
LOAN NUMBER 2199-PHI

LOAN AGREEMENT
(Ordinary Operations)
(Microfinance Development Program)

between

REPUBLIC OF THE PHILIPPINES

and

ASIAN DEVELOPMENT BANK

DATED 22 NOVEMBER 2005

PLL:PHI 38579

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 22 November 2005 between REPUBLIC OF THE PHILIPPINES (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 3 October 2005 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's microfinance sector (hereinafter called the Program);

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) the Government of the Philippines has also applied to ADB for a technical assistance project (the Technical Assistance) in connection with the Program to assist in the implementation of the Program, in an amount equivalent to \$500,000; and

(D) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 2.01(49) is deleted and the following is substituted therefor:

49. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(51) is deleted and the following is substituted therefor:

51. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Loan Agreement.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Administrative Order/Regulation" means an administrative order or regulation issued by the relevant ministry or agency of the Borrower;

(b) "BIR" means Bureau of Internal Revenue of the Borrower and any successor thereto;

(c) "BSP" means Bangko Sentral Ng Pilipinas of the Borrower and any successor thereto;

(d) "CDA" means the Cooperative Development Authority of the Borrower and any successor thereto;

(e) "Circular" means a directive issued by a relevant authority of the Borrower;

(f) "Counterpart Funds" means the Peso proceeds accruing to the Borrower and generated from the proceeds of the Loan under the Program and referred to in Schedules 1 and 5 to this Loan Agreement;

(g) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(h) "DOF" means the Department of Finance of the Borrower and any successor thereto;

(i) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(j) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of seventy five million dollars (\$75,000,000) to be initially withdrawn and utilized;

(k) "fiscal year" or "FY" means fiscal year of the Borrower, commencing on the first day of January each year and ending on the last day of December of the same year;

(l) "Implementing Agencies" means BIR, BSP, CDA, NAPC, PPSB, and SEC, and any successor(s) thereto, as more particularly described in paragraph 3 of Schedule 5 hereto;

(m) "MFI" means microfinance institutions and includes banks, cooperatives and nongovernment organizations providing microfinance services;

(n) "NAPC" means the National Anti-Poverty Commission of the Borrower and any successor thereto;

(o) "NAPC's Annual Report" means the annual report prepared and submitted annually, to the President and Congress of the Borrower;

(p) "NCC Secretariat" means the secretariat of the National Credit Council of the Borrower, established in DOF and any successor thereto;

(q) "NGO" means nongovernment organization as defined by the relevant agencies of the Borrower from time to time;

(r) "Pesos" or the sign "P" means pesos in the currency of the Borrower;

(s) "Phase One of the CDA project" includes the description for the scope of work, the terms of reference of consultants, and the preliminary budget for the project;

(t) "PPSB" means Philippine Postal Savings Bank Inc. of the Borrower and any successor thereto;

(u) "Policy Letter" means the development policy letter dated 5 October 2005 addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;

(v) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB which sets forth actions to be taken by the Borrower under the Program;

(w) "Program Executing Agency" means for the purposes and within the meaning of the Loan Regulations, DOF, which is responsible for the carrying out of the Program;

(x) "Program Period" means the period from November 2005 until November 2007;

(y) "SEC" means the Securities Exchange Commission of the Borrower and any successor thereto; and

(z) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred fifty million dollars (\$150,000,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a term of 15 years, including a grace period of 5 years, as provided in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as determined by Section 3.02 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge at the rate of three-fourths of one percent (0.75%) per annum on the unwithdrawn amount of the Loan. Such charge shall accrue from a date sixty (60) days after the date of this Loan Agreement to the respective dates on which amounts shall be withdrawn from the Loan Account or shall be cancelled.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (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, whether withdrawn and outstanding 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 Floating Rate to a Fixed Rate, or vice versa; and

- (iii) the setting of limits on the Floating 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 said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be produced in, and procured from, ADB's member countries in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB shall not finance a contract for goods which have not been procured in accordance with procedures agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 November 2007 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, governance, and microfinance practices.

(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.05. (a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB semiannual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: sufficient progress has been achieved by the Borrower in the carrying out of the Program and accomplishments as specified under the First Tranche in the Policy Matrix, shall have been satisfactorily met.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Department of Finance
DOF Building
Roxas Boulevard
Manila, Philippines

Facsimile Numbers:

+63 2 523-9216
+63 2 521-9495

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

+63 2 636-2444
+63 2 636-2388.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By  _____
MARGARITO B. TEVES
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
HARUHIKO KURODA
President

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to ensure access to sustainable institutional financial services for a majority of poor and low-income households and their microenterprises at competitive prices to assist in the reduction of poverty and promote sustainable economic growth. The scope includes developing a national financial literacy program to promote effective access and utilization of microfinance services, creating viable and effective microfinance institutions, improving the performance of the microfinance sector, and increasing sustained access to financial services by the poor. The Program components include removing regulatory impediments and policy distortions; building MFIs that can provide efficient and cost-effective retail delivery of services to the poor; strengthening regulatory and supervisory capacities and authority for a sound microfinance sector; and increasing financial literacy and consumer protection for the poor. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period November 2005 to November 2007.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program noted above.

3. The proceeds of the Loan are expected to be utilized by 30 November 2007.

SCHEDULE 2**Amortization Schedule****(Microfinance Development Program)**

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 shall 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 ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Period</u>	<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1	15 April 2011	3.02
2	15 October 2011	3.18
3	15 April 2012	3.33
4	15 October 2012	3.50
5	15 April 2013	3.68
6	15 October 2013	3.86
7	15 April 2014	4.05
8	15 October 2014	4.26
9	15 April 2015	4.47
10	15 October 2015	4.69
11	15 April 2016	4.93
12	15 October 2016	5.17
13	15 April 2017	5.43
14	15 October 2017	5.70
15	15 April 2018	5.99
16	15 October 2018	6.29
17	15 April 2019	6.60
18	15 October 2019	6.93
19	15 April 2020	7.28
20	15 October 2020	<u>7.64</u>
	Total	<u>100.00</u>

*The figures in this column represent installment shares as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the relevant provisions of the Ordinary Operations Loan regulations applicable to LIBOR-based Loans.

Schedule 2

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two 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.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall designate an account of the Borrower (the Deposit Account) into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be managed in accordance with terms and conditions satisfactory to ADB.

(b) Records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with

Schedule 3

appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule in a manner acceptable to ADB.

List of Ineligible Items

1. No withdrawals shall be made in respect of:

(a) expenditures for goods included in the following groups or sub-groups of the United Nations Standards International Trade Classification, Revision 3, or any successor groups or sub-groups under future revisions as shall be designated by ADB by notice to the Borrower:

<u>Group</u>	<u>Sub-Group</u>	<u>Description of Items</u>
112		alcoholic beverages
121		tobacco, unmanufactured tobacco refuse
122		tobacco, manufactured (whether or not containing tobacco substitutes)
525		radioactive and associated materials
667		pearls, precious and semi-precious stones, unworked or worked
718	718.7	nuclear reactors and parts thereof, fuel elements (cartridges) nonirradiated, for nuclear reactors
897	897.3	jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		gold, nonmonetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;

(c) payment made for expenditures incurred more than 180 days prior to the Effective Date;

(d) expenditures for goods intended for (i) military or para-military purposes, or (ii) luxury consumption; or

(e) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a and 1b, respectively, of the World Health Organization's Classification of Pesticides by Hazard and Guidelines to Classification.

Conditions for Release of the Second Tranche

The conditions to be fulfilled by the Borrower for the release of the Second Tranche include maintaining the conditions satisfied under the First Tranche, satisfactory implementation of the Program and achievement, satisfactory to ADB, of the conditions specified below.

1. Based upon the results of exposure of the draft regulation to industry, BSP shall have issued regulations and related guidelines to provide greater flexibility in bank branching for financially sound and well-managed banks, including those catering to the micro, small, and medium enterprises.

2. The Borrower shall have ensured that:

(a) (i) DOF and CDA have completed public consultations, and based on those consultations, CDA has issued guidelines for truth-in-lending disclosures for the cooperative sector in line with BSP truth-in-lending guidelines for effective disclosure of costs of borrowing to borrowers; and (ii) CDA is ensuring effective compliance of cooperatives in truth-in-lending disclosure to borrowers; and

(b) NAPC (i) is causing microfinance sector stakeholders to receive its industry advisory on requirements under the Borrower's Truth-in-Lending Law and truth-in-lending disclosures to borrowers (the industry advisory), and (ii) has posted the industry advisory on its free public access website, and distributed to industry associations, local government units (LGUs), consumer and basic sector groups, and sent by direct mailings to MFIs.

3. The Borrower shall have ensured that:

(a) the SEC has issued an Administrative Order/Regulation under the Borrower's Corporation Code (i) requiring NGOs which provide microfinance and other related financial services to disclose this information to SEC by filing, within 30 days of issuance of the Administrative Order/ Regulation, a revised General Information Sheet (GIS) and if necessary, filing amended Articles of Incorporation; and (ii) authorizing a revised GIS form that includes a specific area for marking if the NGO conducts any microfinance operations;

(b) the SEC is making available to NAPC a copy of all GIS forms that indicate microfinance operations are being conducted by an NGO;

(c) NAPC is maintaining and developing a sector database of institutions conducting microfinance including banks, cooperatives and NGOs, and publishing data on NAPC's free public access website and in NAPC's Annual Reports;

(d) the SEC has established and is maintaining facilities to allow for electronic filing of annual GIS forms and annual financial statements by NGO MFIs; and

(e) CDA has completed Phase One of the CDA project to establish a database for public and internal access on savings and credit cooperatives, and installed advanced registration and management information systems for savings and credit cooperatives.

4. The Borrower shall have ensured that based upon examination results and BIR evaluation report, BIR has issued Revenue Regulations clarifying the tax regime for microfinance institutions and specifying definitions of a party engaged in microfinance operations and a microfinance transaction, the tax treatment of microfinance transactions and the tax status of NGOs engaged in microfinance operations.

5. BSP shall have issued rules and regulations for e-banking transactions including requirements for e-payment transactions and e-value transfers made through non-bank institutions including, but not limited to, peer-to-peer transfers, remittances, small value transfers, and stored value transfers to facilitate financial transactions for small clients and the use of technological applications that lower the cost of transfers and payments, including remittances to MFIs in remote areas.

6. The Borrower shall have ensured that: (a) DOF and CDA have completed public consultations, and (b) CDA has issued: (i) regulations for minimum qualifications and fit and proper standards for savings and credit cooperative board directors and key management including requirements for education levels, diligence, experience and training; and (ii) ongoing training requirements for officers and directors of savings and credit cooperatives, including continuous training at an accredited organization of the BSP and/or CDA.

7. The Borrower shall have ensured that: (a) the financial assessment and valuation of PPSB has been completed, and (b) privatization options and action plans for PPSB including financial assessment and valuation of PPSB, shall have been submitted to, and considered by, the PPSB Board of Directors.

8. The Borrower shall have ensured that: (a) DOF and CDA have completed public consultations, and (b) CDA has issued a manual of prudential rules and regulations based upon consultations for deposit-taking savings and credit cooperatives to provide comprehensive authority for rules and regulations to implement provisions of RA 6938 and RA 6939 and other existing laws of the Borrower that will govern the operations of cooperatives with savings and credit operations.

9. BSP shall be conducting risk-based supervision for microfinance operations, and a capacity building program for BSP staff for effective risk-based supervision.

10. The Borrower shall have ensured that NAPC is (a) implementing a sustainable national program for financial literacy, including gender training and consumer protection, in collaboration with concerned agencies, local government units (LGUs), and microfinance training institutions; and (b) reporting annually on Program implementation and is publishing the results in NAPC's Annual Report.

11. The Borrower shall ensure that NAPC has: (a) issued, in consultation with concerned agencies of the Borrower, a guidebook on consumer protection for the poor and users of microfinance services, including information on Philippines' procedures for filing consumer complaints; and (b) published the guidebook on NAPC's free public access website and distributed it to relevant industry associations, LGUs, MFIs, and consumer and basic sectors groups.

12. The Borrower shall have ensured that:

(a) the free public access channel on NAPC website is operating to support consumer protection, including having capacity for the public to file complaints online for (i) failure to meet truth-in-lending disclosure requirements; (ii) non-compliance with Insurance Law of the Borrower; and (iii) other areas as identified by NAPC;

(b) NAPC is submitting complaints to relevant authorities of the Borrower and publishing the number of complaints received annually in NAPC's Annual Report; and

(c) NAPC is ensuring that the industry advisory on Insurance Law of the Borrower and requirements for offering insurance products (i) is being received by stakeholders in the microfinance sector, and (ii) is posted on NAPC's free access website, and made available for distribution to industry associations, and consumer and basic sector groups and sent by direct mailings to MFIs.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in paragraph 2(b) below, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5**Program Implementation and Other Matters****I. Use of Counterpart Funds**

1. The Borrower shall ensure that the Counterpart Funds shall be used to finance the costs relating to the implementation of the Program and other activities consistent with the objectives of the Program, as more fully described under paragraph 1 of Schedule 1 to this Loan Agreement and the Policy Letter and shall, in particular, provide necessary budget appropriations to finance the structural adjustment costs relating to the implementation of the reforms under the Program.

2. The Borrower shall, during the Program period, cause the DOF and Implementing Agencies to prepare an annual work plan for the next year and shall ensure that during each year of the Program implementation, adequate budgetary allocation of required Counterpart Funds is made and such funds are released by the relevant authorities on a timely and regular basis to facilitate Program implementation.

II. Program Implementation

3. Except as the Borrower and ADB may otherwise agree:

(a) DOF, as the Program Executing Agency, shall be responsible for implementation of the Program including administration and disbursement of loan proceeds, maintenance of accounts, and preparation of quarterly progress reports;

(b) the NCC Secretariat shall act as the Program Management Unit (PMU) and shall be responsible for the day-to-day implementation of the Program and coordinate activities among the Implementing Agencies;

(c) BIR, BSP, CDA, NAPC, PPSB, and SEC shall be the Implementing Agencies and shall be responsible for the implementation of their related parts of the Program. Technical staff from the Implementing Agencies shall provide assistance to the PMU as required; and

(d) an interagency committee, chaired by the DOF and comprising senior level staff from the National Economic and Development Authority of the Borrower and each of the Implementing Agencies shall be established to facilitate Program implementation and agency coordination, shall meet regularly and when appropriate, shall invite ADB to observe the meetings.

4. The Borrower shall ensure that coordination between the activities under the Program and the Technical Assistance and the consultants' work is undertaken and that recommendations provided under the Technical Assistance are taken into account in implementing the Program.

III. Implementation of the Policy Letter and Policy Matrix

5. The Borrower shall: (a) ensure that the policies adopted and actions taken as described in the Policy Letter prior to the date of this Loan Agreement continue to be in effect during the Program Period; (b) adopt the other policies and take other actions included in the Program as specified in the Policy Letter and the Policy Matrix in a timely manner, and ensure that such policies and actions continue to be in effect; and (c) ensure that inclusive social planning for benefits under the Program is undertaken through (i) the NAPC and the Borrower's KALAH! program (Kapit Bisig Laban sa Kahirapan or Joining Arms Together Against Poverty) by providing a voice to indigenous peoples and other disadvantages groups, in policy making and poverty reduction activities; and (ii) direct field research, surveys and consultations with the poor and disadvantaged.

IV. Policy and Sector Dialogue

6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall, from time to time, engage in active policy dialogue on sector issues, policy reforms, and other measures during the Program Period and on additional reforms that may be considered necessary or desirable, and exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.

7. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and adopt appropriate measures to overcome or mitigate such problems and constraints in a timely manner.

8. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

V. Reporting

9. Pursuant to Section 7.04 of the Loan Regulations and Section 4.05(b) of this Loan Agreement, the Borrower shall cause DOF to submit the semiannual reports to ADB within 20 days from the end of each semester. The reports shall, as a minimum, include descriptions of the progress made during the last six months, changes to the implementation schedule, problems and/or issues encountered and remedial actions taken, and the work to be undertaken in the following period.

10. At the end of the Program, the Borrower shall cause DOF to submit the completion report to ADB covering the Program, within three months of completion of the Program conditions pursuant to Section 7.04(d) of the Loan Regulations.

11. The Borrower shall ensure forensic accounting capability to ensure tracking of funds flow and effective identification of corruption, if any, in the implementation of the Program. ADB retains the right to (a) audit any account relating to the Program; and (b) verify the validity of the certification issued by the Borrower for each withdrawal application.

VI. Social Safeguards

12. The Borrower shall ensure that measures to promote the participation of women and ethnic minorities in the Program are undertaken and that equitable opportunities are provided to women and indigenous peoples to undertake or be involved in activities conducted under the Program, including measures to address their special needs, to encourage women and ethnic minorities to be participants in initiatives in outreach and training, to be appointed as PMU staff, and be involved in the monitoring activities, in accordance with ADB's *Policy on Gender and Development* (1998) and *Policy on Indigenous Peoples* (2003).

VII. Program Performance Management (PPM) and Reviews

13. The Borrower shall: (a) cause DOF and each of the relevant Implementing Agencies to (i) collect benchmark or baseline data for specific Program performance indicators, as agreed with ADB; (ii) continually assess the Program impact; and (iii) carry out monitoring and evaluation of the Program in accordance with agreements reached with ADB, including facilitating consultation with relevant agencies, civil society, and other key stakeholders as appropriate; (b) assist and support monitoring and evaluation by facilitating consultations with relevant agencies of the Borrower and key stakeholders as appropriate; and (c) ensure that benefits from inclusive social planning under the Program are monitored and evaluated through (i) the NAPC and the Borrower's KALAH program; and (ii) direct field research, surveys, and consultations with the poor and disadvantaged.

14. Annual PPM reports shall be prepared by DOF and each of the Implementing Agencies, consolidated by DOF and submitted to ADB in a timely manner.

15. At such time or times as the Borrower and ADB shall agree, joint reviews shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the Policy Letter and Policy Matrix, including, in particular, the fulfillment of the Tranche conditions. To facilitate these reviews, DOF and Implementing Agencies shall provide ADB with relevant information, in addition to the reports and information. These reviews shall form the basis for discussions between the Borrower and ADB on further measures that may be considered necessary or desirable to promote the continued reforms.