

CONFORMED COPY
LOAN NUMBER 4301 PH

Loan Agreement

(Early Childhood Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 8, 1998

LOAN NUMBER 4301 PH

LOAN AGREEMENT

AGREEMENT, dated April 8, 1998, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from the Asian Development Bank (ADB) two loans (collectively, the ADB Loans) in an amount of fifteen million seven hundred thousand dollars (\$15,700,000) and in an amount equivalent to six million four hundred eighty-seven thousand Special Drawing Rights (SDR 6,487,000), respectively, to assist in the financing of the Project, on the terms and conditions set forth in two agreements (respectively, the Ordinary Operations Loan Agreement and the Special Operations Loan Agreement, and collectively, the ADB Loan agreement), Agreements) to be entered into between the Borrower and ADB;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee

Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Bangko Sentral ng Pilipinas" means the Central Bank of the Republic of the Philippines, an agency of the Borrower, and any successor thereto;

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

(c) "CWC" means the Council for the Welfare of Children, an agency of the Borrower attached to DSWD, responsible for overseeing all programs, policies and issues concerning children, and any successor thereto;

(d) "DECS" means the Department of Education, Culture and Sports, an agency of the Borrower, and any successor thereto;

(e) "DOF" means the Department of Finance, an agency of the Borrower and any successor thereto;

(f) "DOH" means the Department of Health, an agency of the Borrower, and any successor thereto;

(g) "DSWD" means the Department of Social Welfare and Development, an agency of the Borrower, and any successor thereto;

(h) "IEC" means information, education and communication;

(i) "LGU" means a local government unit, a political subdivision of the Borrower, at the municipal or city or provincial level;

(j) "LGU Sub-project" means a specific investment sub-project approved for financing under Part A.2 of the Project in accordance with the criteria and procedures set forth in the LGU Support Facility Operations;

(k) "LGU Financing Facility" means the facility to be established by the Borrower under Part A.2 of the Project, pursuant to the provisions of Section 3.01 (c) of paragraph B.1 of Schedule 5 to this Agreement;

(l) "LGU Financing Facility Manual of Operations" means the manual LGU Financing Facility Manual of Operations, referred to in paragraph B.12 of Schedule 5 to this Agreement, as the same may be amended from time to time with the prior concurrence of the Bank;

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

(n) "PMO" means project management office, at the national, regional or provincial level, as the case may be, referred to in paragraphs A.4, A.5 and A.6 of Schedule 5 to this Agreement, responsible for the supervision and monitoring of project implementation at the respective level;

(o) "Project Regions" means Regions VI, VII and XII in the Philippines, and "Project Region" means one of the Project Regions;

(p) "Project Province" means a province within any of the Project Regions,

and "Project Provinces" means more than one such province;

(q) "Project Steering Committee" means the inter-agency committee referred to in paragraph A.1 of Schedule 5 to this Agreement;

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

(s) "Sub-project" means a specific investment project approved for financing under Part A.2 of the Project in accordance with the criteria and procedures set forth in the LGU Financing Facility Manual of Operations;

(t) "Sub-project Assistance Agreement" means the agreement referred to in paragraph B.3.4 of Schedule 5 to this Agreement between the Borrower through the national PMO and an LGU, for the implementation of the LGU Sub-project, and "MOA" means any of a Sub-project; and "Sub-project Assistance Agreements" means more than one such agreement; and

(u) "Ten-year National Early Childhood Development Program" means the program of national investments to promote early childhood development, adopted by the Borrower in May 1996, and referred to in Section 3.044.02 of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to nineteen million dollars (\$19,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

(b) For the purposes of this Section:

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

(ii) "Interest Payment Date" means any date specified in Section 2.06

of this Agreement.

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

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A.1 (a), (b), and (c) of the Project through DOH, Part A.1 (e) of the Project through DECS, and Parts A.1 (d), A.2, B and C of the Project through DSWD, respectively, with due diligence and efficiency and in conformity with appropriate administrative, public health, education, management and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) The Borrower shall, in respect of Part A.2 of the Project, make available to eligible LGUs a portion of the proceeds of the Loan allocated from time to time to Categories (1), 2(2) (b), 3(3) (b) and 4(4) (b), under terms and conditions satisfactory to the Bank. To that end, the Borrower shall establish an LGU Support Facility to make such funds available to eligible LGUs through an LGU Financing Facility established under MDF pursuant to a memorandum of agreement to such effect between DSWD and DOF, satisfactory to the Bank.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the

goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

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

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

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

ARTICLE IV

Financial and Other 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 for and in connection with the carrying out of 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 of such financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning 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 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 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. The Borrower shall consult with the Bank in respect of any proposal to modify its Ten-Year National Early Childhood Development Program.

ARTICLE V

Remedies of the Bank

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

(a) Subject to paragraph (b) of this Section:

(i) the right of the Borrower to withdraw the proceeds of either of the ADB Loans made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(ii) either of the ADB Loans shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) The Borrower has established: (i) the Project Steering Committee in accordance with the provisions of paragraph A.1 of Schedule 5 to this Agreement; (ii) the national Project Management Office within DSWD and designated the national Project Director and the national Project Coordinator thereof, in accordance with the provisions of paragraph A.4 of said Schedule 5; and (iii) in each Project Region, the regional Project Management Office within the Regional DSWD Office and designated the regional Project Coordinator thereof, in each Project Region, in accordance with the provisions of paragraph A.5 of Schedule 5 to this Agreement;

(b) DSWD and DOF have executed the memorandum of agreement referred to in Section 3.01 (c) hereof, acceptable to the Bank, in accordance with the provisions of Section 3.01 (c) of this Agreement;

(c) DSWD has adopted and put into effect the LGU Financing Facility Manual of Operations, acceptable to the Bank, in accordance with the provisions of paragraph B.2

of Schedule 5 to this Agreement;

(d) The municipal or city councils of at least five LGUs have passed resolutions satisfactory to the Bank, to authorize the respective LGUs to undertake Sub-projects under Part A.2 of the Project; and

(e) The ADB Loan Agreements have been executed and delivered and all conditions precedent to the effectiveness of said agreements or to the right of the Borrower to make withdrawals thereunder except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The 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 7.02. 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
Roxas Boulevard
Manila
Republic of the Philippines

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Salvador Enriquez

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works under Part A.2 of the Project	1,400,000	80%
(2) Goods and food supplements: 100% of local		100% of foreign expenditures
Part A.1 of the Project (a) micronutrients under	1,800,000	expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(b) food supplements under Part A.2 of the Project	600,000	
(3) Other Goods:		100% of foreign expenditures
(a) under Parts A.1, B and C of the Project	3,200,000	100% of local expenditures (ex-factory cost) and
(b) under Part A.2 of the Project	2,600,000	80% of local expenditures for other items procured locally
(4) Consultants' services and training		100%
(a) under Parts A.1, B and C of the Project	5,500,000	
(b) under Part A.2 of the Project	2,800,000	
(4) IEC activities	1,100,000	100%
TOTAL	19,000,000	

2. For the purposes of this Schedule:

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

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

(c) the term "IEC activities" means means production and distribution of information, education and communication activities under [Part B of] the Project, to promote knowledge of early child development services and their delivery, optimum behavior related to early child development, and advocacy for increased LGU investment in the delivery of such servicematerials, including carrying out IEC campaigns, meetings, workshops and other activities.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$500,000 equivalent, may be made in respect of Categories (3) (a), (4) (a) and (5) of the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after January 1, 1998.

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

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

(b) works;

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

(d) training; and

(e) IEC;

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 support the Borrower's Ten-year National Early Chilassist the Borrower in implementing its Ten-Year National Early Childhood Development Program in Regions VI, VII and XII of the Philippines (the Project Regions), in order to ensure the survival and promote the physical and mental development of young children in the most vulnerable and disadvantaged segments of the population in such Project Regions.

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: Early Childhood Development Services Delivery

1. Support for the delivery of the following programs in the Project RegionsImplementation of programs to improve the delivery of services for early childhood development in the Project Regions, consisting of:

(a) Expanded Program of Ian expanded program of immunization, through the provision of equipment and training;

(b) Program of Integrated Management of Child Ia program of integrated management of childhood illness, through the provision of equipment, training and training materials;

(c) Program of Micronutrient Malnutrition Ca program of micronutrient malnutrition prevention and control, through the provision of micronutrient supplements, and technical assistanceconsultants' services for the preparation of information, education and communication materials and activities to promote food fortification;

(d) Program of Parent Effectiveness Service, through the preparation and provisa program of parent effectiveness service, through the provision of consultants' services and materials for the preparation, production and distribution of parent training manuals; and

(e) Program of Grade 1 Early Child Experience/ Early Child Development, through the provision of technical assistancea program to introduce an enriched Grade 1 curriculum through the development of training and teaching materials, and provision of in-service training for teachers and provision of, and micronutrient supplements and medicines for Grade 1 entrants.

2. Improvement ofement in the provision of early child development services the delivery of services for early childhood development in selected municipalities and cities through the financing of specific investment Sub-projects of selected LGUs, including (a) the provision of training forspecific investment projects undertaken by LGUs, including (a) the training of health workers and child care and early education workers; (b) the construction, upgrading and repair of facilities; and (c) the provision of equipment, drugs, food supplements, teaching materials and information, education and communication materials.

Part B: Institutional Development

Support of LGUs in the implementation of their respective Sub-projects as followsDevelopment of LGU implementation capacity and support for the implementation of Sub-projects by:

1. Carrying out of a program of advocacy for increased LGU investment in early childhood development services, addressed to LGUs and LGU leaders; promotion of correct delivery of early childhood development services by service providers and communities; and promotion of optimum behavior related to early childhood development in families and service providers, through the development of IEC materials and strategies, the conduct of IEC activities and evaluation of such materials and activities, and the provision of consultants' services.

2. Strengthening of the capacity of selected LGUs to plan, design, monitor and evaluate their investment Sub-projects for the purposes of developing and improving their delivery of early child development services, through the provision of technical assistanceSub-projects, through the provision of consultants' services, equipment and training.

3. Support of training in the integrated early child development system and services, through the provision of technical assistance forDeveloping and carrying out programs of training in integrated early childhood development system and services for service providers, managers and trainers, including the development of courses, curricula and competency standards, and the establishment of a national early childhood development training accreditation system; and the provision of teaching and reference materials and of, through the provision of consultants' services, teaching and reference materials, and training.

4. Strengthening of the capacity of all levels of government to manage and operate effective early child development services, and ofDeveloping the capacity of communities and families to participate in the planning and implementation of such services, through the provision of technical assistance, training, equipment and upgrading of facilities to enhanceearly childhood development services, enhancement of the capacity of CWC to develop policy and provide program coordination and oversight, and to supportstrengthening of the management structure for the Ten-year National Early Childhood Development Program and the Project management functions, through the

provision of consultants' services, training, equipment and upgrading of facilities.

Part C: Research and Development

Support of research and development activities to enhance Enhancement of the effectiveness of the Ten-year National Early Childhood Development Program and the Project as follows, through the carrying out of research and development programs, consisting of:

1. Piloting of new interventions and service delivery mechanisms prior to their application on a Project-wide basis including, inter alia, piloting of new programs for protein energy malnutrition and for upgraded parent effectiveness services; and piloting of the guidelines for the preparation, evaluation, selection and monitoring of the investment Sub-Sub-projects.

projects of eligible LGUs.

2. Research and testing of new approaches to the design, technical content and provision of early childhood development services.

3. Undertaking of studies and surveys to evaluate the effectiveness and impact of early childhood development interventions.

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
December 15, 2003	400,000
June 15, 2004	410,000
December 15, 2004	425,000
June 15, 2005	435,000
December 15, 2005	450,000
June 15, 2006	465,000
December 15, 2006	475,000
June 15, 2007	490,000
December 15, 2007	505,000
June 15, 2008	520,000
December 15, 2008	535,000
June 15, 2009	555,000
December 15, 2009	570,000
June 15, 2010	585,000
December 15, 2010	605,000
June 15, 2011	620,000
December 15, 2011	640,000
June 15, 2012	660,000
December 15, 2012	680,000
June 15, 2013	700,000
December 15, 2013	720,000
June 15, 2014	745,000
December 15, 2014	765,000
June 15, 2015	790,000
December 15, 2015	810,000
June 15, 2016	835,000
December 15, 2016	860,000
June 15, 2017	885,000
December 15, 2017	915,000
June 15, 2018	950,000

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

SCHEDULE 4

Procurement

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

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts 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 under paragraphs 2, 3 and 4 of this Part C, (a)(a) Except as provided under paragraph 2 of this Part C, goods estimated to cost \$50,000 equivalent or more but not exceeding \$ 200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; and

(b) Except as provided under paragraphs 3 and 4 of this Part C, works shall may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 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.

4. Force Account

Works under Part A.2 of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$200,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

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

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

(b) each year, irrespective of the estimated amount thereof, (i) the first two contracts for goods, and (ii) the first two contracts for works; provided that in respect of those contracts set forth in clauses (i) and (ii) of this sub-paragraph (b) which cost less than \$50,000 equivalent each, the following procedures shall apply: (A) prior to the selection of any supplier under shopping procedures or the execution of any contract for small works, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; (B) prior to the execution of any contract procured under shopping procedures or for small works, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (C) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section

II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Implementation Program

A. Project Management and Coordination

1. The Borrower shall (a) maintain an inter-agency Project Steering Committee, chaired by the secretary or the Secretary of DSWD, and comprised of representatives of

DOF, DOH, DECS, NEDA, DILG, CWC, the National Nutrition Council, the League of Governors, the League of Municipalities and NGOs a duly authorized representative of DSWD and with a composition to be agreed to with the Bank, to provide overall guidance in the implementation of the Project. T; and (b) ensure that said Project Steering Committee shall meet at least once every calendar quarter to review the progress of the Project.

2. In each of the Project Regions, the Borrower shall, by no later than July 31, 1998, establish and, thereafter, maintain a Regional Early Childhood Development Team to be headed by the DSWD Regional Director, and to include the Regional Directors of DOH, DECS, NEDA, DILG, the regional representatives of the National Nutrition Council, the Philippines Information Agency, and NGOs with a composition acceptable to the Bank, and with functions, responsibilities and resources satisfactory to the Bank, to provide guidance to the regional PMO and monitor the implementation of the Ten-year National Early Childhood Development Program and of the Project in the Region.

3. The Borrower shall cause each Province within the Project Regions to establish, by no later than August 31, 1998 and, thereafter, maintain a Provincial Early Childhood Development Team with functions, responsibilities and resources satisfactory to the Bank, to provide guidance and assistance to the provincial PMO in the implementation of the Project within such Province.

4. The Borrower shall:

(a) The Borrower shall maintain a national PMO within DSWD with functions, responsibilities and resources satisfactory to the Bank criteria of acceptability should be discussed at negotiations and recorded in the minutes, to coordinate, supervise and monitor the implementation of the Project; and

(b) by no later than August 31, 1998 appoint, in addition to the national Project Director and national Project Coordinator, key staff acceptable to the Bank.

5. In each Project Region, the Borrower shall:

(a) maintain a regional PMO within the Regional DSWD Office, with functions, responsibilities and resources satisfactory to the Bank, managed and staffed by personnel; and

(b) by no later than August 31, 1998 appoint, in addition to the regional Project Coordinator, key staff acceptable to the Bank. list of such key staff and their qualifications should be discussed at negotiations and recorded in the minutes.

6. The Borrower shall through each Province in the Project Regions: (i) establish by no later than August 31, 1998 and, thereafter, maintain a provincial Project Management Office, to be headed by a provincial Early Childhood Development Action Officer; and (ii) provide such provincial PMO with functions, responsibilities and resources satisfactory to the Bank, staffed by qualified personnel in adequate number to enable it to coordinate and monitor the implementation of the Project within such Province.

B. Project Implementation

1. The Borrower shall carry out Part A.2 of the Project in accordance with they establishing, through MDF, an LGU Financing Facility to make available to LGUs a portion of the proceeds of the Loan as grants to finance eligible Sub-projects, under terms and conditions acceptable to the Bank.

2. The LGU Financing Facility shall be administered in accordance with principles and procedures set forth in an LGU Financing Facility Manual of Operations satisfactory to the Bank. The Manual of Operations shall set forth, inter alia: (a) the criteria and process for the selection of LGUs eligible for financing under Part A.2 of the Project; (b) the procedures and criteria for the review, appraisal and approval of LGU Sub-projects; (c) the policy, guidelines and general procedures to ensure the participation of indigenous peoples in the design and implementation of Sub-projects, and the implementation of the specific early childhood development plans

for indigenous people developed by LGUs, when applicable; (d) the cost-sharing arrangements between the Borrower and the respective LGUs; and (e) the procedures for monitoring and reporting of activities under the LGU Sub-projects.

3. The Borrower, through the relevant Regional DSWS Office, shall⁴. In respect of each Sub-project, the Borrower:

(a) shall, through the national PMO enter into a Sub-project Assistance Agreement with the eligible LGU, satisfactory to the Bank. Said Sub-project Assistance Agreement shall specify the obligations of the LGU in accordance with the LGU Financing Facility Manual of Operations, including but not limited to its obligations to: (i) implement its respective Sub-project under Part A.2 of the Project; (ii) implement the indigenous people early childhood development strategy developed by the respective provincial PMO through its respective Sub-project; (iii) provide promptly as needed funds, facilities, services and other resources required for its respective Sub-project; and (iv) upon completion of its respective Sub-project, allocate adequate resources to ensure the continuing implementation of the objectives of said Sub-project;

(b) shall not make available the proceeds of the Loan for financing such Sub-project until the Sub-project Assistance Agreement referred to in subparagraph (a) of this paragraph B.4 has been entered into with the eligible LGU.

4. The Borrower shall exercise its rights under each Sub-project Assistance Agreement entered into pursuant to the provisions of paragraph B.34 of this Schedule, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank may otherwise agree, shall not assign, amend, abrogate or waive such agreement or any provision thereof.

5. The Borrower, through DOH, shall continue annually to provide and distribute micronutrients, including Vitamin A, iodized oil capsules and iron tablets and syrups,⁶. The Borrower shall: (a) prepare and, by November 30 of each year starting in 1998, furnish an annual micronutrient supplementation program to the Bank for its review and comments; and (b) thereafter, carry out said annual plan through DOH, taking into consideration the Bank's view thereon.

6. The Borrower shall ensure that no weaning foods shall be used as food supplements in the protein-energy malnutrition control program under Part A.1 (c) of the Project unless such foods have been submitted to the Bureau of Foods and Drugs of DOH for quality-assurance testing and been certified as meeting the applicable Government standards.

7. (a) In order to ensure the informed participation of indigenous peoples in the development of Sub-projects under Part A.2 of the Project, the Borrower shall, prior to approving an investment project for financing as a Sub-project, require that the LGU proposing said project develop, if applicable, an indigenous people plan in accordance with the policy, principles and general procedures set forth in the LGU Financing Facility Manual of Operations and, thereafter, ensure that upon its approval, said Sub-project shall be implemented in accordance with such indigenous people plan as shall have been approved by the Borrower.

(b) In order to strengthen the capabilities of the LGUs in formulating indigenous people plans, the Borrower shall:

(i) through each provincial PMO, by no later than December 31, 1998, the Borrower shall, December 31, 1998, carry out a baseline survey of all major groups of indigenous people within such Project

Province, under terms of reference acceptable to the Bank;

- (ii) ensure that such baseline survey shall collect quantitative data on the status, knowledge, attitudes, practices and special needs of each such group in respect of early childhood development, its access to early childhood development services, service utilization, receptivity to the Project and willingness to participate in it;
- (iii) ensure that each provincial PMO shall also hold consultations with each such group;
- (iv) by no later than March 31, 1999, on the basis of such baseline survey findings and in accordance with the policy and procedures regarding Indigenous Peoples set forth in the Manual of Operations, through the Provincial Early Childhood Development Team and the provincial PMO, develop a provincial indigenous people early childhood development strategy acceptable to the Bank which will incorporate distinct strategies for each major groups of indigenous people within such Project Province, as may be necessary; and
- (v) thereafter, ensure that said baseline survey findings and provincial indigenous people early childhood development strategies are applied by the LGUs in their development of indigenous people plans pursuant to the provisions of subparagraph (a) of this paragraph B.8.

9. The Borrower shall: (a) by September 30, 1998 formulate a training program for Part B.3 of the Project in accordance with terms of reference acceptable to the Bank, and furnish said training program to the Bank for its review and comments; and (b) thereafter, carry out said program taking into consideration the Bank's view on the matter.

10. The Borrower shall, by no later than September 30, 1998, put into effect its Financial Information System for Foreign-Assisted Projects.

11. The Borrower shall, by no later than July 31, 1998:

(a) under terms of reference acceptable to the Bank: (i) complete the design for the National Nutrition Survey to be carried out in 1998; and (ii) formulate the evaluation protocol for the pilot programs for protein energy malnutrition and for parent effectiveness services under Part C.1 of the Project; and

(b) provide said design and evaluation protocol to the Bank for its review and comment and, thereafter, put them into effect in carrying out the National Nutrition Survey and in evaluating Part C.1 of the Project, taking into consideration the Banks' view thereon.

12. The Borrower shall: (i) carry out the studies and surveys under Part C.3 of the Project in accordance with terms of reference acceptable to the Bank; and (ii) provide the Bank for its review and comments the results and recommendations of such studies and surveys.

C. Monitoring and Reporting

1. In respect of Part C.1 of the Project, the Borrower shall: (i) closely monitor the piloting of new early childhood development interventions and service delivery systems; and (ii) by December 31, 1999 prepare under terms of reference acceptable to the Bank and provide to the Bank for its review and comment an evaluation of each such pilot intervention.

2. The Borrower shall: (i) by December 31, 1998 carry out a baseline survey in respect of early childhood development and the quality and level of related services in the Project Regions, under terms of reference acceptable to the Bank; (ii) by June 30, 1999, review with the Bank the findings of such survey with the view to, as the case may be, to confirm or modify, as the case may be confirm the key performance indicators, baseline values and targets acceptable to the Bank or to modify such indicators, baseline values and targets in a manner satisfactory to the Bank; and (iii) by June 30, 2004 carry out a repeat survey under terms of reference acceptable to the Bank for the purpose of evaluating the achievements and impact of the Project.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators and targets acceptable to the Bank 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 and July 31 of each year, commencing in July 1998 a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph C.3, on the progress achieved in the carrying out of the Project during the preceding semester, and setting out measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such dates;

(c) on or about September 30, 2000, carry out a mid-term review under terms of reference acceptable to the Bank, of the progress achieved in the carrying out of the Project during the period preceding such date and setting out 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

(d) review with the Bank, within one month following the date of each such report, or such later date as the Bank shall request, each report referred to in sub-paragraphs (b) and (c) of this paragraph C.3, 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.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3 (a), (2) (b), (3) (a), (3) (b), (4) (a), (4) (b) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equal \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$900,000 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 amounts of

\$6,000,000.

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 deposits 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 said 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.

