
LOAN NUMBER 2489-PHI

LOAN AGREEMENT
(Ordinary Operations)

(Governance in Justice Sector Reform Program)

between

REPUBLIC OF THE PHILIPPINES

and

ASIAN DEVELOPMENT BANK

DATED 18 DECEMBER 2008

PLL:PHI 41380

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 18 December 2008 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 21 October 2008 (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 justice sector (hereinafter called the "Program Cluster");

(B) the Program Cluster comprises of two subprograms, the first of which (hereinafter called the Program) will be implemented under this Loan Agreement;

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

(D) the Government of the Philippines (hereinafter called "GOP") has also applied to ADB for technical assistance to support implementation of the Governance in Justice Sector Reform Program and that for such purpose ADB has agreed to provide a technical assistance grant not exceeding the equivalent of two million dollars (\$2,000,000), (hereinafter called "the TA project"); and

(E) 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 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(f) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost

Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(g) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(h) 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) "Agreed Actions" means, with respect to each policy achievement, the actions taken by the relevant stakeholders for the purpose of measuring that policy

achievement, as set out in the Policy Matrix attached to the Policy Letter, and as may be revised from time to time with the agreement of ADB;

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

(c) "BJS" means the Barangay Justice System;

(d) "BSP" means the Bangko Sentral ng Pilipinas, the Central Bank of the Borrower, and any successor thereto;

(e) "CA" means the Borrower's Court of Appeals;

(f) "Counterpart Funds" means the Peso proceeds accruing to the Borrower and generated from the Loan proceeds under the Program, as referred to in paragraph 6 of Schedule 5 to this Loan Agreement;

(g) "DBM" means the Borrower's Department of Budget and Management and any successor thereto;

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

(i) "DILG" means the Borrower's Department of Interior and Local Government and any successor thereto;

(j) "DOF" means the Borrower's Department of Finance and any successor thereto;

(k) "DOJ" means the Borrower's Department of Justice and any successor thereto;

(l) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to the 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;

(m) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$150,000,000 to be initially withdrawn and utilized;

(n) "Fiscal Year" or "FY" means the fiscal year of the Borrower commencing on 1 January of each year and ending 31 December of that year;

(o) "JELAC" means the Judiciary, Executive, Legislative Advisory, and Consultative Council;

(p) "MOOE" means maintenance and other expenses;

(q) "MTEP" means the Medium Term Expenditure Program;

(r) "MTPDP" means the Medium-Term Philippine Development Plan covering the period from 2004 to 2010;

(s) "NEDA" means the Borrower's National Economic Development Authority and any successor thereto;

(t) "NEP" means the National Expenditure Program;

(u) "OMB" means the Borrower's Office of the Ombudsman;

(v) "OPIF" means the Organizational Performance Indicator Framework;

(w) "OSG" means the Borrower's Office of the Solicitor General and any successor thereto;

(x) "PAO" means the Borrower's Public Attorney's Office and any successor thereto;

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

(z) "PNP" means the Philippine National Police;

(aa) "Policy Matrix" means the policy matrix attached to the Policy Letter as agreed between the Borrower and ADB;

(bb) "Program Coordination Committee" or "PCC" means the coordination committee established by DOF and SC, as described in paragraph 2 of Schedule 5 to this Loan Agreement;

(cc) "Program Executing Agencies" means, for the purposes and within the meaning of the Loan Regulations, DOF and SC, which are responsible for the carrying out of the Program;

(dd) "Program Implementing Agencies" means DBM, DOJ, DILG, PNP and OSG;

(ee) "Program Period" means the period covered by the Program from July 2006 to August 2009;

(ff) "RA Nr. 9406" or "Republic Act Nr. 9406" means the Act Reorganizing and Strengthening the Public Attorney's Office (PAO), Amending for the Purpose Pertinent Provisions of Executive Order No. 292, Otherwise Known as the "Administrative Code of 1987", as amended, Granting Special Allowance to PAO Officials and Lawyers, and Providing Funds Therefor;

(gg) "RA Nr. 9417" or "Republic Act Nr. 9417" means the Act to Strengthen the Office of the Solicitor General by Expanding and Streamlining its Bureaucracy, Upgrading Employee Skills and Augmenting Benefits, and Appropriating Funds Therefor and for other Purposes;

(hh) “RA Nr. 9279” or “Republic Act Nr. 9279” means the Act Granting Additional Compensation in the Form of Special Allowances for the Members of the National Prosecution Services and the State Counsels in the Department of Justice, and for other Purposes;

(ii) “RCAO” means the Regional Court Administration Office of the Borrower;

(jj) “SC” means the Supreme Court of the Borrower;

(kk) “Second Tranche” means, after the utilization of the First Tranche under the first subprogram, the portion of the proceeds of the Loan in an amount not exceeding the equivalent of \$150,000,000 to be withdrawn subject to meeting the conditions set forth in Attachment 2 of Schedule 3 to this Loan Agreement; and

(ll) “Subprogram” means either of the subprograms under the Program Cluster.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of three hundred million dollars (\$300,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 12 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term “grace period” as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth 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, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge of 0.15% 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 June and 15 December 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 withdrawn and outstanding 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.

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 and 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 28 February 2010 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, engineering, environmental and good governance 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, land 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 quarterly 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: the PCC, as described in paragraph 2 of Schedule 5 to this Loan Agreement, shall have been established.

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:

(632) 636-2444
(632) 636-2331.


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 

NEERAJ K. JAIN
Country Director
Philippines Country Office

SCHEDULE 1

Description of the Program

1. The Program Cluster aims to support the Borrower in (i) increasing resources available to the Justice sector for efficient delivery of the justice services, (ii) strengthening the rule of law in the territory of the Borrower, (iii) improving access to justice by the poor and vulnerable groups; and (iv) improving investor confidence and public trust in the justice, through (a) strengthening fiscal autonomy, accountability and improving access to resources, (b) enhancing justice sector integrity, (c) supporting efficiency in the justice sector, and (d) expanding delivery of justice. The Program is described in more detail in the Policy Letter.
2. The Program is the first Subprogram of the Program Cluster. The Policy measures are anchored in the MTPDP. The Program covers a period of 37 months, from July 2006 to August 2009.
3. The Program Cluster and the Program are described in more detail in the Policy Letter.
4. The Program Cluster includes two subprograms. Subprogram 2 is to be prepared and designed based on the Borrower's fulfillment of the policy actions contained in the Policy Matrix for the Program, to be reviewed at the end of 2009. The provision of Subprogram 2 shall be subject to the approval of ADB's Board of Directors.
5. 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, pursuant to the provisions of paragraph 7 of Schedule 5 to this Loan Agreement.
6. The proceeds of the Loan are expected to be utilized by 28 February 2010.

SCHEDULE 2

Amortization Schedule (Governance in Justice Sector Reform 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>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 June 2012	2.247090
15 December 2012	2.359445
15 June 2013	2.477417
15 December 2013	2.601288
15 June 2014	2.731352
15 December 2014	2.867920
15 June 2015	3.011316
15 December 2015	3.161881
15 June 2016	3.319975
15 December 2016	3.485974
15 June 2017	3.660273
15 December 2017	3.843286
15 June 2018	4.035451
15 December 2018	4.237223
15 June 2019	4.449085
15 December 2019	4.671539
15 June 2020	4.905116
15 December 2020	5.150371
15 June 2021	5.407890
15 December 2021	5.678285
15 June 2022	5.962199
15 December 2022	6.260309
15 June 2023	6.573324
15 December 2023	6.901991
Total	<u><u>100.000000</u></u>

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 the 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 open or nominate an account (the Deposit Account) at Bangko Sentral Ng Pilipinas into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and 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 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.

Negative List

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Governance in Justice Sector Reform Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
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 ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics; and
- (vi) expenditures 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; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the Second Tranche

1. SC shall have submitted OPIF-compliant budget to DBM for 2010.
2. SC shall have prepared and adopted a rolling MTEP to cover FY 2009-2011, which shall include information relating to the use of the Judiciary Autonomy Fund.
3. DBM shall have submitted a NEP for 2010 to Congress, which shall reflect the benefits and allowances to justice sector agencies, including PAO and OSG, as a special provision, in accordance with RA 9417, RA 9279 and RA 9406 (as may be amended from time to time).
4. DBM shall have proposed the NEP for 2010 providing (1) Judiciary with budget sourced from the national government equivalent to at least 1% of the total government expenditure proposed under the 2010 NEP; and (2) other justice sector agencies that are compliant with OPIF, have real increases in budgetary resources, taking into consideration current inflation, consistent with their approved MTEPs, and based on performance, absorptive capacity, and the prevailing macro economic/fiscal situation of the country.
5. DBM shall have fully and unconditionally released the scheduled allocations to the Judiciary in line with the approved budget and agreed upon operational cash program of SC.
6. SC en banc shall have approved replication of the RCAO in at least two selected regions other than Region 7.
7. SC Work and Financial Plan shall have reflected the capital expenses, MOOE, and related expenses for RCAO 7 personnel that have been previously provided in the FY 2009 budget and allocated to fund full implementation of RCAO 7 in 2009.
8. DBM shall have submitted a NEP for 2010 to the Congress, which shall reflect a line item budget provision for OSG's reorganization and physical expansion, in accordance with RA 9417 (as may be amended from time to time).

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs 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

Program Executing Agencies and Program Implementing Agencies

1. DOF and SC shall be the Program Executing Agencies for the Program Cluster. DOJ, DILG, DBM and OSG shall be the Implementing Agencies. SC shall be responsible for Program activities focused on judicial reforms and DOF shall be responsible for the Program activities that are not within the domain of the judiciary. The Implementing Agencies shall be responsible for complying with the policy actions.

Program Coordination Committee

2. The Borrower shall ensure that SC and DOF jointly set up a PCC, which shall comprise of representatives from the DOJ, DILG, OSG and DBM. The PCC shall be responsible for implementing and sustaining the Program components and meet as necessary, at least every quarter to coordinate and ensure effective implementation of the proposed reforms. SC and DOF shall be responsible for program implementation activities within their respective areas of responsibility, report implementation progress, and provide direction to the Implementing Agencies.

Policy Matrix

3. The Borrower shall ensure the satisfactory implementation of the Program and shall accomplish the actions set out in the Policy Matrix, in particular, actions set out in Attachment 2 to Schedule 3 to this Loan Agreement, to enable the release of the Second Tranche. The Borrower shall submit documents, in a form satisfactory to ADB, as evidence to demonstrate compliance. The Borrower shall carry out the policies and actions in accordance with the schedule of policy reforms contained in the Policy Matrix and ensure that the reforms in the justice sector are sustained.

Policy Dialogue

4. The Borrower shall keep ADB informed of, and shall from time to time exchange views on, the progress made in carrying out the Program. Furthermore, the Borrower shall continue policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on appropriate measures to overcome or mitigate such problems and constraints.

5. 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.

Counterpart Funds

6. The Borrower shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and shall provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program.

Subprogram 1 Review and Evaluation

7. Information. DOF and SC shall provide ADB with all relevant data and information in such detail as ADB may reasonably request to facilitate review by ADB of the progress in the implementation of the Subprogram 1.

8. Reports. DOF and SC shall prepare the quarterly progress reports as well as a closing report on Subprogram 1 implementation for submission to ADB.

9. Subprogram 1 Review. At the end of the Subprogram 1 period, DOF and SC shall ensure that a review is undertaken for the Subprogram 1. The review will identify the lessons learned, to be used for input in the design of the proposed Subprogram 2 of the Program Cluster.

10. Subprogram 1 Review Report. A Subprogram 1 review report shall be submitted to ADB that (i) assesses compliance with the policy actions under the Subprogram 1, including Tranches 1 and 2, (ii) assesses progress with implementation of complementary activities under overall reform program, (iii) reviews fiscal performance and updated fiscal estimates, and (iv) defines requirements for adjustments to activities to be undertaken under the proposed Subprogram 2 under the Program Cluster.