

CONFORMED COPY

LOAN NUMBER 3124 PH

(Angat Water Supply Optimization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

Dated November 9, 1989

LOAN NUMBER 3124 PH

LOAN AGREEMENT

AGREEMENT, dated November 9, 1989 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM (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) the Borrower intends to contract from the Asian Development Bank (the ADB) a loan (the ADB Loan) in an amount of one hundred thirty million Dollars (\$130,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the ADB Loan Agreement) to be entered into between the Borrower and ADB;

(C) the Guarantor has also applied to the Overseas Economic Cooperation Fund of Japan (OECF) for a loan in the amount equivalent to eighty million Dollars (\$80,000,000) which the Guarantor will make available to the Borrower as equity (the OECF

Financing) for the purposes of the Project;

(D) 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (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:

(a) "Development Program" means the Development Program dated August 3, 1989 of the Borrower approved by the Administrator of the Borrower;

(b) "Engineering Area" means the Engineering Area of the Borrower responsible for the design and planning of projects;

(c) "NRW" means non-revenue water being the difference between: (i) the total water distributed, and (ii) the total water sold by the Borrower;

(d) "PMO" means the Project Management Office established under the Deputy Administrator for Construction Management of the Borrower referred to in Schedule 5 Part A (2);

(e) "Project Area" means the area of the cities and municipalities within the service area of the Borrower in the Metropolitan Manila Area and environs; and

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

#### ARTICLE II

##### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of forty million Dollars (\$40,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part A of the

Project, open and maintain in Dollars a special account in a bank acceptable to the Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period

commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

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

### ARTICLE III

#### Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the 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. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall, in accordance with the Development Program, take all measures to reduce NRW to below 49% in 1991, 46% in 1992, 43% in 1993 and 40% in 1994. The Borrower and the Bank shall review the achievement of these targets annually.

Section 3.04. The Borrower shall, in accordance with the Development Program, upgrade its customer services and connection monitoring by December 31, 1990.

Section 3.05. The Borrower shall, by December 31, 1993, improve its operational system by: (a) establishing a central control operating room, including remote metering devices; (b) making operational the computer simulation of the transmission and distribution networks; and (c) installing pressure-reducing valves in zones with excessive pressures.

Section 3.06. The Borrower shall, by December 31, 1990 reduce and thereafter maintain its accounts receivable below four months of billing.

Section 3.07. The Borrower shall, in addition to the reports required to be furnished pursuant to Section 9.07 of the General Conditions, provide the Bank with copies of the following reports: (a) Management Information System on water and sewerage services, revenues, operational costs, financial projections and monitoring indicators, in April and October of each year; and (b) its long-term plans and updated water demand, annually.

### ARTICLE IV

#### Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall continue to develop its institutional capabilities by carrying out the Development Program regarding, inter alia, water supply, sewerage and sanitation, water demand and tariff adjustment.

Section 4.03. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.04. The Borrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with appropriate practice.

#### ARTICLE V

##### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain, 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 5.02. (a) Except as the Bank may otherwise agree, the Borrower shall earn an annual return on the average current net value of the Borrower's fixed assets in operation of not less than 8% per year.

(b) For purposes of this Section:

- (i) The annual return shall be calculated by dividing the Borrower's net operating income for the fiscal year in question by one half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that fiscal year.
- (ii) The term "net operating income" means total operating revenues less total operating expenses.
- (iii) The term "total operating revenues" means revenues from all sources related to water supply and sewerage operations.
- (iv) The term "total operating expenses" means all expenses related to water supply and sewerage operations, including administration, adequate maintenance, franchise tax and provision for depreciation on a straight-line basis at a rate of not less than 2% per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
- (v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one-half of the sum of the gross value of the Borrower's fixed assets in the water supply and sewerage operation at the beginning and at the end of the fiscal year, as revalued annually as of December 31 of each fiscal year in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
- (vi) The term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in water supply and sewerage operation less the amount of accumulated depreciation, as valued annually as of December 31 of each fiscal year in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(c) In order to meet the requirements set forth in paragraph (a) of this Section, the Borrower shall: (i) carry out annually, beginning in 1990, a review of the level and structure of its water and sewerage tariffs and other charges; (ii) by October 30 each year, furnish the results of such review to the Bank for its comments; and (iii) implement any recommendations derived from such review.

Section 5.03. (a) Except as the Bank may otherwise agree, the Borrower shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Borrower shows that the estimated net revenues of the Borrower for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of the Borrower in such year on all debt of the Borrower including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the

Borrower maturing by its terms more than one year after the date on which it is originally incurred.

- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
  - (A) the sum of revenues from all sources related to operations and net non-operating income; and
  - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
  - (A) revenues from all sources other than those related to operations; and
  - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by the Borrower not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the Borrower accept as reasonable and as to which the Bank has notified the Borrower of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Borrower.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified, namely:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw or

receive the proceeds of any loan or investment made to or for the benefit of the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such investment or loan shall have been liquidated or become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination, liquidation or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) Republic Act No. 6234 of the Guarantor shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, the events specified in paragraph (a) (i) (B) of Section 6.01, subject to the proviso of paragraph (a) (ii) of that Section, and paragraph (b) of Section 6.01 of this Agreement shall occur.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. 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, that all conditions precedent to the effectiveness of the ADB Loan Agreement shall have been fulfilled, other than those, if any, related to the effectiveness of this Agreement.

Section 7.02. 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 VIII

##### Representative of the Borrower; Addresses

Section 8.01. The Administrator of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)



Telefax:

(202) 477-6391

For the Borrower:

Metropolitan Waterworks  
and Sewerage System  
Katipunan Road, Balara  
Quezon City 1105  
Republic of the Philippines

Cable address:

MWSS  
Manila

Telex:

27947 PH

Telefax:

(632) 921-2887

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Attila Karaosmanoglu  
Regional Vice President  
Asia

METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

By /s/ Vicente R. Jayme  
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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Part A (except Part 5 A of aqueduct 5) of the Project	31,100,000	70%
(2) Equipment and materials under Part A (except Part 5 A of	5,900,000	100% of foreign expenditures, 100% of local expenditures

aqueduct 5) of  
the Project

(ex-factory  
cost) and 65%  
of local expen-  
ditures for other  
items procured  
locally

(3) Unallocated	3,000,000
	<hr/>
TOTAL	40,000,000

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 in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$4,000,000, may be made on account of payments made for expenditures before the date of this Agreement but after May 1, 1989.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (a) provide construction of raw water transmission, water treatment and distribution facilities for an additional supply of 15 cubic meters per second (cums) for an additional population of about three million persons in the Project Area; (b) increase service coverage to 75% of the total population in the Project Area by 1994, particularly in poor neighborhoods; (c) improve the efficiency of the Borrower's operations; and (d) strengthen the Borrower's finances as well as its planning and management information system.

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: Transmission and Bulk Water Supply.

Construction of (i) a tunnel from Ipo Dam to Bicti (about 6 km long, 4.3 m diameter); (ii) aqueduct 5 (in three Parts 5A, 5B and 5C) from Bicti to La Mesa treatment plants (about 16 km long, 3.6 m diameter); (iii) second La Mesa bypass (about 2.5 km long, 3.6 m diameter); and (iv) water mains (about 35 km) to provide treated water (about 1.1 cum) in bulk to about eight towns in Bulacan Province.

Part B: Water Source, Treatment and Distribution Facilities.

(i) Construction of the La Mesa II treatment plant (about 10.4 cum); (ii) modification of the power station in order to release additional water from Angat for water supply; (iii) expansion of the primary and secondary distribution system by about 420 km; (iv) expansion of the tertiary distribution system by about 100 km and provision of about 345,000 service connections; (v) construction of water reservoirs (about 260,000 cu m); and (vi) provision of telemetering.

Part C: Consultants' Services.

Provision of engineering consultancy services for the Project.

\* \* \* \* \*

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
June 15, 1995	730,000
December 15, 1995	755,000
June 15, 1996	785,000
December 15, 1996	815,000
June 15, 1997	850,000
December 15, 1997	880,000
June 15, 1998	915,000
December 15, 1998	950,000
June 15, 1999	990,000
December 15, 1999	1,025,000
June 15, 2000	1,065,000
December 15, 2000	1,105,000
June 15, 2001	1,150,000
December 15, 2001	1,195,000
June 15, 2002	1,240,000
December 15, 2002	1,290,000
June 15, 2003	1,340,000
December 15, 2003	1,390,000
June 15, 2004	1,445,000
December 15, 2004	1,500,000
June 15, 2005	1,560,000
December 15, 2005	1,620,000
June 15, 2006	1,680,000
December 15, 2006	1,745,000
June 15, 2007	1,815,000
December 15, 2007	1,885,000
June 15, 2008	1,955,000
December 15, 2008	2,030,000
June 15, 2009	2,110,000
December 15, 2009	2,185,000

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

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years	0.30

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

#### SCHEDULE 4

#### Procurement

#### Section I. Procurement of Goods and Works

#### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works for Part A of the Project shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

#### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

#### Part C: Other Procurement Procedures

1. Civil works contracts estimated to cost less than the equivalent of \$2,000,000 per contract, up to an aggregate amount not to exceed the equivalent of \$3,800,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods estimated to cost not more than \$100,000 each, up to an aggregate amount not to exceed the equivalent of \$900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

#### Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works and goods estimated to cost the equivalent of \$2,000,000 and \$500,000 or more respectively, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the pre-

ceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### SCHEDULE 5

##### Implementation Program

###### Part A: Implementing Agencies

1. The Borrower shall maintain the Engineering Area which shall be responsible for all matters related to technical planning and design. The Engineering Area shall be adequately funded and staffed and shall be assigned such functions and powers, as may be necessary to carry out the Project.

2. The Borrower shall adequately fund and staff and maintain PMO which shall be responsible for the general management and supervision of the Project. PMO shall be headed by a Project Director assisted by three Project Managers and their staff, who shall be separately responsible for (a) the power plant and tunnel; (b) aqueducts, treatment plant and reservoirs; and (c) distribution system, telemetering and the Bulacan system.

3. The Borrower shall cause PMO to closely coordinate with the Engineering Area on engineering aspects during Project implementation.

###### Part B: Implementation Schedule

1. All designs under the Project shall be completed by December 31, 1990.

2. The power station, tunnel, and aqueducts shall be completed by June 30, 1992.

3. The treatment plant shall be completed by December 31, 1992.

4. The distribution system together with the additional supply of about 15 cubic meters per second (cums) shall be completed by December 31, 1994.

5. Unless otherwise agreed to by the Bank, the Borrower shall, by December 31, 1990, conclude an agreement with National Power Corporation (NPC) providing for compensation to NPC for loss, if any, attributable to the Project.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 civil works and goods required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

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

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

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

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

All such deposits shall be withdrawn by the Bank from the Loan Account under the 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for Part A of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the

amount of the Authorized Allocation.

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

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

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

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

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

