

CONFORMED COPY

LOAN NUMBER 4109 PH

Loan Agreement

(Agrarian Reform Communities Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 1996

LOAN NUMBER 4109 PH

LOAN AGREEMENT

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

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time the Bank determines, after consultation with the Borrower, that an

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

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

(a) "ARC" means a barangay, a group of barangays within a municipality, or a group of municipalities, which has been declared an Agrarian Reform Community in accordance with Republic Act. No. 7905 of February 23, 1995.

(b) "Agrarian Reform Beneficiaries" means the population of an ARC which has been selected to participate in the Project in accordance with the criteria and procedures set forth in the Operations Manual referred to in Section A (3) of Schedule 5 to this Agreement.

(c) "BSWM" means the Bureau of Soils and Water Management, an administrative agency of the Borrower under the jurisdiction of DA responsible for the planning, design and construction of small water impounding structures, and any successor thereto.

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

(e) "Central Project Office" and "CPO" mean the central office to be established and maintained pursuant to Section A (2) of Schedule 5 to this Agreement to coordinate, monitor and manage the Project.

(f) "Cooperative" means an association of farmers which is engaged in economic activities and has been duly registered as a cooperative with the Cooperative Development Authority.

(g) "DA" means the Department of Agriculture, an agency of the Borrower, and any successor thereto.

(h) "DAR" means the Department of Agrarian Reform, an agency of the Borrower, and any successor thereto.

(i) "DOF" means the Department of Finance, an agency of the Borrower with jurisdiction over MDF, and any successor thereto.

(j) "Farm-to-market road" means an all weather access road connecting a farm to a main road or to a village or to a town center, or connecting a village to another village or to a town center.

(k) "IA" means Irrigators' Association, an association of farmers who jointly own and operate a communal irrigation system or who share the use of a portion of a national irrigation system, registered with the Borrower's Security and Exchange Commission in accordance with Batas Pambansa Blg. 68, otherwise known as the

Corporation Code of the Philippines, as may be amended from time to time; and "IAs" means, collectively, Irrigators' Associations.

(l) "Infrastructure Sub-Project" means: (i) a rural road investment project, (ii) a communal irrigation system investment project, or (iii) a rural community structure or building investment project under Parts B (1), (2) and (3) of the Project respectively, approved for financing under Part B of the Project in accordance with the criteria and procedures set forth in the Operations Manual referred to in Section A (3) of Schedule 5 to this Agreement.

(m) "LBP" means the Land Bank of the Philippines, a government-owned financial institution established pursuant to the provisions of Republic Act 3844, as amended, as the agency primarily responsible for agrarian reform financing and operating pursuant to its charter dated August 8, 1963, as amended on February 23, 1995.

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

(o) "LGU Funding" means the grants and loans made available from time to time by the Borrower to the LGUs, through MDF, in accordance with the provisions of Section 3.01 (c) of this Agreement, to finance investments in Infrastructure Sub-projects under Parts B (1) and (3) of the Project.

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

(q) "NIA" means the National Irrigation Administration, a government-owned entity established pursuant to Republic Act 3601, as amended by Presidential Decrees No. 552 and 1702, under the jurisdiction of DA, responsible for irrigation development, including for the design and construction of communal irrigation systems, and any successor thereto.

(r) "Operations Manual" means a manual satisfactory to the Bank to be adopted by the Project Management Board pursuant to Section A (3) of Schedule 5 to this Agreement, as such Manual may be revised from time to time with the prior approval of the Bank.

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

(t) "Project Management Board" and "PMB" mean the entity to be established and maintained pursuant to Section A (1) of Schedule 5 to this Agreement to provide policy direction and management guidance in the implementation of the Project.

(u) "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, an amount equal to fifty million dollars (\$50,000,000).

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 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 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 7 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 of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

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

Section 2.06. Interest and other charges shall be payable semi-annually on January 15 and July 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DAR with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering 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 Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall, in respect of Parts B (1) and (3) of the Project, make available to LGUs the proceeds of the Loan allocated from time to time to Category (1) (a), under terms and conditions satisfactory to the Bank. To that end, the Borrower shall make such funds available to LGUs, through MDF, under a memorandum of agreement to such effect, satisfactory to the Bank, between DAR and DOF.

(d) The Borrower shall, in respect of Part B (2) of the Project, make available to NIA or BSWM, as the case may be, the proceeds of the Loan allocated from time to time to Category (1) (b), under terms and conditions satisfactory to the Bank. To that end, the Borrower shall make such funds available to NIA or BSWM, as the case may be, under a memorandum of agreement to such effect, satisfactory to the Bank, between DAR and DA, which shall include, inter alia, the obligation of NIA or BSWM, as the case may be, to carry out feasibility studies and undertake the design and construction of Infrastructure Sub-projects under Part B (2) of the Project under terms and conditions satisfactory to the Bank, including those set forth in the Operations Manual referred to in Section A (3) of Schedule 5 to this Agreement.

(e) The Borrower shall, in respect of Part C (3) of the Project, through DAR enter into a memorandum of agreement with LBP satisfactory to the Bank, whereby LBP undertakes to provide credit and technical assistance under its existing programs to farmers and Cooperatives in selected ARCs.

(f) The Borrower shall exercise its rights under each of the memoranda of agreement entered into pursuant to the provisions of paragraphs (c), (d) and (e) above, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such memoranda or any provision thereof.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continuing implementation of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records

and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of DAR and other departments and agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special 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, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

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

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) The Borrower shall have established the Project Management Board and the Central Project Office and appointed key staff in the CPO, all in accordance with the provisions of Sections A (1) and A (2) of Schedule 5 to this Agreement;

(b) The Project Management Board shall have adopted and put into effect the Operations Manual in accordance with the provisions of Section A (3) of Schedule 5 to this Agreement; and

(c) The Borrower, through DAR, shall have executed memoranda of agreement with DOF, DA and LBP, respectively, in accordance with the provisions of paragraphs (c), (d) and (e) of Section 3.01 of this Agreement.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance Building
Bangko Sentral ng Pilipinas Complex
Manila
Republic of the Philippines

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Raul Ch. Rabe

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javad Khalizadeh-Shirazi

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Amount of the Loan Allocated	% of Expenditures
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Category	(Expressed in Dollars)	to be Financed
(1) Civil Works:		90%
(a) Parts B (1) and (3) of the Project	22,400,000	
(b) Part B (2) of the Project	15,300,000	
(2) Goods for Part D of the Project	357,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items pro-cured locally
(3) Operating Costs for Part D of the Project	488,000	100%
(4) Consultants' Services	2,547,000	100%
(5) Unallocated	8,908,000	
	<hr/>	
TOTAL	50,000,000 =====	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "Operating Costs" means the operating costs for the CPO, including costs for office supplies, for training and travel of project staff and operating costs of equipment.

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 amount not to exceed \$1,000,000 in respect of Categories (2), (3) and (4) may be made in on account of payments made for expenditures before that date but after August 1, 1996.

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

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

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

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

(d) Operating Costs;

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

Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project, known as the Agrarian Reform Communities Development Project, is to support the Borrower's program to alleviate rural poverty and increase farmers' income by assisting agrarian reform communities in the Project Provinces to gain access to productive resources through: (i) the development of rural infrastructure; and (ii) the provision of community development services and technical support.

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

Part A: Community Development

Promotion of community participation in the formulation of community development plans and strengthening of the operations and activities of farmers' organizations in selected ARCs in the Project Provinces, through the provision of consultants' services and training.

Part B: Rural Infrastructure

Developing rural infrastructure facilities in the territories of selected ARCs in the Project Provinces through the financing of investment projects to:

1. Construct, rehabilitate and maintain about 1,400 kilometers of farm-to-market roads, including drainage structures and slope protection works.
2. Rehabilitate communal irrigation systems covering about 10,000 hectares (ha) and construct new communal irrigation systems covering about 5,000 ha, including rehabilitating, constructing and maintaining headworks, intake structures, drainage channels, small dams and associated reservoirs.
3. Construct, rehabilitate and maintain communal structures to supply drinking water and multi-purpose buildings for community use.

Part C: Agriculture and Enterprise Development

1. Development of rural income-generating opportunities through the provision of technical advisory services to assist individual farmers and farmers' organizations in selected ARCs to identify and evaluate commercial-scale business options, market outlets and funding sources.
2. Dissemination of appropriate agricultural and processing technologies to Agrarian Reform Beneficiaries through the provision of technical assistance, training and educational material.
3. Provision of working capital and financing of investments in agricultural production, processing, marketing and other rural businesses by individual farmers or Cooperatives in selected ARCs, with the assistance of LBP and other financial institutions.

Part D: Support for Project Management

Strengthening of the technical and management capabilities of the Central Project Office and Provincial Project Offices through the provision of consultants' services, equipment and other facilities.

* * *

The Project is expected to be completed by December 31, 2002.

Annex A

Initial List of Project Provinces

1. Albay
2. Davao Del Norte
3. Davao Oriental
4. Ilocos Norte
5. Isabela
6. Leyte
7. Misamis Oriental
8. Southern Leyte
9. Quezon
10. Surigao del Norte

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
July 15, 2002	1,050,000
January 15, 2003	1,080,000
July 15, 2003	1,115,000
January 15, 2004	1,150,000
July 15, 2004	1,185,000
January 15, 2005	1,220,000
July 15, 2005	1,255,000
January 15, 2006	1,295,000
July 15, 2006	1,330,000
January 15, 2007	1,370,000
July 15, 2007	1,410,000
January 15, 2008	1,455,000
July 15, 2008	1,500,000
January 15, 2009	1,545,000
July 15, 2009	1,590,000
January 15, 2010	1,635,000
July 15, 2010	1,685,000
January 15, 2011	1,735,000
July 15, 2011	1,790,000
January 15, 2012	1,845,000
July 15, 2012	1,900,000
January 15, 2013	1,955,000
July 15, 2013	2,015,000
January 15, 2014	2,075,000
July 15, 2014	2,135,000
January 15, 2015	2,200,000
July 15, 2015	2,265,000
January 15, 2016	2,335,000
July 15, 2016	2,405,000
January 15, 2017	2,475,000

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 provision of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Except as provided in paragraphs 2 and 3 of this Part C, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; and

(b) Except as provided in paragraph 4 of this Part C, goods estimated to cost less than \$200,000 and more than \$100,000 per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an amount not to exceed \$15,200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

3. Force Account

Works under Parts B (1), B (2) and B (3) of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$6,900,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the

Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

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

(a) each contract for: (i) works estimated to cost the equivalent of \$5,000,000 or more; and (ii) goods estimated to cost the equivalent of \$1,000,000 or more; and

(b) the first three contracts for works and the first three contracts for goods in each year, estimated to cost less than \$5,000,000 and \$1,000,000 equivalent, respectively.

3. Post Review

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

Section II: Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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

SCHEDULE 5

Implementation Program

A. Project Management

1. The Borrower shall establish and thereafter maintain a Project Management Board with membership acceptable to the Bank, to provide policy direction and overall management guidance in the implementation of the Project.

2. The Borrower shall establish and thereafter maintain within DAR a Central Project Office, managed and staffed by personnel in adequate number and with qualifications and experience satisfactory to the Bank, including key staff in the following positions: project director, chief engineer, chief economist, chief of the Financial and Administration Unit and chief of the Monitoring and Evaluation Unit. The CPO shall report directly to the PMB and shall be provided with such functions, responsibilities and resources as necessary to enable it to coordinate, monitor and evaluate project activities, and to review, appraise and approve the Infrastructure Sub-projects proposed by the LGUs of the selected ARCs, or by NIA or BSWM, as the case may be.

3. The Borrower shall carry out the Project in accordance with an Operations Manual satisfactory to the Bank. The Operations Manual shall be adopted and put into effect by PMB and shall establish, inter alia: (i) the functions, responsibilities and composition of the PMB and the CPO; (ii) the criteria and process for the selection of ARCs to be covered by the Project; (iii) the criteria and process for the selection of non-governmental organizations to assist selected ARCs in respect of Part A of the Project; (iv) the procedures and criteria for review, appraisal and approval of the Infrastructure Sub-projects proposed by the LGUs of the selected ARCs, or by NIA or BSWM, as the case may be; (v) the policy and procedures for compensating persons whose property right, title or interest are affected by any proposed Infrastructure Sub-project; (vi) the cost-sharing arrangements between the Borrower and the LGUs in respect of the approved Infrastructure Sub-projects under Parts B (1) and (3) of the Project, and between NIA or BSWM, as the case may be, and the relevant IAs in respect of the approved Infrastructure Sub-projects under Part B (2) of the Project; and (vii) the procedures for the monitoring and reporting of Project activities.

4. The Borrower shall furnish to the Bank for its prior approval any proposed revision to the Operations Manual.

5. The Borrower shall, through DAR, enter into sub-project agreements, acceptable to the Bank, with LGUs. Such sub-project agreements shall specify the obligations of such LGUs in accordance with the provisions of the Operations Manual, including but not limited to their obligations to:

(a) execute their respective Infrastructure Sub-projects under Parts B (1) and (3) of the Project;

(b) provide, promptly as needed, funds, facilities, services and other resources required for their respective Infrastructure Sub-projects; and

(c) upon completion of such Sub-projects, allocate adequate resources for the operation and maintenance thereof.

6. The Borrower shall, in accordance with the provisions of the Operations Manual, through DOF, enter into sub-loan agreements and/or grant agreements, acceptable to the Bank, with LGUs. Such sub-loan agreements and/or grant agreements shall set forth the terms and conditions of the respective LGU Funding in accordance with the provisions of the Operations Manual, which shall include, unless otherwise agreed by the Bank:

(a) for grants, the provision that, in the event of breach of the LGUs' undertaking to maintain their respective Infrastructure Sub-projects, such grants shall be repaid by the relevant LGUs or shall be treated as loans; and

(b) for loans, the repayment of such loans over a period not exceeding thirteen (13) years, including five (5) years of grace, and payment of interest at a rate established by the Borrower.

7. The Borrower, through DOF, shall exercise its rights under each of the sub-loan agreements and grant agreements in such manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Loan.

8. The Borrower shall not approve any proposed Infrastructure Sub-project costing more than \$300,000 equivalent without the concurrence of the Bank.

9. The Borrower shall:

(a) carry out the training and technical assistance under Parts A and C of the Project in accordance with a program satisfactory to the Bank, and

(b) to that end, shall cause the CPO, by November 15 of each year commencing in 1996, to furnish to the Bank for its comment an annual program satisfactory to the Bank for the delivery of training and technical assistance to the ARCs and/or to the Agricultural Reform Beneficiaries under Parts A and C of the Project.

B. Part B of the Project: Environment, Land Acquisition and Compensation

1. The Borrower shall ensure that each proposal for an Infrastructure Sub-project shall be reviewed by the CPO and shall be approved only if:

(a) (i) an analysis of the environmental effects of such Sub-project has been prepared;

(ii) an environmental impact assessment or other environmental requirement provided for under Philippines laws shall have been undertaken and be designed on the basis of environmental standards acceptable to the Bank; and

(iii) in the event an environment compliance certificate is required under Philippines laws or regulations, the LGU or NIA or BSWM, as the case may be, has obtained such certificate from the Borrower's Environmental Management Bureau in respect of the construction and operation of such Sub-project;

(b) if such Sub-project includes the rehabilitation or construction of dams and associated reservoirs in connection with a communal irrigation system, the proposal incorporates measures for the maintenance and periodic inspection of such structures in accordance with sound engineering practice satisfactory to the Bank to determine whether there are any deficiencies in the condition of the structures, or in the quality and adequacy of maintenance or the methods of operations thereof which may endanger their safety; and

(c) such proposal incorporates a plan for the appropriate compensation for persons affected by such Sub-project, in accordance with principles acceptable to the Bank and set forth in the Operations Manual.

2. The Borrower shall ensure that the LGUs, or NIA or BSWM, as the case may be, shall take all appropriate actions to implement the measures and plan described in paragraphs 1 (a), (b) and (c) above in a manner satisfactory to the Bank.

C. Monitoring and Reporting

1. The Borrower shall cause the PMB and CPO to maintain policies and procedures adequate to enable the PMB and CPO to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, including the performance indicators set forth in Schedule 6 to this Agreement, the implementation of the Project and the achievement of the objectives thereof.

2. The Borrower shall cause the CPO to prepare under terms of reference satisfactory to the Bank and furnish to the Bank:

(a) (i) a quarterly report on March 31, June 30, September 30 and December 31 of each year commencing on June 30, 1997; and (ii) an annual report by March 30 of each year commencing in 1998, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of this Part C, on the progress achieved in the carrying out of the Project during the period preceding the dates of such reports and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievements of the objectives thereof during the period following such dates; and

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

SCHEDULE 6

Performance Indicators

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3 and 4 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to \$2,000,000 to be withdrawn from the Loan Account and deposited in 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 equal to \$1,000,000 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 amount of \$20,000,000.

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 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 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, 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 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.

