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Excellency,

I have the honour to confirm the following understanding recently reached between the representatives of the Government of Japan and of the Government of the Republic of the Philippines concerning Japanese loans to be extended with a view to promoting the economic stabilization and the development efforts of the Government of the Republic of the Philippines:

1.(1) A project loan in Japanese yen up to the amount of thirty-one billion six hundred and twenty-three million yen (¥31,623,000,000) (hereinafter referred to as "the Loan 1") will be extended to the Government of the Republic of the Philippines and Light Rail Transit Authority (hereinafter jointly referred to as "the Borrowers I") by the Overseas Economic Cooperation Fund (hereinafter referred to as "the Fund") in accordance with the relevant laws and regulations of Japan for the implementation of the projects enumerated in the List A attached hereto (hereinafter referred to as "the List A"), according to the allocation for each project as specified in the List A.

His Excellency Rodolfo C. Severino, Jr.
Acting Secretary of Foreign Affairs
Department of Foreign Affairs
Republic of the Philippines

(2)The Loan I for the projects mentioned in the List A will be extended in line with sub-paragraph (2) of paragraph 2 of the "Funds for Development" Initiative announced by the Government of Japan on June 25, 1993.

2.(1) The Loan I will be made available by loan agreements to be concluded between the Borrowers I and the Fund. The terms and conditions of the Loan I as well as the procedures for its utilization will be governed by the said loan agreements which will contain, inter alia, the following principles:

(a) The repayment period will be twenty (20) years after the grace period of ten (10) years.

(b) (i) The rate of interest will be two point seven (2.7) per cent per annum with regard to the project mentioned in 2 of the List A and two point five (2.5) per cent per annum with regard to the environmental project mentioned in 1 of the List A;

(ii)Notwithstanding sub-paragraph (b) (i) above, where a part of the loan is made available to cover payments to consultants, then the rate of interest on the said part will be two point three (2.3) per cent per annum with regard to the project mentioned in 2 of the List A and two point one (2.1) per cent per annum with regard to the environmental project mentioned in 1 of the List A; and

(c) The disbursement period will be five (5) years with regard to the project mentioned in 1 of the List A, and seven (7) years with regard to the project mentioned in 2 of the List A from the date of coming into force of the relevant loan agreement.

(2) Each of the loan agreements mentioned in sub-paragraph (1) above will be concluded after the Fund is satisfied of the feasibility, including environmental consideration, of the project to which such loan agreement

relates.

3.(1) The Loan I will be made available to cover payments to be made by the Philippine executing agencies to suppliers, contractors and/or consultants of eligible source countries under such contracts as have been and/or may be entered into between them for purchases of products and/or services required for the implementation of the projects enumerated in the List A, provided that such purchases are made in such eligible source countries for products produced in and/or services supplied from those countries.

(2) The scope of eligible source countries mentioned in sub-paragraph (1) above will be agreed upon between the authorities concerned of the two Governments.

(3) A part of the Loan I may be used to cover eligible local currency requirements for the implementation of the projects enumerated in the List A.

II

1.(1) A loan in Japanese yen up to the amount of fifteen billion nine hundred and fifty-seven million yen (¥15,957,000,000) (hereinafter referred to as "the Loan II") will be extended to the Government of the Republic of the Philippines, the Land Bank of the Philippines and the Development Bank of the Philippines (hereinafter jointly referred to as "the Borrowers II") by the Fund, in accordance with the relevant laws and regulations of Japan, for the implementation of the programs enumerated in the List B attached hereto (hereinafter referred to as "the List B"), according to the allocation for each program as specified in the List B.

(2) The Loan II will be extended in line with sub-paragraph (2) of paragraph 2 of the "Funds for Development" Initiative announced by the Government of Japan on June 25, 1993.

2.(1) The Loan II will be made available by loan agreements to be concluded between the Borrowers II and the Fund. The terms and conditions of the Loan II as well as the procedures for its utilization will be governed by the said loan agreements which will contain, inter alia, the following principles:

(a) The repayment period will be twenty (20) years after the grace period of ten (10) years;

(b)(i) The rate of interest will be two point seven (2.7) per cent per annum with regard to the program mentioned in 1 of the List B and two point five (2.5) per cent per annum with regard to the environmental program mentioned in 2 of the List B;

(ii) Notwithstanding sub-paragraph (b) (i) above, where a part of the loan is made available to cover payments to consultants, then the rate of interest on the said part will be two point three (2.3) per cent per annum with regard to the program mentioned in 1 of the List B and two point one (2.1) per cent per annum with regard to the environmental program mentioned in 2 of the List B; and

(c) The disbursement period will be six (6) years from the date of coming into force of the said loan agreements.

(2) Each of the loan agreements mentioned in sub-paragraph (1) above will be concluded after the Fund is satisfied of the feasibility, including environmental consideration, of the program to which such loan agreement relates .

3.(1) The Loan II for the program mentioned in 1 of the List B will be made available to cover credits already extended or to be extended by the Land Bank of the Philippines to sub-borrowers under the said program.

(2) The Loan II for the program mentioned in 2 of the List B will be made available to cover credits already

extended or to be extended by the Development Bank of the Philippines to sub-borrowers under the said program.

4.(1) Notwithstanding the provisions of sub-paragraph (1) and (2) of paragraph 3 above, a part of the Loan II for the program mentioned in 1 of the List B will be made available to cover payments to be made by the Philippine executing agencies for the purchase of products and/or services required for implementation of the said program, provided that such purchase is made in such eligible source countries for products produced in and/or services supplied from those countries.

(2)The scope of eligible source countries mentioned in sub-paragraph (1) above will be agreed upon between the authorities concerned of the two Governments.

III

1.The repayment of principal of the Loan I extended to Light Rail Transit Authority and of the Loan II extended to the Land Bank of the Philippines and the Development Bank of the Philippines, as well as the payment of interest thereon, shall be guaranteed by the Government of the Republic of the Philippines.

2.The respective disbursement periods mentioned in sub-paragraph (1) (c) of paragraph 2 of Part I and sub-paragraph (1) (c) of paragraph 2 of Part II may be extended with the consent of the authorities concerned of the two Governments.

3.The Government of the Republic of the Philippines will ensure that products and/or services mentioned in sub-paragraph (1) of paragraph 3 of Part I and sub-paragraph (1) of paragraph 4 of Part II are procured in accordance with the guidelines for procurement of the Fund, which set forth, inter alia, the procedures of international tendering to be followed except where such procedures are inapplicable or inappropriate.

4.Japanese nationals whose services may be required in the Republic of the Philippines in connection with the supply of products and/or services mentioned in sub-paragraph (1) of paragraph 3 of Part I and sub-paragraph (1) of paragraph 4 of Part II shall be accorded such

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(a)the loan I and the Loan II be used properly and exclusively for the projects enumerated in the list A and for the programs enumerated in the List B; and

(b)the facilities constructed under the Loan I be maintained and used properly and effectively for the purposes prescribed in this understanding.

8.The Government of the Republic of the Philippines will, upon request, furnish the Government of Japan and the Fund with information and data concerning the progress of the implementation of the projects enumerated in the List A and of the programs enumerated in the List B.

9.The two Governments will consult with each other in respect of any matter that may arise from or in connection with this understanding.

I should be grateful of Your Excellency would confirm the foregoing understanding on behalf of the Government of the Republic of the Philippines.

I avail myself of this opportunity to extend to Your Excellency the assurance of my highest consideration.

(Sgd.) YOSHIFUMI MATSUDA

Ambassador Extraordinary and Plenipotentiary

of Japan to the Republic of the Philippines

List A

(Maximum amount
in million yen)

1. Pinatubo Hazard Urgent Mitigation Project 6,911
2. Metro Manila Strategic Mass Rail Transit Development (Line 2) Project 24,712

Total A 31, 623

List B

(Maximum amount
in million yen)

1. Rural Farmers and Agrarian Reform Support Credit Program
10,799

2.

Environmental Infrastructure Support Credit Program

5,158

Total B 15,957

Record of Discussions

In connection with the Exchange of Notes dated March 27, 1996, (hereinafter referred to as "the Exchange of Notes"), concerning Japanese loans to be extended with a view to promoting the economic stabilization and the development efforts of the Government of the Republic of the Philippines (hereinafter referred to as "the Loans"), the representatives of the Japanese Delegation and of the Philippine Delegation wish to record the following:

1. With reference to sub-paragraph (3) of paragraph 3 of Part I of the Exchange of Notes concerning the financing of eligible local currency requirements for the implementation of the projects mentioned in the said sub-paragraph, the representative of the Japanese Delegation stated that:

(1) Such requirement of local currency as general administrative expenses, interest during construction, taxes and duties, expenses concerning office, remuneration to employees of the executing agencies and housing, not directly related to the implementation of the projects, as well as purchase of land properties, compensation and the like, however, will not be considered as eligible for financing under the Loans.

(2) The procurement of products and/or services will be made in accordance with the procedures of competitive tendering except where such procedures are inapplicable or inappropriate.

2. With regard to the Loans, the representative of the Japanese Delegation stated that any financial requirements of the projects and programs not being covered with the proceeds of the Loans under the loan agreements mentioned in sub-paragraph (1) of paragraph 2 of Part I and of Part II of the Exchange of Notes, will be duly met by the Government of the Republic of the Philippines to assure the smooth implementation of the said projects and programs.

3. The representative of the Japanese Delegation stated that the Philippine side should give such due consideration to the due and prompt procedure of importation of the products required for the implementation of the projects and programs under the Loans, as it has given in the course of the implementation of the projects and programs under the successive Japanese loans for projects and programs.

4. The representative of the Japanese Delegation stated that the Philippine side should give due consideration to the local residents' support for the projects enumerated in the List A attached to the Exchange of Notes and to the environmental impact which the said projects have, in order to assure the smooth implementation of the said projects.

5. The representative of the Philippine Delegation stated that the Philippine side had no objection to the statements mentioned in paragraphs 1, 2, 3 and 4 above.

(Sgd.) YOSHIFUMI MATSUDA (Sgd.) RODOLFO C. SEVERINO, JR.

Ambassador Extraordinary Acting Secretary of Foreign

& Plenipotentiary of Japan Affairs, Department of

to the Republic of the Philippines Foreign Affairs, Republic of

the Philippines

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