

1. ABOUT THE PROGRAM



The Republic of the Philippines (RoP) received a US\$ 12 MM grant from the Global Environment Facility (GEF) through the World Bank on May 5, 2004. RoP through the Department of Finance (DOF) and the Department of Energy (DOE) entered into an agreement with LGUGC for the latter to be the Guarantee Program Manager of the **Electric Cooperative-Partial Credit Guarantee (EC-PCG)** program. The program shall be available until June 30, 2011.

2. ABOUT LGUGC

LGU Guarantee Corporation (LGUGC) is a private financial guarantee institution owned by the Development Bank of the Philippines (DBP), Banker's Association of the Philippines (BAP) and the Asian Development Bank (ADB).

3. ABOUT THE EPIRA

RA 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA) provides that:

Section 2 (d)

- It is the National Government's policy to enhance the *inflow of private capital* to the power generation, transmission and distribution sectors; and

Section 37 (c)(1)

- The Department of Energy (DOE) is mandated to facilitate and encourage reforms in the structure and operations of distribution utilities for greater efficiency and lower costs,

4. ABOUT THE GRANT



PART A: PARTIAL CREDIT GUARANTEE PROGRAM

Implementation of a partial credit guarantee program through the establishment of a Guarantee Reserve Account available to LGUGC for the purpose of:

- Guaranteeing commercial loans to investors, including Investment Management Contractors (IMC) in selected electric cooperatives, for the financing of economic power distribution system upgrades; and
- Guaranteeing commercial loans to selected ECs for the financing of economic power distribution system upgrades.

PART B: CAPACITY BUILDING

- US\$ 1.123 Million grant to DOE for technical assistance, training, study tours and workshops to strengthen the capacity of ECs, NEA, ERC and DOE.
- US\$ 0.877 Million grant to LGUGC for carrying out workshops, market promotion and information dissemination to borrowers, investors and lenders.

5. ABOUT THE EC-PCG PROGRAM

PROGRAM OBJECTIVE

Assist the Republic of the Philippines in promoting energy efficiency improvements that will result to:

- The provision of reliable and least-cost power supply; and
- The reduction of carbon dioxide emissions and other pollutants, through commercial lending and private investment in Electric Cooperatives (ECs).

PROJECT ELIGIBILITY CRITERIA

- Upgrade of EC power distribution systems to realize energy and emission savings;
- At least 50% of the investment amount should result to direct measurable energy (kwh) savings;
- Technically and financially viable as evidenced by a feasibility study or business plan; and
- Compliant with applicable laws, regulations and the following environmental and social policy safeguards of the World Bank:

- ★ Environmental Policy Framework,
- ★ Policy Framework: Land Acquisition, Resettlement and Rehabilitation of Displaced Persons, and
- ★ Project Policy Framework on Indigenous Peoples.

Examples of acceptable projects

- Rehabilitation and capacity upgrades of existing supply system (including purchase of second-hand sub-transmission facility) to improve the reliability, efficiency and safety of supply system and the quality of service to customers
- Removal of supply system constraints
- Institutional development of ECs
- Purchase of necessary hardware, software, motor vehicles, tools and equipment to improve employee productivity and customer service efficiency

BORROWER ELIGIBILITY CRITERIA

Electric Cooperatives

- Creditworthy;
- Duly registered with the National Electrification Administration (NEA) or the Cooperative Development Authority and must have NEA clearance for mortgage sharing, if EC has existing NEA loan;
- Must have Energy Regulatory Commission (ERC) approved capital investment proposal;
- Must meet the 20% minimum equity requirement for the proposed project; and
- Must meet the minimum projected Debt Service Coverage Ratio of 1.0x based on the forecasted cash flow.

Non-ECs

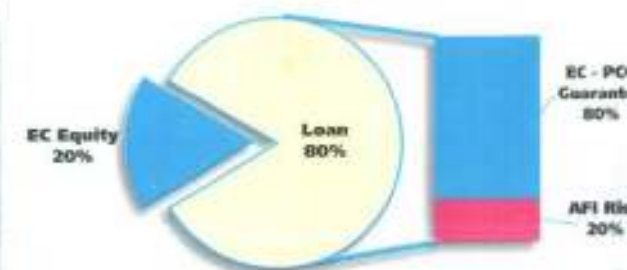
- Private firm and/or investor with viable Investment Management Contract (IME) for management of EC duly approved for implementation by the ERC and other regulatory bodies; and
- Creditworthy.

ACCEPTABLE COLLATERALS

- Assignment of Receivables
- Real Estate properties and/or Chattels
- Other assets acceptable to the lender and LGUGC

INDICATIVE CREDIT TERMS

- Minimum equity requirement - at least 20% of the investment amount of the proposed project.
- Maximum Loan Amount - PHP 300 Million
- Loan Interest Rate - Market Based
- Loan Term - Project Based



GUARANTEE COVERAGE

- Up to 80% of the loan principal amount and interest subject to cap.

GUARANTEE TERM

- Will match the approved term of the credit facility, but not to exceed ten (10) years.

GUARANTEE FEE

- Risk-based, exclusive of applicable taxes and collected one year in advance.

PROCESSING FEE

- One-time fee of at least 1.5% based on the guaranteed portion of the principal amount of the loan, exclusive of taxes and collected upfront.

GUARANTEE APPROVAL VALIDITY

- Approval is valid within one hundred twenty (120) calendar days.
- Payment of guarantee fee shall render the guarantee cover operative.