

**CONFORMED COPY**

**LOAN NUMBER 7118 PH**

# **Loan Agreement**

**(Second Social Expenditure Management Project)**

**between**

**REPUBLIC OF THE PHILIPPINES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 12, 2002**

**LOAN NUMBER 7118 PH**

## **LOAN AGREEMENT**

AGREEMENT, dated September 12, 2002, 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 (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

- (a) “Bangko Sentral ng Pilipinas” means the Borrower’s central bank and any successor thereto;
- (b) “Barangay” means a political sub-division within a city or a municipality;
- (c) “Comprehensive and Integrated Delivery of Social Services” and “CIDSS” mean the Borrower’s on-going program of support to the poorest Barangays, established by Executive Order 443 of 1997, for the carrying out of community-based projects;
- (d) “CIDSS Grant” means a grant made available by the Borrower out of the proceeds of the Loan and out of its own funds to a Grantee or Grantees to finance the cost of a Sub-project under Part A.3 of the Project;
- (e) “DBM” means the Borrower’s Department of Budget and Management, and any successor thereto;
- (f) “DEPED” means the Borrower’s Department of Education, and any successor thereto;
- (g) “DOH” means the Borrower’s Department of Health, and any successor thereto;
- (h) “DPWH” means the Borrower’s Department of Public Works and Highways and any successor thereto;
- (i) “DSWD” means the Borrower’s Department of Social Welfare and Development, and any successor thereto;
- (j) “Framework for the Treatment of Indigenous Peoples” means the framework set out in the Project Implementation Manual, and acceptable to the Bank, providing guidelines to

mitigate any social or cultural impact of the Project on Indigenous Peoples and including screening and monitoring procedures;

(k) “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31;

(m) “Grantee” and “Grantees” mean a person or entity, or persons or entities, respectively, responsible for the carrying out of a Sub-project under Parts A.1 (b) and A.3 of the Project;

(n) “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;

(o) “Peoples’ Organization” means an organization established at the Barangay level and legally empowered to act on behalf of the Barangay or the residents of the Barangay, to carry out Sub-projects under Part A. 3 of the Project;

(p) “Peso” and “PHP” mean the currency of the Borrower;

(q) “Poor Barangay” means a Barangay: (i) within a third to a sixth class municipality, the classification of which is based on income, and (ii) within a city with a large population living below the Borrower’s poverty threshold;

(r) “Project Implementation Manual” means the manual, including the Manual for the School-based Repair and Maintenance Scheme and the CIDSS Operations Manual, to assist DBM, DEPED, DOH, DPWH and DSWD in the implementation of the Project through the description of, among others: (i) procurement procedures (including the supplemental letter on procurement procedures of even date with this Agreement) and standard documentation as set forth in Schedule 4 to this Agreement, (ii) reporting requirements and financial management procedures, including audit procedures, as set forth in Article 4 of this Agreement, (iii) the Project Performance Indicators as set forth in Schedule 6 to this Agreement, (iv) environmental criteria applicable to Sub-project design, maintenance provisions for works to be carried out under a Sub-project and criteria for the selection of Sub-projects as set forth in Schedule 5 to this Agreement, and (v) the Framework for Treatment of Indigenous Peoples; as such Manual may be amended from time to time with the agreement of the Bank;

(s) “Project Management Unit” means the unit established within each of DBM, DEPED, DOH, DPWH and DSWD, to be maintained by the Borrower in accordance with paragraph 2 of Schedule 5 to this Agreement;

(t) “School Repair and Maintenance Grant” means a grant made available by the Borrower out of the proceeds of the Loan and out of its own funds to a Grantee or Grantees to

finance the cost of a Sub-project under Part A.1 (b) of the Project;

(u) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(v) “Steering Committee” means the inter-agency committee established pursuant to paragraph 1 of Schedule 5 to this Agreement;

(w) “Sub-project” means a specific infrastructure investment project, income generating project or social services project carried out by a Grantee under Parts A.1 (b) and A.3 of the Project and utilizing the proceeds of a Grant made available in accordance with a Sub-project Implementation Agreement; and

(x) “Sub-project Implementation Agreement” means the agreement to be entered into between the relevant Grantee or Grantees and DEPED for purposes of implementing the activities under a Sub-project under Parts A.1 (b) of the Project, and between the relevant Grantee or Grantees and DSWD for purposes of implementing the activities under a Sub-project under Part A.3 of the Project.

## **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 this Agreement, an amount equal to one hundred million Dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 (i) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Grant under Parts A.1 (b) and A.3 of the Project to meet the reasonable cost of goods, works and services required for a Sub-project and in respect of which the withdrawal from the Loan Account is requested; (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and works required for Parts A.1 (a), A.1 (c), A.2, B and C of the Project and to be financed out of the proceeds of the Loan: and (iii) in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain a special deposit account in a commercial bank specifically authorized for this purpose by Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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, 2005, 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank

shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semi-annually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said 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 Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

## **ARTICLE III**

### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end shall carry out: (i) Part A.1 (a) through DEPED and DPWH; (ii) Parts A.1 (b), A.1 (c), and B.2 of the Project through DEPED; (iii) Parts A.2 and B.3 of the Project through DOH; (iv) Part A.3 of the Project through DSWD; (v) Parts B.1 and B.4 of the Project through DEPED, DOH and DSWD; and (vi) and Part C of the Project through DBM, with due diligence and efficiency and in conformity with appropriate administrative, economic, educational, engineering, financial, and management practices, and sound environmental and social standards, 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.

Section 3.02. Except as the Bank shall otherwise agree (a) procurement of the goods and works required for Parts A.1 (a), A.1 (c), A.2, B and C of 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, and (b) procurement of the goods and works required for Parts A.1(b) and A.3 of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Annex to Schedule 5 to this Agreement .

Section 3.03. For the purposes of Section 9.07 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 continued achievement of the purposes 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing

standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 Financial Monitoring Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Financial Monitoring Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 12 (b) of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **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 Steering Committee has been established in accordance with paragraph 1 of Schedule 5 to this Agreement; and

(b) the Project Implementation Manual, acceptable to the Bank, has been adopted in accordance with paragraph 3 of Schedule 5 to 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  
Department of Finance Building  
Bangko Sentral Complex  
Roxas Boulevard  
Manila, Republic of the Philippines

Cable address:	Telex:	Facsimile:
SECFIN	40268CB-CONF	(63-2) 526-9990



Manila

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

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

REPUBLIC OF THE PHILIPPINES

By /s/ Jose Isidro Camacho

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert Vance Pulley

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:

<b>Amount of the Loan Allocated</b>	<b>% of</b>
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	<u>Category</u>	<u>(Expressed in Dollars)</u>	<u>Expenditures to be Financed</u>
(1)	Civil works	9,700,000	75%
(2)	Goods	63,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3)	School Repair and Maintenance Grants	12,300,000	80% of Grant amount disbursed
(4)	CIDSS Grants	8,000,000	80% of Grant amount disbursed
(5)	Incremental operating costs	1,000,000	50%
(6)	Fee	1,000,000	Amount due under Section 2.04 of this Agreement
(7)	Unallocated	<u>5,000,000</u>	
	TOTAL	<u>100,000,000</u>	

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 “Incremental operating costs” means reasonable expenditures incurred by: (i) Project staff of DBM, DEPED, DOH, DSWD and DPWH for staff travel, per diem, communications and consumables, but excluding staff salaries, and (ii) reasonable expenditures incurred by Government staff being trained under the Project for staff travel, per diem, communications, consumables and rental for training facilities; which expenditures would not have been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$10,000[the equivalent of],000 may be made in respect of Category (2) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after March 31, 2002; and (b) a Grant under Categories (3) and (4) unless a Sub-project Implementation Agreement has been entered into in accordance with the Annex to Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works under contracts costing less than \$300,000 equivalent each; (ii) goods under contracts costing less than \$200,000 equivalent each, excluding vaccines and pharmaceuticals; (iii) Grants; and (iv) incremental 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 is to assist the Borrower in improving basic social services (i) by enhancing performance and governance in the education, health and social services sectors, and (ii) by providing inputs to such services.

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 objectives:

#### **PART A**

1. (a) Construction of: (i) classrooms at existing elementary and secondary schools and (ii) one-classroom satellite elementary and secondary schools, totaling about 1,750 classrooms, in selected Barangays, and provision of related school equipment.

(b) Carrying out of school repair and maintenance Sub-projects through the provision of about 40,000 School Repair and Maintenance Grants to elementary schools.

(c) Provision of textbooks, teachers' manuals and related educational materials to elementary and secondary schools.

2. Strengthening of DOH's public health program, including the expanded program for immunization, the national tuberculosis control program and the prevention and control of rabies, through the provision of anti-tuberculosis drugs, vaccines (including animal rabies vaccines) and related supplies to health centers and facilities.

3. Carrying out of infrastructure investment Sub-projects, income generating Sub-projects and social services Sub-projects in Poor Barangays through the provision of CIDSS Grants to Peoples Organizations.

### **PART B**

1. Strengthening the capacity of DEPED, DOH and DSWD to improve their management systems, including financial management, procurement and communications and information systems.

2. Strengthening the human resources management capacity of DEPED through the institutionalization of the new-teacher deployment system, including teacher deployment monitoring.

3. Strengthening and improving the capacity of DOH's Bureau of Food and Drugs to issue certificates of product registration, to accredit and conduct laboratory testing and inspections, and to issue Good Manufacturing Practice certifications in accordance with acceptable performance standards.

4. Provision of technical assistance and staff training for purposes of paragraphs 1, 2 and 3 of this Part of the Project.

### **PART C**

Development and implementation by DBM of transparency and accountability initiatives for the Borrower's budgetary processes in the education, health and social welfare sectors, including provision of technical assistance to DBM and provision of related training to government staff.

\* \* \*

The Project is expected to be completed by June 30, 2005

## **SCHEDULE 3**

### **Amortization Schedule**

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
October 15, 2002	0.00%
April 15, 2003	0.00%
October 15, 2003	0.00%
April 15, 2004	0.00%
October 15, 2004	0.00%
April 15, 2005	0.00%
October 15, 2005	0.00%
April 15, 2006	0.00%
October 15, 2006	0.00%
April 15, 2007	0.00%
October 15, 2007	0.00%
April 15, 2008	0.00%
October 15, 2008	0.00%
April 15, 2009	0.00%
October 15, 2009	0.00%
April 15, 2010	0.00%
October 15, 2010	1.70%
April 15, 2011	1.92%
October 15, 2011	2.16%
April 15, 2012	2.43%
October 15, 2012	2.73%
April 15, 2013	3.07%
October 15, 2013	3.46%
April 15, 2014	3.89%
October 15, 2014	4.37%
April 15, 2015	4.92%
<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
October 15, 2015	5.54%
April 15, 2016	6.23%
October 15, 2016	7.01%
April 15, 2017	7.88%
October 15, 2017	8.87%

April 15, 2018	9.98%
October 15, 2018	11.22%
April 15, 2019	12.62%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made within two 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

#### **SCHEDULE 4**

## **Procurement**

### 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, September 1997 and January 1999 (the Guidelines), the provisions of the Supplemental Letter on Procurement Procedures of even date with this Agreement and the following provisions of Section I of this Schedule.

#### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 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

Except as provided in paragraphs 2 and 4 below, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Direct Contracting

Mathematics textbooks which are of a proprietary nature and costing \$2,750,000 equivalent or less in the aggregate, and pre-fabricated school classrooms which are of a proprietary nature and costing \$200,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Procurement from UN Agencies

Rabies vaccines, costing \$1,010,000 or less in the aggregate, may be procured from the World Health Organization and other vaccines, costing \$9,600,000 or less in the aggregate, may be procured through the United Nations International Children's Emergency Fund in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$5,900,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from 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.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

(a) With respect to (i) each contract for works estimated to cost the equivalent of \$300,000 or more, (ii) the first three contracts for works estimated to cost \$50,000 or more but less than \$300,000, and (iii) each contract for goods and works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first three contracts for works in each Fiscal Year to be procured in accordance with the procedures referred to in paragraph C. 4 above and estimated to cost the equivalent of \$20,000 or more, and each contract for goods and works to be procured in accordance with the procedures referred to in paragraphs C.2 and C.3 above, the following procedures shall apply:



- (i) prior to the selection of any supplier/execution of any contract under small works procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting, from UN Agencies or small works procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

## **SCHEDULE 5**

### **Implementation Program**

1. The Borrower shall establish by Joint Department Order, and thereafter maintain until completion of the Project, the Steering Committee, chaired by the Secretary of DBM, as lead agency, and consisting of representatives from DEPED, DOH, DPWH and DSWD, to monitor the progress of the Project and coordinate Project activities.

2. The Borrower shall maintain until completion of the Project, the Project Management Unit in each of DBM, DEPED, DOH, DPWH and DSWD, headed by a Project Coordinator, with qualifications and experience acceptable to the Bank, and reporting to the designated Undersecretary, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers, including financial, accounting, procurement and monitoring and evaluation specialists, as required for the management of the activities under the Project.

3. The Borrower shall adopt and, thereafter apply in the implementation of the Project, the Project Implementation Manual, and shall not amend, delete, suspend, or waive any part of the Project Implementation Manual, without the prior approval of the Bank.

4. In carrying out the Project, the Borrower shall ensure that all land required for purposes of the Project is purchased from a willing seller following commercial practices in the area or is donated by a willing donor.

5. The Borrower shall ensure, at all times, that:

(a) in carrying out Part A.1 (b) of the Project, public information, aimed at disclosing to inhabitants of Barangays all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the Manual for the School-based Repair and

Maintenance Scheme, is available free of charge at the offices of the School Head; and

(b) in carrying out Part A.3 of the Project, public information, aimed at disclosing to inhabitants of Barangays all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the CIDSS Operations Manual is available free of charge at the offices of the Barangay Captain.

6. The Borrower shall ensure that Sub-projects are selected for purposes of Parts A.1 (b) and A.3 of the Project in accordance with the criteria and the terms and conditions set forth in the Annex to this Schedule and in the Project Implementation Manual.

7. In carrying out the Project, the Borrower shall:

(a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Indigenous Peoples caused or likely to be caused by the Project; and

(b) through a process of informed consultation and participation, involve concerned Indigenous Peoples in the design and implementation of Sub-projects so as to ensure that the benefits received by the Indigenous Peoples under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

8. In carrying out Part B of the Project, the Borrower shall cause DEPED, DOH and DSWD to furnish to the Bank for comments, by March 31, 2003, draft financial management, procurement, and information systems and technology improvement plans, and, promptly thereafter, carry out such improvement plans taking into account the Bank's comments thereon, if any.

9. In carrying out Part B.3 of the Project, the Borrower shall cause DOH to:

(a) furnish to the Bank for comments by November 30, 2002, a draft time-bound action plan to address: (i) the streamlining of the functions of its Bureau of Food and Drugs, (ii) the strengthening of the capacity of such Bureau to carry out its responsibilities, and (iii) the accreditation of private laboratories; and

(b) promptly thereafter, implement the action plan taking into account the comments of the Bank thereon, if any.

10. In carrying out Part B.2 of the Project, the Borrower shall cause DEPED and DBM, by December 31, 2004, to institutionalize the new-teacher deployment system, agreed with the Bank.

11. In carrying out Part C of the Project, the Borrower shall cause DBM to furnish to the Bank for comments, by December 31, 2003, draft action plans for the initiatives, and promptly thereafter, implement such action plans taking into account the comments of the Bank, if any.

12. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement,

the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by February 29, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

## **Annex to Schedule 5**

### **Selection Criteria and Procurement Procedures for Sub-Projects**

1. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes; (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels; (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; or (h) include the financing of government salaries or taxes.

2. Goods and works under Sub-projects shall be procured in accordance with community participation procedures acceptable to the Bank as set forth in the Project Implementation Manual.

#### **A. Selection Criteria for Sub-projects under Part A.1 (b) of the Project**

1. Each Sub-project proposed shall be a public infrastructure investment project which is technically, financially and environmentally viable, and socially and economically justified.

2. The estimated cost of a proposed Sub-project shall not be more than PHP100,000 per year.

3. A Sub-project Implementation Agreement shall be entered into between the Grantee school and DEPED, on terms and conditions set forth in the Manual for the School-based Repair and Maintenance Scheme.

#### **B. Selection Criteria for Sub-projects under Part A.3 of the Project**

1. Each Sub-project proposed shall be a public infrastructure investment Sub-project, an income generating Sub-project or a social services Sub-project which is technically financially and environmentally viable, and socially and economically justified.

2. The estimated cost of a proposed Sub-project shall be not more than PHP300,000.
3. A Sub-project Implementation Agreement shall be entered into between the Grantee Peoples' Organization and DSWD, on terms and conditions set forth in the CIDSS Operations Manual.

## SCHEDULE 6

### Performance Indicators

	Baseline	December 31, 2003	Closing Date	Source of Data
<b>A. 1: Basic Education</b>				
1. Textbook: pupil ratio in 4 core subjects (math, science, English and Filipino)	1:2.5	1: 1.5	1:1	DEPED MIS; textbook survey
2. Distribution of textbooks		20 million	50 million	FMR
3. Construction of about 1,750 new classrooms		750	1,750	FMR
4. Provision of Grants for repair and maintenance of school buildings		20,000 Grants	40,000 Grants	FMR
<b>A.2: Basic Health</b>				
1. Reduction of measles cases by 50%	7,194 cases	< 5,000	< 3,500	DOH/hospital reported cases
2. Increase Child Protected at Birth (CPAB) for tetanus toxoid by 100%	0.2/1000 live births	0.3/1000 live births	0.4/1000 live births	DOH/health records
3. Resume polio free certification			<1 case per 100,000 in under 15 population	Surveillance data
4. Increase coverage of fully immunized child	61%	63%	67%	National Statistics Office survey
5. Rabies free Visayas	6 cases per million population	< 4 cases per million	< 1 case per million population	DOH
6. Increase TB smear-positive notification rate	85	95	100	DOTS reports
7. Improve TB Cure rate	80%	83%	85%	DOTS reports
8. Administration of TB drugs		160,000 patients	200,000 patients	FMR
<b>A.3: Social Services</b>				
1. Implement CIDSS Sub-projects		1000	2000	FMR

	Baseline	December 31, 2003	Closing Date	Source of Data
<b>B.1: Strengthening of FM/Procurement/IT systems</b>				
1. Prepare draft FM- Procurement - IT improvement plans		Completed		
2. Spread sheet based accounting system installed in central offices of DEPED and DSWD		Completed		
3. Implement a MIS flash reporting system in DEPED, DSWD and DOH			Completed	
4. Implement streamlined budget process in DEPED, DOH and DSWD			Completed	
5. Reconstitute procurement unit and streamline procurement processes in DEPED and DOH		Initiated	Completed	
6. DEPED Annual statistics published within 6 months of year end		SY 2002-2003 stats published	SY 2003/2004 stats published	
7. Adopt contract distribution system in DOH	Adopted	Maintained	Maintained	
8. Form interim IT organization in DEPED		Completed		
<b>B.2: Human Resources Management Improvement</b>				
1. Reduce number of schools with pupil:teacher ratio > 50:1	500	250	<100	
2. Inter Quartile Ratio for teacher deployment at division, region and national level	2	1.5	1	
3. Adopt new teacher deployment system in DEPED			Completed	
<b>B.3: Strengthen Bureau of Food and Drugs</b>				
1. Adopt plan for streamlining Bureau of Food and Drugs		Completed		
2. Define and maintain Bureau of Food and Drugs performance standards		Defined	Maintained	
<b>C: Increase Transparency and Accountability</b>				
1. Develop and implement a Public Expenditure Tracking System		Developed	Implemented	
2. Increase in client satisfaction with basic social services	Report Card Survey 2000		Second Report Card Survey completed	

## SCHEDULE 7

### Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) as 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, works 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 equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$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 equivalent of \$4,000,000.

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

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

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall,

at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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.

