

# Public Information And Consultation On LGU Credit Financing

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# The Bureau of Local Government Finance

Attached agency of the DOF  
Supports the DOF in its mandate to “***supervise the revenue operations of all local government units***”



- Central Office in Manila, with 15 Regional Offices
- Mandated to “***develop and promote plans and programs for the improvement of resource management systems, collection enforcement mechanisms and credit utilization schemes at the local levels***”
- Issues **Certificate of Net Debt Service Ceiling (NDSC) and Borrowing Capacity (BC)** to LGUs

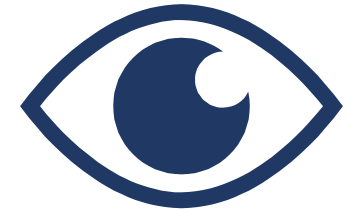
## Local Debt Policy

*Build capacity of local governments to borrow money to cover their expenditure responsibilities, devolved functions*

Prioritize financing capital infrastructure expenditure and tax flows and to *foster political accountability* out of these decisions

National Government has to manage LGU debts to:

- *Prevent a systemic LGU debt crisis* that could force the National Government to bail out heavily indebted LGUs;
- Strengthen the *implementation of the statutory limit on LGU debts*; and
- Promote *responsible and credible debt management* among LGUs.



# Legal Framework of Subnational Debts in the Philippines

## Sec. 296 of LGC, Art. 395 LGC IRR

***LGUs may create indebtedness and avail of credit facilities*** for local infra and socio-economic development projects with government or private banks and lending institutions

## Art. 403 LGC IRR

***DOF mandated to render technical assistance to any LGU*** in the availment of credit facilities, flotation of bonds, contracting of loans and issue guidelines for the purpose

## Sec. 324 of LGC

***Appropriations of 20% of the LGU's regular income for debt servicing***



## EO 127

***BLGF to develop and promote plans and programs*** for the improvement of resource management systems, collection enforcement mechanisms and ***credit utilization schemes at the local levels***



### Forms of Local Indebtedness

- Loans, Credits and Other Forms of Indebtedness
- Deferred Payment and Other Financial Schemes
- Bonds and Other Long-Term Securities
- Inter-Local Government Loans, Grants, and Other Subsidies
- Loans from funds secured by National Government from foreign sources

### LIMITED PURPOSES

- ✓ Construction, installation, improvement, expansion, operation, or maintenance of public facilities, infrastructure facilities, housing projects, acquisition of real property, and the implementation of other capital investment projects
- ✓ Establishment, development, or expansion of agricultural, industrial, commercial, house financing projects, livelihood projects, and other economic enterprises
- ✓ Acquire property, plant, machinery, equipment, and such necessary accessories
- ✓ Finance self-liquidating, income-producing development or livelihood projects

## Ex-ante control and regulations

- *LGU debt service ceiling and net borrowing capacity determined and certified by BLGF*
- *Monetary Board opinion on the monetary and balance of payments implications*
- *Local legislative authorization and inclusion in the annual investment plans and priorities are required*

### **DOF/BLGF Regulations**

- ✓ **Local Finance Circular (LFC) No. 1-2000:** issued to enhance the access of all LGUs to credits and other forms of indebtedness
- ✓ **LFC No. 01-2012:** Amended the previous LFC to ensure a more accurate and appropriate evaluation of the maximum borrowing and debt servicing capacities of all LGUs
- ✓ **LFC No. 01-2014:** Reduced requirements for 171 LGUs affected by Typhoon Yolanda, from 12 to 4 requirements, and extending the validity by 1 year
- ✓ **DOF Department Order No. 54.2016:** Streamlined requirements and process: 4 documents; Well-defined computational parameters; Improved certification process; Verification/ validation delegated to BLGF Regional Offices

## Ex-ante control and regulations

### *BSP Monetary Board Regulations*

- *LGU debt service ceiling and net borrowing capacity determined and certified by BLGF*
  - *Monetary Board opinion on the monetary and balance of payments implications*
  - *Local legislative authorization and inclusion in the annual investment plans and priorities are required*
- ✓ **Circular No. 402:** Revised Guidelines on the Flotation of Bonds by LGUs Without NG Guarantee in 2003
  - ✓ **Circular Letter No. CL-2008-050:** Reminder to all banks on prior MB Opinion under Sec. 123 of R.A. No. 7653;
  - ✓ **Circular No. 769:** 2012 Guidelines on Requests for MB Opinion of Proposed Domestic Borrowings by LGUs
  - ✓ **Circular No. 797:** Enforcement Actions on Banks in Relation to Sec. 123 of R.A. No. 7653 (2013)
  - ✓ **Circular No. 819:** 2013 Amendments to Circular No. 769
  - ✓ **Circular No. 926:** 2016 Guidelines in Processing Requests for MB Opinion

## Ex-ante control and regulations

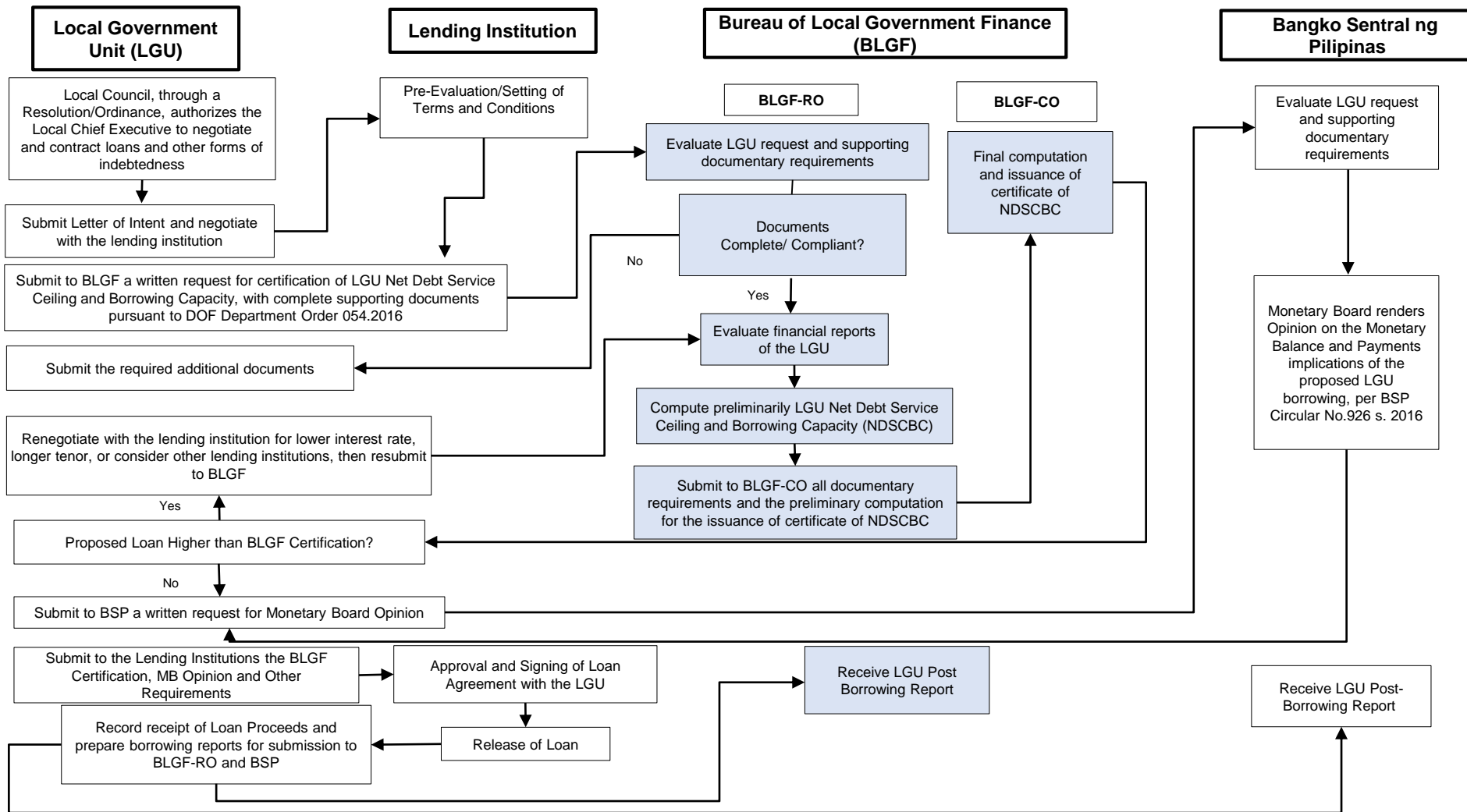
- *LGU debt service ceiling and net borrowing capacity determined and certified by BLGF*
- *Monetary Board opinion on the monetary and balance of payments implications*
- *Local legislative authorization and inclusion in the annual investment plans and priorities are required*

### **Requirements for LGUs**

#### **Bonds and loans require approval of the local legislative council**

- ✓ Local chief executive must be authorized by the local legislative council through a Resolution to negotiate, enter into, and sign contracts for and in behalf of the local government
- ✓ Proposed project to be financed by the loan is included in the Approved Annual Investment Plan (AIP) for the current year
- ✓ BSP requires the submission of a duly executed ordinance approving the proposed borrowing, its purpose, terms and conditions for the release of Loan Proceeds





# LGU Loan Application Process

# Bureau of Local Government Finance (BLGF)

## BLGF-RO

Evaluate LGU request and supporting documentary requirements

Documents  
Complete/ Compliant?

Yes

Evaluate financial reports of the LGU

Compute preliminarily LGU Net Debt Service Ceiling and Borrowing  
Capacity (NDSCBC)

Submit to BLGF-CO all documentary requirements and the preliminary  
computation for the issuance of certificate of NDSCBC

## BLGF-CO

Final computation and issuance of  
certificate of NDSCBC

## BLGF Certification Process

## LGU Borrowing Capacity



### Debt Service Ceiling (DSC)

- $20\% \times \text{Annual Regular Income (ARI)}$

*ARI is the average previous 3-year locally sourced income + other shares from national taxes based on COA data, + actual annual IRA based on DBM data*



### Net DSC (NDSC)

- DSC less All amortizations payable during the year



### Borrowing Capacity (BC)

- $\text{NDSC} \times \text{Annuity Factor}$



**Local Fiscal  
Policy Service**

*Local Debt Monitoring  
and Evaluation Division*

## Documentary Requirements



**Letter Request from the Local Chief Executive** indicating the specific

- ✓ Lending institution (LI);
- ✓ Terms and condition of proposed loan; and
- ✓ The purpose/s of the loan.



**Certification of existing of loan/s duly certified by the Local Treasurer** indicating

- ✓ Types and purpose of loans & other obligations contracted;
- ✓ Name of the LI;
- ✓ Date of approval & maturity;
- ✓ Terms & conditions
- ✓ Remaining balances of loans and other obligations; and
- ✓ Annual amortization schedules from the LI



**Commission on Audit (COA) Annual Audit Certificate for the most recent year** showing no adverse finding against the LGU, and supported by the year-end financial reports

- ✓ Pre-closing trial balance;
- ✓ Detailed Statement of Financial Performance



**Certification issued by the LI** stating that it shall not require LGU deposits as compensating balance for the loan (for non-authorized government depository banks)

## Documentary Requirements



**Letter Request from the Local Chief Executive** indicating the specific

- ✓ Lending institution
- ✓ Specific loan purpose
- ✓ Specified interest rate
- ✓ Amount of loan
- ✓ Tenor and grace period
- ✓ Contact details of authorized representative
- ✓ Mode of receipt

Should be supported by the **Offer Sheet from the Lending Institution** indicating the specific

- ✓ Specific loan purpose
- ✓ Specified interest rate
- ✓ Amount of loan
- ✓ Tenor and grace period
- ✓ Fees and other charges
- ✓ Security requirements

*The loan purpose, amount of loan, and interest rate, among others, should be the same in the Letter Request and Offer Sheet.*

## Documentary Requirements

2



### **Certification of existing of loan/s duly certified by the Local Treasurer** indicating

- ✓ Types and purpose of loans & other obligations contracted;
- ✓ Name of the LI;
- ✓ Date of approval & maturity;
- ✓ Terms & conditions
- ✓ Remaining balances of loans and other obligations; and
- ✓ Annual amortization schedules from the LI

The **Amortization Schedule** from the Lending Institution should include

- ✓ Name of project
- ✓ Amount of loan
- ✓ Term and interest rate
- ✓ Mode of payment
- ✓ Periodicals
- ✓ Outstanding Balance
  - Principal
  - Interest
  - Total Amount Due

*Applying LGUs without existing loan still need to submit Certification by the Local Treasurer.*

## Documentary Requirements

3



**Commission on Audit (COA) Annual Audit Certificate for the most recent year** showing no adverse finding against the LGU, and supported by the year-end financial reports

- ✓ Pre-closing trial balance;
- ✓ Detailed Statement of Financial Performance

*For LGUs with adverse findings on its latest COA Annual Audit Report, an **Agency Action and Status of Implementation (AAPSI)** duly received by COA shall be required. The status of recommendations in the AAPSI may be validated by the BLGF, if necessary.*

**Adverse findings** refer to observations of COA on local financial management and matters specifically concerning the Local Treasurer, such as but not limited to:

- Unremitted and undeposited collection;
- Unliquidated cash advances;
- Unremitted mandatory contributions of GSIS, PAGIBIG, Philhealth, withholding tax to BIR; and
- Unreconciled cash book with the Bank Reconciliation Statement and Subsidiary Ledger.

## Documentary Requirements



**Certification issued by the LI** stating that it shall not require LGU deposits as compensating balance for the loan (for non-authorized government depository banks)

### Latest DOF Policy on Depository Banks

Department Circular No. 01.2017 dated 11 May 2017

#### *Amended Guidelines on Authorized Government Depository Banks (AGDBs)*

- AGDBs per Sec. 5.2: ***LBP, DBP, PPSB, AI Amanah Islamic Investment Bank of the Philippines, UCPB and PVB.***





In case the LGU has been declared under the **state of calamity** either by the national or local authorities shall, for a period of one (1) year from the declaration of state of calamity, be required only to submit the Letter of the Chief Executive and Certification of Existing Loans of the Treasurer, together with certified copy of the declaration.

DEPARTMENT OF FINANCE | BUREAU OF LOCAL GOVERNMENT FINANCE

CERTIFICATE NO. R1-2017-03-085

## CERTIFICATION

In accordance with existing rules and regulations, and based on the financial statements submitted and representations made, the **NET DEBT SERVICE CEILING (NDSC)** and the **BORROWING CAPACITY (BC)** for **FISCAL YEAR 2017** of the are hereby **CERTIFIED**, as follows:

NDSC	Twenty Three Million Eight Hundred Ninety Two Thousand Pesos	Php23.892M
BC	One Hundred Eighty Nine Million Fifty Seven Thousand Pesos	Php189.057M

## Details of Loan Application

Lending Institution	Land Bank of the Philippines
Repayment Period	Ten (10) years
Grace Period	-
Interest Rate	4.5% per annum
Loan Purpose	Purchase of the following brand new heavy equipment: 1. Two (2) units Dump Truck; 2. One (1) unit Wheel Loader 2.0 m <sup>3</sup> ; 3. One (1) unit Truck Self-loading Flatbed Body; and 4. One (1) unit Excavator.

This Certificate shall be effective up to one (1) year after issuance, unless otherwise revoked sooner due to change of terms and conditions, change of financing institutions, additional projects and other circumstances that may affect the content or integrity of the details provided herein.

The Municipality shall obtain all applicable approvals and authorizations, including the Sanggunian Resolution expressly authorizing the Municipal Mayor to negotiate and enter into contract for purposes of securing the loan, and the duly approved Annual Investment Plan for the current year covering the projects to be funded by the loan.

Issued this 21<sup>st</sup> day of March 2017, City of Manila.

*Nino Raymond B. Alvina*  
NINO RAYMOND B. ALVINA  
OIC Executive Director

## Remarks:

1. Computed per Section 324b of the Local Government Code and DOF Department Order No. 054-2016.
2. Upon verification with the concerned lending institution/Sanggunian Resolution of the LGU.
3. This Certification shall not to be construed as an approval by this Office of the LGU project/s and its loan application with any financing institution.
4. This Certification is not to be construed as an approval for the LGU to open and maintain an account other than the authorized government depository banks, which is covered by Department Circular No. 01-2015, as amended. In which case, the LGU needs to seek another certification/clearance from DOF for an authority to open an account with the concerned financing institution.
5. This Certification is free of charge. This Bureau has not authorized anyone, directly or indirectly, to collect or receive any amount or consideration for the purpose of this certification or related activities.

- NOT VALID WITHOUT CERTIFICATE NUMBER OR IF THERE ARE ALTERATIONS -

ORIGINAL FOR THE BANGKO SENTRAL NG PILIPINAS

## NET DEBT SERVICE CEILING AND BORROWING CAPACITY

FY 2017

Dingras, Ilocos Norte (2nd Class)

(in Thousand Pesos)

Average Locally Sourced Income (LSI)	Other Share from National Tax Coll.	IRA	Annual Regular Income (ARI)	Maximum Debt Service Capacity	Annual Amortization of Existing Loan (Principal + Interest)	Net Debt Service Ceiling	Borrowing Capacity
(2)	(3)	(4)	(2+3+4)	(5 x 20%)	(7)	(6-7)	(8 x 7.913)
18,549	22,258	95,824	136,731	27,346	3,454	23,892	189,057

Maximum Debt Service Capacity is computed in accordance with Sec. 324b of the LGC, which is 20% of the Annual Regular Income (ARI).

Annual Regular Income for FY 2017 is determined based on the Average Locally Sourced Income and Other Share from National Tax Collection for the past 3 years plus FY 2017 Final IRA DGM estimate.

With Existing Loan from BSP & MDFO based on the certification issued by the Municipal Treasurer, Ms. MELCHORA A. MARANAN

Borrowing Capacity is computed based on the annuity factor of 7.913 (10yr @ 4.5%).

Prepared by:

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Loan Examiner IV

Reviewed and Certified Correct by:

*Erwin Grace P. Morales*  
ERWINA GRACE P. MORALES  
OIC Chief, LDMED

Noted by:

*Ma. Pamela P. Duizon*  
MA. PAMELA P. DUIZON  
OIC Director, LFPS

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ORIGINAL FOR THE BANGKO SENTRAL NG PILIPINAS

# Features of BLGF Certification

- 3 Parts: *Letter to the Local Chief Executive, Certificate, and Directives to the Local Treasurer*
- Controlled; original issued each for LGU, Lending Institution, and BSP
- Compliant with BSP Circular No. 926
- Free of charge

## Latest MC on Issuance of NDSCBC: ACTION ON EXPIRED CERTIFICATES

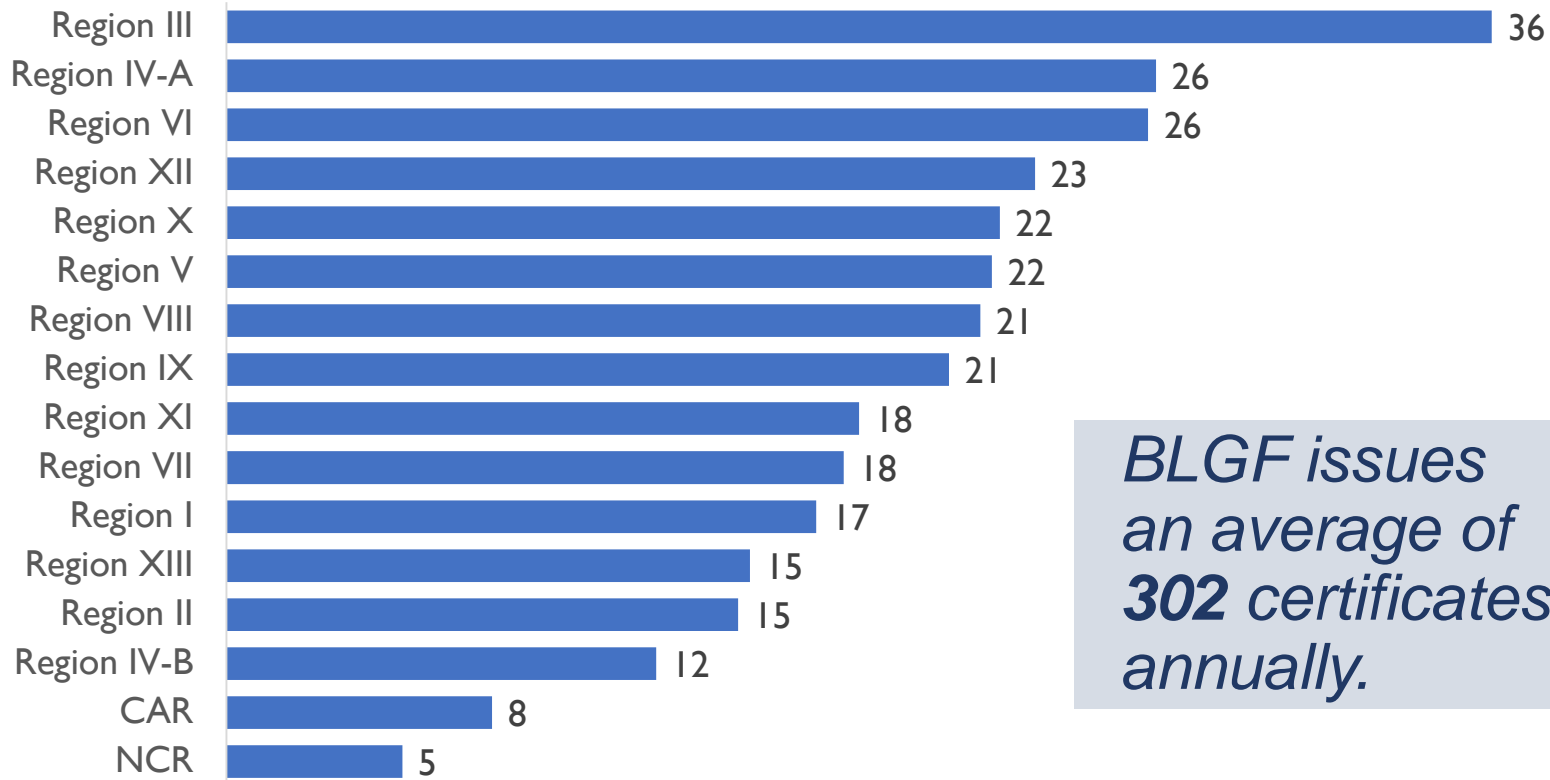
BLGF MC NO. 018.2018

All requests for issuance of updated CNDSC/BC shall be filed by the concerned LGU directly to the BLGF Central Office **if such request does not constitute change/s in the:**

- i) Lending Institution;
- ii) Loan Purpose;
- iii) Terms and Conditions; or
- iv) Projects Cost.

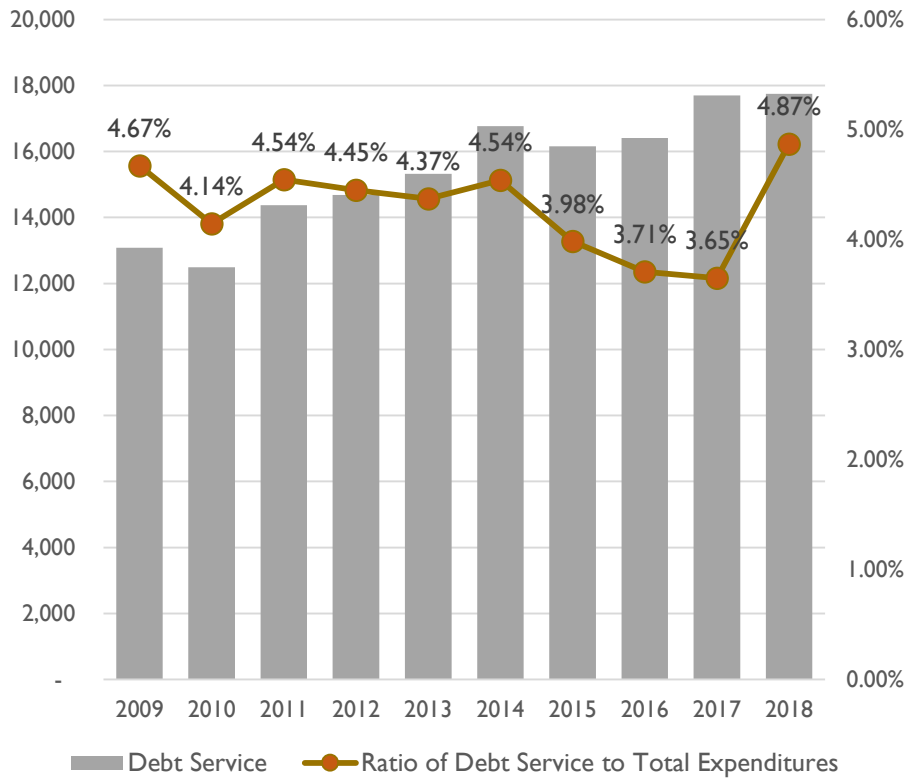


## Average Issued Certificates per year

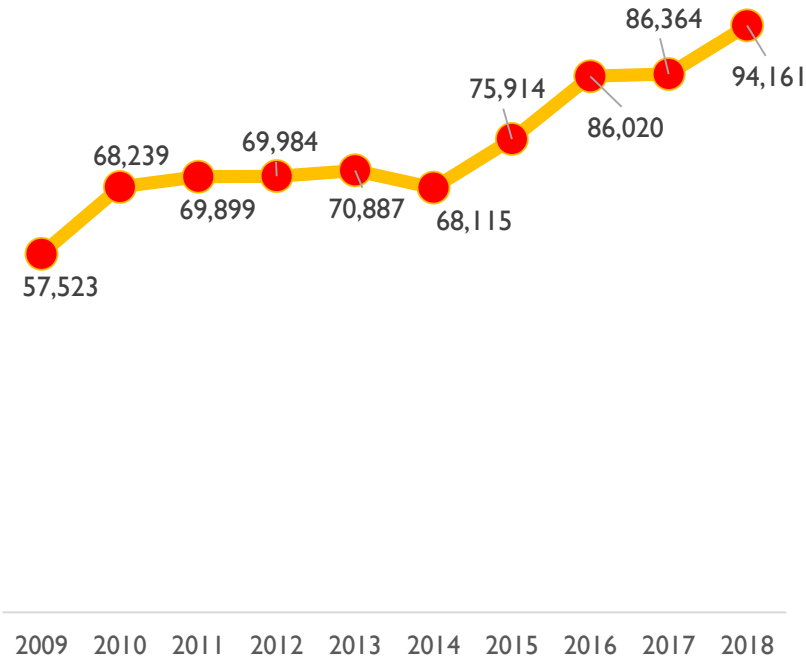


*BLGF issues  
an average of  
**302** certificates  
annually.*

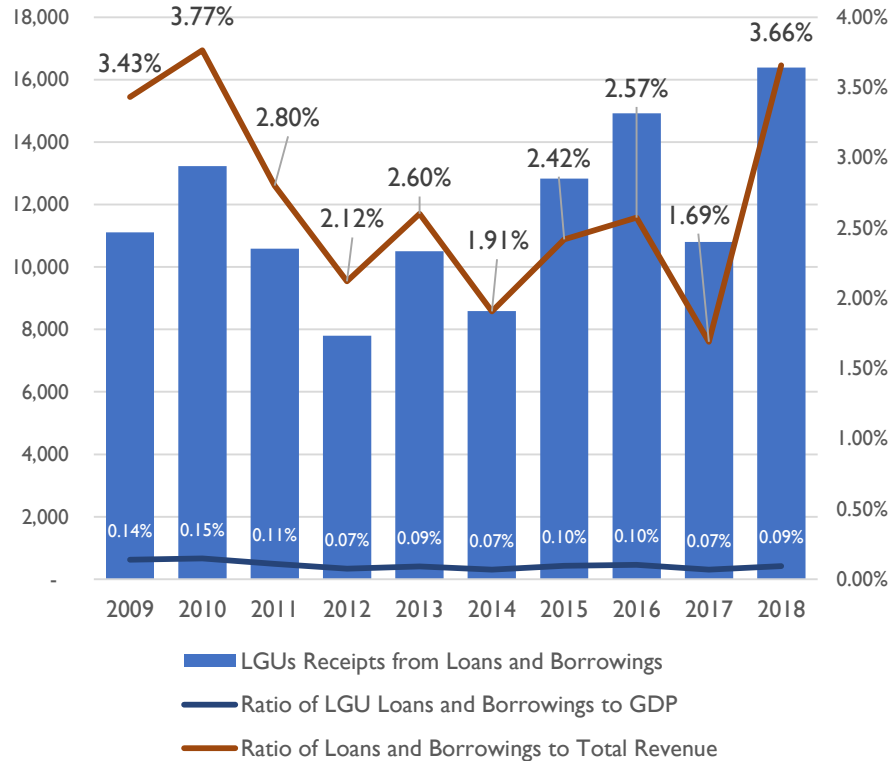
## Annual Debt Servicing < 20% Statutory Limit



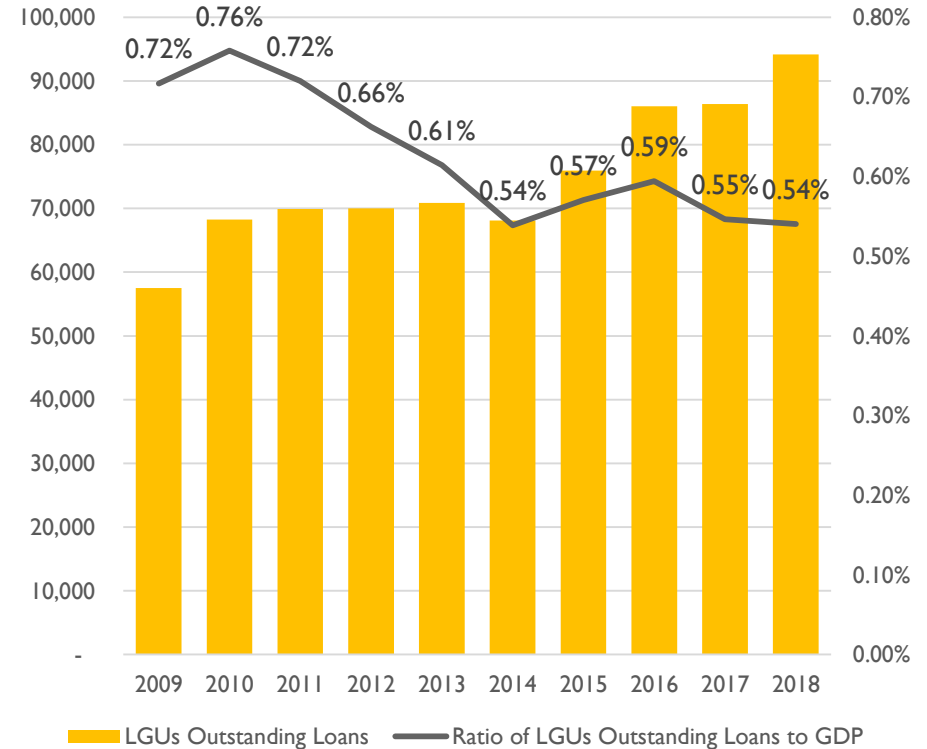
## LGU Outstanding Loans



## LGU Loans and Borrowings to GDP and Total Revenues



## LGUs Outstanding Loans to GDP



Potential Projects Through Credit



## 2018 LGU Loan Statistics

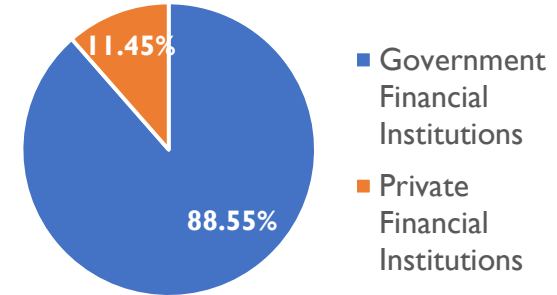
LOANS

Financial Institution	Outstanding Balances (Php B)
<b>Government Financial Institutions:</b>	
Land Bank of the Philippines	48.20
Development Bank of the Philippines	26.45
Municipal Development Fund Office	8.41
Overseas Filipino Bank	0.32
<b>Sub-total</b>	<b>83.38</b>
<b>Private Financial Institutions:</b>	
Philippine National Bank	6.98
Philippine Veterans Bank	2.85
Allied Bank*	0.02
Bank of the Philippine Islands*	0.02
EastWest Bank*	0.57
<b>Sub-total</b>	<b>10.43</b>
<b>Grand Total</b>	<b>93.81</b>

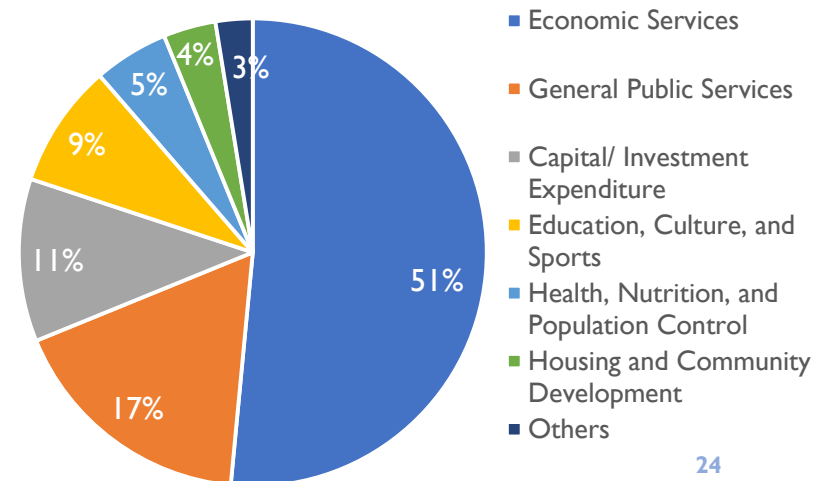
BONDS

Financial Institution	Outstanding Balances (Php B)
Philippine Veterans Bank	0.31
Local Government Unit Guarantee Corporation	0.04
<b>Grand Total</b>	<b>0.35</b>

### Profile of Lending Institutions



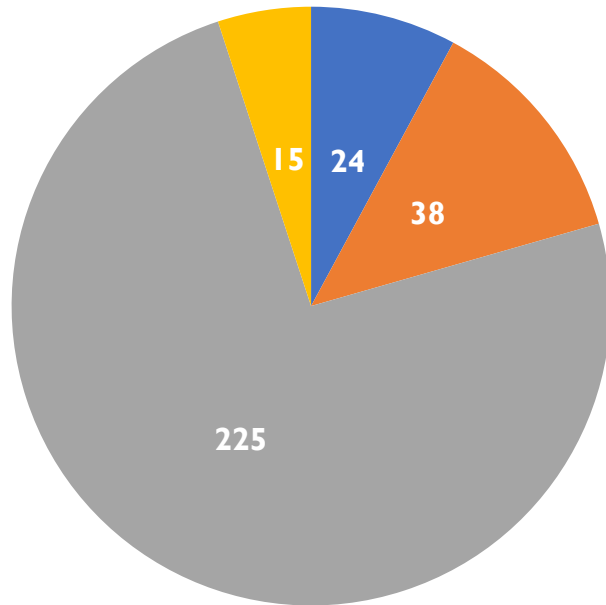
### Profile of Loan Purpose





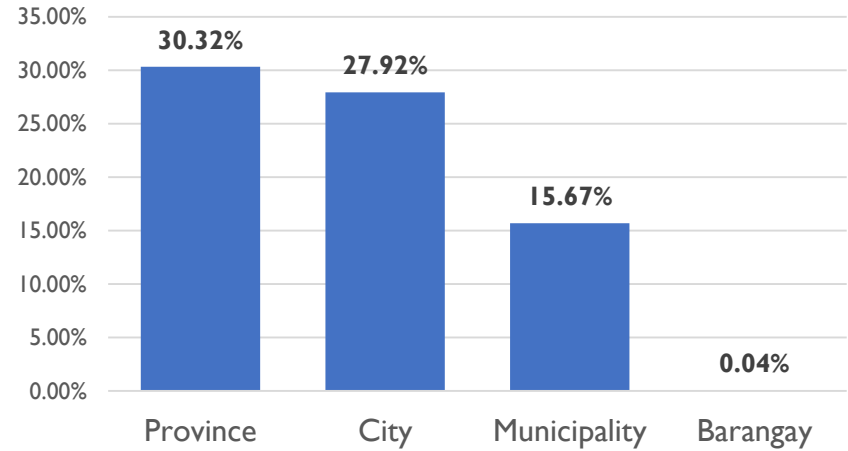
## 2019 Statistics

Issued Certificates  
yearly average

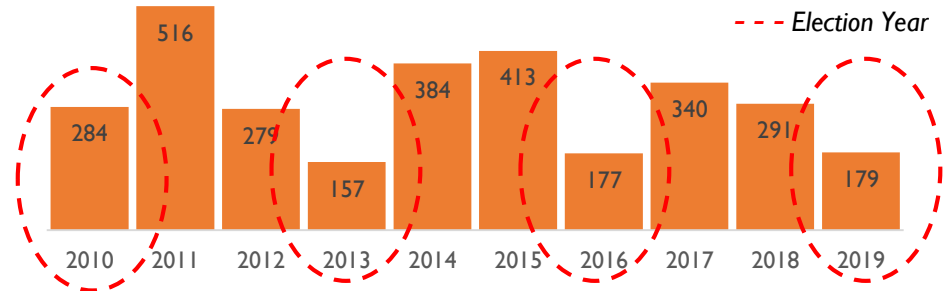


- Province
- City
- Municipality
- Barangay

LGU's Issued w/ Certificates to Total  
yearly average



BLGF Issued Certificates



**Credit financing has a vital role in local development when used responsibly and strategically.**

*It must also always be viewed in the context of **building local revenue autonomy and improving the quality of public service delivery.***

*Maraming Salamat!*



# THANKS!

## ANY QUESTIONS?

You can find us at:

[ldmed@blgf.gov.ph](mailto:ldmed@blgf.gov.ph)

(02) 522 87 70