

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7912-PH

Loan Agreement

**(Additional Financing for Autonomous Region in Muslim Mindanao
ARMM Social Fund Project)**

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 31, 2010

LOAN AGREEMENT

AGREEMENT dated August 31, 2010, between the REPUBLIC OF THE PHILIPPINES (“the Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“the Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, in the Appendix to this Agreement or, if not otherwise defined, in the Original Loan Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty million Dollars (\$30,000,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“the Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“the Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the

Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the ARMM Regional Government to carry out the Project through the PMO in accordance with the provisions of Article V of the General Conditions and the Subsidiary Agreement.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) (i) the Subsidiary Agreement; or (ii) the Operations Manual have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the ARMM RG to perform any of its obligations under the Subsidiary Agreement.
 - (b) The Borrower or the ARMM RG has failed to perform any of their obligations under the Subsidiary Agreement.
 - (c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation has arisen which makes it improbable that the ARMM RG will be able to perform its obligations under the Subsidiary Agreement.
- 4.02. The Additional Events of Acceleration consist of the following:
- (a) The event specified in paragraph (a) of Section 4.01 of this Agreement shall occur.
 - (b) The event specified in paragraph (b) of Section 4.01 of this Agreement has occurred and has continued for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Secretary of Finance.

6.02. The Borrower's Address is:

Department of Finance
 Department of Finance Building
 Bangko Sentral ng Pilipinas Complex
 Roxas Blvd.
 Manila, Republic of the Philippines

Telephone:

(63-2) 523-9223

Facsimile:

(63-2) 523-9216

6.03. The Bank's Address is:

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

Cable address:

INTBAFRAD
 Washington, D.C. 64145(MCI)

Telex:

248423(MCI) or

Facsimile:

1-202-477-6391

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

REPUBLIC OF THE PHILIPPINES

By /s/ Margarito Teves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower to reduce poverty and to support mechanisms for the promotion of a peaceful and safe environment in the conflict-affected areas of the ARMM and in particular to: (a) improve access to social and economic infrastructure and livelihood opportunities; (b) strengthen social cohesion and partnerships between and within targeted communities; and (c) improve local governance and institutional capacities for implementation in the ARMM Region, with a focus on improved participation, transparency and accountability in the allocation and management of public resources by the participating communities, local government units and the ARMM RG.

The Project, comprising Parts A and C of the Original Project with the modifications set forth below, consists of the following parts:

PART A: Community Development Assistance

Development and implementation of a community development program through: (i) Provision of Sub-grants to community groups and LGUs for the construction, rehabilitation and improvement of community-prioritized small scale social and economic infrastructures, including rural water supply and sanitation systems, small scale irrigation schemes, rainwater tanks, Barangay health stations, communal schools, community learning centers, post-harvest facilities, farm-to-market and Barangay roads, timber ports, bridges and damaged houses; (ii) provision of community-oriented training and training, for community development groups and service providers to manage and improve access to community services; and (iii) capacity building through provision of technical and financial assistance to women's groups and out-of-school youth groups selected under criteria defined in the Operations Manual for improving food security and household incomes.

PART C: Institutional Strengthening and Governance

1. Carrying out of information, education and communication activities to support institutional strengthening and governance at ARMM and LGU levels and to develop public awareness on the Project development objectives and processes, and provision of technical assistance to the Provinces and Municipalities in financial management and procurement and participatory multi-year planning.

2. Strengthening of ARMM and LGUs capacity for Project and Sub-project implementation, including staff training and development of specific operational and administrative guidelines.

3. Project management and implementation support, including audits of Project accounts and strengthening of the operational, managerial and administrative capacity of the ARMM Regional Government, LGUs, community groups and non-governmental organizations involved in Project and Sub-project implementation, through the provision of training, consultants' services and equipment.

SCHEDULE 2

Project Execution

Section I

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the ARMM RG under an agreement (“the Subsidiary Agreement”) between the Borrower and the ARMM RG, under terms and conditions approved by the Bank, including that the ARMM RG shall:

- (a) maintain throughout the period of implementation of the Project a Project Management Office, headed by a Project manager selected and hired in accordance with the provisions of Section III of this Schedule 2, responsible for the carrying out of the Project and for the final review and endorsement of Sub-project approvals prior to allocation of the Sub-grants;
- (b) without limitation upon the provision of paragraph (c) below carry on its operations and conduct its affairs at all times with due diligence and efficiency, in accordance with appropriate administrative, managerial, economic, and financial practices, under the supervision of qualified and experienced management personnel assisted by competent staff in adequate numbers;
- (c) adopt, and thereafter apply in the implementation of the Project, an Operations Manual satisfactory to the Bank which shall include, inter alia:
 - (i) a description of the ARMM RG’s administrative and financial procedures, including its accounting, financial reporting and auditing procedures for the Project;
 - (ii) eligibility criteria and operational procedures for the selection of Beneficiaries, the appraisal, approval and financing criteria for Sub-projects including those terms and conditions referred to in Part B of this Schedule 2;
 - (iii) procedures for procurement, disbursement, supervision, monitoring and impact evaluation and reporting in respect

of Sub-projects consistent with the provisions of this Agreement;

- (iv) a sample Sub-project Agreement;
 - (v) the Environmental Framework;
 - (vi) the Land Acquisition, Resettlement and Rehabilitation of Displaced Person's Framework;
 - (vii) the Indigenous Peoples Planning Framework; and
 - (viii) cost-sharing arrangements between the ARMM RG and the Beneficiaries;
- (d) not amend, delete, suspend or abrogate or waive any provision of the Operations Manual without the prior approval of the Borrower and the Bank;
- (e) ensure that proposals for Sub-projects shall be approved only if: (i) an analysis of the environmental impacts of such Sub-project has been undertaken pursuant to the Environmental Framework; and (ii) if applicable, an environmental impact assessment or other environmental requirements provided for under the laws of the Borrower, satisfactory to the Bank, has been undertaken, and mitigation measures designed on the basis of environmental standards as set forth in the Environmental Framework and acceptable to the Bank have been adopted by the proposed Beneficiary;
- (f) ensure that the proposal for each Sub-project incorporates where applicable, a Resettlement Action Plan, satisfactory to the Bank, for the compensation, resettlement and rehabilitation of Displaced Persons in accordance with the Land Acquisition, Resettlement and Rehabilitation of Displaced Person's Framework;
- (g) ensure that the proposal for each Sub-project involving communities with Indigenous Peoples incorporates an Indigenous Peoples Development Plan satisfactory to the Bank for the informed participation of Indigenous Peoples in the design and implementation of such Sub-project, in accordance with the Indigenous Peoples Planning Framework;

- (h) ensure that the Project, including each Sub-project, is carried out in accordance with the Anti-Corruption Guidelines;
- (i) comply, and ensure that the Beneficiary for each Sub-project shall comply with the provisions of the procurement of goods, works and consultants' services set forth in Section III of this Schedule 2;
- (j) enter into a Sub-grant Agreement with the relevant Beneficiary in regard to each Sub-project approved for financing through a Sub-grant, under terms and conditions satisfactory to the Bank which shall include those set forth in Part B of this Schedule 2; and not make available the proceeds of a Sub-grant for financing a Sub-project until the corresponding Sub-grant Agreement has been entered into with the relevant Beneficiary;
- (k) exercise its rights under each Sub-grant Agreement in such manner as to protect the interests of the ARMM RG, the Borrower and the Bank and to accomplish the purposes of the relevant Sub-grant, and except as the Bank shall otherwise agree, the ARMM RG shall not assign, amend, abrogate or waive such Sub-grant Agreement or any provision thereof;
- (l) by October 1 of each year, starting October 1, 2010, adopt an annual work plan, including training and technical assistance program, and budget and furnish said plan to the Bank for its review and comments and, thereafter, implement said plan taking into account the Bank's comments thereon, if any;
- (m) (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Annex to this Schedule 2, the carrying out of the Project and the achievement of the objectives thereof; and (ii) monitor and evaluate the progress of the Project and prepare Project reports of such scope, detail and frequency as the Borrower and the Bank shall request, on the basis of the indicators set forth in the Annex to this Schedule 2;
- (n) have its financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank.
- (o) Each audit of the financial statements shall cover the period of one (1) fiscal year of the ARMM RG. The audited financial statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

- (p) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) by January 31 and July 31 of each year, commencing on January 31 2011, a semi-annual report; and (ii) on or about July 31, 2012 a mid-term report; each such report integrating the results of the monitoring and evaluation activities performed pursuant to the preceding paragraph on the progress achieved in the carrying out of the Project including on the implementation of Sub-projects and the evaluation of the impact thereof, during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;
- (q) review with the Borrower and the Bank, by October 15, 2012, or such later date as the Bank shall request, the report referred to in the preceding paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Borrower and Bank's views on the matter; and
- (r) assist the Borrower in preparing the plan referred to in Section 3.03(a) of the Original Loan Agreement for the continued achievement of the objectives of the Project; and
- (s) appoint by July 15, 2010 in accordance with the procurement provisions set out in Section III of this Schedule 2, an internal monitor within the PMO to monitor compliance with the Sub-grant Agreement, the use of funds for Sub-projects and the financial management aspects thereof.

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

3. The Borrower, through the PMO, shall, not later than January 31 and July 31 in each year, commencing July 31, 2011, and until July 31, 2013, carry out spot checks under terms of reference and with a minimum coverage satisfactory to the Bank, to verify that Beneficiaries meet the eligibility criteria set out in the Operations Manual.

4. The Borrower, through the PMO, shall, by January 31, 2011, appoint an independent third party in accordance with the procurement provisions set out in Section III of this Schedule, to conduct the spot checks referred to in the preceding paragraph.

B. Terms and Conditions of Sub-projects

1. The amount of the Sub-grant shall not exceed eighty-five per cent (85%) of the estimated aggregate costs of Sub-projects. The Beneficiaries of such Sub-project shall be required to contribute at least fifteen percent (15%) of the total Sub-project costs, in material or cash or in services in the design, implementation, operation, maintenance and supervision of the Sub-project.

2. Each Beneficiary shall undertake in respect of its respective Sub-project to:

(a) implement such Sub-project with due diligence and efficiency, in accordance with appropriate administrative, economic, financial and engineering practices and sound environmental and social standards pursuant to the Sub-project proposal approved by the ARMM RG;

(b) ensure that goods, works and consultants' services financed out of the Sub-grant shall be procured in accordance with the procurement provisions set out in Section III of this Schedule 2;

(c) ensure that all goods and services financed under the Sub-grant shall be used exclusively for the purposes of such Sub-project;

(d) furnish to the ARMM RG and the Bank any relevant documents, records and reports in respect of such Sub-project, of such scope and in such detail as the Bank may reasonably request;

(e) furnish the ARMM RG and the Bank an operation and maintenance plan satisfactory to the Bank, to ensure the sustainability of such Sub-project, in accordance with the guidelines and standards set forth in the Operations Manual, and thereafter, carry out, or cause to be carried out, such plan satisfactory to the ARMM RG and the Bank; and

(f) where applicable, carry out, in a manner satisfactory to the Bank: (i) mitigation measures designed in accordance with the provisions of the Environmental Framework; (ii) a plan for the compensation, resettlement and rehabilitation of Displaced Persons in accordance with the Land Acquisition, Resettlement and Rehabilitation of Displaced Person's Framework; and (iii) a plan acceptable to the Bank for the informed participation of Indigenous Peoples in the design and implementation of the Sub-project in accordance with the Indigenous Peoples Planning Framework.

3. The ARMM RG shall have the right:

(a) to inspect by itself, or jointly with the Bank and/or the Borrower, any facilities or sites included in a Sub-project, and to examine the goods financed out of the proceeds of the Sub-grant, and records and documents relevant to the performance of the obligations of the Beneficiary under the Sub-project Agreement;

(b) to obtain all such information and data as the ARMM RG, the Borrower or the Bank may reasonably request relating to the carrying out of a Sub-project, to the administration, operations and financial condition of the respective Beneficiary, and to the benefits derived from such sub-project; and

(c) to suspend the rights of a Beneficiary upon failure by such Beneficiary to perform any of its obligations under its Sub-grant Agreement.

4. The ARMM RG, through the PMO, shall exercise its rights under each Sub-grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the ARMM RG shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

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

D. Other Undertakings

The ARMM RG, through the PMO, shall, no later than six (6) months after the Effective Date, carry out an assessment under terms of reference acceptable to the Bank and by an independent consultant appointed in accordance with Section III of this Schedule 2 of the risks to Project implementation or to achievement of the objectives of the Project in Maguindanao, and promptly thereafter implement the recommendations acceptable to the Bank of such assessment.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. (a) The Borrower, through the PMO, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in Annex 1 to this Schedule 2. Each Project Report shall

cover the period of one calendar semester, and shall be furnished to the Bank not later than 45 days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through the PMO, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through the PMO, shall prepare and furnish to the Bank as part of the Project Report not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower through the PMO, shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

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

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Shopping
(b) Community Participation
(c) Procurement of Small Works

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection Based on Consultant's Qualifications
(b) Single Source Selection
(c) Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower

(including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Sub-grants under Part A of the Project, and goods, training and workshops, consultant services, and Incremental Operating Costs under Parts A and C of the Project	29,925,000	100%
(2) Front-end Fee	75,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	30,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is May 31, 2013.

ANNEX to SCHEDULE 2

Monitorable Indicators

PDO	Outcome Indicators	Use of Outcome Information
<ul style="list-style-type: none"> • Improve access to social and economic infrastructure and livelihood opportunities in participating communities. 	<ul style="list-style-type: none"> • Percentage of households reporting reduced travel time and cost of access to communal basic service facilities • Percentage of households reporting reduced cost of access to local agricultural production facilities. • Percentage of households with at least one adult family member who learned how to read or write as a result of the Project's Learning-Livelihood Program. • Average sub-project economic rate of return. 	<ul style="list-style-type: none"> • Ascertain that project is on track to achieving development objective.
<ul style="list-style-type: none"> • Strengthen social cohesion and partnerships between and within targeted communities. 	<ul style="list-style-type: none"> • Proportion of households attributing improvement in their wellbeing to participation in collective community work. • Proportion of people confident in their ability to influence decisions in their village in identification of local development priorities. 	
<ul style="list-style-type: none"> • Improve local governance and institutional capacities for implementation in the ARMM region. 	<ul style="list-style-type: none"> • Number of POs assessed as effective, sustainable and transparent • Average LGU cost-sharing rate (inc. % of the subproject total cost). 	
Intermediate Results	Results Indicators	Use of Results Monitoring
Part A: Community Development Assistance		
<ul style="list-style-type: none"> • Improved access to key basic service facilities. • Improved capacity to maintain sustainable livelihood. 	<ul style="list-style-type: none"> • Number of communities with improved local infrastructure facilities implemented by the project. • Number of LGUs with improved municipal infrastructure facilities implemented by the Project • Number of direct beneficiaries of key basic service facilities (inc. % of the total population of the community). • Number of persons who gained employment as a result of the sub-project implementation. 	<ul style="list-style-type: none"> • To verify satisfactory progress in improving access to community services in participating villages. • Based on the verified outcomes, take appropriate corrective measures.

	<ul style="list-style-type: none"> • Number of internally displaced people benefiting from the project. • Number of direct beneficiaries of the learning, livelihood and food self-sufficiency programs. • Number of women beneficiaries (inc. % of the total women population) • Number of indigenous people beneficiaries (inc. % of the total indigenous population). 	
Intermediate Results	Results Indicators	Use of Results Monitoring
Part C: Institutional Strengthening and Governance		
<ul style="list-style-type: none"> • Improved inclusiveness and transparency of the decision making process. • Improved capacity of the community and local government institutions to implement development programs. 	<ul style="list-style-type: none"> • Number of established POs. • Number of community sub-projects implemented at technical standards and within budgets (inc. % of total). • Number of POs with women officers (inc. % of total). • Number of POs having an indigenous person officer (inc. % of the total number of POs in community where IPs are present). • Number of Municipal Teams installed and mobilized in target communities. • Number of village LGUs accepting signed MOAs between the Fund and Communities and assisting in participatory management of sub-project (inc. % of total number of project affected village LGUs) • Number of LGUs with institutionalized procedures for a) disclosure and dissemination of development project information; b) participatory planning 	<ul style="list-style-type: none"> • To verify satisfactory progress in institutional capacity building. • To verify inclusiveness of the participatory process. • Based on the verified outcomes, take appropriate corrective measures.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 1 and November 1 beginning November 1, 2020 through November 1, 2034	3.33%
On May 1, 2035	3.43%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any

amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “ARMM Regional Government” and “ARMM RG” mean the regional government established by Republic Act No 6734 dated August 01, 1989 as amended by Republic Act No. 9054 of March 31, 2001 for the ARMM, as the same may be amended from time to time.
3. “ARMM” means the Borrower’s Autonomous Region in Muslim Mindanao.
4. “Barangay” means a political sub-division within a city or a municipality; and “Barangays” means more than one Barangay.
5. “Beneficiary” means an LGU (as this term is hereinafter defined), a non-governmental organization established in accordance with the Borrower’s laws and regulations, a women’s group, an out-of-school youth group or a community group, selected in accordance with the provisions of the Operations Manual, which has obtained or will obtain a Sub-grant from ARMM RG to carry out a Sub-project under Part A of the Project in accordance with the procedures set forth in the Operations Manual and on the terms and conditions of the Sub-grant Agreement, provided that in the event of a conflict between the Operations Manual or the Sub-grant Agreement and this Agreement, the provisions of this Agreement shall apply; and “Beneficiaries” means more than one Beneficiary.
6. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means more than one Displaced Person.

9. “Environmental Framework” means the Environmental Framework, adopted by the ARMM Regional Government on February 9, 2010 approved by the Bank and publically disclosed on February 9, 2010 describing the rules, guidelines and procedures to assess environmental impacts of Sub-projects and defining measures to reduce, mitigate or offset adverse environmental impacts and enhance positive impacts of Sub-projects.
10. “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
12. “Incremental Operating Costs” means reasonable expenditures incurred by the PMO for staff travel, per diem, office space rental and utilities, communications and consumables, maintenance of vehicles and fuel, but excluding staff salaries, which expenditures would not have been incurred absent the Project.
13. “Indigenous Peoples Development Plan” and “IPDP” mean a plan for the informed participation of Indigenous Peoples in the design and implementation of Sub-projects pursuant to the Indigenous Peoples Planning Framework and referred to in Schedule 2, Section I, Part A.1(h) to this Agreement.
14. “Indigenous Peoples Planning Framework” means the framework adopted by the ARMM Regional Government on February 9, 2010, approved by the Bank and publically disclosed on February 9, 2010 which provides guidelines and procedures for the preparation, adoption and implementation of a plan or plans for the consultation with and informed participation of Indigenous Peoples residing or cultivating lands in areas under the Project.
15. “Indigenous Peoples” means social groups with a distinct social and cultural identity that makes them vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) a close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from the national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.
16. “Land Acquisition, Resettlement and Rehabilitation of Displaced Person’s Framework” means the policy framework adopted by the ARMM Regional Government on February 9, 2010, approved by the Bank and publically disclosed

on February 9, 2010, providing procedures and guidelines for the preparation, adoption, implementation and monitoring of a Resettlement Action Plan or Plans.

17. “LGUs” means local government units, political subdivisions of the Borrower at the provincial, city, municipal or Barangay level; and “LGU” means any one of such LGUs.
18. “Operations Manual” means the manual adopted by the ARMM RG on April 21, 2010 which includes, inter alia: (i) the description of the ARMM RG’s administrative and financial procedures, including its accounting, financial reporting and auditing procedures for the Project; (ii) the Policies and Guidelines as revised to the date of this Agreement; (iii) eligibility criteria and operational procedures for the selection of Beneficiaries, Sub-projects appraisal, approval and financing criteria including those terms and conditions referred to in Schedule 6 to the Original Loan Agreement; (iv) procedures for procurement, disbursement, supervision, monitoring and impact evaluation in respect of eligible Sub-projects consistent with the provisions of this Agreement and the Original Loan Agreement; (v) a sample Sub-grant Agreement; (vi) the Environmental Framework; (vii) the Land Acquisition, Resettlement and Rehabilitation of Displaced Person’s Framework; (viii) the Indigenous Peoples Planning Framework; (ix) cost-sharing arrangements between the ARMM RG and the Sub-project Beneficiaries; and (x) procedures for the monitoring and reporting of Sub-project activities; as the same may be amended from time to time with the Bank’s prior approval.
19. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
20. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 21, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
21. “Project Management Office” and “PMO” mean the office to be maintained within the ARMM RG for purposes of carrying out the Project, pursuant to Schedule 2, Section I, Part A.1 of this Agreement.
22. “Resettlement Action Plan” means an action plan for the compensation, resettlement and rehabilitation of Displaced Persons, acceptable to the Bank, to be prepared and implemented pursuant to the Land Acquisition, Resettlement and Rehabilitation of Displaced Person’s Framework.
23. “Sub-grant Agreement” means the agreement to be entered into between ARMM RG, through the PMO, and a Beneficiary for purposes of providing a Sub-grant

to finance all or part of a Sub-project under Part A of the Project in accordance with the provisions of Schedule 2, Section I, Part B to this Agreement.

24. “Sub-grant” means a sub-grant made available by ARMM RG to a Beneficiary out of the proceeds of the Loan to finance, in whole or in part, a Sub-project under Part A of the Project pursuant to the provisions of Schedule 2, Section I, Part B to this Agreement, and “Sub-grants” mean more than one Sub-grant.
25. “Sub-project” means a specific development project under Part A of the Project, selected in accordance with procedures and criteria defined in the Operations Manual and carried out or to be carried out utilizing the proceeds of a Sub-grant.
26. “Subsidiary Agreement” means the agreement to be entered into between the Borrower and the ARMM RG, in accordance with the provisions of Schedule 2, Section I, Paragraph A.1 to this Agreement, as the same may be amended from time with the prior approval of the Bank.

Section II. Modifications to the General Conditions

The modification to the General Conditions is as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”