

**OFFICIAL
DOCUMENTS**

LOAN NUMBER 8435-PH

Loan Agreement

(Third Development Policy Loan to Foster More Inclusive Growth)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *OCTOBER 14*, 2014

LOAN AGREEMENT

AGREEMENT dated *OCTOBER 14*, 2014, entered into between the REPUBLIC OF THE PHILIPPINES ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of three hundred million Dollars (\$300,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan").
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(e) of the General Conditions.

- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension is that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists is that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Secretary of Finance.
- 6.02. The Borrower's Address is:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Blvd.
Manila, Philippines

Facsimile:

(63-2) 526-9990
(63-2) 523-9216

6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

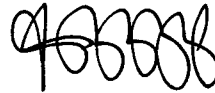
248423(MCI) or
64145(MCI)

1-202-477-6391

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

REPUBLIC OF PHILIPPINES

By



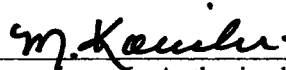
Authorized Representative

Name: CESAR V. PURISIMA

Title: Secretary

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

Name: MOTOO KONISHI

Title: COUNTRY DIRECTOR, PHILIPPINES

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower has advanced the implementation of the DPWH public infrastructure program by: (i) contracting out over 80% of the combined 2012 and 2013 capital expenditure budget by January 1, 2014; and (ii) contracting out over 50% of the 2014 capital expenditure by June 30, 2014.
2. The Borrower, through the DPWH, has delivered contract works under the TRIP network preparation process and resulting plan.
3. The Borrower has issued the 2014 GAA, which requires: (i) that DPWH implement the Regular FMR Program; and (ii) that DA provide and disclose the network plan for Regular FMR Program projects.
4. The DTI has improved online functionality of the PBR for national registration, including ePayments.
5. The Borrower has advanced the preparation of NHTS-PR II in the following ways: (i) revision of the operational manual to reflect lessons learned from the previous assessment; (ii) field workers have been hired and trained using standard training tools; (iii) IT-enabled data collection and encoding has been developed and tested; (iv) arrangements for spot checks to monitor reassessment processes are in place.
6. The Borrower has extended CCT Program coverage to children up to 18 years of age.
7. The Borrower has used NHTS-PR to target at least 3 major government programs to the lowest 40 percent of the population, including evidence that PhilHealth has achieved effective enrollment of poor and near poor in the bottom 40 percent of the population.
8. The Borrower has adopted a Unified Account Code Structure for accounting, budgetary and treasury transactions and implemented this as part of the 2014 budget preparation and implementation.
9. The Philippines Open Data portal (data.gov.ph) has become fully operational with full electronic access to over 600 datasets.

10. The Borrower has implemented the following revenue-related reforms: (i) a tobacco and alcohol excise tax reform; and (ii) the completion and on-line publication of a tax expenditure statement concerning fiscal incentives for investment.
11. The Borrower has strengthened fiscal risk management through the disclosure of broad risks in the annual fiscal risk statement, and explicit and increased contingency allocations in the 2014 budget (risk management program and NDRRMF).

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in United States Dollars)
1. Single Withdrawal Tranche	299,250,000
2. Front-end Fee	750,000
3. Amount due pursuant to Section 2.07(c) of this Agreement	0
TOTAL AMOUNT	300,000,000

- C. **Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied (a) with the Program being carried out by the Borrower, and (b) with the adequacy of the Borrower's macroeconomic policy framework.

- D. **Deposits of Loan Amounts.**

Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is December 31, 2015.

SCHEDULE 2

Amortization Schedule

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15; Beginning November 15, 2024 through November 15, 2038	3.33%
On May 15, 2039	3.43%

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

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

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

APPENDIX

Section I. Definitions

1. “CCT Program” means Conditional Cash Transfer Program, otherwise known as the Pantawid Pamilyang Pilipino Program, the Borrower’s program for the assistance of poor families through the provision of cash transfers conditional on compliance with the conditions referred to in the CCT Program Legal Framework and the CCT Program Operations Manual (both as hereinafter defined)
2. “CCT Program Legal Framework” means the framework of the Borrower establishing the CCT Program and comprising among others the following: (a) Memorandum Circular No. 09, Series of 2007, for Creating the Ahon Pamilya National Advisory Committees and Defining their Roles and Responsibilities; (b) Administrative Order No. 16, Series of 2008, for Guidelines on the Implementation of Pantawid Pamilyang Pilipino Program; (c) Joint Memorandum Circular No. 01, Series of 2009, for Defining the Institutional Arrangements for the Implementation, Monitoring and Evaluation of the Pantawid Pamilya Pamilyang Pilipino Program, as may be revised from time to time.
3. “CCT Program Operations Manual” means the Borrower’s manual for the CCT Program, dated September 24, 2009, as may be revised from time to time.
4. “COA” means Commission on Audit, the Borrower’s supreme audit institution established under Article IX-D of the prevailing Constitution of the Borrower, or any successor thereto.
5. “DA” means the Borrower’s Department of Agriculture, or any successor thereto.
6. “DBM” means the Borrower’s Department of Budget and Management, or any successor thereto.
7. “DOH” means the Borrower’s Department of Health, or any successor thereto.
8. “DOT” means the Borrower’s Department of Tourism, or any successor thereto.
9. “DPWH” means the Borrower’s Department of Public Works and Highways, or any successor thereto
10. “DTI” means the Borrower’s Department of Trade and Industry, or any successor thereto.
11. “Excluded Expenditure” means any expenditure:

- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
- (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
12. “Regular FMR Program” means the Regular Farm to Market Road Program.
 13. “GAA” means General Appropriations Act, the annual budget of the Borrower.
 14. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012 with the modifications set forth in Section II of this Appendix.
 15. “NDRRMF” means National Disaster Risk Reduction Management Fund.
 16. “NHTS-PR” means National Household Targeting System for Poverty Reduction.
 17. “PBR” means the Philippine Business Registry, the electronic business registration system set up by the Borrower for the purpose of streamlining business registration procedures by providing interconnectivity between relevant agencies of the Borrower.
 18. “PhilHealth” means the Philippine Health Insurance Corporation, an entity fully owned and controlled by the Borrower and operating under the authority of the DOH, established pursuant to the Borrower’s National Health Insurance Act of February 14, 1995 (Republic Act No. 7875) with the mandate to provide social health insurance coverage to all Filipinos, or any successor thereto.
 19. “Philippines Open Data portal” means the online platform and repository of data of the Borrower.
 20. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 2, 2014, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

21. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
22. "TRIP" means the Tourism Roads Infrastructure Program.
23. "Unified Account Code Structure" means the system combining the budget classification structures of the COA and DBM for the purpose of enabling financial reporting of actual expenditure against budget data.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank's representatives to examine such records."

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a

report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term "Eligible Expenditure" is modified to read as follows:

"'Eligible Expenditure' means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement."

- (b) The term "Financial Statements" and its definition are deleted in their entirety.

- (c) The term "Project" is modified to read "Program" and its definition is modified to read as follows (and all references to "Project" throughout these General Conditions are deemed to be references to "Program"):

"'Program' means the program referred to in the Loan Agreement in support of which the Loan is made."