

**No. 19863**

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**UNITED STATES OF AMERICA  
and  
PHILIPPINES**

**Project Loan Agreement for Rural Roads II (with annexes).  
Signed at Manila on 3 May 1978**

*Authentic text: English.*

*Registered by the United States of America on 10 June 1981.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
PHILIPPINES**

**Accord de prêt relatif à un projet (II) d'aménagement des  
voies de communication rurales (avec annexes). Signé à  
Manille le 3 mai 1978**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 10 juin 1981.*

# PROJECT LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF THE PHILIPPINES AND THE UNITED STATES OF AMERICA FOR RURAL ROADS II

Dated: May 3, 1978

A.I.D. Loan Number 492-T-050  
Project Number 492-0297

## TABLE OF CONTENTS

### PROJECT LOAN AGREEMENT

Article 1. The Agreement	Article 6. Special Covenants
Article 2. The Project	Section 6.1. Project Evaluation
Section 2.1. Definition of Project	Section 6.2. Availability of Funds
Section 2.2. Incremental Nature of the Project	Section 6.3. Implementation Arrangements
Article 3. Financing	Article 7. Procurement Source
Section 3.1. The Loan	Section 7.1. Foreign Exchange Costs
Section 3.2. Borrower Resources for the Project	Section 7.2. Local Currency Costs
Section 3.3. Project Assistance Completion Date	Article 8. Disbursements
Article 4. Loan Terms	Section 8.1. Disbursement for Foreign Exchange Costs
Section 4.1. Interest	Section 8.2. Disbursement for Local Currency Costs
Section 4.2. Repayment	Section 8.3. Other Forms of Disbursement
Section 4.3. Application, Currency, and Place of Payment	Section 8.4. Rate of Exchange
Section 4.4. Prepayment	Section 8.5. Date of Disbursement
Section 4.5. Renegotiation of Terms	Article 9. Miscellaneous
Section 4.6. Termination on Full Payment	Section 9.1. Communications
Article 5. Conditions Precedent to Disbursement	Section 9.2. Representatives
Section 5.1. First Disbursement	Section 9.3. Standard Provisions Annex <sup>2</sup>
Section 5.2. Notification	<i>Annex I—Description of Project</i>
Section 5.3. Terminal Date for Conditions Precedent	Description of Project
	Attachment 1. Financial Plan

PROJECT LOAN AGREEMENT dated May 3, 1978, between the REPUBLIC OF THE PHILIPPINES ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

### Article 1. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the

<sup>1</sup> Came into force on 3 May 1978 by signature.

<sup>2</sup> For the text of the annex, see p. 3 of this volume.

Project described below, and with respect to the financing of the Project by the Parties.

## Article 2. THE PROJECT

*Section 2.1. DEFINITION OF PROJECT.* The Project, which is further described in Annex I, with the Department of Local Government and Community Development (DLGCD) as the coordinating and implementing agency on behalf of the Borrower, will consist of improvements to an existing rural roads network and new roads through the construction of approximately 600 kilometers of rural roads and 6,000 linear meters of bridges. It will replace trails and unimproved roads with all-weather secondary roads. The Project thus will provide reliable and all-weather access from rural areas to market centers and will thereby benefit the rural poor by facilitating access to government services and by reducing the costs of goods and services essential for rural development. Annex I, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

*Section 2.2. INCREMENTAL NATURE OF THE PROJECT.* (a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Borrower, may specify in Project Implementation Letters appropriate time periods for the utilization of funds loaned by A.I.D. under an individual increment of assistance.

## Article 3. FINANCING

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Seven Million United States ("U.S.") Dollars (\$7,000,000.00) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

*Section 3.2. BORROWER RESOURCES FOR THE PROJECT.* (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. \$4,145,000.00, including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is September 30, 1982, or such other date as the Parties may agree to in writing, is the date by which the Parties

estimate that all portions of the Project financed jointly by them on a Fixed Amount Reimbursement (FAR) basis will have been completed, that all services financed under the Loan other than on a FAR basis will have been performed and that all goods financed under the Loan other than on a FAR basis will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for FAR portions of the Project completed subsequent to the PACD, or, in case of portions of the Project financed under the Loan other than on a FAR basis, for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

#### Article 4. LOAN TERMS

*Section 4.1. INTEREST.* The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

*Section 4.2. REPAYMENT.* The Borrower will repay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty-one (21) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one half (9½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

*Section 4.3. APPLICATION, CURRENCY, AND PLACE OF PAYMENT.* All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

*Section 4.4. PREPAYMENT.* Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

*Section 4.5. RENEGOTIATION OF TERMS.* (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Republic of the Philippines, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's Director-General, National Economic and Development Authority in the Republic of the Philippines.

*Section 4.6. TERMINATION ON FULL PAYMENT.* Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

#### *Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 5.1. FIRST DISBURSEMENT.* Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;
- (c) An implementation plan for the Project;
- (d) Assurances that all roads and bridges improved and constructed under this Project will be eligible for classification as provincial roads and, therefore, will be eligible for annual maintenance funds;
- (e) A copy of a contract or contracts with an architectural and engineering firm or firms, acceptable to A.I.D., to provide engineering, review and monitoring services; and
- (f) The evaluation program referred to in Section 6.1.

*Section 5.2. NOTIFICATION.* When A.I.D. has determined that the conditions precedent specified in Section 5.1 have been met, it will promptly notify the Borrower.

*Section 5.3. TERMINAL DATE FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

#### *Article 6. SPECIAL COVENANTS*

*Section 6.1. PROJECT EVALUATION.* The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

- (a) Evaluation of progress toward attainment of the objectives of the Project;
- (b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- (c) Assessment of how such information may be used to help overcome such problems; and
- (d) Evaluation, to the degree feasible, of the overall development impact of the Project.

*Section 6.2. AVAILABILITY OF FUNDS.* The Borrower covenants and agrees that sufficient funds shall be made available for the purpose of promptly reimbursing participating provinces.

*Section 6.3. IMPLEMENTATION ARRANGEMENTS.* In general, implementation arrangements established under the Rural Roads I Project, A.I.D. Loan No. 492-T-035 (see especially Article IV thereof), will continue to be followed for this Project, subject to the issuance of Project Implementation Letters and except as the parties may otherwise agree in writing. In addition, the Borrower covenants and agrees that the annual allocation under the Project for each participating province and the selection of each subproject shall be made in consultation with A.I.D.

#### *Article 7. PROCUREMENT SOURCE*

*Section 7.1. FOREIGN EXCHANGE COSTS.* Disbursements pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

*Section 7.2. LOCAL CURRENCY COSTS.* Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in the Republic of the Philippines ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

### Article 8. DISBURSEMENTS

*Section 8.1. DISBURSEMENT FOR FOREIGN EXCHANGE COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

- (1) By submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or
- (2) By requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D. committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

*Section 8.2. DISBURSEMENT FOR LOCAL CURRENCY COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

- (1) By acquisition by A.I.D. with U.S. dollars by purchase or from local currency already owned by the U.S. Government; or
- (2) By A.I.D. (A) requesting the Borrower to make available the local currency for such costs, and (B) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available by the Borrower, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b)(2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

*Section 8.3. OTHER FORMS OF DISBURSEMENT.* Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

*Section 8.4. RATE OF EXCHANGE.* Except as may be more specifically provided under Section 8.2, if funds provided under the Loan are introduced into the Republic of the Philippines by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of the Republic of the Philippines at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

*Section 8.5. DATE OF DISBURSEMENT.* Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2(b)(1); or (c) if local currency is obtained in accordance with Section 8.2(b)(2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

#### *Article 9. MISCELLANEOUS*

*Section 9.1. COMMUNICATIONS.* Except as expressly provided in Section 4.3, any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail address:

National Economic and Development Authority  
P.O. Box 1116  
Manila, Philippines

Alternate address for cables:

NEDAPHIL

To A.I.D.:

Mail address:

United States Agency for International Development  
c/o The American Embassy  
Manila, Philippines

Alternate address for cables:

USAID/AMEMB Manila

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

*Section 9.2. REPRESENTATIVES.* For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Director-General, National Economic and Development Authority and A.I.D. will be represented by the individual holding or acting in the office of



the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

*Section 9.3. STANDARD PROVISIONS ANNEX.* A "Project Loan Standard Provisions Annex" (Annex II)<sup>1</sup> is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Republic of the Philippines:

[Signed]

By: MANUEL S. ALBA

Title: Acting Director-General, National Economic and Development Authority

United States of America:

[Signed]

By: PETER M. CODY

Title: Director, U.S. Agency for International Development

## ANNEX I

### DESCRIPTION OF PROJECT

The Rural Road Project II involves the construction and/or improvement of selected roads/bridges that have been identified by local governments as both critical and feasible and meet the criteria for selection under the requirements established by USAID/DLGCD. The Project will include PDAP and non-PDAP provinces as well as selected chartered cities identified as Rural Service Centers in a separate but companion project. All participating local government entities will be required to meet the qualification standards for participation in the Project. Each year of the Project will accommodate new participants, as provinces meet qualification requirements. Approximately 55 provinces will be included in the Project in its final year.

The Loan will provide up to \$24 million, obligated incrementally, \$7 million in this Agreement, and up to \$17 million over the subsequent life of the Project, the latter amount subject to the availability of funds and the continuing agreement of the parties. Similarly, the Borrower's contribution will be provided in increments with the equivalent of \$4,145,000.00 being obligated in Section 3.2(b) of this Agreement and further increments, up to a total equivalent of \$13,671,200.00 being provided on a commensurate basis, through appropriate amendment of Section 3.2(b), with the A.I.D. increment(s).

The Project will finance the construction of approximately 600 kilometers of all-weather rural roads and 6,000 linear meters of bridges in rural areas. There are specific guidelines, in the DLGCD handbooks on rural road procedures, that determine the eligibility of proposed subprojects for financing under the Project. These guidelines include, but are not limited to:

- (1) Construction/improvement be completed solely with local funds;

<sup>1</sup> For the text of the annex, see p. 3 of this volume.

- (2) The subproject must constitute all or part of a continuous road system linking an agricultural or commercial fishing area where small holdings and small investment predominate, with the nearest market or poblacion;
- (3) The subproject must link on at least one end to a road of equal or higher quality;
- (4) The subproject must meet acceptable, professional engineering standards; and
- (5) Economic feasibility and social soundness of subprojects must meet established criteria.

Further, local government entities seeking participation in this Project, and whose sub-projects meet the foregoing eligibility requirements, must demonstrate to the satisfaction of A.I.D. that national standards for maintenance are being met on roads within the jurisdiction of the individual entities.

The Project will be financed in accordance with the Fixed Amount Reimbursement procedures. These procedures will be specified in Project Implementation Letters. In addition, the costs of A&E services may be financed under this Loan upon approval, by A.I.D., of the selection of the contractor(s) and the terms of the contract(s) in accordance with procedures to be specified in Project Implementation Letters.

A summary of the financial inputs of the Borrower and A.I.D. is shown as Attachment 1 to this Annex.

*Annex I—Attachment 1*

FINANCIAL PLAN\*

	<i>Proposed</i>			<i>Total</i>
	<i>1978</i>	<i>1979</i>	<i>1980</i>	
<i>A.I.D.</i>				
<i>Project inputs (Loan)</i>				
Construction .....	\$ 6,396,000	\$ 6,746,000	\$ 8,746,000	\$ 21,888,000
A and E services .....	600,000	750,000	750,000	2,100,000
Consultant (local) .....	4,000	4,000	4,000	12,000
TOTAL	\$ 7,000,000	\$ 7,500,000	\$ 9,500,000	\$ 24,000,000
<i>G.O.P.</i>				
DLGCD—PD 144** .....	(P47,250,000)	(P50,580,000)	(P65,730,000)	(P163,560,000)
<i>Project inputs</i>				
Grants in aid .....	\$ 945,000	\$ 1,011,600	\$ 1,314,600	\$ 3,271,200
<i>Provincial and city govts.</i>				
Overhead and all non-direct costs .....	3,200,000	3,500,000	3,700,000	10,400,000
TOTAL	\$ 4,145,000	\$ 4,511,600	\$ 5,014,600	\$ 13,671,200
GRAND TOTAL	\$11,145,000	\$12,011,600	\$14,514,600	\$ 37,671,200

\* Adjustments between line items of up to 20% may be made without modification of this financial plan, provided the obligations of the Parties are not increased.

\*\* Non-add. Funds to be used to reimburse provinces pending A.I.D. reimbursement of Borrower under FAR procedure.