October 1, 2011

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

Dear Secretary Purisima:

World Bank-Korea Partnership on Poverty Reduction and Socio-Economic Development ("KTF")
Preparation Grant No. TF010472
Manila Bay Integrated Water Quality Management Project

In response to the request for financial assistance made on behalf of the Republic of the Philippines (the "Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association (collectively referred to as the "World Bank"), acting as administrator of grant funds provided by the Ministry of Finance and Economy of the Republic of Korea under the World Bank-Korea Partnership on Poverty Reduction and Socio-Economic Development ("KTF"), proposes to extend to the Recipient two hundred fifty thousand United States Dollars (US$250,000) (the "Grant") on the terms and conditions set forth or referred to in this letter agreement (the "Agreement"), which includes the attached Annex, to assist in the financing of the activities described in the Annex (the "Activities"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds 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 Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

The award of the Grant does not constitute or imply any commitment on the part of the World Bank, either acting as administrator of the KTF or in its own capacity, to assist in the financing of the Project described in the Annex to this Agreement or any project which may result from the Activities financed by the Grant.

Please confirm the Recipient's agreement to 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withdrawn if the World Bank has not received the countersigned copy of this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 after the date of signature of this Agreement by the
World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
and
INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/: Mark Woodward

Mark Woodward
Acting Country Director, Philippines
East Asia and Pacific Region

AGREED:
REPUBLIC OF THE PHILIPPINES

By: /s/: Roalia V. De Leon
Authorized Representative

Name: ROSALIA V. DE LEON
Title: Undersecretary
Date: Nov. 18, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank out of Various
Funds, dated July 31, 2010.

(2) Disbursement Letter of the same date as this Agreement, together with
cc: Hon. Cayetano Paderanga Jr., Director General, National Economic Development Authority
    Hon. Florencio Abad, Secretary, Department of Budget and Management
    Hon. Ramon Paje, Secretary, Department of Environment and Natural Resources
    Hon. J. R. Nereus Acosta, Presidential Advisor on Environmental Protection and General
        Manager of Laguna Lake Development Authority
    Ms. Rosalia de Leon, Undersecretary, Department of Finance
    Mr. Rolando Tungpalan, Deputy Director General, National Economic and Development
        Authority
    Ms. Laura Pascua, Undersecretary, Department of Budget and Management
    Mr. Mario Relampagos, Undersecretary, Department of Budget and Management
    Atty. Analiza Teh, Undersecretary, Department of Environment and Natural
        Resources
    Ms. Stella Laureano, Director, Department of Finance
    Mr. Roderick Planta, Director, National Economic Development Authority
    Ms. Estrelita Bangsal, Director, Department of Budget and Management
    Mr. Edwin Domingo, OIC/Director, DENR-FASPO
    Ms. Cristina Regunay, OIC - Chief Multilateral Investment Project Division, DENR-
        FASPO
    Ms. Dolora Nepomuceno, Assistant General Manager, Laguna Lake Development
        Authority
    Ms. Evelyn Juanillo, Project Evaluation Officer 3, DENR-FASPO
    Mr. Rogerio Studart, Executive Director for the Philippines, World Bank
    Ms. Ma. Lourdes Recente, Senior Advisor to the Executive Director for the Philippines,
        World Bank
ANNEX

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 ("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; provided that for the purposes of this Agreement the term "Project", whenever used in the Standard Conditions, shall mean the Activities referred to in Section 2.01 of this Annex.

Article II
Execution of the Activities

2.01. **Grant Objectives and Description.** The objective of the Grant is to prepare the Manila Bay Integrated Water Quality Management Project which has as its main objective to improve the quality of water in the Manila Bay, Pasig River and Laguna Lake system, through establishment and sustained support of institutional mechanisms and management systems enabling coordinated and comprehensive support for public and private initiatives, to address sources of pollution and sedimentation.

The activities (the "Activities") for which the Grant is given to be financed by the Project consist of the following parts:

(i) preparation of feasibility study detailing the project design, costs, components and activities, economic and financial analyses and results monitoring framework, including detailed preparation of year 1 investments;

(ii) conduct of environment and social assessments and preparation of corresponding Project safeguards instruments;

(iii) conduct stakeholder analyses, consultations and workshops; and

(iv) study tours to learn from good international practices on river basin management.

2.02. **Grant Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Activities through the Department of Environment and Natural Resources, or any successor thereto, in accordance with the provisions of: (a) 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.

2.03. **Institutional and Other Arrangements.** In carrying out the Activities described in Section 2.01 above, the Recipient shall cause the Department of Environment and Natural Resources to carry out the environment and social assessments of the Project and to prepare the corresponding safeguards instruments in accordance with safeguards procedures and policies acceptable to the World Bank.
2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, enable the representatives of the Donor to visit any part of the Recipient's territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient through the Department of Environment and Natural Resources shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The performance indicator referred to above in paragraph (a) consists of the following: prepared and appraised project on integrated water quality management of the Manila Bay and tributaries.

(c) The Recipient through the Department of Environment and Natural Resources shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.06. **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 Activities 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 Activities 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.

2.07. **Procurement**

(a) **General.** All goods and consultants’ services required for the Activities 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;
(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 Activities 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 and non-consulting services 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 and non-consulting services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to the additional provisions listed in the Schedule to this Annex; (B) Shopping; and (C) Direct Contracting.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (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

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) 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 USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ Services</td>
<td>125,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training and Workshops</td>
<td>75,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods</td>
<td>25,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Incremental Operating Costs</td>
<td>25,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>250,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section: (i) the term “Training and Workshops” means national and international training and workshops, including study tours, covering costs associated with the purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees; and (ii) the term “Incremental Operating Costs” means incremental 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 for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed thirty seven thousand five hundred Dollars ($37,500) equivalent may be made for payments made prior to this date but on or after August 21, 2011, for Eligible Expenditures under Categories (1) and (2).

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is March 31, 2013.
Article IV
Additional Remedies

4.01.  Events of Cancellation. The additional event of cancellation referred to in Article IV of the Standard Conditions consist of the following:

As a result of events which have occurred after the date of this Agreement, a situation has arisen which makes it improbable for the World Bank to finance the Project, the World Bank, at any time, can cancel the undisbursed amount of the Grant at its sole discretion.

Article V
Recipient’s Representative; Addresses

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

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

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

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

5.03. 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: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or 1-202-477-6391
INDEVAS Washington, D.C. 64145 (MCI)
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.
   (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 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 are 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 required.