

CONFORMED COPY

LOAN NUMBER 3607-0 PH

(Second Irrigation Operations Support Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 9, 1993

LOAN NUMBER 3607-0 PH

LOAN AGREEMENT

AGREEMENT, dated June 9, 1993, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and

Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "DA" means the Borrower's Department of Agriculture;

(b) "IMIS" means the Irrigation Management Information System established and monitored by NIA;

(c) "Irrigators' Association" means an association of farmers in an irrigation system, registered in accordance with Presidential Decrees No. 681 and 1595 of the Borrower, as amended to the date of this Agreement;

(d) "ISF" means the Irrigation Service Fee charged by NIA on irrigated lands within Irrigation Systems at a rate approved by the Borrower;

(e) "Irrigation System" means an irrigation system constructed by, and the property of, NIA and eligible for inclusion under the Project;

(f) "NIA" means the National Irrigation Administration, a government-owned and controlled corporation established by the Republic Act No. 3601 of the Borrower, as amended to the date of this Agreement; and

(g) "Peso" means a unit of the currency of the Borrower.

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, various currencies that shall have an aggregate value equivalent to the amount of fifty-one million three hundred thousand dollars (\$51,300,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. 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.

Section 2.03. The Closing Date shall be June 30, 1999 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 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, B and C of the Project through NIA and Part D of the Project through DA with due diligence and efficiency and in conformity with appropriate financial, administrative, engineering and agricultural 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.

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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause NIA to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall or shall cause NIA to:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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 withdraw-

als.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause NIA:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and agricultural practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agricultural practices.

ARTICLE VI

Termination

Section 6.01. 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:

Secretary of Finance
Department of Finance
Manila
Republic of the Philippines

Cable address:

SECFIN
Manila

Telex:

7550 CBP-PH
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

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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

/s/ Franklin M. Ebdalin
 By
 Authorized Representative

INTERNATIONAL BANK FOR
 RECONSTRUCTION AND DEVELOPMENT

/s/ Gautam S. Kaji
 By
 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 U. S. Dollar Equivalent)	% of Expenditures to be Financed
1. Works	33,500,000	93%
2. Equipment	4,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
3. Technical assistance and training	4,300,000	100%
4. Incremental operating and maintenance costs under Part B of the Project	9,400,000	80% from January 1, 1993 through December 31, 1994; 50% from January 1, 1995 through December 31, 1995; and 20% from January 1, 1996 and thereafter
TOTAL	51,300,000	

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;

(c) the term "incremental operating and maintenance costs" means costs incurred for works, services, supplies, travel and staff salaries required under Part B of the Project as agreed between the Borrower and the Bank; and

(d) 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 exceeding the equivalent of \$3,000,000, may be made in respect of Category 4 on account of payments made for expenditures before that date but after January 1, 1993.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to achieve sustainable improvement in the operational efficiency of Irrigation Systems thereby increasing agricultural production, small farmer incomes and rural employment opportunities.

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: Improvement of Irrigation Systems

1. Improvement of about 18 Irrigation Systems including desilting, reshaping of canals, repair of damaged canals and structures and installation of steel gates.
2. Repair of about 22 river diversion structures in about 14 flood-damaged Irrigation Systems.
3. Erosion control mainly through the use of vegetative materials and the establishment of nurseries for the supply of planting materials.
4. Construction, on a pilot basis, of about three silt excluders in Irrigation Systems subject to heavy siltation and construction of improved water control structures.

Part B: Operation and Maintenance Improvement

1. The carrying out of a program to improve and enhance the operations and maintenance of Irrigation Systems, including incremental activities such as maintenance of canals, service roads, control gates and structures; increased participation of Irrigators' Associations in the operations and maintenance of Irrigation Systems; and improvement of ISF collection.
2. Formulation and implementation of system operation plans.

Part C: Institutional Strengthening and Development

1. Strengthening of existing Irrigators' Associations by provision of additional training and by membership expansion; establishment of new Irrigators' Associations; and provision of financial and management training for Irrigators' Associations.
2. Strengthening of NIA's capability for ISF collection, inter alia, by involving Irrigators' Associations in ISF collection; updating map-

ping of irrigated areas and field registers and computerizing the billing process; staff training in operations and maintenance of Irrigation Systems, appropriate engineering design techniques, and administrative and financial management; and the provision of support for the IMIS.

3. The carrying out of studies on hydrology, siltation, improved water control and mechanical equipment and workshop management to strengthen NIA.

4. Provision of equipment and materials to NIA.

Part D: Agricultural Support Services

Provision of agricultural support services including verification trials, demonstration plots, seed production and farmer training.

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The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 1999	960,000.00
August 1, 1999	995,000.00
February 1, 2000	1,030,000.00
August 1, 2000	1,070,000.00
February 1, 2001	1,110,000.00
August 1, 2001	1,150,000.00
February 1, 2002	1,195,000.00
August 1, 2002	1,240,000.00
February 1, 2003	1,285,000.00
August 1, 2003	1,330,000.00
February 1, 2004	1,380,000.00
August 1, 2004	1,435,000.00
February 1, 2005	1,485,000.00
August 1, 2005	1,540,000.00
February 1, 2006	1,600,000.00
August 1, 2006	1,660,000.00
February 1, 2007	1,720,000.00
August 1, 2007	1,785,000.00
February 2008	1,850,000.00
August 1, 2008	1,920,000.00
February 1, 2009	1,990,000.00
August 1, 2009	2,065,000.00
February 1, 2010	2,140,000.00
August 1, 2010	2,220,000.00
February 1, 2011	2,300,000.00
August 1, 2011	2,385,000.00
February 2012	2,475,000.00
August 1, 2012	2,570,000.00
February 1, 2013	2,665,000.00
August 1, 2013	2,750,000.00

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two pre-disclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in The Republic of the Philippines may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Packages of workshop, agricultural or office equipment estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in

accordance with procedures satisfactory to the Bank.

2. Civil works for irrigation system improvements and repair works under Part A of the Project and for operation and maintenance works under Part B of the Project estimated to cost the equivalent of \$600,000 or more per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Civil works for irrigation system improvements and repair works under Part A of the Project estimated to cost less than \$600,000 equivalent per task, up to an aggregate amount equivalent to \$21,600,000, may be carried out under force account.

4. Civil works for operation and maintenance works under Part B of the Project estimated to cost the equivalent of \$200,000 or more per task but less than \$600,000 equivalent per task, up to an aggregate amount equivalent to \$12,300,000, may be carried out under force account.

5. Civil works for operation and maintenance works under Part B of the Project estimated to cost the equivalent of less than \$200,000 per task, up to an aggregate amount equivalent to \$6,200,000, may be carried out through piece-work.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$300,000 or more and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding paragraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to Bank prior review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to the amendments of contracts raising the contract value to \$100,000 equivalent or above.

Implementation Program

The Borrower shall cause NIA to:

1. With respect to Irrigation Systems to be improved under the Project:

(a) select Irrigation Systems on the basis of criteria satisfactory to the Bank, covering technical aspects, such as adequacy of water and completeness of hydrologic data; institutional aspects, such as presence of an effective Irrigator's Association with commitment to carry out repairs and improvements and assume responsibility for operation and maintenance of improved sections of the relevant Irrigation System; and economic aspects, such as for each Irrigation System an economic rate of return of not less than ten percent;

(b) prepare, in respect of each selected Irrigation System, a detailed operation plan and improvement plan in consultation and agreement with the beneficiaries of such selected Irrigation System;

(c) submit, by June 30 in each year, to the Bank for review and comment a detailed work program (based on the improvement plans referred to in sub-paragraph (b) above) together with the operation plans for each selected Irrigation System to be improved during the following twelve months; and

(d) implement, taking into account the Bank's comments and recommendations thereon, each work program referred to in sub-paragraph (c) above, in a manner satisfactory to the Bank.

2. In each year make adequate provision, in NIA's operating budget, for retirement and/or severance benefits (as appropriate) for ditch-tenders whose employment would cease during the following twelve months and ensure that such benefits are made available to eligible ditch-tenders in accordance with the Borrower's laws, rules and regulations as the same may be amended from time to time.

3. Furnish to the Bank, for review and comment, the proposed criteria for its incentive scheme, taking into account the objective of improved operation and maintenance of Irrigation Systems, and shall take into account the Bank's comments thereon.

4. By December 31, 1993 furnish to the Bank a report on all Irrigation Systems where actual ISF collection was below 60% of the amounts billed in 1992 providing details of the problems faced in collection and actions recommended to resolve such problems.

5. By October 31, 1993, submit to the Bank for its review and comment, a review of the existing monitoring system in respect of Irrigation Systems and a proposal for a modified IMIS, together with a comparison of the two, and shall take into account the Bank's comments and recommendations thereon.

6. By June 30 in each year, furnish to the Bank for review and concurrence a projection of the operation and maintenance cash flow for all Irrigation Systems, for a minimum of the next five years and showing actual operation and maintenance cash flow for the preceding five years.

7. Maintain the annual level of operating and maintenance services provided to Irrigation Systems in each fiscal year at no less than the 1992 level of the same.

8. Establish quality control units at its headquarters and in each regional office to ensure the quality of NIA's construction and operation and maintenance work.

9. Implement control measures (including close verification of individual works under implementation and disbursement of funds for completed works) to ensure that regional offices do not exceed expenditure budgets in implementing improvement of Irrigation Systems, without prior approval.

10. Without limitation or restriction upon the provisions of Section 9.07 of the General Conditions, by no later than September 30 and March 31 in each year, furnish to the Bank a semi-annual report on the progress of the Project, including findings of the quality control units referred to in paragraph (8) above, data on ISF collection and an assessment of the extent to which the Project has increased female participation in Irrigator's Associations, and in new income-generating activities.

