

CONFORMED COPY

LOAN NUMBER 7204-PH

Guarantee Agreement

(Rural Power Project)

between

REPUBLIC OF THE PHILIPPINES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 8, 2003

LOAN NUMBER 7204-PH

GUARANTEE AGREEMENT

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

WHEREAS (A) the Guarantor has developed 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), as set forth in the letter to the Bank dated March 7, 2003, and is committed 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 Development Bank of the Philippines (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 the Loan 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 the Project;

(D) 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 GEF Trust Fund Grant Agreement and GEF Project Agreement;

(E) 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

(F) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in the amount of one billion, one hundred and eighty eight million, two hundred thousand Yen (JPY1,188,200,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to guarantee such obligations of the Borrower;

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 in Section 1.01 of the Loan Agreement (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions, in the Preamble to this Agreement, and in the Preamble to Section 1.02 of the Loan Agreement, shall have the respective meanings therein set forth.

ARTICLE II

Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of Parts A (except Part A.4 of the Project) and C.1 of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

ARTICLE III

Implementation of the Program

Section 3.01. (a) The Guarantor shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 1 to this Agreement, the carrying out of the Program and the achievement of the objectives thereof.

(b) The Guarantor and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(c) Prior to each such exchange of views, the Guarantor shall furnish to the Bank for its review and comment a report, in scope and format satisfactory to the Bank and in such detail as the Bank shall reasonably request, on the progress achieved in the implementation of actions and policies embodied in the Program.

Section 3.02. Without limitation or restriction upon the provisions of Section 3.01 of this Agreement, the Guarantor shall:

(a) prepare, in scope and format satisfactory to the Bank and in such detail as the Bank shall reasonably request, and furnish to the Bank: (i) an annual progress report, by June 30 of each year, commencing on June 30, 2004, and (ii) a mid-term report on or about March 31, 2006, in each case reporting on the progress achieved in the carrying out of the Program during the period preceding the date of said report, including progress with respect to indicators satisfactory to the Bank as set forth in Schedule 1 to this Agreement, the time-bound reform action plan as set forth in the letter from the Guarantor dated March 7, 2003, describing the Program, and the annual Missionary Electrification Development Plan prepared by DOE in accordance with the requirements of the Guarantor's Electric Power Industry Reform Act of 2001, Republic Act No. 9136; and

(b) review with the Bank: (i) by October 31 of each year, commencing on October 31, 2004, or such later date as the Bank shall request, the report referred to in subparagraph (a)(i) of this Section 3.02, and (ii) by April 30, 2006, or such later date as the Bank shall request, the report referred to in subparagraph (a)(ii) of this Section 3.02, and, in each case, thereafter take all measures required to ensure the efficient completion of the Program 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.

Section 3.03. The Guarantor shall cause DOE and other relevant national ministries to establish, and thereafter maintain, jointly with the Borrower, the Project Supervisory Committee which shall be responsible for the overall policy direction, guidance, and supervision of policy and institution reforms under the Program.

Section 3.04. The Guarantor shall cause DOE and other relevant national agencies to establish, and thereafter maintain, jointly with the Borrower, the Technical Working Group which shall serve as a secretariat to the Project Supervisory Committee and be responsible for overall coordination and supervision of the implementation of the Project.

Section 3.05. The Guarantor shall cause DOE to provide technical and administrative support to the Borrower with regard to environmental and social matters arising in the appraisal and supervision of Subprojects under Parts A.1, A.2, A.3 and A.5 of the Project.

ARTICLE IV

Other Covenants

Section 4.01. (a) The Guarantor shall, for purposes of enabling the Borrower to comply with the provisions in Sections 3.01(c) and 4.03 of the Loan Agreement, enter

into a DBP Memorandum of Agreement with the Borrower under which: (i) the Guarantor shall assume the foreign exchange risk between the Yen and the Peso in respect of the onlending of the proceeds of the Loan by the Borrower and, to that end, shall charge the Borrower a fee therefor under arrangements acceptable to the Borrower and the Bank, (ii) the Guarantor shall charge the Borrower a fee in respect of the loan guarantee provided by the Guarantor pursuant to Section 2.01 of this Agreement, and (iii) the Guarantor and the Borrower shall set out the method for the determination of lending rates, including a floor lending rate, satisfactory to the Bank, for onlending of the proceeds of the Loan through Type A Subloans, Type C Subloans, Type D Subloans, and Subsidiary Loans, all under terms and conditions satisfactory to the Bank.

(b) The Guarantor shall carry out a review of the lending rates applicable to the Guarantor's credit programs, including the Project, and shall thereafter discuss with the Bank the recommendations of the Guarantor's review.

Section 4.02. The Guarantor shall take all actions necessary under existing laws to cause the Borrower to distribute annual cash dividends on its common shares in accordance with the provisions of Section 4.04 of the Loan Agreement, including, but not limited to:

(a) adjusting the percentage of the annual net earnings required to be paid as cash dividends on the Borrower's common shares to take into account the provisions made for, inter alia, (i) taxes, (ii) loan loss provisions, and (iii) adjustments to the Borrower's equity caused by within-year inflation; and

(b) developing a policy for the systematic treatment and transparency of guarantees within the context of fiscal risk management.

ARTICLE V

Representative of the Guarantor; Addresses

Section 5.01. The Secretary of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Boulevard
Manila, Republic of the Philippines

Cable address:	Telex:	Facsimile:
SECFIN Manila	40268CB-CONF	(63-2) 526-9990 (63-2) 523-9216

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

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.

REPUBLIC OF THE PHILIPPINES

By /s/ Juanita D. Amatong

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert Vance Pulley

Authorized Representative

SCHEDULE 1

Performance Indicators

	Mid-term Review	Closing Date
Loan disbursements	40%	100%
New customers in rural areas provided with mini-grid electrical connection or individual RET services	4,000	10,000
New RET suppliers accredited by DOE and operating	2	4
New electrical mini-grid system established and operating	1	2
Participating ECs have achieved satisfactory financial performance as indicated by an actual debt service coverage ratio of at least one (1) time	70%	85%
CO ₂ tons avoided per year	6000 tons	20,000 tons