24 September 2012

Honorable Cesar V. Purisima
Secretary
Department of Finance
DOF Building, BSP Complex
Manila, Philippines

Dear Secretary Purisima:

Re: Republic of the Philippines: Japan Social Development Fund ("JSDF") Grant for Community Enterprise Development as Pathway out of Poverty Project

JSDF Grant No. TF012886

In response to the request for financial assistance made on behalf of the Republic of the Philippines ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development and International Development Association ("World Bank"), as administrator of grant funds provided by Japan ("Donor") under the Japan Social Development Fund ("JSDF"), proposes to extend to the Recipient, a grant in an amount not to exceed two million nine hundred and twenty nine thousand United States Dollars (US$2,929,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement with the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

By Motoo Konishi
Country Director, Philippines
East Asia and the Pacific Region

AGREED:
REPUBLIC OF THE PHILIPPINES

By Authorized Representative
Name: CÉSAR V. PURISIMA
Title: Secretary
Date: November 21, 2012

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
ANNEX

Article I
Standard Conditions; Definitions

1.0.  **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement as follows:

(a) "Barangay" means an administrative unit within a city or municipality in the territory of the Recipient.

(b) "Beneficiary" means a community-based enterprise group selected from the Target Municipality (as this term is hereinafter defined) in accordance with the policies and procedures set forth in the Operations Manual, to receive a Sub-grant for the carrying out of a Sub-project under Part A of the Project; and "Beneficiaries" means, collectively, all such Beneficiaries from each Target Municipality.

(c) "DSWD" means the Recipient's Department of Social Welfare and Development, and any successor thereto.

(d) "Local Government Units" or the acronym "LGUs" means the political subdivisions of the Recipient at the provincial, city, municipal or Barangay level.

(e) "Memorandum of Agreement" means an agreement to be entered into between DSWD and each Target Municipality pursuant to Section 2.04(b) of this Annex.

(f) "Municipalities" means LGUs several of which constitute a Province and which are made up of several Barangays.

(g) "National Anti-Poverty Commission" means the Government coordinative body created by virtue of Republic Act No. 8425 and tasked with implementing the Social Reform and Poverty Alleviation Program.

(h) "National Economic and Development Authority" means the Government's independent economic development and planning agency as mandated by the Philippine Constitution.

(i) "Operations Manual" means the manual to be prepared by the Recipient, setting out among other things: (i) the criteria for the selection of Sub-projects and Beneficiaries; (iii) reporting requirements and financial management procedures, including audit procedures, as set in Section 2.05 of this Annex; (iv) procurement procedures as set forth in Section 2.06 of this Annex; and (v) the Project performance indicators, as such manual may be revised by the Recipient with the written consent of the World Bank.

(j) "Steering Committee" means the committee to be established by the Recipient, comprising representatives from the National Anti-Poverty Commission, the National Economic and Development Authority and representatives of micro-finance institutions.
and Civil Society Organizations (CSOs), and thereafter maintained by the Recipient pursuant to Section 2.02(b)(i) of this Annex.

(k) “Sub-grant” means a grant made available by the Recipient out of the proceeds of the Grant to a Beneficiary to finance the cost of a Sub-project under Part A of the Project; and “Sub-grants” means more than one Sub-grant.

(l) “Sub-project Implementation Agreement” means the agreement to be entered into between the relevant Beneficiary and the Recipient, through DSWD, pursuant to Section 2.04 of this Annex, for the purposes of implementing the activities under Sub-projects.

(m) “Sub-project” means a specific community development activity or activities, including but not limited to, community enterprise development, technical/skills training, purchase of equipment for common use, organizational development related to enterprise development, capacity building, which has or have been selected to receive a Sub-grant under Part A of the Project.

(n) “Target Municipalities” means the municipalities to be selected for the purpose of the Project in accordance with criteria to be set out in the Operations Manual satisfactory to the World Bank.

(o) “Technical Working Group” means the group established by the Recipient to provide technical advice and guidance to the Steering Committee for the implementation of the Project and to be maintained for the duration of the Project in accordance with Section 2.02 (b)(ii) of this Annex.

Article II
Project Execution

2.0 Project Objectives and Description. (a) The objective of the Project is to improve the livelihood and quality of life of poor households in the Target Municipalities through increased income and access to financial services, development of community-driven enterprises linked to markets, and local economic development support.

(b) The Project consists of the following parts:

Part A. Community Enterprise and Value Chain Development; Sub-grants

Provision of Sub-grants and technical assistance to the Beneficiaries, including Sub-grants for start-up community enterprises and technical skills training, such as financial literacy to engage in business development, product design, processing and quality control, and community mobilization for community enterprise development.

Part B. Access to Financial Services

Development of methods and incentives to encourage micro-finance institutions and other private lending/business development service providers to increase their presence in the poor communities within the selected municipalities to expand the availability of financial services to the poor, including microcredit, savings promotion, micro-insurance, or remittance services.
Part C. **Market Integration and Local Economic Development**

Development of at least one (1) local product that is linked to an institutional market in each of the Target Municipalities, and preparation of an annual local economic plan in each of the said municipalities that clearly shows the LGUs support for the identified value-chain product and enhances the long-term viability and economic impact of the common product.

**Part D. Project Management, Monitoring and Evaluation and Knowledge Dissemination**

Strengthening the capacity of DSWD to manage, monitor and evaluate implementation of the Project through the development of a Project management system, including the development of a Steering Committee, preparation of a detailed Operations Manual, knowledge dissemination and conduct of impact evaluation.

2.02. **Institutional Arrangements.** (a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through DSWD in accordance with: (a) the provisions of Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

(b) The Recipient shall,

(i) establish the Steering Committee no later than three (3) months after countersignature date of this Agreement and thereafter maintain said committee with functions, responsibilities and resources satisfactory to the World Bank; managed and staffed with qualified and experienced personnel in adequate numbers for the implementation of the Project, including to provide overall policy direction and coordination with support from the Technical Working Group.

(ii) maintain the Technical Working Group with functions, responsibilities and resources satisfactory to the World Bank; and managed and staffed with qualified and experienced personnel in adequate numbers, to provide technical advice and guidance to the Steering Committee for the implementation of the Project.

2.03. **Implementation Arrangements.** The Recipient, through DSWD, shall:

(i) not later than six (6) months after the countersignature date of this Agreement, furnish to the World Bank the Operations Manual, including all its sub-manuals acceptable to the World Bank.

(ii) carry out the Project in accordance with the Operations Manual, as may be revised from time to time in accordance with the provisions of this agreement or with the written consent of the World Bank; and

(iii) not amend, delete, suspend, or waive any part of the Operations Manual, without the prior approval of the World Bank.
2.0. **Sub-projects.** To facilitate the carrying out of Part A of the Project, the Recipient shall make the proceeds of the Grant allocated from time to time to Category (3) (Sub-grants) of the table set forth in Section 3.01 of this Annex available to the Beneficiaries under a Sub-project Implementation Agreement between the Recipient and the Beneficiaries, under terms and conditions satisfactory to the World Bank, and which shall include the following:

(a) Sub-projects shall be selected in accordance with the criteria and procedures and on terms and conditions set forth in the Operations Manual and its sub-manuals, including the following:

(i) An activity or activities shall be selected only if it is a community development project that is technically, financially and environmentally viable, and socially and economically justified.

(ii) A Sub-project shall not include expenditures for any of the following activities or items:

(A) Weapons, chainsaws, explosives, pesticides, insecticides, herbicides, asbestos, and other potentially dangerous materials and equipment;

(B) Fishing boats beyond the weight limit set by the Philippine Bureau of Fisheries and Aquatic Resources and related equipment;

(C) Civil works in that affect Protected Areas.

(D) Purchase of or compensation for land.

(E) Micro-credit and livelihood activities which involve on-lending of Project funds.

(F) Maintenance and operation of facilities that have been the subject of civil works financed by proceeds of the Original Loan or this Loan.

(G) Activities that have alternative prior sources of committed funding.

(H) Recurrent Government expenditures, including salaries.

(I) Civil works for government administration or religious purposes.

(J) Political and religious activities (including rallies) and facilities and materials related to such activities.

(K) Activities that employ children below the age of 16 years.

(L) Activities that exploit an individual or individuals.
(M) International travel.

(N) Consumption items.

(b) A Sub-grant to a Beneficiary shall be approved only if a Memorandum of Agreement, with terms and conditions acceptable to the World Bank, has been entered into between DSWD and each Target Municipality in which the Beneficiary is located and said Municipality has adopted the Operations Manual; and

(c) Each Sub-grant shall be made on conditions whereby the Recipient shall enter into a Sub-project Implementation Agreement with the Beneficiary to obtain rights adequate to protect the interests of the Recipient and the World Bank, including without limitation the rights to:

(i) require the Beneficiary to have in place prior to approval of a Sub-grant and, thereafter maintain, a Sub-project implementation team, with responsibilities and resources satisfactory to the Recipient and the World Bank, and managed and staffed with qualified personnel in adequate number to manage the implementation of the Sub-project;

(ii) require the Beneficiary to carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, financial, managerial, social and environmental standards and practices, including in accordance with the provisions of the Anti-Corruption Guidelines.

(iii) require the Beneficiary to provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Sub-project;

(iv) require the Beneficiary to make adequate provision for the insurance of any goods required for the Sub-Project and to be financed out of the proceeds of the Sub-grant, against hazards incident to the acquisition, transportation and delivery of the goods to the place of their use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

(v) inspect, by itself or jointly with representatives of the World Bank such goods and the sites, works, plans and construction included in the Sub-project, the operation thereof and any relevant records and documents;

(vi) require the Beneficiary to provide the Recipient and the Bank all such information as the Recipient or the World Bank may reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from its respective Sub-project;
(vii) require the Beneficiary to maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the World Bank, the progress of the Sub-project and the achievement of its objectives;

(viii) require the Beneficiary to maintain (A) a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (B) at the World Bank’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank; and

(ix) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-grant upon failure by such Beneficiary to perform its obligations under its Sub-project Implementation Agreement with the Recipient.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. Procurement

(a) General. All goods and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”), in the case of consultants’ services; and
(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Shopping; and (B) Community Participation procedures which have been found acceptable to the World Bank.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in sub-paragraph (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.0: Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in U.S.$)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods under Parts B, C and D of the Project</td>
<td>7,500</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants' services under Parts B, C and D of the Project</td>
<td>593,980</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Sub-grants under Part A of the Project</td>
<td>1,050,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training under Parts B, C and D of the Project</td>
<td>1,258,920</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating Costs under Parts B, C and D of the Project</td>
<td>18,600</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,929,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section: (i) the term “Training” means training conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees; and (ii) the term “Operating Costs” means operating costs required for the Project including consumable materials and supplies, communications, mass media and printing services, vehicle rental, operation and maintenance, charges for the opening and operation of bank accounts required for the Project, and travel, lodging and per diems, but excluding salaries of officials of the Recipient’s civil service.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) under Category (3) until the Recipient has submitted the fully executed Sub-project Implementation Agreement referred in Section 2.04 of this Annex in form and substance satisfactory to the World Bank.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is four (4) years after the date of countersignature of this Agreement by the Recipient.

**Article IV**  
Recipient’s Representative; Addresses

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Secretary of Department of Finance.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable address:  
SECFIN  
Manila  
Facsimile:  
(63-2) 526-9990  
(63-2) 523-9216

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable:  
INTBAFRAD  
INDEVAS  
Washington, D.C.  
Telex:  
218423 (MCI) or  
64145 (MCI)  
Facsimile:  
1-202-477-6391