Loan Agreement

(National Program Support for Environment and Natural Resources Management Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 29, 2007
LOAN AGREEMENT

Agreement dated August 29, 2007, between REPUBLIC OF THE PHILIPPINES (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“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, an amount of fifty million United States Dollars ($50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

2.05. 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, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; 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.

2.06. The Payment Dates are May 15 and November 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.08. (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 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 4.04(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.

2.09. Without limitation upon the provisions of paragraph (a) of Section 2.08 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III - PROJECT
3.01. The Borrower declares its commitment to the objectives of the Project. 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 Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled;

   (b) the Borrower through DENR has designated personnel in adequate numbers, with qualifications and experience, and under terms of reference acceptable to the Bank, to be responsible for the financial management matters under the Project at its Financial Management Service Office and its Foreign Assisted Projects Office;

   (c) the Borrower has approved calendar year 2007’s work program for Project; and

   (d) the Borrower has finalized and adopted the Operations Manual satisfactory to the Bank in accordance with the provisions of paragraph 5 of Section I of Schedule 2 to this Agreement.

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

REPUBLIC OF THE PHILIPPINES

By: /s/ Margarito B. Teves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Maryse D. Gautier

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower’s Department of Environment and Natural Resources (DENR) in improving its efficiency and effectiveness in its service delivery.

The Project consists of the following parts:

Part A. Policy Development, Planning, Monitoring and Evaluation

1. Improving the efficiency of DENR’s organization and operations, through the following activities: (a) developing a framework to rationalize DENR’s existing overlapping or conflicting policies and administrative orders, and to clarify the assignments and approving authorities at the different levels within the DENR’s organization; (b) refining the administrative arrangements of DENR’s Environment Management Bureau (EMB); and (c) establishing a procurement unit to handle procurement matters within DENR and refining the administrative arrangements of DENR’s Internal Audit unit.

2. Strengthening DENR’s service delivery functions, through the following activities: (a) conducting surveys to measure clients’ satisfaction with DENR’s service delivery; (b) improving access by DENR clients to its data and information, especially in regard to regulatory processes and fees, through among other things, strengthening DENR’s management information system (MIS); and (c) strengthening the capacity of DENR’s Policy and Planning Office to undertake its monitoring and evaluation functions for DENR’s operations.

3. Developing watershed management plans, land use and demarcation maps for watersheds and forest areas, groundwater maps, and geohazard maps of high risk areas.

4. Implementing interim risk remedial measures related to abandoned mines, geology, and ground water protection; and preparing comprehensive mine rehabilitation and remediation plans for priority abandoned mine sites.

5. Strengthening DENR’s public awareness and environmental education program.
Part B: Integrated Ecosystem Management

Carrying out a program to implement DENR’s integrated watershed and wetlands management strategies for targeted watersheds areas facing severe risk of further degradation and for sensitive ecological areas.
1. Promoting participatory and integrated watershed ecosystem planning and management; and raising integrated ecosystem awareness among the stakeholders in critical ecological areas.

2. Restoring and rehabilitating priority convergence watersheds; raising public awareness of habitat rehabilitation and restoration programs; improving the knowledge of the communities, LGUs and DENR local offices in the ecologically degraded areas on “rain-forestation”; supporting biodiversity conservation and management within priority “protected areas”; and carrying out resource-based assessments in the above-mentioned priority “protected areas” to improve conservation planning.

3. Supporting sustainable livelihood improvement Sub-projects that enhance the ecosystems, conserve biodiversity and increase farmers’ income.

Part C: Environmental and Natural Resource Management

1. Strengthening DENR’s regulatory and oversight functions and its capacity in implementation of environmental regulations related to air and water quality, waste management and environmental impact assessment.

2. Strengthening participatory integrated watershed management monitoring systems at the LGU and community levels.
SCHEDULE 2

Project Execution

Section I. Financing, Institutional, and Other Arrangements

Financing Arrangements.

1. To facilitate the carrying out of the Project at LGU level, the Borrower shall make the proceeds of the Co-financing available to each Participating LGU under a Memorandum of Agreement between the Borrower through DENR and said Participating LGU (“MOA”) on a grant basis and under conditions acceptable to the Bank and consistent with those in this Agreement and the Co-financing Agreement, which shall include the provisions of the Annex 2 to this Schedule.

2. The Borrower shall: (a) cause each Participating LGU to perform, in accordance with the provisions of the MOA to which said LGU is a party, all of the obligations of said LGU therein set forth; (b) take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said LGU to perform such obligations; and (c) not take or permit to be taken any action which would prevent or interfere with such performance.

3. The Borrower shall: (a) exercise its rights under each MOA in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Co-financing; and (b) except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any MOA or any provision thereof.

Institutional Arrangements.

4. The Borrower through DENR shall maintain throughout the period of implementation of the Project, with composition, terms of reference, staffing and other resources acceptable to the Bank:

   (a) the Project Steering Committee, chaired by the DENR Secretary or his designated representative to be responsible for providing policy guidance and leadership for implementation of the Project; and

   (b) the Project Coordination Unit within DENR acting as Secretariat to the Project Steering Committee to be responsible for coordination of Project implementation and as well as ensuring the submission to the Bank of required Project and financial reports.
Project Implementation.

5. The Borrower shall:

(a) carry out the Project in accordance with the Operations Manual, which shall set forth, inter alia, the descriptions of: (i) financial management and disbursement procedures consistent with the provisions of Section II.B of this Schedule; (ii) a Procurement Manual including procedures consistent with the provisions of Section III of this Schedule; institutional arrangements for procurement processing; anti-corruption measures; and standard bidding documents; (iii) the Project implementation arrangements, and monitoring and evaluation procedures; (iv) eligibility criteria, procedures and guidelines for the selection, approval, administration and supervision of Sub-projects; (v) the Indigenous Peoples Policy Framework, Environmental Management Plans, and the Environmental Guidelines; (vi) DENR’s action plan for implementing its Rationalization Plan; and (vii) selection criteria for a LGU to participate in the Project;

(b) not amend, abrogate, suspend, or waive any provision of said Operations Manual without the prior written concurrence of the Bank. In case of any conflict between the provisions of this Agreement and those of the Operations Manual, the provisions of this Agreement shall prevail.

6. The Borrower through the Project Coordination Unit shall, (i) furnish to the Bank, not later than March 31 in each year, starting March 31, 2008 for review and comments, an annual work plan and budget for the implementation of the Project in the following year (including a report on the progress of implementing DENR’s Rationalization Plan); and (ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan and, thereafter, promptly take all actions necessary to implement said plan, taking into account the views of the Bank on the matter.

7. The Borrower through DENR shall: (i) by December 31, 2007, prepare a three (3) year forward-looking planning and budgeting strategy which lays out its reform benchmarks in the areas of, inter alia, protection of environment, conservation of natural resources, rehabilitation of abandoned mines, access to DENR’s administrative and regulatory information, and fiduciary oversight; (ii) thereafter furnish said strategy to the Bank for review and comments; and (iii) by January 31, 2009, begin to implement said strategy taking into account of the Bank’s comments thereon.

8. In carrying out Part A1(b) of the Project, the Borrower through DENR shall, by December 31, 2009, issue and thereafter implement an administrative order to restructure its Environment Management Bureau (EMB) and to staff the restructured EMB, all in accordance with DENR’s Rationalization Plan.
9. In carrying out Part A1(c) of the Project, the Borrower through DENR shall: (i) by December 31, 2007, issue and thereafter implement an administrative order to establish a procurement unit within DENR, under terms of reference consistent with the requirements of the Borrower’s Procurement Reform Act (Republic Act 9184); and (ii) by December 31, 2007, issue and thereafter implement an administrative order to enable its Internal Audit unit to report directly to the Secretary of DENR, in line with the Borrower’s anti-corruption initiatives.

10. In carrying out Part A.2 of the Project, the Borrower through DENR shall: (i) by December 31, 2007, undertake a baseline study to measure client satisfaction with DENR’s service delivery; and (ii) by June 30, 2012, undertake a follow-up study to the mentioned baseline study to compare the effectiveness of measures undertaken by DENR during the Project period to improve client satisfaction in regard to its service delivery.

11. In carrying out Part A.4 of the Project, the Borrower through DENR shall, by December 31, 2007, develop and immediately thereafter implement an action plan to improve DENR’s information management system (MIS) and the public access to DENR’s information database.

12. The Borrower through DENR shall: (i) by March 31, 2008, engage an external firm, with qualifications and experience and under terms of reference, acceptable to the Bank, to strengthen DENR’s internal audit services; and (ii) by June 30 and December 31 of each calendar year, starting June 30, 2008, conduct semi-annual internal audits for the Project accounts, in such scope and details acceptable to the Bank and thereafter furnish a report to the Bank with its findings and recommendations.

13. The Borrower shall ensure that goods and works required for carrying out the Project activities beyond the planning stage at the watershed level will not be eligible for financing out of the proceeds of the Loan and the Co-financing until DENR has established a Watershed Management Council in a respective Watershed Area, with composition, terms of reference, staffing and other resources set out in the Operations Manual, to be responsible for planning and coordination of the Project activities at the watershed level.

14. By March 31, 2008, the Borrower through DENR shall complete implementation of the recommendations in its 2005 audit report in accordance with the Financial Management Action Plan, in a manner, satisfactory to the Bank.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports.

1. 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 the indicators set forth in Annex 1 to this Schedule. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than three (3) months after the end of the period covered by such report.

2. Without limitation on the provisions in paragraph A.1 of this Section II above, the Borrower shall:

   (a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2010, a mid-term evaluation report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

   (b) review with the Bank, by October 31, 2010, or such later date as the Bank shall request, the report referred to in sub-paragraph (a) of this paragraph 2, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter.

3. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months prior to the Closing date.


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 not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements for the Project 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.
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 and the Co-financing 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 Schedule.

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 Schedule.

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.


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

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 following provisions:</td>
</tr>
<tr>
<td>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: (i) evidence of the required financial, technical or production capability; (ii) audited financial statements; (iii) credit line, or cash deposit certificate; (iv) bid security; and (v) authority of the bid signatory.</td>
</tr>
<tr>
<td>2. In the case of prequalification, if any bidder is denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall</td>
</tr>
</tbody>
</table>
be sought.

3. A ceiling may be applied to bid prices, with prior concurrence of the Bank in advance of bidding. However, the Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.

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

5. Suppliers and contractors will not be required to purchase only local goods or supplies or materials.

6. In case of contracts for prior review, modifications exceeding fifteen percent (15%) of contract amount and material changes in the conditions during implementation require prior Bank concurrence.

7. 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.

8. For works contract, the experience qualification requirement shall be: (i) at least one (1) previous contract at eighty percent (80%) of the estimated cost of the contract being procured; and (ii) an annual turnover from all works averaged over the last three (3) years equal to one hundred percent (100%) of the estimated cost of the contract being procured.

(b) Shopping
(c) Force Account
(d) Direct Contracting
(e) Community Participation as further elaborated in the Operations Manual.

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. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely of national consultants.
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.
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 civil work to be procured based on ICB, Force Account, and Direct Contracting, regardless of their contract value;

(b) the first contract for goods or civil works to be procured based on NCB and Shopping procedures by each DENR’s bureau and by each regional office of DENR, regardless of its contract value;

(c) each contract for consultants services to be provided by a firm estimated to cost the equivalent of $100,000 or more;

(d) each contract for consultants services to be provided by an individual consultant estimated to cost the equivalent of $50,000 or more; and

(e) all contracts for consultants services procured on Single Source Selection basis and Sole-Source basis, regardless of their contract value.

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 (inclusive taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Goods, works and consultants’ services, and Operating Costs</td>
<td>50,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>2. Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.08 (c) of this Agreement</td>
</tr>
<tr>
<td>3. Front-end Fee</td>
<td>0</td>
<td>Amount payable pursuant to Section 2.04 of this Agreement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>50,000,000</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 $500,000 equivalent may be made for payments made prior to this date but on or after March 19, 2007, for Eligible Expenditures of goods, civil works, and consultants’ services under Category 1.

2. No withdrawal may be made under this Agreement for any Co-financing or any expenditure if a withdrawal is made for such Co-financing or expenditure under the Co-Financing Agreement, and any Co-financing or expenditure that is financed under the Co-Financing Agreement shall not be an Eligible Expenditure under this Agreement.

3. The Closing Date is December 31, 2012.
ANNEX I
TO
SCHEDULE 2

Project Performance Indicators

<table>
<thead>
<tr>
<th>Project Objective</th>
<th>Outcome Indicators</th>
</tr>
</thead>
</table>
| **1. The objective of the Project** is to assist the Borrower’s Department of Environment and Natural Resources (DENR) in improving its efficiency and effectiveness in its service delivery. | i) Implementation of DENR’s reform agenda, which includes timely actions on the dated covenants, achievement of the key milestones and continued progress in implementing the Rationalization Plan.  
ii) 30% improvement in overall client satisfaction with DENR service delivery by type of client e.g. LGU/communities.  
iii) 15% of reduction of total suspended particulate matter levels in Metro Manila over the 2007 baseline levels  
iv) 80% of the Project’s investment targets in rehabilitation, ecosystem development and assessments being met |

| **2. Global Environmental Objective** | i) 106,000 hectares of protected areas, protection forest and wetlands in GEF supported sites under effective management by the end of the Project.  
ii) 35% of ecologically sensitive forests (outside protected areas) under effective protection.  
iii) 25% decline in the area under *kaingin* (as measured by no. of plots) as a result of project interventions |

<table>
<thead>
<tr>
<th><strong>Intermediate Results from Each Part of the Project</strong></th>
<th><strong>Results Indicators for Each Part of the Project</strong></th>
</tr>
</thead>
</table>
| **Part A** Environment and natural resources management policies plans and practices streamlined and supported by enhanced service delivery in terms of data and information access. | i) Framework developed for the rationalization of environment and natural resources management policies and legislation which *inter alia* identifies overlaps and inconsistencies as a basis for clarifying and guiding the operations and core functions of DENR.  
ii) Key databases relating to: a) industrial use; b) forests; and c) protected areas available on-line for public access, including links to forms, procedures and fee schedules relating to regulatory processes and service contracts.  
iii) Procedures and responsibilities for issuance of tenure instruments standardized and streamlined.  
iv) National integrated protected areas system/implementation rules and regulations updated and, streamlined and revised policy issued.  
v) Mapping of priority geo-hazard areas completed.  
vi) Comprehensive rehabilitation and remediation plans for 5 abandoned mines completed.  
vii) Forward planning and budgeting strategy started to be |
<table>
<thead>
<tr>
<th>Intermediate Results from Each Part of the Project</th>
<th>Results Indicators for Each Part of the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>implemented which <em>inter alia</em> provides a vision and benchmarks for key reforms in DENRs operations. viii) Interim measures for the rehabilitation of Bagacay mine site fully implemented</td>
<td></td>
</tr>
</tbody>
</table>

**Part B**

Effective management systems in place to conserve critical ecosystems and natural resources in the Project areas, degraded areas rehabilitated, and sustainable use regimes initiated and implemented by communities and LGUs based on integrated ecosystem management principles.

| i) 30% of degraded forest in GEF supported sites rehabilitated with native species representing the bio-geographic region as identified in the WMP. 
 ii) At least 30% of degraded forestlands in non-convergence watersheds rehabilitated with native species by the end of the Project – 
 iii) 100% of GEF supported protected areas (PA) mainstreamed PA management effectiveness tool 
 iv) Use of PA management effectiveness tool replicated in 60% of proclaimed PAs nationally. 
 v) 60% of targeted communities in GEF supported sites implementing micro-catchment plans by the end of the Project. 
 vi) 30% of households in communities in GEF supported sites adopted livelihood practices promoted by the fourth year of Project implementation. 
 vii) 75% of funded activities (by $ value) in GEF supported sites implemented by the LGUs and/or other stakeholders. 
 viii) Watershed Management Councils, MOAs between DENR and Participating LGUs and MOAs between Participating LGUs and NGOs in place for all watersheds selected which, *inter alia*, clarifies the devolution of functions related to a) watershed & ecosystem management, b) management of communal forests, and protected areas. 
 ix) Best practices of integrated ecosystem management being replicated through information education campaigns in at least 2 non GEF supported watershed areas. 
 x) Payment for ecosystem services schemes operational in at least two watershed areas and generating environment and natural resources related service fees and royalties |

**Part C**

Appropriate and comprehensive environment and natural resources regulations and standards, implemented, monitored and enforced.

| i) 10% per annum increase in companies complying with environmental standards compared to baseline 
 ii) Designation and operationlization of at least 3 water quality management areas 
 iii) 128 LGUs are implementing three aspects of ecological solid waste management 
 iv) Monitor 179 private emissions testing centers 
 v) Monitor 4,700 companies with permit to operate 
 vi) Monitor 1,600 companies operating along waterbodies |
<table>
<thead>
<tr>
<th>Intermediate Results from Each Part of the Project</th>
<th>Results Indicators for Each Part of the Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>vii) Monitor 101 priority bathing beaches</td>
<td>viii) 4,216 environmentally critical projects (ECP) obtained</td>
</tr>
<tr>
<td></td>
<td>Environmental Compliance Certificate (ECC)</td>
</tr>
</tbody>
</table>
ANNEX II  
TO  
SCHEDULE 2

For the purposes of paragraph 1 of Section I of Schedule 2 to this Agreement, each MOA between the Borrower and a Participating LGU shall include, among others, provisions set forth below.

1. Each Participating LGU shall carry out the Project with due diligence and efficiency, and in conformity with appropriate engineering, economic, financial, administrative, technical, and agricultural practices and sound social and environmental standards, acceptable to the Bank, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

2. If a proposed Sub-project involves communities with Indigenous Peoples, prior to commencing civil works under a Sub-project, each Participating LGU shall prepare a plan that incorporates mechanisms for the informed participation of such peoples in the design and implementation of said Sub-project and then implement said plan thereafter in the implementation of said Sub-project in accordance with policies and procedures set forth in the Indigenous Peoples Policy Framework.

3. Each Participating LGU shall undertake an environmental screening for a proposed Sub-project according to the provisions of the Environmental Guidelines. If such environmental screening concludes that an environmental impact assessment and an environmental management plan are required for the proposed Sub-project, said Participating LGU shall prepare the said environmental impact assessment and environmental management plan all on the basis of standards satisfactory to the Bank and in accordance with the procedures and principles set forth in the Environmental Guidelines and thereafter implement the proposed Sub-project in accordance with said environmental management plan. In the event an environment compliance certificate is required under Philippine law or regulations, said Participating LGU shall obtain such environment compliance certificate from the Borrower’s DENR or its instrumentality at the regional level in respect of the activities under said Sub-project.

4. Each Participating LGU shall ensure that:

   (a) the goods, works and services required for the Project and to be financed out of the proceeds of the Co-financing are procured in accordance with the provisions of Section III of Schedule 2 to this Agreement;

   (b) said goods are insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the purchaser thereof to replace or repair such goods; and
said goods, works and services are utilized exclusively for the purpose of carrying out the Project.

5. Each Participating LGU shall enable the Borrower and the Bank to examine all goods, facilities, sites and works included in the Project, the operation thereof, and any relevant records and documents.

6. Each Participating LGU shall ensure that any facilities, equipment and other property relevant to the Project shall at all times be operated and maintained, and that all necessary repairs and renewals thereof shall be promptly made, as needed, all in accordance with sound financial, administrative and technical practices.

7. Each Participating LGU shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators set forth in Annex I of Schedule 2 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof; and

   (b) prepare, under terms of reference satisfactory to the Bank, a semi-annual report summarizing the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above of this paragraph 7, on progress achieved in the carrying out of the Project during the preceding calendar semester and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the next semi-annual period following such date and furnish the same to the Borrower to enable the Borrower to consolidate and submit the information to the Bank pursuant to the provisions in paragraph 2 of Section II of Schedule 2 to this Agreement.

8. Each Participating LGU shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Participating LGU, including the operations, resources and expenditures related to the Project.

9. Each Participating LGU shall have its financial statements for the Project referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of the LGU. The audited financial statements for each period shall be furnished to the Borrower not later than three (3) months after the end of the period for consolidation by the Borrower and submission to the Bank in accordance with the provisions of B.3 of Section II of Schedule 2 to the Loan Agreement.
10. In the event that a Participating LGU engages a non-governmental organization (NGO) to assist in the carrying out of any livelihood Sub-projects under Part B.3 of the Project, such Participating LGU shall enter into a contract or other appropriate legal instruments to set forth the rights and obligations of each party, under terms and conditions satisfactory to the Bank.
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 15 and November 15 Beginning November 15, 2015 Through November 15, 2026</td>
<td>4.17%</td>
</tr>
<tr>
<td>On May 15, 2027</td>
<td>4.09%</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.
APPENDIX

Definitions

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

(b) “Co-financier” means the Global Environment Facility.

(c) “Co-financing” means an amount of seven million dollars ($7,000,000) to be provided by the Co-financier to assist in the financing of the Project.

(d) “Co-financing Agreement” means the agreement to be entered into between the Republic of the Philippines and the Bank and providing for the Co-financing.


(f) “DENR” means the Borrower’s Department of Environment and Natural Resources, and any successor thereto.

(g) “Environmental Guidelines” means the environmental guidelines, dated November 29, 2006, adopted by the Borrower, which set forth the rules and procedures for environmental screening and for the carrying out the environmental assessments and preparing environmental management plans for the activities to be implemented after the first year implementation during the period of Project implementation, as the same may be amended from time to time with the prior agreement of the Bank.

(h) “Environmental Management Plans” means, collectively, the environmental management plans which are a part of (i) the Environmental Assessment prepared for the Bagacay abandoned mine site and (ii) the Environmental Assessment for all other year 1 activities, each dated November 29, 2006, prepared for the activities to be carried out during the first year of the Project implementation, which said plans sets out the environmental protection measures in respect of such activities, including risk remedial measures related to abandoned mine and measures to stabilize and rehabilitate tailings ponds and address the risks associated with the tailings ponds rehabilitation, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the agreement of the Bank.
“Financial Management Action Plan” means the time-bound action plan prepared by DENR on April 25, 2007 to implement the recommendations in its 2005 audit report, and referred to in paragraph 14 of Section I of Schedule 2 to this Agreement.

“General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006).

“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: (i) a close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from Pilipino, the Recipient’s national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

“Indigenous Peoples Policy Framework” means the framework, dated December 7, 2006, adopted by the Borrower, providing procedures, rules, and guidelines for: (i) the informed involvement of Indigenous Peoples, through a process of informed consultation, in the design and implementation of the Project in locations in which such people reside or which they use for their livelihood, and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of the Project, as such framework may be amended from time to time with the prior agreement of the Bank.

“LGUs” means Local Government Units, which are political subdivisions of the Borrower at the provincial, city, municipal or barangay level, and “LGU” means any such Local Government Unit.

“Memorandum of Agreement” means the agreement referred to in paragraph 1 of Section I of Schedule 2 to this Agreement.

“Operating Costs” means the reasonable costs incurred by DENR on account of the Project implementation, monitoring and evaluation, which expenditures would not have been incurred absent the Project, including costs for office supplies, repairs of equipment and vehicles, staff travel and per diem; consumables; rental of office space and vehicles, fuel costs; but excluding salaries and salary supplements of the Borrower’s civil servants.
(p) “Operations Manual” means the manual referred to in paragraph 5(a) of Section I of Schedule 2 to this Agreement, as such manuals may be revised from time to time with the prior approval of the Bank.

(q) “Participating LGUs” means the LGUs to be selected to participate in the Project according to the selection criteria set forth in the Operations Manual and a “Participating LGU” means any of the Participating LGUs.

(r) “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.

(s) “Procurement Manual” means the manual referred to in paragraph 5 of Section I of Schedule 2 to this Agreement.

(t) “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 24, 2007 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.

(u) “Project Coordination Unit” means the unit referred to in paragraph 4(b) of Section I of Schedule 2 to this Agreement, and any successor thereto.

(v) “Project Steering Committee” means the committee referred to in paragraph 4(a) of Section I of Schedule 2 to this Agreement, and any successor thereto.

(w) “Rationalization Plan” means the plan prepared by DENR for institutional restructuring in accordance with the Executive order No. 366 issued by the Office of the President of the Borrower.

(x) “Sub-projects” means, collectively, Sub-projects to be carried out under Part B.3 of the Project, and the term “Sub-project” means any of the Sub-projects.

(y) “Watershed Areas” means the areas identified in the Borrower’s Executive Order #192 and referred to in paragraph 13 of Section I of Schedule 2 to this Agreement, as such areas may be updated by the Borrower from time to time.

(z) “Watershed Management Council” means the council referred to in paragraph 13 of Section I of Schedule 2 to this Agreement.