Loan Agreement

(Participatory Irrigation Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 7, 2009
LOAN AGREEMENT

AGREEMENT dated August 7, 2009, between the REPUBLIC OF THE PHILIPPINES ("the Borrower") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("the Bank"). The Borrower and the Bank 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 seventy million three hundred sixty thousand dollars ($70,360,000), 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"), to assist in financing the project described in Schedule 1 to this Agreement ("the Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 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 LIBOR for the Loan Currency plus the Fixed 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower
shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

2.05. The Payment Dates are May 1 and November 1 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 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 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; 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 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 IV of Schedule 2 to this Agreement.
ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV— EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Borrower has appointed an appropriately qualified full-time Department Manager, appropriately qualified supervisors and other relevant staff to the Internal Audit Services unit of NIA;

(b) The Borrower has appointed staff in numbers and with qualifications acceptable to the Bank for the financial management of the Project, including at least a senior financial management (FM) specialist, and two qualified FM assistants at the central level, and one qualified FM assistant in each of the regional offices.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is the Secretary of Finance.

5.02. The Borrower’s Address is:

Department of Finance
Department of Finance Building
Bangko Sentral ng Pilipinas Complex
Roxas Blvd.
Manila, Philippines 1004

Facsimile:
5.03.  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: INTBAFRAD
Telex: 248423(MCI) or 1-202-477-6391
Facsimile: 64145(MCI)

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

REPUBLIC OF THE PHILIPPINES

By /s/ Margarito Teves
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman
Authorized Representative
SCHEDULE 1

Project Description

The Project constitutes the first phase of a long-term program supporting irrigation reforms in the Philippines whose objective is to improve the irrigation service delivery of the Borrower so as to have it provided on a financially and technically sustainable basis in order to contribute to increased agricultural production and productivity among beneficiary farmers in irrigated areas. The Project consists of the following parts:

Part 1 Irrigation Sector Restructuring and Reform

1.1. Implementation of the NIA Rationalization Plan

Implementation of the NIA Rationalization Plan, including phased reduction of National Irrigation Administration (NIA) staff to coincide with the gradual transfer of part of the responsibility for operation and maintenance of National Irrigation Systems from NIA to Irrigators’ Associations (IAs) under the Irrigation Management Transfer Program (IMT Program).

1.2. NIA Institutional Strengthening and Irrigation Management Transfer Program

(a) Provision of institutional and financial support to NIA and to IAs for implementing the IMT Program, including: conduct of organizational development and technical training and workshops; acquisition of equipment, development and distribution of educational and information materials; conduct of regular review and planning workshops, coaching, field visits and monitoring, and provision of technical assistance to enable transfer of management of approximately fifty-eight 58 existing National Irrigation Systems from NIA to IAs under the IMT Program.

(b) Establishment of water management demonstration farms to promote water saving technologies.

(c) Strengthening the capacity of NIA staff to manage the NIMF through the provision of technical assistance, training and workshops.
Part 2 Irrigation Infrastructure Development

2.1. Rehabilitation and Modernization of Irrigation Systems

Rehabilitation and modernization of approximately 58 existing National Irrigation Systems (14 Core A and 44 Core B NISs) in order to provide more reliable, equitable and flexible irrigation services, including:

(a) repair of key diversion structures (diversion weirs) and bulk water transfer works, predominantly on main canals (siphons and key operating structures), to improve structure safety and reliability;

(b) rehabilitation and reconstruction of additional and new structures and earthworks of irrigation and drainage canals, and major maintenance of control structures to augment irrigation services to existing and new areas;

(c) replacement of existing old and dysfunctional canal head-gates with modern turnout structures incorporating orifice flow (“under-shot”) characteristics aimed at improving equity in the distribution of water to farmers;

(d) conversion of key cross regulators into long crested weirs for greater water level control and improved efficiency; and

(e) acquisition of O&M equipment.

2.2. Support to Social and Environmental Safeguards

Implementation of social and environmental safeguards under the Project, including:

(a) Resettlement and rehabilitation of Displaced Persons in connection with the implementation of Part 2.1 of the Project, including payment of compensation for rights of way.

(b) Carrying out of measures to control Schistosomiasis.

Part 3- Project Management and Coordination

Provision of support to the Project Management Office in the coordination of planning, implementation and supervision of Project activities including:

3.1. Acquisition of office supplies and equipment including computers, printers and communication equipment.

3.2. Carrying out of studies and reviews including, among others: (i) review of NIA institutional arrangements; (ii) review of the Irrigation Service Fee (ISF) national policy with a view to adopting a revised system; (iii) a study of the Communal Irrigation Development Fund to propose a time schedule for its implementation; (iv) study of the applicability of a volumetric pricing policy and a feasible time bound action plan for its gradual implementation.

3.3. Monitoring and evaluation of the Project, including carrying out of a baseline study, periodic monitoring and completion assessment study.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Implementation Arrangements

1. The Borrower shall maintain throughout Project implementation, with composition, staffing, terms of reference and other resources, acceptable to the Bank: (a) an inter-agency Steering Committee to be responsible for overall Project monitoring and evaluation; (b) a Project Management Office to be responsible for coordinating the planning and implementation of the Project; and (c) an Environmental and Watershed Management Section within the NIA central office, to be responsible for (i) building environmental capacity and awareness, and providing guidance, advice and technical assistance to NIA regional offices and Irrigators’ Associations and (ii) implementation and compliance monitoring of environmental and social safeguards.

2. The Borrower: (a) shall implement the Project in accordance with the Operations, Maintenance and Safety Manual, the Environmental Management Plans, the Land Acquisition and Resettlement Policy Framework and the Indigenous Peoples Planning Framework; (b) shall not amend or waive any provision of the said documents without the Bank’s prior approval; and (c) shall allocate sufficient staff with adequate resources to enable it to comply with the provisions of this paragraph.

3. The Borrower shall:

   (a) cause NIA to implement the Environmental Management Plan for each Core A NIS, in accordance with sound environmental management practices and standards in a manner satisfactory to the Bank; and

   (b) cause the Environmental and Watershed Management Section within the NIA central office to monitor compliance to the Environmental Management Plan by the NIA regional offices and Irrigators’ Associations.

4. The Borrower shall, wherever implementation of the Project or any part thereof would give rise to Displaced Persons, prepare and provide to the Bank for its approval, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Land Acquisition and Resettlement Policy Framework and, thereafter, implement the approved Resettlement Action Plan in a manner satisfactory to the Bank.

5. The Borrower shall:
(a) implement the Indigenous Peoples Planning Framework in a manner satisfactory to the Bank, and designed to provide meaningful consultation with, and the informed participation of, Indigenous Peoples within the Project area, and to ensure that benefits under the Project are socially and culturally acceptable to such peoples;

(b) whenever implementation of the Project or any part thereof would take place in ancestral domains where an Indigenous Peoples community reside, prior to such implementation, prepare and provide to the Bank for its approval, an Indigenous Peoples Action Plan prepared in accordance with the principles and procedures set forth in the Indigenous Peoples Planning Framework and with the full participation of such Indigenous Peoples, designed to ensure that Project activities adequately address the needs, cultural practices and preferences of such peoples; and, thereafter, implement in a manner satisfactory to the Bank, such Indigenous Peoples Action Plan as shall have been approved by the Bank;

(c) provide to the Bank for its approval any proposed revision of the Indigenous Peoples Planning Framework or any Indigenous Peoples Action Plan and thereafter only introduce such revision into the Indigenous Peoples Planning Framework or Indigenous Peoples Action Plan as shall have been agreed with the Bank; and

(d) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Indigenous Peoples Planning Framework and the Indigenous Peoples Action Plan and the achievement of their objectives.

6. The Borrower through NIA, shall, no later than six months after the date of this Agreement, engage the services of reputable audit consultants, having qualifications and terms of reference acceptable to the Bank, to assist in strengthening the internal control systems of NIA, including its internal audit unit.

7. The Borrower shall, beginning in FY 2009 allocate to the NIMF every year the cash equivalent of at least the actual personnel savings due to the implementation of the NIA Rationalization Plan and shall draw such allocation from the ISF collection and supplement it by other internally generated funds, as necessary.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports
The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators set forth in Schedule 4 to this Agreement. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than sixty (60) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than sixty (60) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

4. The Borrower shall, no later than three (3) months after the end of each fiscal year, submit to the Bank an annual independent validation report in scope and detail, and under terms of reference acceptable to the Bank, including an opinion as to whether the payments to separated employees under the Rationalization Plan were made in accordance with the provisions of Executive Orders No. 366 and No. 718.

5. The Borrower shall, no later than sixty (60) days after the end of each calendar semester, commencing with the second calendar semester after the date of this Agreement, submit to the Bank an internal audit report in scope and detail, and under terms of reference acceptable to the Bank.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the provisions set forth in Schedule 5 to this Agreement</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Community Participation</td>
</tr>
</tbody>
</table>

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants’ Qualification</td>
</tr>
<tr>
<td>(c) Individual Consultants</td>
</tr>
</tbody>
</table>
D. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) all contracts for goods or works procured on the basis of International Competitive Bidding, (b) the first contract for works procured in respect of each National Irrigation System; (c) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $200,000 or more; and (d) the first contract for consultants’ services provided by a firm made under each of the selection methods specified in the preceding paragraph. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan 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 Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Rationalization/Severance payments under Part 1.1 of the Project</td>
<td>8,690,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Civil works</td>
<td>40,500,000</td>
<td>72%</td>
</tr>
<tr>
<td>(3) Consultants services, training and workshops, goods, and incremental operating costs</td>
<td>12,580,000</td>
<td>65%</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>8,414,100</td>
<td></td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>175,900</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>70,360,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $952,000 equivalent may be made for payments made prior to this date but on or after August 1, 2008, for Eligible Expenditures under Categories (1) and (3).

2. The Closing Date is March 31, 2015.
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 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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 1 and November 1 Beginning November 1, 2019 through November 1, 2033</td>
<td>3.33%</td>
</tr>
<tr>
<td>On May 1, 2034</td>
<td>3.43%</td>
</tr>
</tbody>
</table>

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.
## SCHEDULE 4

### Performance Indicators

The performance indicators referred to above in Section II(A) of Schedule 2 to this Agreement consist of the following:

<table>
<thead>
<tr>
<th>Project Development Objectives</th>
<th>Project Outcome Indicators</th>
<th>Use of Project Outcome Information</th>
</tr>
</thead>
</table>
| Enhance NIA’s financial viability and its institutional capacity to support improvements in irrigation service delivery. | • Transfer from the Borrower to NIA under Fund 101 reduced from PhP300 million to PhP175 million at the end of the project;  
• ISF collection rate increased from 55% to 86% nationwide;  
• NIA financial viability index (based on cash and non-cash flows and exclusive of depreciation) increased from 1.04 to 1.44; and  
• NIA financial viability index (based on cash and non-cash flows and inclusive of depreciation) increased from 0.99 to 1.27. | Gauges NIA’s improved efficiency and financial viability in the provision of improved irrigation services. |
| Transfer increased O&M responsibilities in the 58 irrigation systems to capable IAs. | • Percentage of IAs with ISF share released within one month after collection, increased from 10% to 60%; and  
• IAs performing acceptably under Models 2-4 increased from 74% to 85%. | Measures the degree to which IAs acquire the organizational and financial capability to manage the irrigation systems. |
Increased irrigation efficiency and promotion of reliable access to water among farmers in the selected 58 systems.

- IA members expressing satisfactory rating for services received, increased from 60% to 85%; and
- ISF collection efficiency increased from 61% to 85% in the NISs covered by the Project.

Gauges the extent to which irrigation services are made available to farmers on a timely and reliable way.

<table>
<thead>
<tr>
<th>Intermediate Outcomes</th>
<th>Intermediate Outcome Indicators</th>
<th>Use of intermediate outcome monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1: Irrigation Sector Restructuring and Reform</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| NIA rationalizes its operational and organizational structure and adopts a new business model. | - 2,887 NIA staff separated under the NIA rationalization plan;  
- Total savings from staff separated amount to PhP690 million; and  
- NIA personnel downsized from 6,706 to 3,819. | Periodic and objective review of progress in Rationalization Plan implementation in terms of staff reduction and improvement in financial and operating status of NIA. Assessment of whether intended program of capital infusion into the NIMF is on track. |
| Improved O&M funding system-wide. | - Funds deposited into NIMF increase from PhP303.3 million in Year 1 to PhP696.18 million in Year 5; and  
- Ratio of effective to desirable⁴ O&M increased from 53% to 69% | Determine whether the resources to be generated from NIA’s RP to finance the required expenditures for O&M are being channeled in the NIMF and better services by NIA leading to improvement of cost recovery of O&M through higher ISF collection efficiency. |
| Irrigators Associations (IAs) belonging to the PIDP NISs and the NIA sign and implement contracts for Irrigation Management Transfer (IMT). | - 90% of IAs in the NISs covered by the Project have successfully negotiated and closed IMT Program contracts;  
- Average percentage of IA members | Measures progress in the IMT policy implementation and improved IAs’ effective capacity in assuming increased responsibility in the O&M and provision of irrigation services. |

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¹ NIS desirable O&M expenditures refer to the amount of PhP per hectare that should be invested per year in a given system in order to maintain the system fully operational and viable. NIS-specific desirable O&M expenditures will be estimated during Year 1 of the Project.
participating in training and assemblies, increased from 80% to 100% in Project covered systems; and
• 100% of IA members are aware of the content and implications of the IMT Program and perform their role.

Component 2: Irrigation Infrastructure Development of Selected NISs

| Irrigation services in the selected systems are rehabilitated and modernized and fully operational. | • Cropping intensity in NISs covered by the Project increased from 151% to 190%; and • Irrigated area in NISs covered by the Project increased by 102,132 hectares, including expansion areas at the end of the project. | Measures progress in rehabilitation of schemes and in the delivery of irrigation water. |
SCHEDULE 5

National Competitive Bidding Procedures

1. Eligibility screening shall not be applied. However, bids that do not contain any of the following documents will not pass the documentary compliance check: (a) evidence of the required financial, technical or production capability; (b) audited financial statements; (c) credit line or cash deposit certificate; (d) bid security; and (e) authority of the bid signatory.

2. A ceiling may be applied to bid prices provided the following conditions are met: (a) Bidding documents are obtainable free of charge on a freely accessible website; (b) the agency has procedures in place to ensure that the ABC is based on Engineer’s Estimate; (c) The agency has trained cost estimators on estimating prices and analyzing bid variance; and (d) the agency has established a system to monitor and report bid prices relative to ABC and Engineer’s estimate.

3. Domestic or regional preferences will not be applied in the evaluation of bids, and other preference in effect in the Philippines will not be used except with prior concurrence of the Bank.

4. In case of contracts for prior review, modification exceeding 15% of contract amount and materials changes in the conditions during implementation require prior Bank concurrence.

5. Foreign suppliers and contractors shall be allowed to participate, if interested, without first being required to associate with, or enter into joint venture, with local firms. Moreover, foreign bidders shall be allowed to bid, even without registration, licensing, and other government authorizations, leaving these requirements for after award and before signing of contract.

6. For works contract, the experience qualification requirement shall be: (a) at least one previous contract at 80% of the estimated cost of the contract being procured; and (b) an annual turnover from all works averaged over the last three years equal to 100% of the estimated cost of the contract being procured.

7. Alternative procurement methods defined in the implementing rules and regulations such as Limited Source Bidding, Direct Contracting and Shopping as acceptable. The use of the other alternative methods will require prior Bank concurrence.

8. A period of at least 30 days for bid preparation shall be allowed.
APPENDIX

Section I Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.


4. “Core A NISs” means National Irrigation Systems (as hereinafter defined) needing major rehabilitation works such as rehabilitation of diversion works, rehabilitation and/or construction of intake structures, repair of service roads and drainage facilities, installation of gates, and concreting and repair of canal linings, among others.

5. “Core B NISs” means National Irrigation Systems (as hereinafter defined) requiring minor rehabilitation and repair works such as desilting, repair of secondary facilities and repair and/or installation of minor and farm level facilities.

6. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.

7. “Environmental Management Plan” means the plan, acceptable to the Bank, for each Core A NIS detailing the mitigation measures to address any negative impacts set out in the Environmental Assessment as hereinafter defined.

8. “Environmental Assessment” means the assessment conducted by the NIA to determine the environmental effects of the Project, the findings of which are documented in an environmental assessment report dated November 2006 submitted to and found acceptable by the Bank and disclosed locally and in the Bank’s Infoshop on September 16, 2008. The environmental assessment report contains, among other things: (1) the overall assessment of the environmental
impacts of all 14 Core A NISs and a sample of Core B NISs to be supported by the Project; (2) the Environmental Management Plan for each Core A NIS detailing the mitigation measures to address any negative impacts; and (3) the initial environmental examination report for each of the Core A NISs.

9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.

10. “Incremental operating costs” means the reasonable costs incurred by the Borrower on account of the Project's implementation, monitoring and evaluation, which expenditures would not have been incurred absent the Project, including costs for office supplies, repairs of equipment and vehicles, meetings, staff travel; rental of office space, utilities, fuel costs, and costs of contractual staff but excluding the salaries of the Borrower's civil servants.

11. “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: (a) a close attachment to ancestral territories and to the natural resources in these areas; (b) self-identification and identification by others as members of a distinct cultural group; (c) an indigenous language, often different from the national language; (d) presence of customary social and political institutions; and (e) primarily subsistence-oriented production.

12. “Indigenous Peoples Action Plan” means the action plan to be adopted by the Borrower pursuant to Paragraph 5(b) of Section 1.A of Schedule 2 to this Agreement.


14. “Irrigation Management Transfer Program” and “IMT Program” mean the program set forth in NIA’s Memorandum Circular No. 47, series of 2008, a participatory approach which ensures ownership and enhancement of capacities of Irrigators’ Associations in the improvement and sustainable operation and maintenance of irrigation systems.

15. “Irrigators Associations” and “IAs” mean associations of irrigators who have been formally organized and registered in the Borrower’s Securities and Exchange Commission, operating in irrigation systems in the territory of the Borrower.
16. “ISF” means Irrigation Service Fee, the amount paid in cash or in kind by farmers for the irrigation services received through the use of the National Irrigation Systems.

17. “Land Acquisition and Resettlement Policy Framework” means the framework dated November 2006 adopted by the Borrower and found acceptable by the Bank, which sets out modalities for assisting communities affected by activities under the Project, such assistance to include cash assistance to affected households and wage assistance for landless laborers and fishers.

18. “NIA means the National Irrigation Administration of the Borrower or any successor thereto.

19. “NIA Rationalization Plan” means the plan for the rationalization of NIA approved by the Borrower's Department of Budget and Management following Executive Orders 366 and 718, with the latter providing for the phased implementation of the NIA Rationalization Plan for a period of five years.

20. “NIMF” means the National Irrigation Management Fund, a trust fund created through NIA Board resolution No. 7569-09 issued on March 9, 2009, as supplemented by its Memorandum Circular No. 16 Series of 2009 to ensure the availability of sufficient funds for O&M and for routine rehabilitation and emergency repairs of NISs; and to which the Borrower will allocate every year the cash equivalent of at least the actual personnel savings due to the implementation of the NIA Rationalization Plan, such allocation to be drawn from the collection of ISFs and supplemented by the NIA’s other internally generated funds, as necessary, all as provided for in Paragraph 7 of Section 1.A of Schedule 2 to this Agreement.

21. “NISs” and “National Irrigation Systems” mean the irrigation systems in the territory of the Borrower which irrigate areas that cover more than one thousand hectares, and “NIS” means any one of them.

22. “O&M” means operation and maintenance.

23. “Operations, Maintenance and Safety Manual” means the manual submitted to the Bank on September 2, 2008 and found to be satisfactory by the Bank, for the operation and maintenance of the Magat Dam, and which includes an Emergency Preparedness Plan and an Operation and Maintenance Plan for the said dam.

24. “PhP” means Philippine Peso, the currency of the Borrower.

26. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 14, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

27. “Program” means the program designed to improve the Borrower’s irrigation service delivery on a financially and technically sustainable basis set forth or referred to in the letters dated January 16, 2008 and October 23, 2008 from the Borrower to the Bank.

28. “Project Management Office” means the office to be established and maintained in NIA by the Borrower for the purposes of coordinating the planning and implementation of the Project as provided for in Paragraph A.1. (ii) of Schedule 2 to this Agreement.

29. “Resettlement Action Plans” means the plans found acceptable by the Bank as provided for in Paragraph 4 of Section 1.A of Schedule 2 of this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

   “Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

   (a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

   “Section 7.02. Suspension by the Bank

   ... (l) Ineligibility. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project
financed in whole or in part by the Bank or the Association, as a result of a
determination by the Bank or the Association that the Borrower or the Project
Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive
practices in connection with the use of the proceeds of any financing made by the
Bank or the Association.”

3. 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 term “Project Preparation Advance” is modified to read “Preparation
Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing
Agreement and repayable in accordance with Section 2.07.”

(b) The definition of the term “Conversion Date” is modified to read as
follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution
Date (as herein defined) or such other date as requested by the Borrower
and accepted by the Bank, on which the Conversion enters into effect,
and as further specified in the Conversion Guidelines.”

(c) The definition of the term “Variable Rate” is modified, in relevant part,
to read as follows:

“(c) upon a Currency Conversion to an Approved Currency of an
amount of the Withdrawn Loan Balance that accrues interest at a variable
rate during the Conversion Period, the variable rate of interest applicable
to such amount shall be equal to either: (i) the sum of: (A) LIBOR, or
such other base rate as may be agreed by the Borrower and the Bank, for
the Approved Currency; plus (B) the spread to LIBOR or to such other
base rate, if any, payable by the Bank under the Currency Hedge
Transaction relating to said Currency Conversion; or (ii) if the Bank so
determines in accordance with the Conversion Guidelines, the interest
rate component of the Screen Rate.”.