

**No. 19858**

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**UNITED STATES OF AMERICA  
and  
PHILIPPINES**

**Project Loan Agreement for rural electrification (Phase V)  
(with annex and attachment). Signed at Manila on  
13 January 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 pour un projet relatif à l'électrification  
rurale (cinquième phase) [avec annexe et pièce jointe].  
Signé à Manille le 13 janvier 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 ELECTRIFICATION V**

Dated: January 13, 1978

A.I.D. Loan Number 492-T-047

Project Number 492-0321

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A.I.D. Project No. 492-0321

PROJECT LOAN AGREEMENT dated January 13, 1978, between the REPUBLIC OF THE PHILIPPINES and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

<sup>1</sup> Came into force on 13 January 1978 by signature.

### *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 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, will consist of the continuation of certain commodity inputs to assist with the introduction of electricity into all barrios in the Philippines by 1984 with the ultimate purpose of total electrification of the countryside by 1990. A.I.D. financing will assist the Borrower to achieve the two initial targets of the program—to establish a rural electric cooperative in every province by the end of 1977 and to complete a backbone system electrically linking all municipalities in the cooperative system by the end of 1980. The proceeds of this Loan will be used to assist the National Electrification Administration (the "Beneficiary") to finance the foreign exchange costs of Project-related goods and services required by the Beneficiary and/or the rural electric cooperatives. 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.

### *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 Eight Million Four Hundred Thousand United States ("U.S.") dollars (\$8,400,000.00) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used only to finance foreign exchange costs, as defined in Section 7.1, 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. \$10,000,000.00, including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is December 31, 1979, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan 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 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 8.3) 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 semi-annual 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 the 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; and
- (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.

*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 DATES FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met within 90 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 Borrower covenants and agrees that the Beneficiary will implement the evaluation plan as set forth in the A.I.D. Project Paper for this Project.

*Section 6.2. RELENDING OF LOAN PROCEEDS.* The Borrower covenants and agrees that the Beneficiary will make the Loan proceeds available to the rural electric cooperatives on the same terms and conditions agreed upon for the rural electric cooperatives financed under the last rural electrification loan (A.I.D. Loan No. 492-T-043) provided by A.I.D.

*Section 6.3.* BORROWER RESOURCES TO THE BENEFICIARY. The Borrower covenants and agrees to make available to the Beneficiary on a timely basis Peso funds required for the implementation of the Project.

*Section 6.4.* MAINTENANCE OF VALUE. The Borrower covenants and agrees to absorb any maintenance of value risks on behalf of the Beneficiary and the rural electric cooperatives.

*Section 6.5.* ENVIRONMENTAL ASSESSMENT. The Borrower covenants and agrees that an environmental assessment will be conducted by the Philippine Interagency Committee for Ecological Studies of the rural electrification program with the results and recommendations of such assessment incorporated into the Project implementation plan.

*Section 6.6.* USE OF A.I.D.-FINANCED COMMODITIES. The Borrower covenants and agrees that no A.I.D.-financed commodities will be provided to individual rural electric cooperatives prior to certification by the Beneficiary and its consultant as to the technical, economic and financial soundness of each proposed cooperative system.

#### 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 contract 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.

#### 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. 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 8.3. DATE OF DISBURSEMENT.* Disbursements by A.I.D. will be deemed to occur 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.

#### *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 telegrams:  
NEDAPHIL

To A.I.D.:

Mail address:

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

Alternate address for telegrams:  
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 of the 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; provided, however, that Section C.7.(b) of Annex II is hereby modified by inserting the words "Except as A.I.D. may otherwise agree in writing," at the beginning of the second sentence of said Section C.7.(b).

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.

<p>United States of America:</p> <p>By: [Signed]</p> <p>PETER M. CODY</p> <p>Title: Director, U.S. Agency for International Development</p>	<p>Republic of the Philippines:</p> <p>By: [Signed]</p> <p>GERARDO P. SICAT</p> <p>Title: Secretary of Economic Planning (Director General), National Economic and Development Authority</p>
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## ANNEX I

### DESCRIPTION OF PROJECT

#### *Brief Description and Implementation Responsibilities*

This loan will provide an \$8.4 million line of credit to continue the support of the Government of the Philippines' rural electrification program. That program has received previous support from A.I.D. under Loans No. 492-H-028, 492-T-034, 492-T-036, and 492-T-043. The materials imported under this Loan will be used, together with the materials and equipment imported under the above-mentioned previous Loans and with locally available materials, equipment, and labor, to continue the construction and expansion of distribution systems under the nationwide rural electrification program.

The implementing agency for the overall project will be the National Electrification Administration (NEA), also referred to in this Agreement as the "Beneficiary", which was established in 1969 under the provisions of Republic Act No. 6038 and reorganized and expanded in accordance with Presidential Decree No. 269, dated August 6, 1973.

The sub-borrowers of NEA, and individual implementing agencies, will be the various rural electric cooperatives throughout the country. Each of these cooperatives is a non-stock, non-profit, membership cooperative organized for the sole and specific purpose of supplying electric service on an area coverage basis. Most of these electric cooperatives are registered under the provisions of Chapter III of Presidential Decree No. 269, although some are conversions of systems established under earlier acts.

The line of credit made available under this Loan will be used to import electrical conductor[s] needed for the construction and expansion of 7.62/13.2 KV "backbone" systems designed to electrically link all major population areas in the municipalities of the areas served by rural electric cooperatives. The individual electrical distribution systems assisted by this and the previous A.I.D. loans are the rural electric cooperatives (patterned after rural electric cooperatives in the United States) referred to above.

<sup>1</sup> For the text of annex II, see p. 393 of this volume.



*Detailed Description*

While the long range objective of the Government of the Philippines (GOP) is electrification of the entire country by 1990, program implementation by NEA has concentrated on the attainment of its immediate objectives—the establishment of at least one electric cooperative in every province by the end of 1977 and the completion of a “backbone” system electrically linking all municipalities (equivalent to U.S. counties) in each cooperative area by 1980.

To a great extent many of the targets established by NEA have been realized. The NEA will have established at least one electric cooperative in every province by 1977 (with the exception of several small island provinces where feasibility studies indicate that an electric cooperative could not sustain itself). Even now there are a number of provinces with more than one electric cooperative. By the end of September 1977, 92 electric cooperatives had been organized of which 74 were partially or wholly energized. Furthermore, over 520 municipalities including 5,300 barrios have been energized. There are almost 600,000 households, representing approximately 3.6 million people, now receiving electricity through rural electric cooperatives.

To achieve the 1980 target of a completed backbone system, however, NEA will have to undertake an aggressive program of 7.62/13.2 KV line construction. It is currently estimated that NEA will have to construct more than 22,000 kilometers of backbone line from 1977 to 1980. Broken down by year, the figures are approximately as follows:

<i>Year</i>	1977	1978	1979	1980
Km. of backbone .....	5,400	6,500	6,500	3,900

More specifically, NEA has planned the following targets for the last quarter of 1977 and the four quarters of 1978:

	<i>4th quarter 1977</i>	<i>1st quarter 1978</i>	<i>2nd quarter 1978</i>	<i>3rd quarter 1978</i>	<i>4th quarter 1978</i>
Km. of backbone .....	1,360	1,625	1,625	1,625	1,625

Construction of this amount of backbone system during those five quarters will require electrical conductor in the following sizes and amounts:

#2/0 conductor: 14,800 kilometers

#1/0 conductor: 18,160 kilometers

The NEA currently has in their warehouses or on order only about 2,850 kilometers of #2/0 conductor and no #1/0 conductor. Therefore, in order to undertake and complete the planned construction of backbone systems through 1978, an additional 11,950 kilometers of #2/0 conductor and the entire 18,160 kilometers of #1/0 conductor will have to be imported during the next twelve months. The funds made available under this Loan are estimated to be sufficient to finance that importation. Should the actual cost of the needed conductor be less than the amount of this Loan, the balance of the Loan may be used to finance additional goods and services needed in the implementation of the rural electrification program and as agreed to by the Parties.

## Attachment I

## FINANCIAL PLAN—RURAL ELECTRIFICATION V

	4th quarter 1977	1st quarter 1978	2nd quarter 1978	3rd quarter 1978	4th quarter 1978	Total
<i>USAID</i> (\$000)						
Conductor .....	—	—	1,200	3,500	3,700	8,400
TOTAL, AID						\$ 8,400
<i>GOP</i> (P000)						
Poles, crossarms .....	5,300	6,600	7,200	8,500	8,500	36,100
Labor .....	3,800	4,800	5,400	6,400	6,400	26,800
A and E firms .....	1,800	1,800	2,500	3,100	2,500	11,700
TOTAL, GOP						P74,600

(Exchange rate \$1.00 = P7.46)