

CONFORMED COPY

LOAN NUMBER 7204-PH

Loan Agreement

(Rural Power Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated December 8, 2003

LOAN NUMBER 7204-PH

LOAN AGREEMENT

AGREEMENT, dated December 8, 2003, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DEVELOPMENT BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) the Bank has received a letter from the Republic of the Philippines (the Guarantor), dated March 7, 2003, describing a program designed to promote rural power sector reforms and acceleration of universal access to power supply and services throughout the Republic of the Philippines (the Program) and declaring the Guarantor's commitment to the execution of such Program;

(B) the Guarantor has requested that the Bank support the Program through a series of loans to the Guarantor, the Borrower, or other financial institutions to be agreed between the Guarantor and the Bank, over a period of approximately fourteen years, the proceeds of which loans are to be utilized in the implementation of the Program;

(C) the Guarantor and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms a part of the first phase of the Program, have requested the Bank to assist in the financing of Part A of the Project (except Part A.4 of the Project);

(D) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement;

(E) by an agreement of even date herewith between the Guarantor (in such capacity, the Recipient) and the Bank acting as an implementing agency of the Global Environment Facility (GEF) (the Bank-GEF Grant Agreement) and an agreement of even date herewith between the Bank acting as an implementing agency of the GEF and the Borrower (the GEF Project Agreement), the Recipient has requested assistance from the resources of the GEF Trust Fund for funding Parts A.4 and C of the Project and, said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 2002-0005, which may include funds carried over from the second replenishment of the GEF Trust Fund under Resolution No. 98-2, the Bank acting as an implementing agency of the GEF has agreed to extend a grant (the Bank-GEF Grant) to

the Recipient in an amount equivalent to nine million Dollars (\$9,000,000) on the terms and conditions set forth in the Bank-GEF Grant Agreement and GEF Project Agreement; and

(F) by an agreement of even date herewith between the Recipient and the United Nations Development Programme (UNDP) acting as an implementing agency of the GEF (the UNDP-GEF Grant Agreement), the Recipient has requested assistance from the resources of the GEF Trust Fund for funding Part B of the Project and, said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, the UNDP acting as an implementing agency of the GEF has agreed to extend a grant (the UNDP-GEF Grant) to the Recipient in an amount equivalent to one million Dollars (\$1,000,000) on the terms and conditions set forth in the UNDP-GEF Grant Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement, and the accomplishment of the purposes of the Loan.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings wherever used in this Agreement:

i. “Bangko Sentral ng Pilipinas” means the Central Bank of the Republic of the Philippines, and any successor thereto.

ii. “Bank-GEF Grant” means the grant provided for in the Bank-GEF Grant Agreement.

iii. “Bank-GEF Grant Agreement” means the agreement of even date herewith entered into between the Guarantor and the Bank for the carrying out of Parts A.4 and C of the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank, dated September 1, 1999, as applied to such agreement, and all schedules and agreements supplemental to the Bank-GEF Grant Agreement.

iv. “Barangay” means the lowest political subdivision of the Guarantor, which covers a defined geographical area and includes as members all the residents of its territory, and which may exercise powers as a political subdivision of the

Republic of the Philippines and as a corporate entity representing its members, and “Barangays” means, collectively, the plural thereof.

v. “Beneficiary” means any Type A Beneficiary, Type B Beneficiary, Type C Beneficiary, or Type D Beneficiary, and “Beneficiaries” means, collectively, all Type A Beneficiaries, Type B Beneficiaries, Type C Beneficiaries, and Type D Beneficiaries.

vi. “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and “Categories” means, collectively, the plural thereof.

vii. “DBM” means the Guarantor’s Department of Budget and Management and any successor thereto.

viii. “DBP Charter” means the charter of the Development Bank of the Philippines, dated December 3, 1986, as amended to the date of this Agreement.

ix. “DBP-GEF Memorandum of Agreement” means the agreement, satisfactory to the Bank, to be entered into between the Borrower and the Guarantor for implementing Part C.1 of the Project, including all schedules, and supplemental agreements, as said memorandum may be amended from time to time with the prior agreement of the Bank.

x. “DBP Memorandum of Agreement” means the agreement, satisfactory to the Bank, to be entered into between the Borrower and the Guarantor in accordance with the provisions of Section 3.01(c) of this Agreement and Section 4.01(a) of the Guarantee Agreement, as said memorandum may be amended from time to time with the prior agreement of the Bank.

xi. “DBP Operational Manual” means the manual, satisfactory to the Bank, to be adopted by the Borrower in accordance with paragraph 6 of Schedule 4 to this Agreement, which manual shall provide, inter alia, for: (i) environmental requirements for Subprojects; (ii) eligibility criteria for the carrying out of Subprojects; (iii) the procedures and criteria for appraisal and selection of Beneficiaries and Subprojects, including those set forth in paragraphs 1(iv)-(v) of Annex A to Schedule 4 to this Agreement, paragraph 1(iv) of Annex B to Schedule 4 to this Agreement, and paragraphs 1(iv)-(v) of Annex D to Schedule 4 to this Agreement; (iv) terms and conditions governing Subloans and Subloan Agreements, including those set forth in paragraphs 1(i)-(iii) and (vi) of Annex A to Schedule 4 to this Agreement, paragraphs 1(i)-(iii) and (v) of Annex B to Schedule 4 to this Agreement, and paragraphs 1(i)-(iii) and (vi) of Annex D to Schedule 4 to this Agreement; (v) procurement procedures for goods, works and services under Subprojects, including those set forth in paragraphs 1(vi)(C)-(F) of Annex A to Schedule 4 to this Agreement, paragraphs 1(vi)(C)-(F) of Annex B to Schedule 4 to this Agreement, paragraphs 1(vii)(C)-(F) of Annex D to

Schedule 4 to this Agreement, Annex E to Schedule 4 to this Agreement, and Schedule 5 to this Agreement; (vi) the procedures and criteria for appraisal and selection of Participating Financial Intermediaries, including those set forth in paragraphs 1(i) and (iv) of Annex C to Schedule 4 to this Agreement; (vii) terms and conditions governing Subsidiary Loans and Subsidiary Loan Agreements, including those set forth in paragraphs 1(ii)-(iii) and (v) of Annex C to Schedule 4 to this Agreement; (viii) financial management and disbursement arrangements; (ix) the DBP Project Implementation Plan; (x) the Environmental Policy Framework; (xi) the Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Project-Affected Persons; and (xii) the Project Policy Framework on Indigenous Peoples, as said manual may be amended from time to time with the prior agreement of the Bank.

xii. “DBP Project Implementation Plan” means the time-bound action plan adopted by the Borrower on September 1, 2003, satisfactory to the Bank, for the carrying out of Part A of the Project (except Part A.4 of the Project), as such plan may be amended from time to time with the prior agreement of the Bank.

xiii. “DBP Project Management Office” and the acronym “DBP-PMO” mean the Project management office established by the Borrower in July 2002, and to be maintained pursuant to paragraph 3 of Schedule 4 to this Agreement.

xiv. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof.

xv. “DOE” means the Guarantor’s Department of Energy and any successor thereto.

xvi. “DOF” means the Guarantor’s Department of Finance and any successor thereto.

xvii. “Electric Cooperative” and the acronym “EC” mean a private-sector-owned corporation which is (i) organized pursuant to Chapter III of the NEA Charter, Guarantor’s Presidential Decree No. 269, or (ii) if formed or registered under the Philippine non-Agricultural Co-operative Act prior to the NEA Charter, Guarantor’s Presidential Decree No. 269, converted into an Electric Cooperative pursuant to Chapter III of the NEA Charter, for the purposes of supplying, and of promoting and encouraging the fullest use of, electric service on area coverage basis at the lowest cost consistent with sound economy and the prudent management of the business of such

corporation, and “Electric Cooperatives” and the acronym “ECs” mean, collectively, the plural thereof.

xviii. “Electric Power Industry Reform Act” and the acronym “EPIRA” mean the Republic Act No. 9136, also known as the Electric Power Industry Reform Act of 2001.

xix. “Eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

xx. “Eligible Expenditures” means the expenditures in respect of the reasonable cost of goods, works, and services required for Part A of the Project (except Part A.4 of the Project) and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement.

xxi. “Environmental Policy Framework” means the framework, satisfactory to the Bank, which was adopted by the Guarantor on June 30, 2003, and by the Borrower on June 19, 2003, describing the rules, guidelines and procedures to assess environmental impacts under Part A of the Project and defining measures to reduce, mitigate or offset adverse environmental impacts and enhance positive impacts of Part A of the Project, as such framework may be amended from time to time with the prior agreement of the Bank.

xxii. “EPIRA-IRR” means the Implementing Rules and Regulations of Republic Act No. 9136, promulgated by DOE on February 27, 2002, pursuant to Sections 37 and 77 of the EPIRA, to implement the provisions of the EPIRA.

xxiii. “Financial Management Unit” means the financial management unit established by the Borrower in July 2002, and to be maintained pursuant to paragraph 3 of Schedule 4 to this Agreement.

xxiv. “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement.

xxv. “Fiscal Year” and the acronym “FY” mean the twelve (12)-month period corresponding to any of the Borrower’s financial years, which period commences on January 1 and ends on December 31 in each calendar year, and the term “Fiscal Years” means, collectively, the plural thereof.

xxvi. “GEF-Assisted Subproject” means a specific renewable energy technology project to be carried out by a GEF Beneficiary utilizing the proceeds of a GEF Subgrant, in accordance with the provisions of Schedule 5 to the Bank-GEF Grant Agreement, and “GEF-Assisted Subprojects” means, collectively, the plural thereof.

xxvii. “GEF Beneficiary” means an individual, LGU, or other legal entity which meets the eligibility criteria set forth in paragraph 5 of Schedule 4 to the Bank-GEF Grant Agreement, to receive a GEF Sub-grant from DOE, out of the proceeds of the Bank-GEF Grant, for purposes of market development, sales, and installation of RET systems, and “GEF Beneficiaries” means, collectively, the plural thereof.

xxviii. “GEF Project Agreement” means the agreement of even date herewith entered into between the Borrower and the Bank for the carrying out of Part C.1 of the Project, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to said agreement.

xxix. “GEF Sub-grant” means a grant made or proposed to be made by the Guarantor to a GEF Beneficiary, out of the proceeds of the Bank-GEF Grant, through a GEF Sub-grant Agreement, satisfactory to the Bank, to finance the carrying out of a GEF-Assisted Subproject, in accordance with the relevant provisions of the GEF Operational Manual.

xxx. “GEF Sub-grant Agreement” means the agreement to be entered into between the Guarantor and a GEF Beneficiary for purposes of providing a GEF Sub-grant, as the same may be amended from time to time with the prior agreement of the Bank, and “GEF Sub-grant Agreements” means, collectively, the plural thereof.

xxxi. “Indigenous Peoples” means social groups with a distinct social and cultural identity that makes them vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) a close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) an indigenous language, often different from Pilipino, the Guarantor’s national language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production.

xxxii. “Local Government Unit” and the acronym “LGU” mean a local government unit which is a political subdivision of the Republic of the Philippines at the provincial, city, municipal, or Barangay level, and “Local Government Units” and the acronym “LGUs” mean, collectively, the plural thereof.

xxxiii. “NEA” means the National Electrification Administration, a government-owned and controlled corporation established under the NEA Charter, and any successor thereto.

xxxiv. “NEA Charter” means the charter of the NEA, Guarantor’s Presidential Decree No. 269 of August 6, 1973, as amended to the date of this Agreement.

xxxv. “NEDA” means the Guarantor’s National Economic and Development Authority and any successor thereto.

xxxvi. “NGO” means a non-governmental organization, including an NGO that provides credit (credit NGO), established and operating under the laws of the Guarantor.

xxxvii. “Participating Financial Intermediary” and the acronym “PFI” mean a financial intermediary established, organized, and operating in accordance with the laws of the Guarantor, including a micro-finance institution, commercial bank, rural bank, thrift bank, credit cooperative, credit NGO, and leasing company, eligible to receive a Subsidiary Loan in accordance with the policies and procedures set forth in paragraph 1 of Annex C to Schedule 4 to this Agreement, and “Participating Financial Intermediaries” and the acronym “PFIs” mean, collectively, the plural thereof.

xxxviii. “Pesos” means the currency of the Republic of the Philippines.

xxxix. “Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons” means the framework, satisfactory to the Bank, which was adopted by the Guarantor on June 30, 2003, and by the Borrower on June 19, 2003, providing procedures, rules, and guidelines for: (i) the involuntary taking of land and other assets from Displaced Persons, (ii) resettlement and rehabilitation of, and compensation to, Displaced Persons, and (iii) reporting and monitoring arrangements to ensure compliance with such framework, as such framework may be amended from time to time with the prior agreement of the Bank.

xl. “Procurement Unit” means the procurement unit established by the Borrower on July 31, 2002, and to be maintained pursuant to paragraph 3 of Schedule 4 to this Agreement.

xli. “Project Policy Framework on Indigenous Peoples” means the framework, satisfactory to the Bank, which was adopted by the Guarantor on June 30, 2003, and by the Borrower on June 19, 2003, providing procedures, rules, and guidelines for: (i) the informed involvement of Indigenous Peoples, through a process of informed consultation, in the design and implementation of Part A of the Project in locations in which such people reside or which they use for their livelihood, and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts, under Part A of the Project, as such framework may be amended from time to time with the prior agreement of the Bank.

xlii. “Project Supervisory Committee” and the acronym “PSC” mean the committee to be established and maintained in accordance with the provisions of Section 3.03 of the Guarantee Agreement, to be responsible for the overall policy

direction, guidance, and supervision of policy and institutional reforms under the Program.

xlili. “Qualified Third Party” and the acronym “QTP” mean an alternative electric service provider authorized to serve remote and unviable areas pursuant to Section 59 of the EPIRA and Rule 14 of the EPIRA-IRR, and “Qualified Third Parties” means, collectively, the plural thereof.

xliv. “Renewable Energy Technologies” and the acronym “RET” mean an energy system using renewable energy resources including wind, hydro, biomass, and solar energy.

xlv. “Report-Based Disbursement” means a withdrawal of funds from the Loan Account made on the basis of reports as referred to in Part A.4 of Schedule 1 to this Agreement, and “Report-Based Disbursements” means, collectively, the plural thereof.

xlvi. “RESCO” means a rural energy service company established, organized, and operating under the laws of the Guarantor.

xlvii. “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

xlviii. “Subloan” means any Type A Subloan, Type B Subloan, Type C Subloan, or Type D Subloan, and “Subloans” means, collectively, the plural thereof.

xlix. “Subloan Agreement” means any Type A Subloan Agreement, Type B Subloan Agreement, Type C Subloan Agreement, or Type D Subloan Agreement, and “Subloans” means, collectively, the plural thereof.

1. “Subproject” means any Type A Subproject, Type B Subproject, Type C Subproject, or Type D Subproject, and “Subprojects” means, collectively, the plural thereof.

li. “Subsidiary Loan” means a loan made or proposed to be made by the Borrower to a Participating Financial Intermediary out of the proceeds of the Loan, under the provisions of a Subsidiary Loan Agreement, to finance the provision of Type B Subloans, and “Subsidiary Loans” means, collectively, the plural thereof.

lii. “Subsidiary Loan Agreement” means an agreement to be entered into between the Borrower and a Participating Financial Intermediary for purposes of providing a Subsidiary Loan, in accordance with the provisions of paragraph 1(v) of Annex C to Schedule 4 to this Agreement, and “Subsidiary Loan Agreements” means, collectively, the plural thereof.

liii. “Technical Working Group” means the group to be established and maintained by the Guarantor in accordance with the provisions of Section 3.04 of the Guarantee Agreement, to serve as a secretariat to the Project Supervisory Committee and to be responsible for the overall coordination and supervision of the implementation of the Project.

liv. “Type A Beneficiary” means a RESCO, QTP, NGO, cooperative other than an EC, or LGU, which meets the eligibility criteria set forth in paragraph 1 of Annex A to Schedule 4 to this Agreement to receive a Type A Subloan for purposes of carrying out a Type A Subproject, and “Type A Beneficiaries” means, collectively, the plural thereof.

lv. “Type A Subloan” means a loan made or proposed to be made by the Borrower to a Type A Beneficiary out of the proceeds of the Loan to finance in part the carrying out of a Type A Subproject, all in accordance with the terms and conditions of a Type A Subloan Agreement, and “Type A Subloans” means, collectively, the plural thereof.

lvi. “Type A Subloan Agreement” means an agreement to be entered into between the Borrower and a Type A Beneficiary for purposes of financing in part the carrying out of a Type A Subproject through the provision of a Type A Subloan, and “Type A Subloan Agreements” means, collectively, the plural thereof.

lvii. “Type A Subproject” means a small-scale energy generation and mini-grid rural electrification project, to be carried out by a Type A Beneficiary utilizing the proceeds of a Type A Subloan, in accordance with the provisions of paragraph 1 of Annex A to Schedule 4 to this Agreement, and “Type A Subprojects” means, collectively, the plural thereof.

lviii. “Type B Beneficiary” means an RET system purchaser (which may be an individual, household, group of households, enterprise, school, LGU, or community organization) or an RET system supplier, each of which meets the eligibility criteria set forth in paragraph 1 of Annex B to Schedule 4 to this Agreement to receive a Type B Subloan for purposes of carrying out a Type B Subproject, and “Type B Beneficiaries” means, collectively, the plural thereof.

lix. “Type B Subloan” means a loan made or proposed to be made by a Participating Financial Intermediary to a Type B Beneficiary out of the proceeds of a Subsidiary Loan to finance in part the carrying out of a Type B Subproject, all in accordance with the terms and conditions of a Type B Subloan Agreement, and “Type B Subloans” means, collectively, the plural thereof.

lx. “Type B Subloan Agreement” means an agreement to be entered into between a Participating Financial Intermediary and a Type B Beneficiary for purposes of financing in part the carrying out of a Type B Subproject through the

provision of a Type B Subloan, and “Type B Subloan Agreements” means, collectively, the plural thereof.

lxi. “Type B Subproject” means a stand-alone renewable energy technology system rural electrification project, including the marketing, sale, purchase, and installation of RET systems, to be carried out by a Type B Beneficiary utilizing the proceeds of a Type B Subloan, in accordance with the provisions of paragraph 1 of Annex B to Schedule 4 to this Agreement, and “Type B Subprojects” means, collectively, the plural thereof.

lxii. “Type C Beneficiary” means an Electric Cooperative which meets the eligibility criteria set forth in paragraph 1 of Annex A to Schedule 4 to this Agreement to receive a Type C Subloan for purposes of carrying out a Type C Subproject, and “Type C Beneficiaries” means, collectively, the plural thereof.

lxiii. “Type C Subloan” means a loan made or proposed to be made by the Borrower to a Type C Beneficiary out of the proceeds of the Loan to finance in part the carrying out of a Type C Subproject, all in accordance with the terms and conditions of a Type C Subloan Agreement, and “Type C Subloans” means, collectively, the plural thereof.

lxiv. “Type C Subloan Agreement” means an agreement to be entered into between the Borrower and a Type C Beneficiary for purposes of financing in part the carrying out of a Type C Subproject through the provision of a Type C Subloan, and “Type C Subloan Agreements” means, collectively, the plural thereof.

lxv. “Type C Subproject” means a rural electrification project for (i) improving power supply system safety, reliability, efficiency and power service quality for existing customers, through rehabilitation and capacity upgrades of the existing supply system (including purchase of secondhand subtransmission facilities), (ii) removing supply system constraints, (iii) encouraging institutional development of Electric Cooperatives, and (iv) providing the necessary hardware, software, motor vehicles, tools, and equipment to improve employee productivity, safety, and efficiency of customer service provision, to be carried out by a Type C Beneficiary utilizing the proceeds of a Type C Subloan, in accordance with the provisions of paragraph 1 of Annex A to Schedule 4 to this Agreement, and “Type C Subprojects” means, collectively, the plural thereof.

lxvi. “Type D Beneficiary” means a beneficiary which meets the eligibility criteria set forth in paragraph 1 of Annex D to Schedule 4 to this Agreement to receive a Type D Subloan for purposes of carrying out a Type D Subproject, and “Type D Beneficiaries” means, collectively, the plural thereof.

lxvii. “Type D Subloan” means a loan made or proposed to be made by the Borrower to a Type D Beneficiary out of the proceeds of the Loan to finance

in part the carrying out of a Type D Subproject, all in accordance with the terms and conditions of a Type D Subloan Agreement, and “Type D Subloans” means, collectively, the plural thereof.

lxviii. “Type D Subloan Agreement” means an agreement to be entered into between the Borrower and a Type D Beneficiary for purposes of financing in part the carrying out of a Type D Subproject through the provision of a Type D Subloan, and “Type D Subloan Agreements” means, collectively, the plural thereof.

lxix. “Type D Subproject” means a rural electrification project other than a Type A Subproject, Type B Subproject, or Type C Subproject, that meets the eligibility criteria set out in the DBP Operational Manual, to be carried out by a Type D Beneficiary utilizing the proceeds of a Type D Subloan, in accordance with the provisions of paragraph 1 of Annex D to Schedule 4 to this Agreement, and “Type D Subprojects” means, collectively, the plural thereof.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one billion, one hundred eighty-eight million, two hundred thousand Yen (JPY1,188,200,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for:

1. amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Type A Subloan, Type C Subloan, or Type D Subloan made, respectively, under Parts A.1, A.3, and A.5 of the Project to meet the reasonable cost of goods, works, and services required for the respective Type A Subproject, Type C Subproject, or Type D Subproject, and in respect of which the withdrawal from the Loan Account is requested;
2. amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Subsidiary Loan made under Part A.2 of the Project to meet the reasonable cost of goods, works, and services required for one or more Type B Subprojects and in respect of which the withdrawal from the Loan Account is requested; and
3. expenditures in respect of the front-end fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of Part A of the Project (except Part A.4 of the Project), open and maintain in Dollars a special deposit account in a commercial bank specifically authorized for this purpose by Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 1 to this Agreement.

(c) On each of the semiannual interest payment dates specified in Section 2.07 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to

the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 2.03. The Closing Date shall be December 31, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy-five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on February 1 and August 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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, withdrawn 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 from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable 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 Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion," as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Part A (except Part A.4 of the Project) and C.1 of the Project with due diligence and efficiency and in conformity with appropriate financial, economic, administrative, management, banking, and engineering practices, and sound environmental and social standards acceptable to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the carrying out of Parts A (except Part A.4 of the Project) and C.1 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

- (i) carry out Part A of the Project (except Part A.4 of the Project) in accordance with the Implementation Program set forth in Schedule 4 to this Agreement;
- (ii) carry out Part C.1 of the Project in accordance with the Implementation Program set forth in Schedule 2 to the GEF Project Agreement;
- (iii) make Type A Subloans and Type C Subloans under terms and conditions satisfactory to the Bank, which shall include those set forth in paragraph 1 of Annex A to Schedule 4 to this Agreement;
- (iv) make Type D Subloans under terms and conditions satisfactory to the Bank, which shall include those set forth in paragraph 1 of Annex D to Schedule 4 to this Agreement; and
- (v) onlend to each PFI an amount out of the proceeds of the Loan allocated from time to time to Category (1), under a Subsidiary Loan Agreement to be entered into between the Borrower and each PFI under terms and conditions satisfactory to the Bank, which shall include those set forth in the DBP Operational Manual and in paragraph 1 of Annex C to Schedule 4 to this Agreement, and the following principal onlending terms and conditions:

- (A) the principal amount of the Subsidiary Loan shall be:
 - (i) equivalent to the aggregate amount of the principal of all Type B Subloans made out of the proceeds thereof by the PFI; and
 - (ii) onlent in Pesos and repaid by the PFI in Pesos in an amount equivalent at the time of withdrawal to the amounts withdrawn from time to time from the Loan Account under Category (1) in respect of such Subsidiary Loan;
- (B) interest on the principal amount withdrawn and outstanding of a Subsidiary Loan made in Pesos shall be payable at a per annum rate of interest established in accordance with the relevant provisions of the DBP Operational Manual;
- (C) commitment charges shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower under Section 2.07 of this Agreement; and
- (D) the principal amount of such Subsidiary Loan shall be repaid in accordance with an amortization schedule which corresponds to the composite of the amortization schedules of such Type B Subloans.

(c) For purposes of: (i) the fees to be paid by the Borrower to the Guarantor in respect of the loan guarantee and foreign exchange risk cover provided by the Guarantor pursuant to the Guarantee Agreement, and (ii) the method for the determination of lending rates, including a floor lending rate, acceptable to the Bank, for onlending of the proceeds of the Loan through Type A Subloans, Type C Subloans, Type D Subloans, and Subsidiary Loans, the Borrower shall enter into a DBP Memorandum of Agreement with the Guarantor, under terms and conditions acceptable to the Bank.

(d) The Borrower shall: (i) exercise its rights under the DBP Memorandum of Agreement in such manner as to: (A) protect the interests of the Borrower, the Guarantor, and the Bank; (B) comply with its respective obligations under the DBP Memorandum of Agreement; and (C) accomplish the purposes of the Project; and (ii) except as the Bank shall otherwise agree, not abrogate, amend, assign, repeal, suspend or waive the DBP Memorandum of Agreement or any provision thereof without the prior agreement of the Bank.

Section 3.02. Except as the Bank shall otherwise agree procurement of the goods, works, and services required for Subprojects under Part A of the Project (except Part A.4 of the Project) and to be financed out of the proceeds of Subloans shall be governed by

the provisions of paragraphs 1(vi)(C)-(F) of Annex A to Schedule 4 (for Type A Beneficiaries and Type C Beneficiaries), paragraphs 1(v)(C)-(F) of Annex B to Schedule 4 (for Type B Beneficiaries), paragraphs 1(vi)(C)-(F) of Annex D to Schedule 4 (for Type D Beneficiaries), and Annex E to Schedule 4 and Schedule 5 (for LGUs) to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of Part A of the Project (except Part A.4 of the Project); and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards, acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of the Project (except Part A.4 of the Project).

(b) The Borrower shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Loan Account is made, have the financial statements referred to in paragraph (a) of this Section for each fiscal year, or other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Bank, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, or such other period agreed to by the Bank, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such reports and statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Bank, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 9 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part A of the Project (except Part A.4 of the Project), both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in the implementation of Part A of the Project (except Part A.4 of the Project), both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under Part A of the Project (except Part A.4 of the Project), as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 60 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Part A of the Project (except Part A.4 of the Project) through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 60 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall take all actions within its powers to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. The Borrower shall take all actions within its powers to distribute annual cash dividends on its common shares only after adequate provisions have been made for, inter alia: (a) taxes; (b) loan loss provisions; and (c) adjustments to its equity caused by within-year inflation.

Section 4.05. The Borrower shall, by December 31, 2003, take all steps necessary to reduce the percentage of the net past due loans in its retail loan portfolio to a level not exceeding the industry average of the past three consecutive fiscal years for commercial banks in the Philippines and, thereafter, the Borrower shall take all actions as shall be necessary to maintain such percentage at or below such level. For purposes of this Section 4.05, the term “net past due loans” means loans deemed past due as said term is defined by Bangko Sentral ng Pilipinas, minus provisions for loan losses.

Section 4.06. (a) Except as the Bank shall otherwise agree, the Borrower shall achieve positive profitability in real terms and shall take all actions as shall be necessary to maintain the following financial ratios for each Fiscal Year commencing in Fiscal Year 2004: (i) ratio of risk assets to equity of not more than the ratio prescribed by BSP, as may be amended from time to time, and (ii) ratio of liquid assets to short-term liabilities of not less than 45%.

(b) For purposes of this Section 4.06 of this Agreement:

- (i) The term “profitability in real terms” means audited net profits at the end of the Fiscal Year minus the equity net of fixed assets at the beginning of the same Fiscal Year, multiplied by the annual inflation rate.
- (ii) The term “risk assets” shall mean the assets defined as risk assets by Bangko Sentral ng Pilipinas, as such definition may be amended from time to time by Bangko Sentral ng Pilipinas.
- (iii) The term “equity” means the sum total unimpaired paid-up capital, retained earnings, and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) The term “liquid assets” means cash, short-term deposits in banks, and investment in government securities up to one year.
- (v) The term “short-term liabilities” means short-term deposits, debt service to be paid within one year, and short-term debts to suppliers.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph, the right of the Guarantor to withdraw the proceeds of the Bank-GEF Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Bank-GEF Grant Agreement.
 - (ii) Subparagraph (i) of this paragraph (a) shall not apply if the Guarantor establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Guarantor to perform any of its obligations under the Bank-GEF Grant Agreement; and (B) adequate funds for Parts A.4 and C of the Project are available to the Guarantor from other sources on terms and conditions consistent with the obligations of the Guarantor under such agreement.
- (b) The Guarantor shall have failed to perform any of its obligations under the Guarantee Agreement, or the DBP Memorandum of Agreement, or the Bank-GEF Grant Agreement, or the DBP-GEF Memorandum of Agreement.
- (c) The Borrower shall have failed to perform any of its obligations under the DBP Memorandum of Agreement, or the GEF Project Agreement, or the DBP-GEF Memorandum of Agreement.
- (d) The legal framework or the principal corporate and organizational documents governing the Borrower, including the DBP Charter, shall have been abrogated, amended, repealed, suspended, or waived, so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out Parts A (except Part A.4 of the Project) or C.1 of the Project or to perform any of its obligations under this Agreement.
- (e) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations, so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out Parts A (except Part A.4 of the Project) or C.1 of the Project or to perform any of its obligations under this Agreement.

(f) The DBP Memorandum of Agreement, or the DBP-GEF Memorandum of Agreement, shall have been abrogated, amended, repealed, suspended, or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out Part A (except Part A.4 of the Project) or Part C.1 of the Project or to perform any of its obligations under this Agreement.

(g) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under this Agreement, the DBP Memorandum of Agreement, the GEF Project Agreement, or the DBP-GEF Memorandum of Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraphs (b), (c), (d), (e) and (f) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any of the events specified in subparagraph (a)(i), subject to the proviso of subparagraph (a)(ii), of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) the Bank-GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Guarantor to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(b) the UNDP-GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Guarantor to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(c) the Guarantee Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of the Loan Agreement, have been fulfilled;

(d) the Borrower has adopted the DBP Operational Manual in accordance with the provisions of paragraph 6 of Schedule 4 to this Agreement;

(e) the DBP Memorandum of Agreement has been entered into between the Borrower and the Guarantor in accordance with Section 3.01(c) of this Agreement and Section 4.01(a) of the Guarantee Agreement;

(f) the Borrower has adopted a financial management manual satisfactory to the Bank in accordance with the provisions of paragraph 5(a) of Schedule 4 to this Agreement;

(g) the Project Supervisory Committee has been established in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement and Section 3.03 of the Guarantee Agreement; and

(h) the Technical Working Group has been established in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement and Section 3.04 of the Guarantee Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The President and Chief Executive Officer of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

| Cable address: | Telex: | Facsimile: |
|-------------------------------|--------------------------------|----------------|
| INTBAFRAD Washington, D.C. | 248423 (MCI) or 64145 (MCI) | (202) 477-6391 |

For the Borrower:

Development Bank of the Philippines
Sen. Gil Puyat Avenue Corner
Makati Avenue
Makati, Metro Manila
Republic of the Philippines

| Cable address: | Telex: | Facsimile: |
|-------------------------------|--|------------------------------------|
| PHILDEBANK 22197 Manila | PHILCOM 22197 DBP PH GLOBE TELECOM 45128 DBP PM EASTERN TELECOMS 63771 DBP PN | (6-32) 815-1611 (6-32) 893-5350 |

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Manila, Republic of the Philippines, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert Vance Pulley

Authorized Representative

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Simon R. Paterno

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Part A: General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

| <u>Category</u> | <u>Amount of the Loan Allocated (Expressed in Yen)</u> | <u>% of Expenditures to be financed</u> |
|--|--|---|
| (1) Type A Subloans, Type C Subloans, Type D Subloans, and Subsidiary Loans | 1,176,318,000 | 100% of amounts disbursed |
| (2) Front-end fee | 11,882,000 | Amount due under Section 2.04 of this Agreement |
| TOTAL | <u><u>1,188,200,000</u></u> | |

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$1,000,000, may be made in respect of Categories (1) and (2) on account of payments for expenditures incurred before that date but after March 1, 2003; provided, however, that no withdrawals shall be made in respect of:

(a) a Type A Subloan or a Type C Subloan, under Category (1), unless the Borrower shall have: (i) entered into a Type A Subloan Agreement or Type C Subloan Agreement, respectively, with a Type A Beneficiary or Type C Beneficiary, in accordance with paragraph 1(vi) of Annex A to Schedule 4 to this Agreement, providing for such Type A Subloan or Type C Subloan; and (ii) the respective Type A Subloan or Type C Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph 1 of Annex A to Schedule 4 to this Agreement;

(b) a Type D Subloan, under Category (1), unless the Borrower shall have: (i) entered into a Type D Subloan Agreement with a Type D Beneficiary in accordance with paragraph 1(vi) of Annex D to Schedule 4 to this Agreement, providing for such Type D Subloan; and (ii) the Type D Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph 1 of Annex D to Schedule 4 to this Agreement; and

(c) a Subsidiary Loan under Category (1), unless: (i) the relevant PFI shall have entered into a Subsidiary Loan Agreement with the Borrower in accordance with paragraph 1(v) of Annex C to Schedule 4 to this Agreement providing for such Subsidiary Loan; (ii) the PFI shall have entered into a Type B Subloan Agreement with the respective Type B Beneficiary, in accordance with paragraph 1(v) of Annex B to Schedule 4 to this Agreement, providing for such Type B Subloan out of the proceeds of the Subsidiary Loan for which disbursements are being made; and (iii) the Subsidiary Loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph 1 of Annex C to Schedule 4 to this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for Type A Subloans, Type C Subloans, Type D Subloans, and Subsidiary Loans; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank, in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-Based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for Part A of the Project (except Part A.4 of the Project) for the six-month period following the date of such request.

Part B: Special Account

1. The Borrower may, for the purposes of Part A of the Project (except Part A.4 of the Project), open and maintain in Dollars a special deposit account in a commercial bank specifically authorized for this purpose by Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) if the Borrower is not making Report-Based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-Based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule 1, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-Based Disbursements;

(b) if, at any time, the Bank shall have determined that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of statements of expenditure or Report-Based Disbursements, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 1 if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not

justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to Schedule 1

**Operation of Special Account
When Withdrawals Are Not Report-based Disbursements**

1. For the purposes of this Annex A, the term “Authorized Allocation” means the amount of \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex A to Schedule 1, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the

Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to Schedule 1

**Operation of Special Account
When Withdrawals Are Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; or (b) the amount that the Bank has determined, based on the reports referred to in paragraph 4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the implementation of the first phase of the Program aimed at supporting reforms and priority investments to improve quality of life in rural areas through the provision of adequate, affordable and reliable energy services, in partnership with the private sector.

The Project consists of the following parts, subject to such modifications thereof as the Guarantor, the Borrower, and the Bank may agree upon from time to time to achieve such objectives:

Part A: Rural Electrification Subprojects

1. Carrying out of Type A Subprojects through the provision of Type A Subloans.
2. Carrying out of Type B Subprojects through the provision of Type B Subloans.
3. Carrying out of Type C Subprojects through the provision of Type C Subloans.
4. Carrying out of GEF-Assisted Subprojects through the provision of GEF Sub-grants.
5. Carrying out of Type D Subprojects through the provision of Type D Subloans.

Part B: Partial Credit Guarantee Fund

Provision of grant funds to RET system financiers to partially cover loan losses incurred in the provision of loans to RET system purchasers and RET system suppliers.

Part C: Capacity Building

1. Fostering the reduction of market barriers to the commercialization of renewable energy technologies suitable for off-grid electrification by building capacity on selected renewable energy technology matters, including appraisal, selection, procurement, and supervision related to renewable energy technology subprojects, within the Borrower.
2. Fostering the reduction of market barriers to the commercialization of renewable energy technologies suitable for off-grid electrification by building capacity on selected

renewable energy technology matters, including appraisal, selection, procurement, and supervision related to renewable energy technology subprojects, in selected public and private sector entities including Department of Energy, Participating Financial Intermediaries, RET system suppliers, ECs, and NGOs, and excluding the Borrower.

3. Fostering the reduction of investment risks in the rural power sector by carrying out surveys and assessments of the rural electricity services market including renewable energy technologies, and applying the findings of such surveys and assessments.

4. Developing and implementing policies on energy tariffs and subsidies, regulation, and integration of renewable energy technologies in the missionary electrification program pursuant to the Guarantor's Electric Power Industry Reform Act of 2001, Republic Act No. 9136, including the provision of computer hardware and software.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Amortization Schedule

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 the Bank 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 Date</u> | <u>Installment Share</u> <u>(Expressed as a %)</u> |
|---|---|
| On each February 1 and August 1 Beginning February 1, 2012, through February 1, 2023 | 4.17 % |
| On August 1, 2023 | 4.09 % |

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 the Bank 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. (a) 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.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

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 the Bank 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 the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank 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 4

Implementation Program

Project Management

1. The Borrower shall take all necessary actions to form part of and participate in the Project Supervisory Committee to be established and maintained by the Borrower jointly with DOE and other relevant national ministries of the Guarantor, as set forth in Section 3.03 of the Guarantee Agreement, to be responsible for the overall policy direction, guidance, and supervision of policy and institutional reforms under the Program.

2. The Borrower shall take all necessary actions to form part of and participate in the Technical Working Group to be established and maintained by the Borrower jointly with DOE and other relevant national ministries of the Guarantor, as set forth in Section 3.04 of the Guarantee Agreement, to serve as a secretariat to the Project Supervisory Committee and to be responsible for overall coordination and supervision of the implementation of the Project.

3. The Borrower shall maintain until completion of the Project the DBP Project Management Office (DBP-PMO), Financial Management Unit, and Procurement Unit, each of which shall be headed by a qualified and experienced manager, assigned with qualified staff in adequate numbers, and which are provided with such powers, responsibilities, organization and funding as shall be required to enable them to carry out the administration, coordination, supervision, procurement, disbursement, accounting, financial and project management, and monitoring of the implementation of Parts A (except Part A.4 of the Project) and C.1 of the Project.

4. The DBP-PMO shall report periodically to the Project Supervisory Committee and Technical Working Group in the carrying out of its responsibilities under the Project.

5. The Borrower shall:

(a) adopt a financial management manual, satisfactory to the Bank, and shall not amend, delete, suspend, or waive such manual or any provision thereof without the prior consent of the Bank; and

(b) prepare and furnish to the Bank a financial management staffing plan for the DBP-PMO, satisfactory to the Bank, by September 30, 2004, and carry out such plan by November 30, 2004.

Project Implementation

6. The Borrower shall adopt the DBP Operational Manual, satisfactory to the Bank, and thereafter carry out Part A of the Project (except Part A.4 of the Project) in accordance with such manual; and shall not amend, delete, suspend, or waive the DBP Operational Manual or any provision thereof without the prior consent of the Bank.

7. The Borrower shall carry out Part A of the Project (except Part A.4 of the Project) in accordance with the DBP Project Implementation Plan, satisfactory to the Bank.

8. In the carrying out of Part A of the Project (except Part A.4 of the Project), the Borrower shall:

(a) take all such actions as shall be necessary to apply and cause to be applied:

(i) the Environmental Policy Framework;

(ii) the Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons; and

(iii) the Project Policy Framework on Indigenous Peoples; and

(b) not amend, delete, suspend, or waive any of such frameworks, or any provision thereof, without the prior consent of the Bank.

Monitoring and Evaluation

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank as set forth in Schedule 1 to the Guarantee Agreement, the carrying out of Part A of the Project (except Part A.4 of the Project) and the achievement of the objectives thereof;

(b) prepare, in scope and format satisfactory to the Bank, and furnish to the Bank: (i) a quarterly progress report pertaining to the three-month period ending on March 31, June 30, September 30, and December 31 of each calendar year, each such report to be furnished to the Bank within sixty (60) days after the end of the period

reported upon, commencing December 31, 2003, and (ii) a mid-term report on or about March 31, 2006, in each case integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph 9, reporting on the progress achieved in the carrying out of Part A of the Project (except Part A.4 of the Project) during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part A of the Project (except Part A.4 of the Project) and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by April 30, 2006, or such later date as the Bank shall request, the report referred to in subparagraph (b)(ii) of this paragraph 9, and, thereafter, take all measures required to ensure the efficient completion of Part A of the Project (except Part A.4 of the Project) and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Annex A to Schedule 4

Type A Subloans and Type C Subloans

1. Except as the Bank shall otherwise agree, the Borrower shall:
 - (a) appraise and approve Type A Subprojects and Type C Subprojects that are technically feasible, financially viable, and environmentally sound in accordance with the pertinent eligibility criteria set forth in the DBP Operational Manual; and
 - (b) make Type A Subloans and Type C Subloans to Type A Beneficiaries and Type C Beneficiaries, respectively, that meet the pertinent eligibility criteria set forth in the DBP Operational Manual and in accordance with the Borrower's credit criteria and procedures and on the terms and conditions set forth in the DBP Operational Manual, including:

Terms of Type A Subloans and Type C Subloans

- (i) The principal amount of a Type A Subloan or Type C Subloan shall not exceed ninety percent (90%) of the total costs of the related Type A Subproject or Type C Subproject; and the equity contribution that each Type A Beneficiary or Type C Beneficiary shall be required to contribute from internally generated revenues or from its internal revenue allocation to meet the non-financed portion of the costs of the related Subproject shall be determined by the Borrower on the basis of its review of the relevant Subproject proposal and the financial situation of the respective Beneficiary, but in each case shall be at least ten percent (10%) of the total costs for such Subproject.
- (ii) Repayment of the principal amount of each Type A Subloan or Type C Subloan shall be made over a period not exceeding fifteen (15) years, inclusive of a maximum of five (5) years grace.
- (iii) Interest shall accrue on the principal amount disbursed and outstanding on each Type A Subloan or Type C Subloan at a per annum rate freely negotiated between the Borrower and the Type A Beneficiary or Type C Beneficiary, in accordance with the method for the determination of lending rates as set forth in the DBP Memorandum of Agreement, as provided in Section 3.01(c) of this Agreement. Interest shall be payable on a monthly,

quarterly, or semi-annual basis as agreed between the Borrower and the respective Beneficiary; provided, however, that the interest rate per annum on the principal amount disbursed and outstanding on each Type C Subloan to an EC shall accrue at an interest rate per annum (variable or fixed) calculated in accordance with the relevant provisions of the DBP Operational Manual.

Procedure, Terms and Conditions

- (iv) A Type A Subloan or Type C Subloan may be approved to a Type A Beneficiary or Type C Beneficiary only if such Beneficiary:
 - (A) has prepared an initial environmental examination, including an environmental management plan, on the basis of standards satisfactory to the Bank and in accordance with the Environmental Policy Framework;
 - (B) has prepared a resettlement action plan satisfactory to the Bank and in accordance with the Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons, in the event the Type A Subproject or Type C Subproject will involve resettlement of Displaced Persons;
 - (C) has carried out consultations with and a process of informed participation by Indigenous Peoples, satisfactory to the Bank and in accordance with the Project Policy Framework on Indigenous Peoples, in the event that the Type A Subproject or Type C Subproject will impact such people and to ensure that the design and implementation of the Type A Subproject or Type C Subproject will adequately address the needs and cultural preferences of such people; and
 - (D) has prepared and furnished to the Bank the following documents, satisfactory to the Bank:
 - (i) where the proposed Subproject is likely to have a significant adverse environmental impact, an environmental assessment;

- (ii) where the proposed Subproject will involve resettlement of Displaced Persons, a resettlement action plan; and
- (iii) where the proposed Subproject will affect Indigenous Peoples, an Indigenous Peoples development plan.
- (iv) The first three (3) Type A Subproject or Type C Subproject proposals endorsed by the Borrower shall be subject to prior review by the Bank. The Borrower shall furnish to the Bank, in sufficient time for its review, the proposals and any relevant supporting materials from the prospective Type A Beneficiaries or Type C Beneficiaries. The Borrower shall approve each of these first three Type A Subloans or Type C Subloans only after receiving a “no objection” from the Bank to the relevant Subproject proposal.

Type A Subloan Agreements and Type C Subloan Agreements

- (v) In respect of each Type A Subloan and Type C Subloan, the Borrower shall enter into a Type A Subloan Agreement or Type C Subloan Agreement with the relevant Type A Beneficiary or Type C Beneficiary whereby the Borrower shall obtain rights adequate to protect its own interests and the interests of the Bank, including without limitation the rights to:
 - (A) require the Type A Beneficiary or Type C Beneficiary to carry out its Type A Subproject or Type C Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, social, and environmental standards and practices satisfactory to the Bank, and to maintain adequate records;
 - (B) require the Type A Beneficiary or Type C Beneficiary to establish prior to approval of its Type A Subloan or Type C Subloan, and thereafter maintain, arrangements satisfactory to the Borrower and the Bank to manage the

implementation of its Type A Subproject or Type C Subproject;

- (C) require that goods and works to be financed out of the proceeds of the Type A Subloan or Type C Subloan shall be procured:
- (i) under contracts estimated to cost the equivalent of \$1,000,000 or more per contract, in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), provided, however, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower; and
 - (ii) under contracts other than those set forth in subparagraph (i) above, at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as, in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of works, the technical quality and the competitive cost therefor;

provided, however, that in each case where the Type A Beneficiary is an LGU, goods and works to be financed out of the proceeds of such Type A Subloan shall be procured in accordance with Section I of Annex E to this Schedule 4, and in each case where the contract is for the acquisition of secondhand subtransmission facilities by a Type C Beneficiary out of the proceeds of a Type C Subloan, such facilities shall be procured at a reasonable price determined in accordance with the revenue

potential of such facilities and the relevant provisions of the EPIRA and excluding the financing of any facilities previously financed by the Bank and the financing of the cost of land;

- (D) require that consultants' services to be financed out of the proceeds of the Type A Subloan or Type C Subloan shall be procured at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as the quality of such services and the competence of the parties rendering them; provided, however, that in each case where the Type A Beneficiary is an LGU, consultants' services to be financed out of the proceeds of such Type A Subloan shall be procured in accordance with Section II of Annex E to this Schedule 4;

- (E) require each Type A Beneficiary and Type C Beneficiary to submit the following contracts to the Borrower for its prior review and approval:
 - (i) each contract for goods or works estimated to cost the equivalent of \$1,000,000 or more;

 - (ii) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more for firms or estimated to cost the equivalent of \$50,000 or more for individuals; and

 - (iii) each contract for the purchase by a Type C Beneficiary of secondhand subtransmission facilities, regardless of its estimated contract cost;

provided, however, that in each case where the Type A Beneficiary is an LGU, contracts procured under such Type A Subloan shall be subject to prior review and approval in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;

- (F) require that each contract for goods, works, and services to be financed out of the proceeds of a Type A Subloan or Type C Subloan shall be subject to post review by the Bank, and each contract not subject to prior review in accordance with subparagraph (E) of this paragraph 1(c)(vi) shall be subject to post review by the Borrower, in each case in accordance with the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines, in the case of goods or works, and paragraph 4 of Appendix 1 to the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), in the case of consultants’ services; provided, however, that in each case where the Type A Beneficiary is an LGU, contracts procured under such Type A Subloan shall be subject to post review in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;
- (G) require that the Type A Beneficiary or Type C Beneficiary implement its environmental management plan, resettlement action plan, and program of consultation with and informed participation by Indigenous Peoples, as the case may be, in a manner satisfactory to the Borrower and the Bank;
- (H) inspect, by itself or jointly with representative(s) of the Bank, such goods and the sites, works, plans, and construction included in the Type A Subproject or Type C Subproject, the operation thereof, and any relevant records and documents;
- (I) require each Type A Beneficiary and Type C Beneficiary to: (i) establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Borrower and the Bank, adequate to reflect the operations, resources, and expenditures related to its Subproject; (ii) have the records, accounts, and financial statements referred to in clause (i) above for each fiscal year audited, in accordance with auditing standards acceptable to the Borrower and the Bank, consistently applied, by independent auditors acceptable to the

Borrower and the Bank; and (iii) upon the Borrower's request, furnish to the Borrower copies of the financial statements referred to in clause (I) above as so audited together with an opinion on such statements, records, and accounts and report of such audit by said auditors;

- (J) require that each Type A Beneficiary and Type C Beneficiary shall not incur any debt, except as the Bank shall otherwise agree, unless the net revenues of the Type A Beneficiary or Type C Beneficiary for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1 time the estimated maximum debt service requirements of the Type A Beneficiary or Type C Beneficiary for any succeeding fiscal year on all debt of the Type A Beneficiary or Type C Beneficiary, including the debt to be incurred. For the purposes of this subparagraph (J):
- (i) the term "debt" means any indebtedness of the Type A Beneficiary or Type C Beneficiary maturing by its terms more than one year after the date on which it is originally incurred;
 - (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
 - (iii) the term "net revenues" means the difference between:
 - (a) the sum of revenues from all sources related to operations adjusted to take account of the pertinent rates and prices of the Type A Beneficiary or Type C Beneficiary in effect at the time of the incurrence of debt even though they were not in effect during the

twelve-month period to which such revenues relate and net non-operating income; and

- (b) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;
- (iv) the term "net non-operating income" means the difference between:
 - (a) revenues from all sources other than those related to operations; and
 - (b) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (K) require that in the case of each Type A Beneficiary that is an LGU, the municipal council and mayor of the LGU shall have passed resolutions to participate in the Project and to execute a Type A Subloan Agreement with the Borrower, satisfactory to the Borrower;
- (L) require that each Type C Beneficiary shall have obtained the approval and certification of the NEA, pursuant to Section 16(i) of the NEA Charter, to enable the Type C Beneficiary to receive a Type C Subloan pursuant to the terms of a Type C Subloan Agreement with the Borrower;
- (M) where operations and maintenance of facilities established under a Type A Subproject or Type C Subproject is necessary, require the Type A Beneficiary or Type C Beneficiary to establish, and maintain until completion of the Subproject, an operations and maintenance account with sufficient initial capital and an established mechanism for replenishment of the account

to cover the recurrent costs of the relevant Subproject during and after implementation;

- (N) require that the Type A Beneficiary or Type C Beneficiary provide to the Borrower and the Bank all such information as the Borrower and the Bank may reasonably request relating to the foregoing and to the administration, operations, and financial condition of the Type A Beneficiary or Type C Beneficiary and to the benefits to be derived from its respective Type A Subproject or Type C Subproject; and
- (O) suspend or terminate the right of the Type A Beneficiary or Type C Beneficiary to the use of the proceeds of the Type A Subloan or Type C Subloan upon failure by such Type A Beneficiary or Type C Beneficiary to perform its obligations under the relevant Type A Subloan Agreement or Type C Subloan Agreement.

2. The Borrower:

(a) shall exercise its right in relation to each Type A Subloan Agreement and Type C Subloan Agreement in such manner as to protect its interests and the interests of the Bank, comply with its obligations under this Agreement, and achieve the purposes of the Project; and

(b) shall not, except as the Bank shall otherwise agree, take or concur in any action that would have the effect of assigning, amending, abrogating, or waiving any Type A Subloan Agreement or Type C Subloan Agreement or any provision thereof.

Annex B to Schedule 4

Type B Subloans

1. Except as the Bank shall otherwise agree, the Borrower shall cause Participating Financial Intermediaries to: (a) appraise and approve Type B Subprojects that are technically feasible, financially viable, and environmentally sound in accordance with the pertinent eligibility criteria set forth in the DBP Operational Manual; and (b) make Type B Subloans to Type B Beneficiaries that meet the pertinent eligibility criteria set forth in the DBP Operational Manual and in accordance with the Participating Financial Intermediaries' credit criteria and procedures and on the terms and conditions set forth in the DBP Operational Manual including:

Terms of Type B Subloans

- (i) The principal amount of a Type B Subloan shall not exceed ninety percent (90%) of the total costs of the related Type B Subproject; and the equity contribution that each Type B Beneficiary shall be required to contribute from internally generated revenues or from its internal revenue allocation to meet the non-financed portion of the costs of the related Subproject shall be determined by the PFI on the basis of its review of the relevant Subproject proposal and the financial situation of the Beneficiary, but in each case shall be at least ten percent (10%) of the total costs for such Subproject.
- (ii) Repayment of the principal amount of each Type B Subloan shall be made over a period not exceeding six (6) years, inclusive of a maximum of six (6) months grace.
- (iii) Interest shall accrue on the principal amount disbursed and outstanding on each Type B Subloan at a per annum rate freely negotiated between the PFI and the Type B Beneficiary. Interest shall be payable on a monthly, quarterly, or semi-annual basis as agreed between the Borrower and the Beneficiary.

Procedure, Terms and Conditions

- (iv) A Type B Subloan may be approved to each Type B Beneficiary only if such Type B Beneficiary:

- (A) if an RET system supplier, has prepared an initial environmental examination, including an environmental management plan, on the basis of standards satisfactory to the Bank and in accordance with the Environmental Policy Framework;
- (B) has prepared a resettlement action plan satisfactory to the Bank and in accordance with the Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons, in the event the Type B Subproject will involve resettlement of Displaced Persons;
- (C) has carried out consultations with a process of informed participation by Indigenous Peoples, satisfactory to the Bank and in accordance with the Project Policy Framework on Indigenous Peoples, in the event that the Type B Subproject will impact such people and to ensure that the design and implementation of the Type B Subproject will adequately address the needs and cultural preferences of such people; and
- (D) has prepared and furnished to the Bank the following documents, satisfactory to the Bank:
 - (i) where the proposed Subproject is likely to have a significant adverse environmental impact, an environmental assessment;
 - (ii) where the proposed Subproject will involve resettlement of Displaced Persons, a resettlement action plan; and
 - (iii) where the proposed Subproject will affect Indigenous Peoples, an Indigenous Peoples development plan.

Type B Subloan Agreements

- (v) In respect of each Type B Subloan, the PFI shall enter into a Type B Subloan Agreement with the Type B Beneficiary whereby the PFI shall obtain rights adequate to protect its own interests and the interests of the Bank, including without limitation the rights to:
 - (A) require the Type B Beneficiary to carry out its Type B Subproject with due diligence and efficiency and in accordance

with sound technical, financial, managerial, social, and environmental standards and practices satisfactory to the Bank, and to maintain adequate records;

(B) require the Type B Beneficiary to establish prior to approval of a Type B Subloan, and thereafter maintain, arrangements satisfactory to the PFI and the Bank to manage the implementation of its Type B Subproject;

(C) require that goods and works to be financed out of the proceeds of the Type B Subloan shall be procured:

(i) under contracts estimated to cost the equivalent of \$500,000 or more per contract, in accordance with procedures consistent with those set forth in Sections I and II of the Guidelines, provided, however, that the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower; and

(ii) under contracts other than those set forth in subparagraph (I) above, at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as, in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of works, the technical quality and the competitive cost therefor;

provided, however, that in each case where the Type B Beneficiary is an LGU, goods and works to be financed out of the proceeds of such Type B Subloan shall be procured in accordance with Section I of Annex E to this Schedule 4;

(D) require that consultants' services to be financed out of the proceeds of the Type B Subloan shall be procured at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as the quality of such services and the competence of the parties rendering them; provided, however, that in each case where the Type B Beneficiary is an LGU, consultants' services to be financed out of the proceeds of such Type B Subloan shall be

procured in accordance with Section II of Annex E to this Schedule 4;

(E) require each Type B Beneficiary to submit the following contracts to the PFI for the PFI's prior review and approval:

(i) each contract for goods or works estimated to cost the equivalent of \$500,000 or more; and

(ii) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more for firms or estimated to cost the equivalent of \$50,000 or more for individuals;

provided, however, that in each case where the Type B Beneficiary is an LGU, contracts procured under such Type B Subloan shall be subject to prior review and approval in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;

(F) require that each contract for goods, works, and services to be financed out of the proceeds of a Type B Subloan shall be subject to post review by the Bank, and each contract not subject to prior review in accordance with subparagraph (E) of this paragraph 1(vi) shall be subject to post review by the PFI, in each case in accordance with the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines, in the case of goods or works, and paragraph 4 of Appendix 1 to the Consultant Guidelines, in the case of consultants' services; provided, however, that in each case where the Type B Beneficiary is an LGU, contracts procured under such Type B Subloan shall be subject to post review in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;

(G) inspect, by itself or jointly with representative(s) of the Bank, such goods and the sites, works, plans, and construction included in the Type B Subproject, the operation thereof, and any relevant records and documents;

(H) require that each Type B Beneficiary (that is an RET system supplier) implement its environmental management plan,

resettlement action plan, and program of consultation with an informed participation by Indigenous Peoples, as the case may be, in a manner satisfactory to the PFI and the Bank;

- (I) require that each Type B Beneficiary that is an RET system supplier shall not incur any debt, except as the PFI shall otherwise agree, unless the net revenues of such Type B Beneficiary for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least one (1) time the estimated maximum debt service requirements of such Type B Beneficiary for any succeeding fiscal year on all debt of the Type B Beneficiary, including the debt to be incurred. For the purposes of this subparagraph (I),
- (i) the term “debt” means any indebtedness of such Type B Beneficiary maturing by its terms more than one year after the date on which it is originally incurred;
 - (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
 - (iii) the term “net revenues” means the difference between:
 - (a) the sum of revenues from all sources related to operations adjusted to take account of the pertinent prices of the Type B Beneficiary in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and
 - (b) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;

- (iv) the term "net non-operating income" means the difference between:
 - (a) revenues from all sources other than those related to operations; and
 - (b) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

 - (J) require that in the case of each Type B Beneficiary that is an LGU, the municipal council and mayor of the LGU shall have passed resolutions to participate in the Project and to execute a Type B Subloan Agreement with the PFI, satisfactory to the PFI;

 - (K) require that the Type B Beneficiary provide to the PFI and the Bank all such information as PFI and the Bank may reasonably request relating to the foregoing and to the financial condition of the Type B Beneficiary and to the benefits to be derived from its respective Type B Subproject; and

 - (L) suspend or terminate the right of the Type B Beneficiary to the use of the proceeds of the Type B Subloan upon failure by such Type B Beneficiary to perform its obligations under the relevant Type B Subloan Agreement.
2. Each PFI in relation to the Type B Subloans it has made:
- (a) shall exercise its right in relation to each Type B Subloan Agreement to which it is a party in such manner as to protect its interests and the interests of the Bank, comply with its obligations under its respective Subsidiary Loan Agreement, and achieve the purposes of the Project; and

 - (b) shall not, except as the Bank shall otherwise agree, take or concur in any action that would have the effect of assigning, amending, abrogating, or waiving any Type B Subloan Agreement or any provision thereof.

Annex C to Schedule 4

Subsidiary Loans

1. Except as the Bank shall otherwise agree, the Borrower shall make Subsidiary Loans:

(a) to PFIs that meet the pertinent accreditation criteria set forth in the DBP Operational Manual; and

(b) in accordance with the Borrower's credit criteria and procedures and on the terms and conditions set forth in the Operational Manual, including:

Criteria

- (i) The accreditation criteria to be used by the Borrower in appraising and selecting PFIs to receive Subsidiary Loans shall include the following:
 - (B) the PFI has experience in managing and implementing a micro-finance program;
 - (C) the PFI has qualified and experienced management and personnel in sufficient numbers, and adequate systems and procedures, to enable the PFI to be an efficient and reliable purveyor of retail credit;
 - (D) the PFI has adopted an audit manual or other written internal controls adequate to ensure its sound financial management; and
 - (E) the PFI has met pertinent financial criteria, as set forth in the DBP Operational Manual, that reflect its performance in terms including solvency, liquidity, and profitability.

Terms of Subsidiary Loans

- (ii) Repayment of the principal amount of each Subsidiary Loan shall be made over a period not exceeding ten (10) years, inclusive of a maximum of six (6) months grace.
- (iii) Interest shall accrue on the principal amount disbursed and outstanding on each Subsidiary Loan at a per annum rate freely negotiated between the Borrower and the PFI in accordance with the method for the determination of lending rates as set forth in the DBP Memorandum of Agreement, as provided in Section 3.01(c) of this Agreement. Interest shall be payable on a monthly, quarterly or semi-annual basis as agreed between the Borrower and the PFI.

Procedure, Terms and Conditions

- (iv) The first three (3) Subsidiary Loans endorsed by the Borrower shall be subject to prior review by the Bank. The Borrower shall furnish to the Bank, in sufficient time for its review, the proposals and any relevant supporting materials from the PFI. The Borrower shall approve each of these first three Subsidiary Loans only after receiving a “no objection” from the Bank to the relevant proposal.

Subsidiary Loan Agreements

- (v) In respect of each Subsidiary Loan made by the Borrower to a PFI out of the proceeds of the Loan, the Borrower shall enter into a Subsidiary Loan Agreement with the PFI whereby the Borrower shall obtain rights adequate to protect the interests of the Borrower and the Bank, including without limitation the rights to:
 - (A) require the PFI to onlend the proceeds of the Subsidiary Loan as one or more Type B Subloans to Type B Beneficiaries for the financing of Type B Subprojects, in each case (I) pursuant to a Type B Subloan Agreement with the Type B Beneficiary whereby the PFI shall obtain rights adequate to protect its interests and the interests of the Bank and (II) in accordance with the PFI's credit criteria and procedures and on terms and

conditions acceptable to the Bank and the Borrower, all as set forth in Annex B to Schedule 4 of this Agreement and the DBP Operational Manual;

- (B) require the PFI to exercise its right in relation to each Type B Subloan Agreement to which it is a party in such manner as to protect the interests of the PFI, the Borrower, and the Bank, to comply with its obligations under the Subsidiary Loan Agreement, and achieve the purposes of the Project;
- (C) require the PFI to refrain, except as Borrower and the Bank shall otherwise agree, from taking or concurring in any action that would have the effect of assigning, amending, abrogating, or waiving any Type B Subloan Agreement to which it is a party or any provision thereof;
- (D) require the PFI to conduct its operations and affairs in accordance with sound administrative, commercial banking, environmental, social, and financial standards and practices satisfactory to the Bank, with qualified and experienced management and personnel in sufficient numbers, and provide, promptly as needed, the funds, facilities, services, and other resources required to carry out its respective lending operations for Type B Subloans to Type B Beneficiaries;
- (E) require the PFI to (i) establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Borrower and the Bank, adequate to reflect the operations, resources, and expenditures related to its Subsidiary Loan and Type B Subloans; (ii) have the records, accounts, and financial statements referred to in clause (I) above for each fiscal year audited, in accordance with auditing standards acceptable to the Borrower and the Bank, consistently applied, by independent auditors acceptable to the Borrower and the Bank; and (iii) upon request, furnish to the Borrower copies of the financial statements referred to in clause (I) above as so audited together with an opinion on such

statements, records, and accounts and report of such audit by said auditors;

- (F) require that the PFI take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;
- (G) require that the PFI provide to the Borrower and the Bank all such information as the Borrower and the Bank may reasonably request relating to the foregoing and to the administration, operations, and financial condition of the PFI and to the benefits to be derived from the proceeds of the Subsidiary Loan; and
- (H) suspend or terminate the right of the PFI to the use of the proceeds of the Subsidiary Loan upon failure by such PFI to perform its obligations under the relevant Subsidiary Loan Agreement.

2. The Borrower:

(a) shall exercise its right in relation to each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank, comply with the requirements of this Agreement, and achieve the purposes of the Project; and

(b) shall not, except as the Bank shall otherwise agree, take or concur in any action that would have the effect of assigning, amending, abrogating, or waiving any Subsidiary Loan Agreement or any provision thereof.

Annex D to Schedule 4

Type D Subloans

1. Except as the Bank shall otherwise agree, the Borrower shall:
 - (a) appraise and approve Type D Subprojects that are technically feasible, financially viable, and environmentally sound in accordance with the pertinent eligibility criteria set forth in the DBP Operational Manual; and
 - (b) make Type D Subloans to Type D Beneficiaries that meet the pertinent eligibility criteria set forth in the DBP Operational Manual and in accordance with the Borrower's credit criteria and procedures and on the terms and conditions set forth in the DBP Operational Manual, including:

Terms of Type D Subloans

- (i) The principal amount of a Type D Subloan shall not exceed ninety percent (90%) of the total costs of the related Type D Subproject; and the equity contribution that each Type D Beneficiary shall be required to contribute from internally generated revenues or from its internal revenue allocation to meet the non-financed portion of the costs of the related Subproject shall be determined by the Borrower on the basis of its review of the relevant Subproject proposal and the financial situation of the respective Beneficiary, but in each case shall be at least ten percent (10%) of the total costs for such Subproject.
- (ii) Repayment of the principal amount of each Type D Subloan shall be made over a period not exceeding fifteen (15) years, inclusive of a maximum of five (5) years grace.
- (iv) Interest shall accrue on the principal amount disbursed and outstanding on each Type D Subloan at a per annum rate freely negotiated between the Borrower and the Type D Beneficiary, in accordance with the method for the determination of lending rates as set forth in the DBP Memorandum of Agreement, as provided in Section 3.01(c) of this Agreement. Interest shall be payable on a monthly, quarterly, or semi-annual basis as agreed between the Borrower and the Beneficiary; provided, however, that the interest rate per annum on the principal amount disbursed and outstanding on any Type D Subloan to an EC shall

accrue at an interest rate per annum (variable or fixed) calculated in accordance with the relevant provisions of the DBP Operational Manual.

Procedure, Terms and Conditions

- (iv) A Type D Subloan may be approved to a Type D Beneficiary only if such Beneficiary:
 - (A) has prepared an initial environmental examination, including an environmental management plan, on the basis of standards satisfactory to the Bank and in accordance with the Environmental Policy Framework;
 - (B) has prepared a resettlement action plan satisfactory to the Bank and in accordance with the Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons, in the event the Type D Subproject will involve resettlement of Displaced Persons;
 - (C) has carried out consultations with and a process of informed participation by Indigenous Peoples, satisfactory to the Bank and in accordance with the Project Policy Framework on Indigenous Peoples, in the event that the Type D Subproject will impact such people and to ensure that the design and implementation of the Type D Subproject adequately address the needs and cultural preferences of such people; and
 - (D) has prepared and furnished to the Bank the following documents, satisfactory to the Bank:
 - (i) where the proposed Subproject is likely to have a significant adverse environmental impact, an environmental assessment;
 - (ii) where the proposed Subproject will involve resettlement of Displaced Persons, a resettlement action plan; and

- (iii) where the proposed Subproject will affect Indigenous Peoples, an Indigenous Peoples development plan.
- (iv) Each Type D Subproject proposal endorsed by the Borrower shall be subject to prior review by the Bank. The Borrower shall furnish to the Bank, in sufficient time for its review, the proposals and any relevant supporting materials from the prospective Type D Beneficiary. The Borrower shall approve a Type D Subloan only after receiving a “no objection” from the Bank to the relevant Subproject proposal.

Type D Subloan Agreements

- (v) In respect of each Type D Subloan, the Borrower shall enter into a Type D Subloan Agreement with the relevant Type D Beneficiary whereby the Borrower shall obtain rights adequate to protect its own interests and the interests of the Bank, including without limitation the rights to:
 - (A) require the Type D Beneficiary to carry out its Type D Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, social, and environmental standards and practices satisfactory to the Bank, and to maintain adequate records;
 - (B) require the Type D Beneficiary to establish prior to approval of its Type D Subloan, and thereafter maintain, arrangements satisfactory to the Borrower and the Bank to manage the implementation of its Type D Subproject;
 - (C) require that goods and works to be financed out of the proceeds of the Type D Subloan shall be procured:
 - (i) under contracts estimated to cost the equivalent of \$500,000 or more per contract, in accordance with procedures consistent with those set forth in Sections I and II of the Guidelines, provided, however, that the provisions of paragraphs 2.54

and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower; and

- (ii) under contracts other than those set forth in subparagraph (i) above, at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as, in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of works, the technical quality and the competitive cost therefor;

provided, however, that in any case where the Type D Beneficiary is an LGU, goods and works to be financed out of the proceeds of such Type D Subloan shall be procured in accordance with Section I of Annex E to this Schedule 4;

- (D) require that consultants' services to be financed out of the proceeds of the Type D Subloan shall be procured at a reasonable price following established commercial procedures, account being taken also of other relevant factors such as the quality of such services and the competence of the parties rendering them; provided, however, that in any case where the Type D Beneficiary is an LGU, consultants' services to be financed out of the proceeds of such Type D Subloan shall be procured in accordance with Section II of Annex E to this Schedule 4;

- (E) require each Type D Beneficiary to submit the following contracts to the Borrower for the Borrower's prior review and approval:

- (i) each contract for goods or works estimated to cost the equivalent of \$500,000 or more; and
- (ii) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more for

firms or estimated to cost the equivalent of \$50,000 or more for individuals;

provided, however, that in each case where the Type D Beneficiary is an LGU, contracts procured under such Type D Subloan shall be subject to prior review and approval in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;

- (F) require that each contract for goods, works, and services to be financed out of the proceeds of a Type D Subloan shall be subject to post review by the Bank, and each contract not subject to prior review in accordance with subparagraph (E) of this paragraph 1 (b)(vi) shall be subject to post review by the Borrower, in each case in accordance with the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines, in the case of goods or works, and paragraph 4 of Appendix 1 to the Consultant Guidelines, in the case of consultants' services; provided, however, that in each case where the Type D Beneficiary is an LGU, contracts procured under such Type D Subloan shall be subject to post review in accordance with Part D of Section I, and Part D of Section II, of Annex E to this Schedule 4;
- (G) require that the Type D Beneficiary implement its environmental management plan, resettlement action plan, and program of consultation with and informed participation by Indigenous Peoples, as the case may be, in a manner satisfactory to the Borrower and the Bank;
- (H) inspect, by itself or jointly with representative(s) of the Bank, such goods and the sites, works, plans, and construction included in the Type D Subproject, the operation thereof, and any relevant records and documents;
- (I) require each Type D Beneficiary to (i) establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Borrower and the Bank, adequate to reflect the operations, resources, and

expenditures related to its Subproject; (ii) have the records, accounts, and financial statements referred to in clause (i) above for each fiscal year audited, in accordance with auditing standards acceptable to the Borrower and the Bank, consistently applied, by independent auditors acceptable to the Borrower and the Bank; and (iii) upon the Borrower's request, furnish to the Borrower copies of the financial statements referred to in clause (i) above as so audited together with an opinion on such statements, records, and accounts and report of such audit by said auditors;

(J) require that each Type D Beneficiary shall not incur any debt, except as the Borrower shall otherwise agree, unless the net revenues of the Type D Beneficiary for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ending prior to the date of such incurrence, whichever is the greater, shall be at least one (1) time the estimated maximum debt service requirements of the Type D Beneficiary for any succeeding fiscal year on all debt of the Type D Beneficiary, including the debt to be incurred. For the purposes of this subparagraph (J):

(i) the term "debt" means any indebtedness of the Type D Beneficiary maturing by its terms more than one year after the date on which it is originally incurred;

(ii) debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;

(iii) the term "net revenues" means the difference between:

(a) the sum of revenues from all sources related to operations adjusted to take account of the pertinent rates and prices

of the Type D Beneficiary in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and

- (b) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;
- (iv) the term “net non-operating income” means the difference between:
 - (a) revenues from all sources other than those related to operations; and
 - (b) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (K) require that in the case of each Type D Beneficiary that is an LGU, the municipal council and mayor of the LGU shall have passed resolutions to participate in the Project and to execute a Type D Subloan Agreement with the Borrower, satisfactory to the Borrower;
- (L) require that any Type D Beneficiary that is an EC shall have obtained the approval and certification of the NEA, pursuant to Section 16(i) of the NEA Charter, to enable such EC to receive a Type D Subloan pursuant to the terms of a Type D Subloan Agreement with the Borrower;
- (M) where operations and maintenance of facilities established under a Type D Subproject is necessary, require the Type D Beneficiary to establish, and maintain until completion of the Subproject, an

operations and maintenance account with sufficient initial capital and an established mechanism for replenishment of the account to cover the recurrent costs of the relevant Subproject during and after implementation;

- (N) require that the Type D Beneficiary provide to the Borrower and the Bank all such information as the Borrower and the Bank may reasonably request relating to the foregoing and to the administration, operations, and financial condition of the Type D Beneficiary and to the benefits to be derived from its respective Type D Subproject; and
- (O) suspend or terminate the right of the Type D Beneficiary to the use of the proceeds of the Type D Subloan upon failure by such Type D Beneficiary to perform its obligations under the relevant Type D Subloan Agreement.

2. The Borrower:

(a) shall exercise its right in relation to each Type D Subloan Agreement in such manner as to protect its interests and the interests of the Bank, comply with its obligations under this Agreement, and achieve the purposes of the Project; and

(b) shall not, except as the Bank shall otherwise agree, take or concur in any action that would have the effect of assigning, amending, abrogating, or waiving any Type D Subloan Agreement or any provision thereof.

Annex E to Schedule 4

Procurement by Beneficiaries Which Are LGUs

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods and works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent per Subproject, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and Schedule 5 to this Agreement.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent per Subproject, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent per Subproject, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from

three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank, the Borrower, and PFIs of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for each Subproject shall be furnished to the Borrower, or in the case of a Type B Subproject, to the PFI that has made the relevant Subloan, for its review and approval, and after any comments from the Borrower or the PFI have been taken into account, to the Bank for its review and approval in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

The LGU shall submit the following contracts to the Borrower, or in the case of a Type B Subproject, to the PFI that has made the relevant Subloan, for its prior review and approval: (i) each contract for goods or works to be procured in accordance with the procedures referred to in Part B of this Section I; (ii) the first contract for goods or works to be procured under each Subproject in accordance with the procedures referred to in paragraph 1 of Part C of this Section I; (iii) each contract for goods or works estimated to cost the equivalent of \$200,000 or more; and (iv) the first contract under each Subproject for goods to be procured in accordance with the procedures referred to in paragraph 2 of Part C of this Section I or works to be procured in accordance with the procedures referred to in paragraph 3 of Part C of this Section I.

3. Post Review

Each contract for goods and works to be procured by an LGU shall be subject to post review by the Bank, and each contract not governed by paragraph 2 of this Part shall be subject to post review by the Borrower or, in the case of a Type B Subproject, by the PFI that has made the relevant Subloan, in each case in accordance with the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Selection Based on Consultants' Qualifications

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for subproject preparation and implementation under Parts A.1, A.2, and A.5 of the Project which are estimated to cost less than \$100,000 equivalent per contract may, with the prior agreement of the Borrower, or in the case of a Type B Subproject, of the PFI that has made the relevant Subloan, and of the Bank, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for subproject preparation and implementation under Parts A.1, A.2, and A.5 of the Project that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank, the Borrower, and PFIs of the Selection of Consultants

1. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the LGU shall submit such contracts to the Borrower, or in the case of a Type B Subproject, to the PFI that has made the relevant Subloan, for its prior review and approval.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Borrower, or in the case of a Type B Subproject, to the PFI that has made the relevant Subloan, for its prior review and approval.

3. Post Review

Each contract for consultants' services to be procured by an LGU shall be subject to post review by the Bank, and each contract not governed by paragraph 2 of this Part shall be subject to post review by the Borrower or, in the case of a Type B Subproject, by the PFI that has made the relevant Subloan, in each case in accordance with the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines.

SCHEDULE 5

National Competitive Bidding Procedures

With respect to goods and works to be procured by LGUs in accordance with the procedures referred to in paragraph 1 of Part C of Section I of Annex E to Schedule 4, the National Competitive Bidding (NCB) procedures of the Guarantor shall apply, except that, unless otherwise agreed by the Bank in writing, the following procedures shall apply:

1. National Competitive Bidding (NCB) opportunities shall be advertised in national newspapers of general circulation, with sufficient time for bidders to prepare offers, which shall not be less than 30 days, unless a different time is specifically agreed upon by the Bank. Posting shall also be done in the Government Electronic Procurement System (GEPS) or the Procuring Entity's website.
2. Foreign suppliers and contractors from eligible countries shall be allowed to participate, if interested, without first being required to associate with, or enter into joint ventures with, local firms. However, joint ventures will be encouraged.
3. Except for major or complex works, as defined in this Loan Agreement, where prequalification is required, prequalification of contractors shall only be undertaken upon prior Bank approval.
4. Eligibility screening may be carried out prior to bidding with the prior concurrence of the Bank.
5. If any bidder is to be denied access to the bidding process for reasons unrelated to its financial and technical qualifications to perform the contract, prior concurrence of the Bank shall be sought.
6. A ceiling may be applied to bid prices, with the prior concurrence of the Bank in advance of bidding. The Approved Budget Estimate may be disclosed in the advertisement or in the bidding documents.
7. The Bank's domestic preferences shall not be applied in the evaluation of bids, and other preferences in effect in the Republic of the Philippines shall also not be used, except with the prior concurrence of the Bank.
8. Price negotiation shall not be allowed. However, in the case of a budget limitation, an adjustment in the quantities of goods or the scope of work may be agreed upon, subject to the prior concurrence of the Bank.

9. Bid opening shall be open to those who wish to attend, and the deadline for submission of bids shall be the same as that for bid opening. All bids received on time shall be opened and read publicly.
10. Within 72 hours from bid opening, but prior to bid evaluation, a copy of the certified minutes of bid opening shall be furnished to the Bank, which shall contain the following: (a) names of the bidders provided with bid documents; (b) original amount (unevaluated) of the bid of each bidder, as read; (c) date, time and place of bid opening; (d) summary of bid proceedings; and (e) names of the bidders' representatives and other persons present.
11. Suppliers and contractors shall not be required to purchase only local goods or supplies, or to hire local labor, except for unskilled labor.
12. Explicit bid evaluation criteria shall be set forth in the bid documents based on monetarily quantifiable elements.
13. Modifications exceeding 15% of the contract amount and material changes in the conditions during implementation require prior concurrence of the Bank.
14. For foreign suppliers and contractors, prior registration (such as with the Bureau of Food and Drugs for the registration for drugs, agency accreditation, etc.), licensing (such as licensing by the Philippine Contractors Accreditation Board, etc.), and/or other government authorizations (such as a Mayor's permit, etc.), shall not be a requirement for purposes of participating in bidding competitions. Such registration, licensing and/or other government authorizations may, however, be required from the selected bidder as a condition of signing of the contract, and the Borrower shall not be estopped from asserting such requirement where this is mandated under national law.
15. Bid and performance securities shall be specified in the bidding documents, which may be in the form of a certified check, letter of credit, or bank guarantee from a reputable bank.
16. To obtain the best market prices available, open competitive bidding shall be maximized. For this purpose, requirements shall not include restrictive importation permits from private associations or protective preferences for Philippine Flag vessels.
17. Two-envelope system procedures shall not be used unless prior concurrence by the Bank has been obtained.
18. Privileges granted to Provincial bidders to match the lowest bid submitted by a contractor with the principal office address outside the province in which the project is located, shall not be allowed.
19. The use of GEPS for procurement of goods may be allowed with the prior concurrence of the Bank.

