

CONFORMED COPY

LOAN NUMBER 7152 PH

Loan Agreement

(Second Agrarian Reform Communities Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 22, 2003

LOAN AGREEMENT

AGREEMENT, dated January 22, 2003, 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) "Agrarian Reform Beneficiaries" and the acronym "ARB" mean the population of an ARC selected to participate under Part A of the Project in accordance with the criteria and procedures set forth in the Operations Policy Manual referred to in paragraph A.4 (a) of Schedule 5 to this Agreement;

(b) "Agrarian Reform Community" and "ARC" mean a Barangay, or groups of Barangays within a municipality, or a group of municipalities, which has been

declared an “Agrarian Reform Community” by DAR pursuant to the Republic Act 6657 of June 10, 1988, as amended from time to time;

(c) “Agrarian Reform Communities Development Project” and “ARCDP” means the Borrower’s project described in Schedule 2 to the Loan Agreement entered into between the Borrower and the Bank for Loan No. 4109-PH, dated December 20, 1996, as amended from time to time;

(d) “Bangko Sentral ng Pilipinas” means the Borrower’s central bank established pursuant to the Republic Act 7653 of July 3, 1993, and any successor thereto;

(e) “Barangay” means a political subdivision within a city or a municipality of the Borrower;

(f) “Bureau of Soils and Water Management” and “BSWM” mean the administrative agency of the Borrower under the jurisdiction of the Department of Agriculture, responsible for planning, design and construction of small water impounding structures, and any successor thereto;

(g) “Central Project Office” and “CPO” mean the office established within DAR, for the purpose of implementing the ARCDP and referred to in paragraph A.2 of Schedule 5 to this Agreement;

(h) “DA” means the Borrower’s Department of Agriculture, and any successor thereto;

(i) “DAR” means the Borrower’s Department of Agrarian Reform, and any successor thereto;

(j) “DENR” means the Borrower’s Department of Environment and Natural Resources, and any successor thereto;

(k) “Development Facilitators” and the acronym “DF” mean Project staff in charge of the day-to-day coordination and management of Project activities within an ARC and who report to the respective MARO;

(l) “DILG” means the Borrower’s Department of Interior and Local Government, and any successor thereto;

(m) “DBM” means the Borrower’s Department of Budget and Management, and any successor thereto;

(n) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter;

(B) loss of assets or access to assets or (C) or loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means more than one Displaced Person;

(o) “DPWH” means the Borrower’s Department of Public Works and Highways and any successor thereto;

(p) “DOF” means the Borrower’s Department of Finance, and any successor thereto;

(q) “Environmental Framework” means the Environmental Framework adopted by DAR on November 7, 2002, and describing the rules, guidelines and procedures to assess environmental impacts of Sub-projects and defining measures to reduce, mitigate or offset adverse environmental impacts and enhance positive impacts of Sub-projects and referred to in paragraph A. 4 (a) (vi) of Schedule 5 to this Agreement, and the same as may be amended from time to time with the prior approval of the Bank;

(r) “Environmental Management Bureau” and “EMB” mean the Borrower’s agency in charge of environmental protection within the Department of Environment and Natural Resources;

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

(t) “Fiscal Year” means the Borrower’s fiscal year, commencing January 1 and ending December 31;

(u) “Framework and Procedural Guidelines for Indigenous Peoples Development” means the DAR’s framework adopted on November 7, 2002, and which sets forth the guidelines, satisfactory to the Bank, and referred to in paragraph A. 4 (a) (vii) of Schedule 5 to this Agreement, which provides guidelines and procedures for the informed participation of Indigenous Peoples for the preparation, adoption and implementation of culturally appropriate plan or plans under the Project, as the same may be amended from time to time with the prior agreement of the Bank;

(v) “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;

(w) “Irrigators’ Association” and “IA” mean an association of farmers who jointly own and operate a communal irrigation system or who share the use of a portion of a national irrigation system, registered with the Borrower's Security and Exchange Commission in accordance with Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as the same may be amended from time to time; and "IAs" means, collectively, Irrigators' Associations;

(x) “LGU” means a local government unit, a political subdivision of the Borrower, at the Barangay, municipal or provincial level;

(y) “MARO” means the Borrower’s Municipal Agrarian Reform Officer assisting the work of the Local Project Office with relevant entities at the municipal level;

(z) “MOA” means a Memorandum of Agreement to be entered into by DAR and respectively each of DA-BSWM, DENR, DPWH, NCIP, NIA and PCFC pursuant to paragraph A.3 of Schedule 5 to this Agreement; and MOAs and Memoranda of Agreement mean more than one MOA;

(aa) “National Commission on Indigenous Peoples” and “NCIP” mean the Borrower’s agency established pursuant to Republic Act 8371 and referred to in paragraph A.3 of Schedule 5 to this Agreement, and any successor thereto;

(bb) “National Irrigation Administration” and the acronym “NIA” mean the government-owned entity established pursuant to Republic Act 3601, dated June 22, 1963, as amended by Presidential Decrees No. 552, dated September 11, 1974 and 1702, dated July 18, 1980, and responsible for irrigation development, including the design and construction of communal irrigation systems, and any successor thereto;

(cc) “Operations Policy Manual” means the Manual, to be adopted pursuant to paragraph A.4.(a) of Schedule 5 to this Agreement; as such manual may be amended from time to time with the prior agreement of the Bank;

(dd) “PARO” means the Borrower’s Provincial Agrarian Reform Officer heading the work of the Provincial Project Office with relevant entities at the provincial level;

(ee) “People’s Credit and Finance Corporation” and “PCFC” mean the Borrower’s financial organization established under the Administrative Order No. 148 and memorandum Order No. 261, as amended from time to time and referred to in paragraph A.3 of Schedule 5, and any successor thereto;

(ff) “Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Project Affected Persons” means the DAR’s policy, adopted on November 7, 2002, satisfactory to the Bank, and referred to in paragraph A.4.(a) (v) of Schedule 5 to this Agreement providing procedures, rules and guidelines for: (i) land

and other assets acquisition from Displaced Persons, (ii) resettlement, rehabilitation of and compensation to Displaced Persons, and (iii) reporting and monitoring arrangements to ensure compliance with said policy, as said policy may be amended from time to time with the prior agreement of the Bank;

(gg) “Project Management Board” and “PMB” mean the entity established under the ARCDP and maintained pursuant to paragraph A.1 of Schedule 5 to this Agreement;

(hh) “Provincial Project Office” and “PPO” mean an office, headed by the Provincial Agrarian Reform Officer, established at provincial level to coordinate the implementation of the Project in the ARCs;

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

(jj) “Sub-project” means a community-driven rural infrastructure facility carried out by a LGU or NIA as the case may be under Part B of the Project and utilizing part of the proceeds of the Loan allocated from time to time to Category (1) set forth in the table in Paragraph 1 of Schedule 1 to this Agreement, and made available in accordance with a Sub-project Agreement.

(kk) “Sub-Project Agreement” and “SPA” mean each of the agreements to be entered into between DAR and each of LGUs and NIA pursuant to Section 3.01 (c) of this Agreement, and Paragraph B (1) through (3) of Schedule 5 to 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 this Agreement, an amount equal to fifty million Dollars \$50,000,000, 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 for: (i) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower on account of a Sub-project under Part B of the project to meet the reasonable cost of works 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 services required for the Project described in Schedule 2

to this Agreement and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 to this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project open and maintain in United States dollars 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, 2007, 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 percent (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 percent (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.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

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 objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DAR with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and engineering practices, and social

and environmental 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.

(c) The Borrower shall, in respect of Part B of the Project, make available to LGUs or NIA as the case may be, part of the proceeds of the Loan not to exceed in the aggregate, the amount allocated from time to time to Category 1 set forth in the table in paragraph 1 of Schedule 1 to this Agreement under agreements to be entered into between DAR and each of LGUs or NIA as the case may be, in accordance with terms and conditions 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 9.07 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 future operation 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 C.1 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 Operations Policy Manual, satisfactory to the Bank, has been adopted by DAR in accordance with the provisions of paragraph A.4 of Schedule 5 to this Agreement;

(b) DAR has entered into MOAs with respectively DA-BSWM, DENR, DPWH, NCIP, NIA and PCFC for the purpose of defining their responsibilities and

cooperation under the Project pursuant to paragraph A.3 of Schedule 5 to this Agreement, satisfactory to the Bank.

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 ng Pilipinas Complex
Roxas Boulevard
Manila, Republic of the Philippines

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

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-projects	34,000,000	100% of amount disbursed
(2) Goods	1,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(3) Consultants' services	4,500,000	82% of expenditures for services of individual consultants and 87% of expenditures for services of consulting firms
(4) Local training	4,000,000	90%
(5) Incremental operating costs	1,000,000	50%
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(7) Front-end Fee	500,000 _____	Amount due under Section 2.04 of this Agreement
(8) Unallocated	4,500,000 _____	
TOTAL	<u>50,000,000</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 DAR for Project staff travel and transportation, per diem, communications, consumables, and operating costs of equipment, but excluding staff salaries, 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 payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$800,000, may be made in respect of Categories 3, 4 and 5 set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after May 15, 2002; and

(b) for a Sub-project under category (1) set forth in the table in paragraph 1 of this Schedule unless a Sub-project Agreement has been entered into in accordance with Section B of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for: (i) Sub-projects; (ii) goods under contracts costing less than \$50,000 equivalent each; (iii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each; (iv) contracts for the employment of individuals valued at less than \$50,000 equivalent each; (v) incremental operating costs; and (vi) training and workshops; 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 to raise the incomes of selected Agrarian Reform Communities and enhance the standard of living of their populations by improving their productive assets, rural infrastructure and access to key support 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 objective:

PART A: Community Development and Capacity Building

Strengthening the (i) capacity of selected ARCs and their community organizations to ensure effective participation in the planning processes and implementation of community-identified developmental priorities, (ii) capacity of DAR and LGUs to support development activities in selected ARCs, and (iii) capacity of people's organizations, cooperatives, associations, farmer groups and producer groups, through the provision of technical assistance and training therefor.

PART B: Rural Infrastructure

Developing rural infrastructure facilities in selected ARCs of the Project Provinces through the financing of Sub-projects for (i) construction, rehabilitation and maintenance of rural roads and bridges; (ii) construction and rehabilitation of small-scale irrigation, potable water supply systems, post-harvesting facilities; and (iii) construction and rehabilitation of communal infrastructure including multipurpose building and solar drying pavements in selected ARCs including about 40 ARCs in addition to those implementing development activities under the ARCDP.

PART C: Agriculture and Enterprise Development

1. Development of opportunities to generate increased production and diversification within and outside agriculture to selected ARCs for: (i) enterprise development and management; (ii) market development and promotion; (iii) technology promotion, transfer and commercialization; (iv) resources mobilization and investment promotion; and (v) including the provision of technical assistance and training therefor.

2. Carrying out of land subdivision surveys and titling services for collective titles in selected ARCs including the provision of technical assistance therefor.

PART D: ARCs Access to Financial Services

Organizing and facilitating the provision of financial services to (i) ARC organizations and their members, and (ii) ARC households who are not members of ARC organizations to increase availability of market-driven rural financial services for credit and savings in the ARCs including the provision of technical assistance and training therefor.

PART E: Field Implementation Support

Strengthening of the technical and implementation capacities of LGUs and DAR's field staff involved in the implementation of the Project, including technical assistance, training and provision of facilities.

PART F: Project Management, Monitoring and Evaluation

Strengthening of technical and management capabilities of the CPO staff including for monitoring and evaluation of Project activities through the provision of technical assistance, training, equipment and other facilities therefor.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan 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 (Expressed as a %)</u>
On each April 15 and October 15 Beginning April 15, 2011 through April 15, 2022	4.17%
On October 15, 2022	4.09%

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) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost more than \$50,000 equivalent and less than \$ 1,000,000 equivalent per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost more than \$50,000 equivalent and less than \$200,000 equivalent per contract shall 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 \$500,000 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. Force Account

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

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 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) the procedure set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

- (i) with respect to the first contract for works procured by each LGU and the NIA for each Sub-project carried out in each province and procured under Part C.1 of this Section; and
 - (ii) with respect to the first contract for goods procured under Part C.1 of this Section.
- (b) With respect to the first contract for goods under Part C.2 and the first contract for works to be procured under Part C.4 of this Section for each LGU, the following procedure shall apply:
- (i) prior to the selection of any supplier/execution of any contract under national shopping or 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 small works or national shopping 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.

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, January 1999 and May 2002 (the Consultant Guidelines), the following provisions of Section II of this Schedule and in accordance with the provisions of the Supplemental Letter on Procurement Procedures of even date with this Agreement.

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications:

Services under Part E of the Project that are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$4,000,000 equivalent, 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) 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:

- (i) with respect to each contract for the employment of consulting firms under Part B of this Section estimated to cost the equivalent of \$100,000 or more; and
- (ii) with respect to the first two contracts for the employment of consulting firms under Part C.1 of this Section.

(b) 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

1. The Borrower shall maintain the Project Management Board established under the ARCDP to (i) provide policy direction and overall management guidance in the implementation of the Project and (ii) approve the Project annual work plans and Sub-projects under Part B of the Project in accordance with the provisions of the Operations Policy Manual.

2. The Borrower shall maintain the Central Project Office, as established under the ARCDP, within DAR, which shall continue to be staffed and managed by staff in adequate number and with qualifications and experience satisfactory to the Bank in such areas as budget preparation, consolidation of accounts, disbursement, and reimbursement. The CPO, under the leadership of the Project Director shall continue to possess such functions, responsibilities and resources as necessary to enable it to coordinate, monitor, evaluate, and manage the different Project activities, and to review and appraise Sub-projects proposed by LGUs or NIA.

3. The Borrower shall cause DAR to enter into MOAs with respectively BSWM, DENR, DPWH, NCIP, NIA and PCFC, satisfactory to the Bank, each of such MOA shall define the respective role and responsibilities of the respective agency to support, implement, monitor Project activities and the modalities of their cooperation thereof.

4. The Borrower shall cause DAR to:

(a) adopt an Operations Policy Manual, satisfactory to the Bank, which shall include, inter alia: (i) a description of the functions, responsibilities and composition of the PMB and the CPO; (ii) the criteria and process for the selection of ARCs to be covered by the Project; (iii) the criteria and process for the selection of non-governmental organizations, where appropriate, to assist selected ARCs in respect of activities under Parts A and D of the Project; (iv) the procedures and criteria selection, review, appraisal and approval of the Sub-projects proposed by LGUs or NIA; (v) the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Project Affected Persons, referred to in Section 1.02 (ff); (vi) the Environmental Framework referred to in Section 1.02 (q); (vii) the Framework and Procedural Guidelines for Indigenous Peoples Development referred to in Section 1.02 (u), (viii) cost-sharing arrangements between Borrower and respectively each LGU or NIA as the case may be in respect of the approved Sub-projects under Part B of the Project; (ix) financial management procedures;

(x) procurement rules and procedures; and (ix) the procedures for the monitoring and reporting of Project activities;

(b) carry out the Project in accordance with the provisions of the Operations Policy Manual; and

(c) not amend, delete, suspend, or waive any part of the Operations Policy Manual unless it is agreed upon by the Borrower and the Bank;

5. The Borrower shall cause DAR to carry out the training and technical assistance under the Project. To that end, DAR shall cause the CPO, by October 31 of each year commencing on October 31, 2003, to furnish to the Bank an annual program, satisfactory to the Bank, for the delivery of training and technical assistance to the ARCs.

B. Infrastructure Sub-projects under Part B of the Project:

1. The Borrower shall cause DAR to enter into Sub-project Agreements (SPAs) acceptable to the Bank, with LGUs and NIA for the purpose of implementing Part B of the Project. Each SPA shall specify the respective obligations of each LGU or NIA as the case may be, in accordance with provisions of the Operations Policy Manual, including the obligations to:

(a) execute their respective Sub-projects under Part B of the Project;

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

(c) upon completion of such Sub-projects, provide or cause to be provided adequate resources for the operation and maintenance thereof.

2. The Borrower shall cause DAR to ensure that each proposal for a Sub-project under Part B shall be reviewed by the CPO and shall be approved only if:

(a) (i) an environmental impact assessment of such Sub-Project has been prepared; (ii) an environmental management plan or any other environmental requirement or mitigation measures provided for in the Environmental Framework set forth in the Operations Policy Manual has been adopted and implemented, as the case may be; (iii) in the event an environment compliance certificate is required under Philippines laws or regulations is required, the LGU or NIA has obtained such certificate from the Borrower's Environmental Management Bureau in respect of the construction and operation of such Sub-Project;

(b) such proposal incorporates measures for the maintenance and periodic inspection of such works and physical structures to be built or rehabilitated in accordance

with sound engineering practice satisfactory to the Bank to determine whether there are any deficiencies in the condition of the structures, or in the quality and adequacy of maintenance or the methods of operations thereof which may endanger their safety;

(c) such proposal incorporates a plan for the appropriate compensation, resettlement and rehabilitation of persons displaced by such Sub-Project, in accordance with the Policy Framework for Land Acquisition, Resettlement and Rehabilitation of Project Affected Persons; and

(d) such proposal incorporates measures to be carried out to consult with and ensure informed participation of Indigenous peoples in the design and implementation of culturally appropriate plan or plans under the project in accordance with the Framework and Procedural Guidelines for Indigenous Peoples Development.

3. The Borrower shall cause DAR to exercise its rights under each of the Sub-project Agreement in such a manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Loan.

C. Monitoring and Reporting

1. The Borrower shall and shall cause DAR to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the carrying out of the Project and the achievement of the objectives thereof in accordance with the indicators set forth in Schedule 6 to this Agreement, and in more details in the OPM;

(b) submit by October 31 of each year an annual work plan and budget for Bank review;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about February 28, 2005, 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

(d) review with the Bank, by May 31, 2005, 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.

SCHEDULE 6

Performance Indicators

Objectives	Key Performance Indicator	Unit	End CY03	End CY04	End CY05	End CY06
Increase in Household Income	i. % change in real income 3 years after joining	%				20
	ii. Cropping intensity (irrigated area)	%				140
	iii. Increase in yield of ARCs 3 years after joining	%				15
Provision of Incremental Physical Infrastructure	Cumulative volume of Rural Infrastructure handed over to the ARCs by year end	IU	60	440	1,070	1,500
Sustainability	i. Quality of infrastructure maintenance	Grade level	-	G	-	G
	ii. Average increase in business assets per HH 3 years after joining	%	-	-	-	10
	iii. % of POs achieving an increase in OM rating since joining.	%	-	-	50%	75%

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4) 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 works, 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 equivalent to \$4,000,000 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 \$2,000,000 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 \$10,000,000.

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 Accounts;

- (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.