BILATERAL

KREDITANSTALT FUR WIEDERAUFBAU

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Ministry of Finance

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[IhreNachncht] [Ihr Zeichen] [Bearbeiter] [Unser Zeichen] [Durchwahl] [Datum]

[your teller]

[your sign] [Office in charge] [Our sign] [extension] [date]

[votre lettre]

[votre reference] [employe competent] [notre reference] [extension] [date]

[sucarta]

[su referencia] [functionario encargado] [nuestra referencia] [extension] [fecha]

Dr. Huchting-Radeke HR/Kel/Rdm 2796 12 MAY 1982

Re: L III b /
DM 24.2 Million Loan for

Imelda Settlement Program Leyte

Loan No. 79 65 320

Dear Sirs,

The Loan Agreement entered into between the Republic of the Philippines ("Borrower") and Kreditanstalt fur Wiederaufbau ("Kreditanstalt") on 12 MAY 1982 provides that the following be determined by separate agreement:

> Pursuant to Article 1.2 the details of the Project as well as the goods and services to be financed from the Loan; pursuant to Article- 3 .1 the disbursement procedure, in particular the evidence to be furnished by the Borrower for the disbursement of the Loan proving the use of the loan amounts for the purpose stipulated in the above Loan Agreement; pursuant, to Article 8.2 the details pertaining to Article 8.1 (Execution of the Project).

Therefore, we propose that the following be agreed upon:

I. Details of the Project as well as Determination of the Goods and Services

> (1) According to the documentation available to Kreditanstalt and the negotiations held by it with the Borrower, the Project comprises the following measures at the estimated costs so far used as basis:

Project

Measures Total costs Local costs Foreign exchange costs Amount to be paid from the Loan

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-in million P-

in mn DM*)

(in mn P)

1. Road construction
+ rehabilitation

14.3

8.6

5.7

2.1

(8.6)

2. Construction of
bridges

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0.7

0.4

0.3

0.1

(0.4)

3. Social services facilities

11.2

6.7

4.5

1.6

(6.7)

4. Road maintenance

6.3

4.2

2.1

0.6

(2.5)

5. Houses for settlers

6.8

6.1

0.7

0.7

(2.7)

6. Planting material, fertilizers, chemicals a.o.

35.8

9.2

26.6

4.4

(17.9)

7. Subsistence credits

6.7

6.7

-

0.8

(3.4)

8. Compensation for
land clearing

1.6

1.6

-

-

-

9. Staff and office equipment

13.7

13.7

-

-

-

10. Vehicles and running costs

3.2

0.3

2.9

0.3

(1.4)

11. Consulting
engineers

8.4

1.0

7.4

1.9

(7.6)

12. Contingency for cost increases

106.7

57.7

49.0

11.7

(48.0)

215.4

116.2

99.2

24.2

(99.2)

==========

*) Converted at the rate of 1 DM = 4.1 Pesos

Should there be any indication of major changes in the measures stated in the above list of project measures or in the cost estimates, Kreditanstalt shall be informed without delay. Execution of such measures shall commence only on the basis of revised planning and after Kreditanstalt has given its consent.

(2) The list of goods and services to be financed from the Loan shall be prepared on the basis of the contracts concluded for such goods and services. Accordingly, Kreditanstalt shall be furnished with a copy of each contract.

As far as any measures of the Project shall be executed under the Borrower's own management and no contracts for goods and services have been concluded, Kreditanstalt shall receive instead of the contracts a schedule of the measures planned, broken down by main cost categories (schedule of measures). Any costs incurred for general administration in connection with such works shall not be included in the schedule of measures.

Having checked the contracts/schedule of measures, Kreditanstalt shall transmit to the Borrower numbered letters (Encl. 1) stating the amounts which have been reserved for the financing from the Loan and send him the

"List of Goods and Services"
as supplemented from case to case.

(3) When concluding contracts for goods and services to be financed from the Loan, the following principles shall be adhered to by the Borrower:
(a) The payment conditions of the contracts shall be in line with commercial practice.

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(b) To safeguard the advance payments and the due implementation of the contracts, the contracts shall provide for appropriate advance payment and performance guarantees to be given by banks or insurance companies.

(c) As according to Article 1.3 of the Loan Agreement no import duties shall be financed from the Loan, such import duties, if part of the contract value, shall be stated separately in the contracts to be concluded for the goods and services and in the invoices.

(d) It shall be ensured that the goods to be financed from the Loan are insured adequately and to the customary extent against transport risks so that their replacement or repair is possible. Such insurance shall be taken out in a freely convertible currency as far as foreign exchange costs accruing to the Borrower shall be financed.

(e) It shall be ensured that all contracts for goods and services, if payable from the Loan, contain a provision to the effect that any reimbursements, insurance, guarantee or similar claimable payments shall be made for the account of the Borrower to Kreditanstalt into its account No. 504 091 00 with Deutsche Bundesbank, Frankfurt am Main, with Kreditanstalt crediting him with the amounts. If such payments are made in local currency they shall be transferred to a special account of the Borrower in the Philippines; such account may be operated only with the consent of Kreditanstalt. Such funds may be re-utilized in accord with Kreditanstalt for the execution of the Project.

II. Disbursement Procedure The disbursement procedure is governed by the "Guidelines for the Disbursement of Funds of German Financial Co-operation with Developing Countries by Kreditanstalt fur Wiederaufbau", which constitute an integral part of this Agreement.

III. Execution of the Project

(1) Among other responsible executing agencies the Ministry of Agrarian Reform (MAR) is responsible for the execution of the Project. The time-table and the cost and financing schedule required for the proper technical and financial execution of the Project shall be prepared as soon as possible by the MAR in co-operation with the consulting engineers and shall be submitted to Kreditanstalt. Such schedule shall show the presumable timing and co-ordination of the individual project measures and the resulting financial requirements, by dates and amounts. If any deviation from such schedule becomes necessary in the course of the execution of the Project Kreditanstalt shall be furnished with the revised schedule.

(2) The duties of the consulting engineers shall comprise the planning of the Project, the preparation of the tender documents advisory services to the MAR in connection with the award of contracts for goods and services (evaluation of bids, proposals as to the award of contract, drafting of contracts), supervision of implementation and certificates of acceptance. The consulting engineers shall have the form of an association composed of a foreign and a Philippine consultant firm. Overall responsibility at all time shall rest with the foreign consultant firm. The three experts of the consultant team shall have the following functions: A foreign senior agriculturist shall assist the local settlement administration of the MAR in planning and implementation of the agricultural rehabilitation and land development measures and coordinate the work of the agricultural extension officers. A Philippine agricultural credit advisor shall be in-charged with the coordination between the local settlement administration and the branch of the bank responsible for the implementation of the credit component in order to ensure the adequate and timely availability of the required credit amounts. A second Philippine expert (civil engineer) shall assist the MAR in the planning and execution of the construction works.

(3) An international public competition having been carried through, the contract for the Project shall be awarded to independent qualified consulting engineers. For this purpose , the MAR shall publish a corresponding notice at least in the "Nachrichten fur Aussenhandel" (NfA) of the
Bundesstelle fur Aussenhandelsinformation Blaubach 13 D - 5000 K o 1 n Federal Republic of Germany

under the heading "Finanzielle und Techniche Zusammen-arbeit der Bundesrepublik Deutschland" (Financial and Technical Cooperation of the Federal Republic of Germany) and in the "Development Forum", UN, Geneva,

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Switzerland. Publication in the NfA is free of charge. The costs for publication in the "Development Forum" shall be borne by Kreditanstalt. From among the applications of the consulting engineers interested (long-list), the MAR shall preselect the consulting engineers particularly qualified for executing the Project (short-list), with the preselection requiring the approval of Kreditanstalt. Accordingly, the MAR shall furnish Kreditanstalt with an evaluation report on the preselection together with all other relevant documents as requested by Kreditanstalt. Sufficient time allowed, the consulting engineers selected shall be invited to submit their tenders of services and price quotations separately.

The final selection shall depend on the quality of the tenders of services; only if the tenders are of equal quality shall the price quotations be decisive. Kreditanstalt reserves the right to approve the proposal to award the contracts. Accordingly, it shall be furnished with an evaluation report on the final selection together with any documents as requested by it. Furthermore, the engagement of the consulting engineers selected shall require the prior approval of Kreditanstalt. Accordingly, it shall be furnished in due course with the draft of the consulting contract.

(4) The contracts for civil works, vehicles and minor tools shall be awarded in co-operation with the consulting engineers by way of public competitive bidding or solicitation of offers in the Philippines. Contracts for fertilizers and chemicals shall be awarded in co-operation with the consulting engineers by way of international solicitation we offers.

The documents for tendering or solicitation of offers shall be submitted to Kreditanstalt for comment in due course prior to the publication of the invitation to tender or to the solicitation of offers. The invitation to tender shall be published at least simultaneously with the other publications in the "Nachrichten fur Aussenhandel" (NfA) referred to in Article III (3) under the heading "Deutsche Entwicklungshilfe" (German development assistance). The Bundesstelle fur Aussenhandelsinformation shall be furnished with a copy of the tender documents through the Philippine embassy, free of charge, prior to publication of the invitation to tender. Publication in the NfA is free of charge. The bidding period shall be fixed in such a way as to give the bidders sufficient time to prepare their bids.

(5) The bids shall be evaluated by way of comparison by the consulting engineers or by the MAR in co-operation with the consulting engineers. The evaluation of bids and the substantiated proposal for awarding the contract, which shall bear the certification by the consulting engineers or be accompanied by their separate comments, shall be submitted to Kreditanstalt early enough for it to make its comments before any contracts are awarded.

Kreditanstalt reserves the right to demand new competitive bidding if it is obvious that the lowest bid considerably exceeds reasonable cost estimates and if such new competitive bidding can be expected to result in much cheaper bids.

Prior to the conclusion of a contract for goods and services, Kreditanstalt shall be furnished for comment with the draft contract as agreed upon, duly provided with the visa of the consulting engineers. The same shall apply to subsequent modifying or amending agreements, if any.

(6) For the efficient implementation of the Project agreement shall be reached on following items:

> The Borrower shall establish for the MAR and the Development Bank of the Philippines (DBP) responsible for the handling of the credits separate accounts from which the MAR and the DBP may draw to meet expenditures in respect to the Project implementation.
>
> The MAR will keep separate accounts for the Project identifying disbursements by Project components and granting insight into all transactions in connection with the Project implementation; in addition, the accounts of

the Project shall be audited annually by the Commission of Audit.

At the central level MAR shall establish for the Project an "Inter-Agency Project Coordinating Committee"; its composition and functions shall be agreed upon with Kreditanstalt and shall be laid down in a "Memorandum of Agreement". At the regional level an interministerial "Regional Advisory Committee" shall be established with functions laid down in Encl. 2.

To secure a speedy and efficient execution of the Project within MAR a "Central Project Management" shall be established with members of all departments functionally in charge (Encl.3). The position of a "Project Director" shall be assumed by a MAR official of a rank not lower than that of an Assistant Minister. In addition a "Local Project Management" shall be established with an adequate organisation (Encl. 4). In order to speed up the implementation the division of functions between the central and the local level of the Project Sponsor shall be decentralised to a greater extent. The "Local Project Management" shall carry out the day-to-day affairs under its own responsibility. Within the MAR an adequate number of staff shall be charged exclusively with the handling of the Project.

With respect to the various phases of granting land titles to the settlers, the MAR shall prepare an implementation plan and inform us half-yearly on the state of implementation.

In view of the great significance of the accompanying evaluation of the Project an annual review shall be drawn up during the first nine years of the project implementation and shall be submitted to KfW; such reports shall in particular examine the extent to which the socio-economic objectives of the Project have been reached. The reports shall be prepared by a Senior Evaluation Officer and the required number of auxiliary staff.

(7) The MAR shall until further notice report to Kreditanstalt half-yearly on the progress of the Project. Such reports shall cover the points stated in the list attached hereto (Encl. 5). The first report on the state of affairs shall be submitted as of December 31, 1982. The reports shall be duly countersigned by the consulting engineers.

After completion of the Project, the Project Sponsor shall report on its further development, Kreditanstalt shall in due course inform the Project Sponsor about the details, in particular the period to be reported on.

(8) Please send all documents we need for preparing the comments and approvals agreed upon above so early as to give us sufficient time for their examination.

IV. The above stipulations may at any time be amended or modified by mutual consent if this should appear useful for the execution of the Project or the implementation of the Loan Agreement. In addition, the provisions of Article 7.3 and 9 of the Loan Agreement shall apply to this agreement accordingly.

Please confirm your approval of the above agreement by signing in a legally binding form and returning the enclosed copies in German and in English.

We enclose herewith copies of the present letter in German and English asking you to be so kind as to forward them to the Ministry of Agrarian Reform and in due course to the consulting engineers.

Yours faithfully,

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Encls.

(1) Standard form of the letter of reservation of partial loan amounts by addition to the "List of Goods and Services"

(2) Composition and functions of the Regional Advisory Committee

(3) Composition and functions of the Central Project Management

(4) Composition and functions of the Local Project Management

(5) Memo for Progress Reports

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