

CONFORMED COPY

LOAN NUMBER 4414 PH

Loan Agreement

(Private Enterprise Credit Support Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated December 11, 1998

LOAN NUMBER 4414 PH

LOAN AGREEMENT

AGREEMENT, dated December 11, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DEVELOPMENT BANK OF THE PHILIPPINES (the Borrower).

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

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; 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 (as amended through December 2, 1997), with the modifications set forth in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) "Charter" means the charter of the Borrower dated December 3, 1986, as amended to the date of this Agreement;

(c) "Free-limit Subloan" means a Subloan, so defined, which qualifies as a free-limit Subloan pursuant to the provisions of paragraph 2 (b) of Schedule 6 to this Agreement;

(d) "Investment Enterprise" means a private enterprise to which a PFI proposes to make, or has made, a Subloan utilizing the proceeds from a Subsidiary Loan from the Borrower;

(e) "Investment Subproject" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Subloan;

(f) "Operating Policy Guidelines" means the policy guidelines to be adopted and maintained by the Borrower in accordance with the provisions of paragraph 1 of Schedule 5 to this Agreement;

(g) "Participating Financial Institutions" and "PFIs" mean such financial institutions as may be accredited by the Borrower for participation under Part A of the Project; and "Participating Financial Institution" and "PFI" mean any such financial institution;

(h) "Peso" and "P" mean the lawful currency of the Guarantor;

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

(j) "Statement of Policy" means the statement of lending and investment policy approved by the Directors of the Board of the Borrower on June 26, 1998;

(k) "Subloan" means a loan made or proposed to be made by a PFI out of the proceeds of a Subsidiary Loan to an Investment Enterprise for an Investment Subproject;

(l) "Subsidiary Loan" means the amount made available by the Borrower to a PFI under the provisions of a Subsidiary Loan Agreement; and

(m) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and a PFI pursuant to paragraph 3 of Schedule 5 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred fifty million dollars (\$150,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts

paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Subloan to meet the reasonable cost of goods and services required for an Investment Subproject in respect of which the withdrawal from the Loan Account is requested; and (ii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account 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 Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to 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 Guarantor and 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 Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Guarantor or 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 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; Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter, the Statement of Policy and the Operating Policy Guidelines.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement.

(b) The Borrower shall duly perform all its obligations under the Subsidiary Loan Agreements. Except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreements or any provisions thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods 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 7 to this Agreement.

Section 3.04. 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 Bank and the Borrower, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and

accounts for the Special Account for each fiscal year audited in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements and a 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, accounts and financial statements and the audit thereof as the Bank may from time to time reasonably request.

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

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. The Borrower shall take all actions within its powers to distribute annual dividends on its shares only after adequate provisions have been made for, inter alia: (a) taxes; (b) loan loss provisions; and (c) adjustment to its equity caused by within-year inflation.

ARTICLE V

Remedies of the Bank

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

(a) The Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment, or for the suspension of the operations of any PFI and such dissolution, disestablishment or suspension of operations, shall materially and adversely affect the Borrower's operations or financial condition, or its ability to perform any of its obligations under this Agreement, or to carry out the Project or any part thereof.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely any of the events specified in paragraphs (a) or (b) of Section 5.01 shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) The Board of Directors of the Borrower shall have adopted the Operating Policy Guidelines in accordance with the provisions of paragraph 1 of Schedule 5 to this Agreement; and

(b) The Borrower shall have entered into Subsidiary Loan Agreements with at least five (5) accredited PFIs in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement. Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The President 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 Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For the Borrower:

Development Bank of the Philippines
Sen. Gil Puyat Avenue Corner
Makati Avenue
Makati, Metro Manila
Republic of the Philippines

Cable address:

PHILDEBANK
Manila

Telex:

22197

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava, Country Director

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Remedios L. Macalincag, President and Executive
 Officer 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) Subloans disbursed	146,000,000	100% of amounts under Subloans
(2) Goods under Part B of the Project of local (ex-factory local other locally	3,000,000	100% of foreign expenditures, 100% expenditures cost) and 75% of expenditures for items procured
(3) Consultants' services and training under Part B of the Project	1,000,000	100%
TOTAL	150,000,000	

2. For the purposes of this Schedule:

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

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

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

(a) in respect of a Subloan unless said Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement; and

(b) in respect of payment made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$15,000,000, may be made in respect of Categories (1), (2) and (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after June 1, 1998.

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

- (a) Subloans in amounts less than \$5,000,000;
- (b) Contracts for goods under Part B of the Project in amounts less than \$500,000 equivalent;
- (c) Consultants' services under contracts with firms or individuals costing less than \$100,000 equivalent or costing less than \$50,000 equivalent, respectively; and
- (d) Training under contracts in amounts less than \$50,000 equivalent.

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) assist in financing productive facilities and resources primarily in the industrial sector of the Republic of the Philippines; and (ii) strengthen the institutional capacity of the Borrower as a financial service provider and develop its capacity to mobilize funds from domestic and international markets.

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

Part A: Subloans

1. Provision of long-term financing, covering plant construction or improvements, equipment acquisition, permanent working capital, and the cost of services for restructuring and export exploration and development, for specific investment subprojects through loans to PFIs for on-lending to private enterprises primarily in the industrial sector and secondarily in the infrastructure sector.

Part B: Institutional Development

1. Strengthening the Borrower's and PFIs' institutional capacity as financial service providers and developing their technical capability to mobilize funds from domestic and international markets through the provision of equipment, consultants' services and training.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars) *
July 15, 2004	3,180,000
January 15, 2005	3,275,000
July 15, 2005	3,370,000
January 15, 2006	3,470,000
July 15, 2006	3,575,000
January 15, 2007	3,680,000
July 15, 2007	3,785,000
January 15, 2008	3,900,000
July 15, 2008	4,015,000

January 15, 2009	4,130,000
July 15, 2009	4,250,000
January 15, 2010	4,380,000
July 15, 2010	4,505,000
January 15, 2011	4,640,000
July 15, 2011	4,775,000
January 15, 2012	4,915,000
July 15, 2012	5,060,000
January 15, 2013	5,210,000
July 15, 2013	5,365,000
January 15, 2014	5,520,000
July 15, 2014	5,685,000
January 15, 2015	5,850,000
July 15, 2015	6,025,000
January 15, 2016	6,200,000
July 15, 2016	6,385,000
January 15, 2017	6,570,000
July 15, 2017	6,765,000
January 15, 2018	6,965,000
July 15, 2018	7,170,000
January 15, 2019	7,385,000

* 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

Modifications of General Conditions

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

The words "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 canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (g) by the date specified in paragraph 3(c) of Schedule 6 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph 3; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

SCHEDULE 5

Implementation Program

For the purposes of Section 3.01(b) of this Agreement, the Implementation Program shall consist of the following: Part A of the Project

1. The Borrower shall adopt and, thereafter maintain, Operating Policy Guidelines, satisfactory to the Bank, setting forth, inter alia: (i) accreditation criteria for PFIs; (ii) procedures for relending by the Borrower and terms and conditions of the Subsidiary Loans to PFIs; (iii) the exclusion of the Borrower as a retailer of funds under the Project; (iv) eligibility criteria for Subloans, including the minimum contribution from the PFIs' own resources and the minimum equity required from Investment Enterprises; (v) procedures and standards for appraising Investment Subprojects, their economic, technical and financial viability and sustainability, including the minimum and maximum sizes of Subloans and minimum debt service coverage ratio; (vi) terms and conditions of Subloans; (vii) Investment Subproject documentation (financial and legal) requirements for Subloans and Free-limit Subloans; (viii) guidelines and procedures for environmental protection and compliance with

Philippine environmental laws and regulations; and (ix) procedures regarding the acquisition of land, including evidence of negotiated purchase agreements.

2. The Borrower shall not modify any provision of the Operating Policy Guidelines unless it is agreed between the Bank and the Borrower.

3. The Borrower shall:

(a) select participating financial institutions in accordance with the accreditation criteria set forth in the Operating Policy Guidelines; and

(b) relend to PFIs out of the proceeds of the Loan an amount in Pesos equivalent in the aggregate to the amount allocated from time to time to Category (1) under subsidiary loan agreements to be entered into with each of the PFIs, on terms and conditions and following procedures satisfactory to the Bank, including:

(i) Relending interest rates, which shall be market-based, shall be determined by the Borrower as prescribed in the Operating Policy Guidelines.

(ii) Subject to the provisions of subparagraph (i) above, floating interest rates shall be reviewed by the Borrower every month and in the event of any change, the revised rate shall be made applicable on both new and outstanding loans and commitments.

(iii) Repayment of Subsidiary Loans shall conform in relevant part substantially to the aggregate of the amortization schedules applicable to Subloans.

(iv) Each PFI shall be required to maintain records adequate to monitor and record the progress of each Investment Subproject and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the PFI.

(v) Each PFI shall be required to exercise its rights in relation to each Investment Subproject in such manner as to: (A) protect the interests of the Bank, the Borrower, and the PFI; (B) comply with its obligations under the Subsidiary Loan Agreement; and (C) achieve the purposes of the Project.

(vi) Each PFI shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its respective charter, and shall carry out Part A of the Project in accordance the provisions of the Operating Policy Guidelines.

(vii) Each PFI shall duly perform its obligations under its Subsidiary Loan Agreement with the Borrower and, except as the Bank and the Borrower shall otherwise agree, shall not assign, amend, abrogate or waive said Subsidiary Loan Agreement or any provisions thereof.

(viii) Each PFI shall promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of Part A of the Project.

4. The Borrower shall not on-lend any part of the proceeds of the Loan directly to Investment Enterprises.

5. Except as the Bank shall otherwise agree, the Borrower shall use the proceeds from the repayment of the Subsidiary Loans in accordance with the terms and conditions set forth in the Operating Policy Guidelines. Part B of the Project

6. The Borrower shall not revise the Statement of Policy unless it is agreed between the Bank and the Borrower.

7. By June 30, 2000, the Borrower shall furnish to the Bank the results of a study,

which shall be prepared in accordance with terms of reference satisfactory to the Bank, on the management of foreign exchange risks and the impact of such risks on its borrowings.

8. By June 30, 1999, the Borrower shall furnish to the Bank for comments, its proposed revised corporate strategy together with a time-bound implementation plan and, thereafter, implement the said plan, taking into account the Bank's comments thereon.

9. By June 30, 2000, the Borrower shall install an appropriate computer system to improve its Treasury functions, particularly, the matching of assets and liabilities and optimal utilization and placement of funds.

10. The Borrower shall carry out training under Part B of the Project in accordance with a training program satisfactory to the Bank and, to that end, by October 31st each year, the Borrower shall furnish to the Bank for its concurrence, a detailed staff training program for the following year, which program shall focus on the introduction and management of new financial products and credit risk analysis.

11. By December 31, 2000, the Borrower shall take all steps necessary to reduce the percentage of the arrears in its retail loan portfolio to a level not exceeding the industry average for commercial banks in the Philippines and, thereafter, the Borrower shall maintain such arrears percentage at such level.

Project Monitoring and Reporting

12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) (i) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on June 30th and December 31st of each year, commencing on June 30, 1999, semi-annual reports, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 12, on the progress achieved in the carrying out of the Project during the period preceding the date of each such 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

(ii) review with the Bank each report referred to in sub-paragraph (b) (i) of this paragraph 12, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of the said report and the view of the Bank on the matter; and

(c) (i) by March 31, 2000, prepare under terms of reference satisfactory to the Bank and furnish to the Bank, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 12, on the progress achieved in the carrying out of the Project during the period preceding the date of such 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

(ii) review with the Bank by June 30, 2000, or such later date as the Bank shall request, the report referred in sub-paragraph (c)(i) of this paragraph 12, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such

report, based on the conclusions and the said report and the views of the Bank on the matter.

recommendations of

SCHEDULE 6

Procedures for and Terms and Conditions of Subloans

1. For purposes of Section 3.02(a), Subloans from the PFIs to the Investment Enterprises shall be made in accordance with the following:

(a) Participating Financial Institutions shall be required to observe the guidelines for making Subloans and Free-limit Subloans as prescribed by the Borrower in the Operating Policy Guidelines.

(b) Investment Enterprises and Investment Subprojects shall be required to meet the eligibility criteria prescribed by the Borrower in the Operating Policy Guidelines.

2. No expenditures for goods or services required for an Investment Subproject shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Subloan (other than a Free-limit Subloan) for such Investment Subproject shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3(a) of this Schedule in respect of such Subloan; or

(b) the Subloan for such Investment Subproject shall have been a Free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3(b) of this Schedule in respect of such Free-limit Subloan. For the purposes of this Agreement, a free-limit Subloan shall be a Subloan for an Investment Subproject in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$8,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan, the foregoing amount being subject to change from time to time as determined by the Bank.

3. (a) When presenting a Subloan (other than a Free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a Free-limit Subloan shall contain (i) a summary description of the Investment Enterprise and the Investment Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Subloan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall, unless otherwise agreed with the Bank, be presented to the Bank on or before December 31, 2001.

4. Subloans shall be made on terms whereby the PFI shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the PFI, including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain

adequate records;

(b) require that: (i) the goods and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 7 to this Agreement and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Subproject;

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

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

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

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

(g) require the Investment Enterprises to observe and conform with relevant environmental laws, rules and regulations in force in the Republic of the Philippines; and

(h) require the Investment Enterprise to maintain records adequate to monitor and record the progress of each Investment Subproject and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Investment Enterprise.

SCHEDULE 7

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods 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 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) 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 Guarantor.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$5,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Equipment that the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$5,000,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods that must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Investment Subproject 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

(a) With respect to each contract for goods under Part A of the Project estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods under Part B of the Project estimated to cost the equivalent of \$500,000 or more, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and amended on September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services, which are estimated to cost \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services for the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000; and (ii) each contract for the employment of consulting firms procured through single source selection pursuant to Part C(1) of this Section II; and (iii) assignments of a critical nature, as reasonably determined by the Bank, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to: (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more; (ii) each contract for the employment of individual consultants procured through single source selection pursuant to Part C(1) of this Section II; and (iii) assignments of a critical nature, as reasonably determined by the Bank, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to contracts for the employment of consulting firms or individual consultants not covered by subparagraphs (a) through (c) of this paragraph 2, the terms of reference for such contracts shall be furnished to the Bank for its

prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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, provided, however, that notwithstanding the provisions of paragraph 2(b) of Schedule 6 to this Agreement, payments for expenditures to be financed out of the proceeds of Free-limit Subloans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited into the 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 equivalent to \$7,000,000 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 equivalent of \$30,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the 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 the Special Account such amount or amounts as the Borrower shall have requested.

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

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

documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(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 the 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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

