Loan Agreement

(First Development Policy Loan to Foster More Inclusive Growth)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 15, 2011
AGREEMENT dated June 15, 2011, 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 appropriate 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 two hundred fifty million Dollars ($250,000,000), 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amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead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 April 1 and October 1 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 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 unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or 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 applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section 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 consists of the following, namely, 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 consists of the following, namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and that the Borrower has maintained an appropriate 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 the Secretary of Department of Finance.
6.02. The Borrower’s Address is:

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

Cable address: Facsimile:

SECFIN (63-2) 526-9990
Manila (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 Manila, Philippines, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ Cesar V. Purisima

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman

Authorized Representative
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. The Borrower has commenced restructuring the Large Taxpayer Service under the approved LTS Rationalization Plan; has approved its Revenue Regulation No 17-2010 (dated November 16, 2010) which broadens the selection criteria for large taxpayers; and has added about 747 taxpayers to the LTS as of January 1, 2011.

2. The Borrower has submitted the revised Fiscal Incentives Rationalization Bill to Congress and has identified it as a priority bill.

3. The DBCC has published a Fiscal Risks Statement as a reference for the 2011 Budget.

4. Senate Bill No. 2640 whose objectives are, among other things, to promote financial viability and fiscal discipline in corporations owned and controlled by the Borrower, in part through temporary delegation of reform powers from Congress to the Executive, has been filed in Congress.

5. The new web-based Enhanced Business Name Registration System adopted by DTI has reduced the average time required for a business name registration to 15 minutes.

6. To strengthen transparency and accountability, the 2011 General Appropriations (Act No. 10147), adopted by Congress, has mandated that the implementation status and fund utilization of major programs and projects be posted by the Borrower’s departments and agencies on their official websites, and that DBM post on its website all releases and realignments under the Borrower’s priority development assistance fund.

7. The medium term expenditure framework of DepEd has been updated to reflect the resources required to implement its policies, programs and strategies, including the K to 12 Program.

8. The GASTPE budget allocation that funds the Education Service Contracting Program of DepEd has been increased by 48% in 2011 as compared to 2010.
9. PhilHealth has adopted Board Resolution No. 1479, for the implementation of the partial insurance premium subsidy program for the Near-Poor.

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>249,375,000</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>625,000</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>TOTAL AMOUNT</td>
<td>250,000,000</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 appropriateness 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 March 31, 2012.
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 April 1 and October 1</td>
<td></td>
</tr>
<tr>
<td>Beginning October 1, 2021</td>
<td></td>
</tr>
<tr>
<td>through April 1, 2036</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.23%</td>
</tr>
<tr>
<td>On October 1, 2036</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.10%</td>
</tr>
</tbody>
</table>

2. Notwithstanding the provisions of paragraph 1 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.

3. 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. “Congress” means the Borrower’s national legislative body.

2. “DBCC” means the Development Budget and Coordination Committee, a committee under the NEDA Board established for the purposes, among other things, of recommending to the President of the Borrower (a) the level of annual expenditures and the ceiling of spending for economic and social development, (b) national defense, and government debt service; (c) proper allocation of expenditures for each development activity between current operating expenditures and capital outlays; and (d) the amount set to be allocated for capital outlays broken down into the various capital or infrastructure projects.

3. “DBM” means the Borrower’s Department of Budget Management; or any successor thereto.

4. “DepEd” means the Borrower’s Department of Education, or any successor thereto.

5. “Deposit Account” means the account referred to in Part D.1 of Section II of Schedule 1 to this Agreement.

6. “DOH” means the Borrower’s Department of Health, or any successor thereof.

7. “DTI” means the Borrower’s Department of Trade and Industry, or any successor thereto.

8. “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.

9. “Enhanced Business Name Registration System” means the web-based business name registration system implemented by DTI pursuant to its Department Administrative Order 10-08 series of 2010 for the purpose of making business name registration easier and faster.

10. “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 substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
12.

(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.

11. “Fiscal Incentives Rationalization Bill” means House Bill No. 4252 filed in Congress, whose objective is to rationalize fiscal incentives given to business enterprises for paying taxes by removing redundant incentives and ensuring that incentives will be given only where necessary.

12. “Fiscal Risks Statement” means the document containing a comprehensive quantitative and qualitative evaluation of fiscal risks faced by the Borrower, prepared and published by DBCC for the purpose of enhancing the management of such fiscal risks.

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


15. “K to 12 Program” means the Borrower’s basic education program which aims to universalize kindergarten and add two more years to the basic education cycle by the Borrower’s School Year 2016-2017.

16. “Large Taxpayer Service” means the Borrower’s scheme for optimizing tax collection from the largest tax payers within the jurisdiction of its tax collection agencies.
17. “LGUs” means Local Government Units, political subdivisions of the Borrower at the provincial, city, municipal or barangay level, and “LGU” means any one of such LGUs.

18. “LTS Rationalization Plan” means the Borrower’s plan adopted pursuant to its Executive Order No. 366 for the purpose of rationalizing the Large Taxpayer Service.

19. “National Household Targeting System” means the data management system adopted by the Borrower to gather data with respect to poor households as reference for identifying potential beneficiaries for social services.

20. “Near Poor” means physical persons ordinarily resident on the Borrower’s territory whose consumption is above the poverty line, but below the 40th percentile of the Borrower’s population.

21. NEDA” means National Economic and Development Authority, an independent cabinet-level agency of the Borrower responsible for economic development and planning, as reorganized by Executive Order No. 230 issued by the Borrower’s President on July 22, 1987, and any successor thereto.

22. “Board Resolution No. 1479” means the resolution passed by the Board of Directors of PhilHealth providing, among other things, for: (i) a health insurance scheme with premiums shared between the Borrower, LGUs and individuals, (ii) automatic availment of health insurance; and (iii) outpatient packages and other benefits available through the scheme, such resolution by its terms to remain under implementation until such time as the National Household Targeting System is further developed to more accurately target the Near Poor.

23. “PhilHealth” means the Borrower’s National Health Insurance Corporation, an agency of DOH established under Republic Act 7875, to ensure adequate financial access of every citizen of the Borrower to quality health care services.

24. “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 April 16, 2011 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.

25. “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 Schedule 1 to this Agreement.
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.”