Loan Agreement

(Second Development Policy Loan to Foster More Inclusive Growth)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

April 20, 2013
LOAN AGREEMENT

AGREEMENT dated April 20, 2013, entered into between the REPUBLIC OF THE PHILIPPINES ("the Borrower") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("the 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead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 unredeemed, 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 payables 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, including any action specified in Section I of Schedule 1 to this Agreement.

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 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 at the time responsible for 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 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at District of Colombia, United States of America, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By

[Signature]
Authorized Representative

Name: Crispin V. Puigvert
Title: Secretary of Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

[Signature]
Authorized Representative

Name: Motoo Konishi
Title: Country Director
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. **Actions Taken Under the Program**

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

1. BIR has adopted a strategic plan for the years 2011-2016 and an agency-level set of key performance indicators that conform to good international standards in tax administration, and has collected baseline data for the year 2011.

2. DOF has implemented a web-based financial monitoring framework for GOCCs.

3. The Philippine Business Registry has been uploaded online and is functioning, and has been linked with the online Business Permit and Licensing Systems of two (2) LGUs.

4. DPWH has strengthened its project preparation and implementation methodologies, and quantified performance targets, including completing over ninety percent (90%) of project bids for the 2012 GAA allotments in the first semester.

5. IAC has approved an action plan to implement the PFM Reform Roadmap, including the adoption of a Unified Account Code Structure for budgetary, accounting, treasury transactions, and auditing.

6. DBM has published, not later than two (2) months after the end of each quarter, the obligated expenditure data for the 2011/2012 budget required from line agencies of the Borrower, as well as gaps from those that have not submitted such data.

7. The actual spending (adjusted for inflation) of DepEd in 2011 has been equal to or greater than its spending in 2010.

8. The per-student subsidy provided to participants in the Education Service Contracting Program has been increased to enable greater participation of students from low-income households, based on a program review by DBM and DepEd.

9. Households receiving conditional cash transfers under the CCT Program have been enrolled in the NHIP for receiving an enhanced package of PhilHealth benefits.
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:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Single Withdrawal Tranche</td>
<td>299,250,000</td>
</tr>
<tr>
<td>2. Front-end Fee</td>
<td>750,000</td>
</tr>
<tr>
<td>3. Amount due pursuant to Section 2.07(c) of this Agreement for Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>300,000,000</strong></td>
</tr>
</tbody>
</table>

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**

1. The Borrower shall open, prior to furnishing to the Bank the request for withdrawal from the Loan Account, and shall thereafter maintain a deposit account in Dollars in Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank.

2. The withdrawal from the Loan Account shall be deposited by the Bank into the Deposit Account.

3. Upon the deposit of the amount of the Loan into the Deposit Account, the Borrower shall ensure that an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.
E. Audit

Upon the Bank’s request, the Borrower shall:

1. have the Deposit Account audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;

2. furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request and make such report publicly available in a timely fashion and in a manner acceptable to the Bank; and

3. furnish to the Bank such other information concerning the Deposit Account and its audit as the Bank shall reasonably request.

F. 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.

G. Closing Date. The Closing Date is February 28, 2014.
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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>Beginning May 15, 2023</td>
<td></td>
</tr>
<tr>
<td>through November 15, 2037</td>
<td></td>
</tr>
<tr>
<td>On May 15, 2038</td>
<td>3.23%</td>
</tr>
<tr>
<td>On May 15, 2038</td>
<td>3.10%</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.

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. "BIR" means the Bureau of Internal Revenue, an attached agency under the Borrower’s DOF (as hereinafter defined), or any successor thereto.

2. "Business Permit and Licensing System" means the business permit and licensing registration system established and maintained pursuant to the Joint Memorandum Circular No. 01 dated August 2010 between DTI and DILG (both as hereinafter defined), for the purpose of establishing performance standards for LGUs (as hereinafter defined) for business registration processing.

3. "CCT Program" means Conditional Cash Transfer Program, otherwise known as the Pantawid Pamilya 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 Legal Framework and the CCT Operations Manual (both as hereinafter defined).

4. "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 Pamilyang Pilipino Program (AAP) National Advisory Committees and Defining their Roles and Responsibilities; (b) Administrative Order No. 16, Series of 2008, for Guidelines on the Implementation of Pantawid Pamilya program; and (c) Joint Memorandum Circular No. 01, Series of 2009, for Defining the Institutional Arrangements for the Implementation, Monitoring and Evaluation of the Pantawid Pamilya program, as may be revised from time to time.

5. "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.

6. "COA" means Commission on Audit, the Borrower’s supreme audit institution established under Article IX-D of the Constitution of the Borrower which declares its independence as a constitutional office, grants it powers to audit all accounts pertaining to all government revenues and expenditures/uses of government resources and to prescribe accounting and auditing rules, gives it exclusive authority to define the scope and techniques for its audits, and prohibits the legislation of any law which would limit its audit coverage, or any successor thereto.

7. "DBM" means the Borrower’s Department of Budget and Management, or any successor thereto.
8. "DepEd" means the Borrower's Department of Education, or any successor thereto.

9. "Deposit Account" means the account referred to in Part D.1 of Section II of Schedule 1 to this Agreement.

10. "DILG" means the Borrower's Department of the Interior and Local Government, or any successor thereto.

11. "DOF" means the Borrower's Department of Finance, or any successor thereto.

12. "DOH" means the Borrower's Department of Health, or any successor thereto.

13. "DPWH" means the Borrower's Department of Public Works and Highways, or any successor thereto.

14. "DTI" means the Borrower's Department of Trade and Industry, or any successor thereto.

15. "Education Service Contracting Program" means the Borrower's program under the GASTPE (as hereinafter defined) established and maintained for the purpose of contracting with private schools to enroll students in areas where there is a shortage of places in public high schools.

16. "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:

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

(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.

17. “GAA” means General Appropriations Act, the annual budget of the Borrower.

18. “GASTPE” means the Borrower’s assistance program for students and teachers in private education.


20. “GOCCs” means corporations owned and controlled by the Borrower.
21. “IAC” means the Inter-Agency Steering Committee established in January 2010 through a Memorandum of Agreement among COA, DBM and DOF to oversee, coordinate and develop the integration and harmonization of the Borrower’s financial management system known as the Public Financial Management Reform Roadmap and Action Plan implementation.

22. “LGUs” means Local Government Units, the political subdivisions of the Borrower at the provincial, city, municipal or barangay level.


24. “PFM Reform Roadmap” means the Borrower’s plan adopted pursuant to its Executive Order 55/2011 for the purpose of strengthening the Borrower’s public financial management systems, including, inter alia, the automation of financial systems.

25. “PhilHealth” means the Philippines 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.

26. “Philippine Business Registry” means 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.

27. “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 December 21, 2012 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.

28. “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.

29. “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 (2) 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 (6) 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.”