan.
5. In carrying out Part B.2(a) of the Project, the Borrower through DPWH shall: (i) with assistance of a consulting firm to be engaged by the Co-financier, implement its Rationalization Plan after approval by DBM and in accordance with the Executive Order No. 366 issued by the Office of the President of the Borrower; and (ii) in the event that the Rationalization Plan is not put into effect, develop a plan to enhance effectiveness of its operations and service delivery.
6. The Borrower through DPWH shall: (i) provide on a timely basis such information to the Road Watch as it considers necessary for it to prepare road sector report cards every two (2) years; and (ii) post such report cards on its website by November 30, 2009 and biannually on November 30 thereafter. The said road sector report cards should include, but need not be limited to, data on asset stock, road conditions, road utilization, traffic safety, natural hazards, DPWH's performance, road user satisfaction, road expenditures and efficient use of financial resources.
7. For access by the Road Partners and the public in general, within one (1) month of approval of DPWH's budget, starting FY 2008 and annually thereafter, the

Borrower through DPWH shall publish a business plan comprising of its proposed annual program (including budgets and expected outputs) for next year and the expenditure incurred and outputs delivered in the previous year, in a manner satisfactory to the Bank.

8. By April 30 each year, starting April 30, 2009, the Borrower through DPWH shall furnish to the Road Partners a road assets preservation plan for the national road networks covering routine and preventive maintenance and rehabilitation works. The said plan should include maintenance outputs from the previous year; the approved maintenance and rehabilitation program (including budget allocation and outputs) for the current year; and the proposed maintenance and rehabilitation program for the next year (including budget allocation and expected outputs).
9. For carrying out Part B.2(c) of the Project, the Borrower through DPWH shall: (i) by March 31, 2009, develop a framework including design and scope, acceptable to the Bank for piloting delivery of road management services on a commercial basis by DPWH's district engineering offices; and (ii) by September 30, 2009, adopt and thereafter implement a time-bound action plan for piloting delivery of road management services on a commercial basis by DPWH's district engineering offices, in a manner and substance satisfactory to the Bank.
10. The Borrower shall take all necessary and required measures to ensure that amendments to the Regulations for Republic Act 8794 in respect of updating the operations and responsibilities of the Road Board, reflecting recommendations and comments from road sector experts and the Road Partners, will be approved no later than September 30, 2009 by DPWH and the Department of Transportation and Communications.
11. The Borrower through DPWH shall: (i) carry out the Project in accordance with the Integrity Strengthening Action Plan and in a manner satisfactory to the Bank; and (ii) maintain policies and procedures adequate to enable it and the Road Partners to monitor the implementation of said plan on an ongoing basis and to evaluate said implementation and the achievement of said plan's objectives by June 30 and December 31 of each year, starting December 31, 2008, in accordance with guidelines acceptable to the Bank.
12. The Borrower through DPWH shall: (i) complete the implementation of recommendations arising from its 2006 external audit report in accordance with a time-bound action plan satisfactory to the Bank; and (ii) for the duration of the Project, within twelve (12) months from issuance of subsequent external audit reports, complete implementation of recommendations, if any, arising from such subsequent external audits, all in a manner satisfactory to the Bank.

13. By March 31 of each year, the Borrower through DOF shall arrange a meeting with representatives from DBM, DOF, NEDA, DPWH, the Road Board, the Bank, the Co-financier, and the Road Watch, among others, to review progress on policy aspects and development objectives of the Program.

Environmental Protection, Resettlement and Indigenous Peoples

14. The Borrower through DPWH shall:
- (a) implement the Environmental Management Plans and the Social and Environment Management Systems Policy Framework, in a manner satisfactory to the Bank to ensure that the Project is implemented in accordance with sound environmental practices and standards;
 - (b) provide to the Bank for its prior approval any revision proposed to be introduced into said Environmental Management Plans and the Social and Environment Management Systems Policy Framework in order to achieve their objectives, and thereafter only introduce such revision into said Environmental Management Plans and the Social and Environment Management Systems Policy Framework as shall have been agreed with the Bank; and
 - (c) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of said Environmental Management Plans and the Social and Environment Management Systems Policy Framework and the achievement of their objectives.
15. The Borrower through DPWH shall:
- (a) implement the Resettlement Action Plans and the Land Acquisition, Resettlement, and Rehabilitation Policy Framework in a manner satisfactory to the Bank;
 - (b) wherever implementation of the Project or any part thereof, would give rise to Displaced Persons, prepare and provide to the Bank for its approval a resettlement plan prepared in accordance with the principles and procedures set forth in said Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement plan as shall have been approved by the Bank;
 - (c) provide to the Bank for its approval any revision proposed to be introduced into said Framework or any of said resettlement plans in order to achieve their objectives, and thereafter only introduce such revision

into said Framework or said resettlement plans as shall have been agreed with the Bank; and

- (d) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of said Framework and said resettlement plans, and the achievement of their objectives.

16. The Borrower through DPWH shall:

- (a) implement the Indigenous Peoples Action Plan and the Indigenous Peoples Policy Framework in a manner satisfactory to the Bank, designed to provide meaningful consultation with, and the informed participation of, Indigenous Peoples within the Project area, and to ensure that benefits under the Project are socially and culturally acceptable to such groups;
- (b) whenever implementation of the Project or any part thereof would take place in areas where an Indigenous Peoples community reside, prior to such implementation, prepare and provide to the Bank for its approval an Indigenous Peoples plan prepared in accordance with the principles and procedures set forth in said Framework and with the full participation of such Indigenous Peoples community, designed to ensure that Project activities adequately address the needs, cultural practices and preferences of such community; and, thereafter, implement in a manner satisfactory to the Bank, such Indigenous Peoples plan as shall have been approved by the Bank;
- (c) provide to the Bank for its approval any proposed revision of said Framework or any of said Indigenous Peoples plans, and thereafter only introduce such revision into said Framework or said plans as shall have been agreed with the Bank; and
- (d) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of said Framework and said Indigenous Peoples plans, and the achievement of their objectives.

Anti-Corruption

17. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting, Evaluation**A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in Annex to this Schedule. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.
2. Without limitation on the provisions in paragraph A.1 of this Section II above, the Borrower shall:
 - (a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2009, a mid-term evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (b) review with the Bank, by November 30, 2009, or such later date as the Bank shall request, the report referred to in sub-paragraph (a) of this paragraph 2, 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.
3. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months prior to the Closing date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than one (1) month after the end of each calendar quarter, interim un-audited financial

reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements for the Project audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding (ICB).** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures. Bidding for ICB contracts will only commence after August 1, 2008, or such other date as the Bank may inform the Borrower.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	<p>National Competitive Bidding (NCB), subject to the following provisions:</p> <ol style="list-style-type: none"> 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 fifteen percent (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 (1) 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 (3) years equal

	to one hundred percent (100%) of the estimated cost of the contract being procured.
(b)	Shopping

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, 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 of national consultants.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-based Selection
(b)	Selection based on the Consultants Qualifications
(c)	Fixed Budget Selection
(d)	Least Cost Selection
(e)	Single Source Selection
(f)	Individual Consultants
(g)	Sole Source Procedures for the Selection of Individual Consultants

D. 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) all contracts for goods and civil works to be procured based on ICB, regardless of their contract value;
- (b) the first contract for goods to be procured based on NCB or Shopping, regardless of its contract value;

- (c) each contract for goods estimated to cost the equivalent of \$250,000 or more;
- (d) all civil works contracts to be procured based on NCB for bridge replacement work under Part A.1 of the Project, regardless of their contract value;
- (e) the first contract for consultants' services to be procured under any of the methods of procurement of consultants' services, regardless of its contract value;
- (f) each contract for consultants' services to be provided by a firm estimated to cost the equivalent of \$100,000 or more;
- (g) each contract for consultants services to be provided by an individual consultant estimated to cost the equivalent of \$50,000 or more; and
- (h) all contracts for consultants' services procured on Single Source Selection basis and Sole-Source Selection basis, regardless of their contract value.

All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Goods, consultants' service (except for consultants' services under Parts B.1(b), B.2(a), B.2(b) and B.2(d) of the Project), training, and workshops	43,420,000	100%
(2) Civil Works (a) under Part A.1 of the Project (b) under Part A.2(a) of the Project (c) under Part A.2(b) of the Project (i) in respect of FY08's preventive maintenance program (ii) in respect of FY09's preventive maintenance program (iii) in respect of FY10's preventive maintenance program (iv) in respect of FY11's preventive maintenance program	103,000,000 53,000,000 8,000,000 8,000,000 8,000,000 8,000,000	50% 36% 100% 100% 100% 100%
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
(4) Front-end Fee	580,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
TOTAL AMOUNT	232,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made in respect of:
 - (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$6,000,000 equivalent may be made for payments made prior to this date but on or after July 1, 2007, for Eligible Expenditures under Category (1) above;
 - (b) payments under Category 2(c)(i) set forth in the table in paragraph 2 of this Section IV, until the Bank has received satisfactory evidence from the Borrower showing that: (i) the Road Board has met Conditions 1 and 2 with respect to the Borrower's FY 2008 preventive maintenance program to be financed by the SRSF funds allocated to the Project; and (ii) DPWH has met Condition 3 with respect to at least sixty percent (60%) of its district and regional offices that have received funding from the SRSF for roads preventive maintenance under the Project, all in a manner satisfactory to the Bank;
 - (c) for payments under Category 2(c)(ii) in the table in paragraph 2 of this Section IV, until the Bank has received satisfactory evidence from the Borrower showing that: (i) Road Board has met Conditions 1 and 2 with respect to the Borrower's FY 2009 national preventive maintenance program to be financed by the SRSF; and (ii) DPWH has met Condition 3 with respect to at least sixty percent (60%) of its district and regional offices that have received funding from the SRSF for preventive maintenance, all in a manner satisfactory to the Bank;
 - (d) for payments under Category 2(c)(iii) in the table in paragraph 2 of this Section IV, until the Bank has received satisfactory evidence from the Borrower showing that: (i) Road Board has met Conditions 1 and 2 with respect to the Borrower's FY 2010 national preventive maintenance program to be financed by the SRSF; and (ii) DPWH has met Condition 3 with respect to eighty percent (80%) of its district and regional offices that have received funding from the SRSF for preventive maintenance, all in a manner satisfactory to the Bank; and
 - (e) for payments under Category 2(c)(iv) in the table in paragraph 2 of this Section IV, until the Bank has received satisfactory evidence from the Borrower showing that: (i) Road Board has met Conditions 1 and 2 with respect to the Borrower's FY 2011 national preventive maintenance program to be financed by the SRSF; and (ii) DPWH has met Condition 3 with respect to ninety percent (90%) of its district and regional offices

that have received funding from the SRSF for preventive maintenance, all in a manner satisfactory to the Bank.

2. For the purpose of paragraph 1 above:

(a) the term “Condition 1” means the Road Board has approved a work program for preventive maintenance of the national roads for FY 2008, FY 2009, FY 2010, FY 2011, respectively, and has allocated sufficient funds therefor, in each case, based on a program developed and prioritized by DPWH using its planning systems and survey information;

(b) the term “Condition 2” means the Road Board Secretariat has carried out its operations in accordance with the Road Board Operations Manual, and in compliance with Republic Act 8794 and its implementing rules and regulations;

(c) the term “Condition 3” means the following operating procedures have been fully complied with:

(i) information with respect to funds from the SRSF has been disclosed on the DPWH’s website and on the Philippines Government Electronic Procurement System and updated at least quarterly; allocation and expenditures of motor vehicle user charge funds; information relating to the bidding, award and execution of all contracts for the preventive maintenance program;

(ii) contracts for the preventive maintenance program to be financed by the funds from the SRSF have been procured in accordance with the procedures applicable to foreign assisted projects set forth in the Borrower’s Generic Procurement Manual as used together with harmonized Philippines Bidding Documents; and

(iii) all funds from the SRSF for preventive road maintenance and general road maintenance have been accounted for through DPWH e-NGAS or NGAS accounting system.

3. The Closing Date is December 31, 2012.

Annex to Schedule 2

Project Performance Indicators

Project Objective	Project Outcome Indicators	Use of Project Outcome Information
Improved operation, organizational effectiveness and fiduciary control in the management and financing of the national road system, with resulting improvements to road user satisfaction in the project areas and efficiency in the use of financial resources.	Overall Program impact will be assessed on: (a) Administrative efficiency - Project delivery time reduced (b) Sustainability of financing for national road system asset management - Increased cost recovery from road users (c) Value for money – Medium-term average cost of preserving national paved roads reduced (d) Road user satisfaction with the national road system	Long term impact assessment to assess measures of road transport efficiency and poverty reduction overall, and particularly in high impact regions ¹
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<u>Part A1</u> National roads are upgraded to paved roads at acceptable standards	By December 2011, for the national road system (NRS): (a) At least 140 km added by the Project to NRS paved road length	DPWH monitoring and reports on completion progress of NRS upgrading programs – to Congress and Road Partners
<u>Part A2</u> National arterial paved roads are maintained in good condition	By December 2011, for the national road system (NRS): At least 75 percent of NRS paved length in fair condition or better; and (a) At least 1,000 km committed under preventive maintenance annually	Annual statistics and periodic sector report to stakeholders Road Board and BOM for adjustment of budgets and programs to achieve NRS targets
<u>Part B1</u>		

¹ It is suggested that longer term impact assessment include analysis of (1) Regional Economic growth – especially in the Luzon, Mindoro, Panay, Negros, and Mindanao regions, and (2) Poverty reduction in one or more of these high impact regions.

<p>Improved asset management and stewardship of the NRS by DPWH</p>	<p>(a) At least 80 percent of the annual road program of DPWH is evaluated by technical and economic criteria through the use of DPWH planning applications by 2011</p> <p>(b) Procurement processing standards achieved in 80% of cases by 2010: NCB works/goods within 6 months.</p> <p>(c) Financial audits timely and adverse opinions reduced by 50% by 2010</p> <p>(d) Cost and time over-runs reduced to less than 30% of contract terms in 70% of Project works by 2010</p> <p>(e) Road, bridge and traffic data in RBIA kept current on at least 90% paved NRS network through 2011</p>	<p>Assess extent of and satisfaction with uptake of Road Information and Management Support System (RIMSS) business processes, and adjustment of implementation plan and arrangements to achieve Program results</p> <ul style="list-style-type: none"> • Annual review of DWP institutional reform progress. • Periodic sector report card to stakeholders. • Semi-annual Project progress reports
<p><u>Part B2</u> Streamlined and effective corporate structure and processes in place to improve service delivery, accountability and integrity</p>	<p>(a) Functional and structural reorganization of DPWH operational by June 2010</p> <p>(b) Improved compliance with document processing time standards</p> <p>(c) Road user appreciation of DPWH performance improved by at least 10 percent by 2011</p> <p>(d) Average margin of bid award over official estimate less than 10% by June 2010</p> <p>(e) Independent integrity rating of DPWH improved by 10 percent by 2011</p>	<p>Assess progress on improving organizational effectiveness, and identify adjustments, through:</p> <ul style="list-style-type: none"> • Annual review of DWP institutional reform progress. • Periodic sector report card to stakeholders. • Semi-annual Project progress reports
<p><u>Part B3</u> Road Funds performance improved; and strategic sector reform plan is developed and adopted ready for implementation under Program Phase III</p>	<p>(a) Updated IRR and Operating Procedures Manual of Road Board adopted by June 2009</p> <p>(b) Expanded revenue base for Road Funds adopted by December 2009</p> <p>(c) Road sector reform plan and new road management model adopted by Road Board and DPWH by June 2011</p>	<p>Assess progress on sector and institutional reform, and facilitate legislative approval, through:</p> <ul style="list-style-type: none"> • Annual review of DWP institutional reform progress with DOF, DBM, and NEDA

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable 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>Principal Payment Date</u>	<u>Installment Share (Expressed as a Percentage)</u>
On each November 15 and May 15 beginning May 15, 2018 through May 15, 2032	3.33%
On November 15, 2032	3.43%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original

Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn within two (2) 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Definitions

- (a) “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
- (b) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- (c) “Co-financier” means the Government of Australia, referred to in paragraph 15 of the Appendix to the General Conditions.
- (d) “Co-financing” means an amount of US\$10,500,000 equivalent, out of two existing grant facilities provided by the Co-financier to the Borrower, for co-financing Parts B.1(b), B.2(a), B.2(b) and B.2(d) of the Project.
- (e) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
- (f) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof.
- (g) “DBM” means the Borrower’s Department of Budget and Management, or any successor thereto.

- (h) “DPWH” means the Borrower’s Department of Public Works and Highways, or any successor thereto.
- (i) “DOF” means the Borrower’s Department of Finance and any successor thereto.
- (j) “Environmental Management Plans” means, collectively, Environmental Management Plan dated June 2, 2002, prepared for Surigao-Davao coastal road (Bacuag-Gigaguit-Claver section road improvement) under Part A of the Project; Environmental Management Plan dated June 2, 2002 prepared for Surigao-Davao coastal road (Manay-Tarragona-Mati section road improvement) under Part A of the Project; Environmental Management Plan dated December 5, 2000, prepared for Marcos Highway-Manila road improvement under Part A of the Project; Environmental Management Plan dated May 17, 2007, prepared for landslide risk mitigation Mindanao road improvement under Part A of the Project; Environmental Management Plan dated May 22, 2007, prepared for North Luzon (Manila North Road: Monumento-Agoon/Aringay Bdy) long-term maintenance work under Part A of the Project; Environmental Management Plan dated May 22, 2007 prepared for South Luzon (Pagsanjan-Lucena, Tiaong-Lucena Jct, Pagbilao-Camarines Norte, Lucena Diversion) long-term maintenance works under Part A of the Project; Environmental Management Plan dated May 22, 2007 prepared for Mindanao Island (DavaoCity-Digos Road) long-term maintenance work under Part A of the Project; Environmental Management Plan dated May 22, 2007 prepared for Mindanao Island (Tagum-Mati Road) long-term maintenance work under Part A of the Project; as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the agreement of the Bank.
- (k) “Environmental Management Systems Policy Framework” means the guidelines included in the Borrower’s Social and Environmental Management Systems Operational Manual dated February 19, 2007, which set forth the rules and procedures for the carrying out the environmental assessments and preparing environmental management plans for the Project to be implemented under the Project during the period of the Project implementation, as the same may be amended from time to time with the prior agreement of the Bank.
- (l) “FY” means the Borrower’s fiscal year starting from January 1 and ending on December 31.
- (m) “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
- (n) “Generic Procurement Manuals” means the manuals, adopted and approved by the Borrower’s Government Procurement Policy Board, through Resolution

No.013-2006 for the conduct of government agencies' procurement operations effective January 2007.

- (o) "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 Filipino, the Recipient's national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.
- (p) "Indigenous Peoples Action Plan" means the plan, dated May 24, 2007, prepared for the Davao-Calinan-Buda-Maramag-Kibawe-Kabacan road in accordance with the policies and procedures set forth in the Indigenous Peoples Policy Framework and referred to in paragraph 16 of Section I of Schedule 2 to this Agreement; said plan setting forth: (i) measures or actions to be undertaken by the Borrower to ensure meaningful consultation with and informed participation of Indigenous Peoples communities in the Project activities and Project benefits for said communities which are socially and culturally acceptable to them; (ii) measures to reduce, mitigate and offset adverse impacts of the implementation of the Project; and (iii) arrangements to monitor and evaluate the implementation of said plan, as such plan may be amended from time to time with prior agreement of the Bank.
- (q) "Indigenous Peoples Policy Framework" means the framework, a distinct section of the Land Acquisition, Resettlement, Rehabilitation and Indigenous Peoples Policy Framework, dated February 16, 2007, adopted by the Borrower, providing procedures, rules, and guidelines for: (i) the informed involvement of Indigenous Peoples, through a process of free, prior, and informed consultation, in the design and implementation of the Project in locations in which such people reside or which they use for their livelihood; and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of the Project, as such framework may be amended from time to time with the prior agreement of the Bank.
- (r) "Integrity Strengthening Action Plan" means a stand-alone chapter of the Project Implementation Plan (defined hereinafter), giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption under the Project.

- (s) “Land Acquisition, Resettlement, and Rehabilitation Policy Framework” means the framework, a distinct section of the Land Acquisition, Resettlement, Rehabilitation and Indigenous Peoples Policy Framework, dated February 16, 2007, adopted by the Borrower, providing procedures, rules, and guidelines for: (i) the involuntary taking of land and other assets from Displaced Persons; (ii) resettlement and rehabilitation of, and compensation to, Displaced Persons; and (iii) reporting and monitoring arrangements to ensure compliance with such framework, as such framework may be amended from time to time with the prior agreement of the Bank.
- (t) “NEDA” means the Borrower’s National Economic and Development Authority, and any successor thereto.
- (u) “Philippines Bidding Document” means the bidding document for procurement of works, dated May 2005 (second edition), as harmonized with Asian Development Bank, Japan Bank for International Cooperation, and the Bank.
- (v) “Project Implementation Plan” means the plan referred to in paragraph 2 of Section I of Schedule 2 to this Agreement, as such plan may be revised from time to time with the prior approval of the Bank.
- (w) “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
- (x) “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
- (y) “Program” means the Borrower’s National Road Improvement and Management Program as set out in the letter from the Borrower referred to in paragraph (A) of the Preamble to this Agreement.
- (z) “Program Management Office” means the office referred to in paragraph 1(a)(ii) of Section I of Schedule 2 to this Agreement.
- (aa) “Program Steering Committee” means the committee referred to in paragraph 1(a)(i) of Section I of Schedule 2 to this Agreement.
- (bb) “Rationalization Plan” means the plan prepared by DPWH for institutional restructuring in accordance with the Executive order No.366 issued by the Office of the President of the Borrower.

- (cc) “Resettlement Action Plans” means, collectively, the Resettlement Action Plan dated June 2, 2002, prepared for Surigao-Davao coastal road (Bacuag-Gigaguit-Claver section) under Part A.1 of the Project; the Resettlement Action Plan dated July 31, 2002, prepared for Surigao-Davao coastal road (Manay-Tarragona-Mati section) under Part A.1 of the Project; the Resettlement Action Plan dated May 15, 2007, prepared for Digos-General Santos Road under Part A.1 of the Project; and the Resettlement Action Plan dated May 15, 2007 prepared for Davao-Calinan-Buda-Maramag-Kibawe-Kabacan road under Part A.1 of the Project, which said plans set out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Displaced Persons on account of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plans, as the same may be revised from time to time with the prior agreement of the Bank; and “Resettlement Action Plan” means, individually, either of the Resettlement Action Plans.
- (dd) “Road Board” means the entity established by the Borrower under Republic Act 8794 to exercise oversight of the revenues collected from motor vehicle user charges which are held in special trust accounts in the national treasury and to implement the prudent and efficient management and utilization of the revenues on the national road system.
- (ee) “Road Board Operations Manual” means the manual dated September 1, 2001, adopted by DPWH, which sets out policy and procedures to provide administrative guidance relating to the operation and management of the SRSF and other trust accounts and the development and management of work programs to be financed by the SRSF and other trust accounts, as said manual may be amended from time to time with the prior approval of the Bank.
- (ff) “Road Board Secretariat” means the Secretariat established by the Implementing Rules and Regulations for Republic Act No.8794 and referred to in paragraph 1(b) of Section I of Schedule 2 to this Agreement.
- (gg) “Road Watch” means the entity to be established to represent a partnership of road users and non-governmental organizations for interaction with the Borrower’s relevant agencies to monitor and help improve the performance of the road sector (including DPWH), and to support road sector reforms.
- (hh) “Road Partners” means the stakeholders in the Borrower’s road sector, including the relevant government agencies, non-governmental organizations, and development assistance agencies.
- (ii) “SRSF” means Special Road Support Fund established as a special trust account under the national treasury by Republic Act No.8794 for the purpose of financing maintenance and improvement of national roads.

