Public Information And Consultation On LGU Credit Financing
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 availing 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

- 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

**BSP Monetary Board Regulations**

- **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
Local Government Unit (LGU)

- Local Council, through a Resolution/Ordinance, authorizes the Local Chief Executive to negotiate and contract loans and other forms of indebtedness
- Submit Letter of Intent and negotiate with the lending institution
- Submit to BLGF a written request for certification of LGU Net Debt Service Ceiling and Borrowing Capacity, with complete supporting documents pursuant to DOF Department Order 054:2016

Lending Institution

- Pre-Evaluation/Setting of Terms and Conditions
- Submit the required additional documents
- Renegotiate with the lending institution for lower interest rate, longer tenor, or consider other lending institutions, then resubmit to BLGF
- Proposed Loan Higher than BLGF Certification?
  - Yes
  - Submit to BLGF a written request for Monetary Board Opinion
  - No
  - Submit to BLGF-RO

Bureau of Local Government Finance (BLGF)

- Evaluate LGU request and supporting documentary requirements
- Final computation and issuance of certificate of NDSCBC
- 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
- Proposed Loan Higher than BLGF Certification?
  - No
  - Submit to BSP a written request for Monetary Board Opinion

Bangko Sentral ng Pilipinas

- Evaluate LGU request and supporting documentary requirements
- Monetary Board renders Opinion on the Monetary Balance and Payments implications of the proposed LGU borrowing, per BSP Circular No.926 s. 2016

LGU Loan Application Process
Evaluate LGU request and supporting documentary requirements

Documents Complete/Compliant?

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

Final computation and issuance of certificate of NDSCBC
LGU Borrowing Capacity

1. Debt Service Ceiling (DSC)
   - 20% x 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*

2. Net DSC (NDSC)
   - DSC less All amortizations payable during the year

3. Borrowing Capacity (BC)
   - NDSC x Annuity Factor

Local Fiscal Policy Service
Local Debt Monitoring and Evaluation Division
**Documentary Requirements**

1. **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.

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

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

4. **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

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

**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

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

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

### Average Issued Certificates per year

<table>
<thead>
<tr>
<th>Region</th>
<th>Certificates per year</th>
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</thead>
<tbody>
<tr>
<td>Region III</td>
<td>36</td>
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<tr>
<td>Region IV-A</td>
<td>26</td>
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<td>Region VI</td>
<td>26</td>
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<td>Region XII</td>
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<td>Region X</td>
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<td>Region I</td>
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<td>Region II</td>
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<td>Region IV-B</td>
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<td>NCR</td>
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Annual Debt Servicing < 20% Statutory Limit

LGU Outstanding Loans

Local Debt Profile and Trends
Local Debt Profile and Trends

LGU Loans and Borrowings to GDP and Total Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>LGU Loans to GDP</th>
<th>LGUs Outstanding Loans to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.14%</td>
<td>3.43%</td>
</tr>
<tr>
<td>2010</td>
<td>0.15%</td>
<td>2.80%</td>
</tr>
<tr>
<td>2011</td>
<td>0.11%</td>
<td>2.12%</td>
</tr>
<tr>
<td>2012</td>
<td>0.07%</td>
<td>1.91%</td>
</tr>
<tr>
<td>2013</td>
<td>0.07%</td>
<td>2.42%</td>
</tr>
<tr>
<td>2014</td>
<td>0.10%</td>
<td>1.69%</td>
</tr>
<tr>
<td>2015</td>
<td>0.10%</td>
<td>2.57%</td>
</tr>
<tr>
<td>2016</td>
<td>0.07%</td>
<td>0.09%</td>
</tr>
<tr>
<td>2017</td>
<td>0.07%</td>
<td>0.10%</td>
</tr>
<tr>
<td>2018</td>
<td>0.09%</td>
<td>3.66%</td>
</tr>
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</table>

LGUs Outstanding Loans to GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>LGUs Outstanding Loans to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.72%</td>
</tr>
<tr>
<td>2010</td>
<td>0.76%</td>
</tr>
<tr>
<td>2011</td>
<td>0.72%</td>
</tr>
<tr>
<td>2012</td>
<td>0.66%</td>
</tr>
<tr>
<td>2013</td>
<td>0.61%</td>
</tr>
<tr>
<td>2014</td>
<td>0.54%</td>
</tr>
<tr>
<td>2015</td>
<td>0.57%</td>
</tr>
<tr>
<td>2016</td>
<td>0.59%</td>
</tr>
<tr>
<td>2017</td>
<td>0.55%</td>
</tr>
<tr>
<td>2018</td>
<td>0.54%</td>
</tr>
</tbody>
</table>

Notes:
- The chart on the left shows the LGUs Receipts from Loans and Borrowings, the Ratio of LGU Loans and Borrowings to GDP, and the Ratio of Loans and Borrowings to Total Revenue.
- The chart on the right illustrates LGUs Outstanding Loans to GDP and the Ratio of LGUs Outstanding Loans to GDP.
Potential Projects Through Credit

Local Debt Profile and Trends
2018 LGU Loan Statistics

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

Profile of Lending Institutions
- Government Financial Institutions: 11.45%
- Private Financial Institutions: 88.55%

Profile of Loan Purpose
- Economic Services: 51%
- General Public Services: 17%
- Capital/Investment Expenditure: 9%
- Education, Culture, and Sports: 11%
- Health, Nutrition, and Population Control: 4%
- Housing and Community Development: 3%
- Others: 5%
### 2019 Statistics

**Issued Certificates**

- **Yearly average**
  - Province: 15
  - City: 24
  - Municipality: 38
  - Barangay: 225

### Local Debt Profile and Trends

#### LGUs Issued w/ Certificates to Total

- **Proportion of Certified LGUs by Level**
  - Province: 30.32%
  - City: 27.92%
  - Municipality: 15.67%
  - Barangay: 0.04%

#### BLGF Issued Certificates

- **Yearly Distribution**
  - 2010: 284
  - 2011: 516
  - 2012: 279
  - 2013: 157
  - 2014: 384
  - 2015: 413
  - 2016: 177
  - 2017: 340
  - 2018: 291
  - 2019: 179

- **Election Year**
  - Indicated by dashed red lines and circles.
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.
THANKS!

ANY QUESTIONS?

You can find us at:

ldmed@blgf.gov.ph
(02) 522 87 70