



Republic of the Philippines
DEPARTMENT OF FINANCE

Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

DEPARTMENT ORDER NO. 054.2016
25 October 2016

**SUBJECT: STREAMLINING THE CERTIFICATION OF NET DEBT SERVICE CEILING
AND BORROWING CAPACITY OF LOCAL GOVERNMENT UNITS**

WHEREAS, Section 295 to Section 303 of the Local Government Code (LGC) of 1991 authorize local government units (LGUs) to create indebtedness and enter into credit and other financial transactions to finance local infrastructure and other socio-economic development projects, in accordance with an approved local development plan and public investment program;

WHEREAS, Section 324(b) limits the amount of appropriations for debt servicing, which shall not exceed twenty (20%) percent of the regular income of the LGU concerned;

WHEREAS, Article 403 of the Implementing Rules and Regulations (IRR) of the Local Government Code (LGC) of 1991 authorizes the Department of Finance (DOF) to render technical assistance to any local government unit (LGU) in the availment of credit facilities, flotation of bonds, contracting of loans, and to issue such guidelines as may be necessary for the purpose;

WHEREAS, Section 43 (c) of Executive Order No. 127 mandates the Bureau of Local Government Finance (BLGF) to develop and promote plans and programs for the improvement of credit utilization schemes, among others, at the local levels;

WHEREAS, Circular Letter, Series of 2002, dated 28 May 2002, issued by the Bangko Sentral ng Pilipinas (BSP) requires all banks and non-banks with quasi-banking functions to require each borrowing LGU to present its debt service and borrowing capacity, duly certified by the BLGF to ensure the effective implementation of the debt service limit on local government borrowings;

WHEREAS, Local Finance Circular (LFC) No. 1-2012, issued on 16 April 2012, aimed to ensure a more accurate and proper evaluation by the BLGF of the maximum borrowing and debt servicing capacities of LGUs by reviewing the supporting documents to be submitted by the requesting LGUs;

WHEREAS, LFC No. 01-2014, issued on 22 April 2014, reduced the documentary requirements and extended the validity of certification to provide easier access to credit financing for LGUs affected by the Typhoon Yolanda;

WHEREAS, Department Order No. 08-2011, dated 11 February 2011, mandates the Statement of Receipts and Expenditures (SRE) as the official financial management reporting system to monitor the LGUs' fiscal and financial performance;

WHEREAS, Circular No. 926, Series of 2016, dated 13 September 2016, issued by the BSP requires valid and latest BLGF certification on the borrowing and debt service capacity of the LGU requesting for Monetary Board Opinion on the monetary and balance of payment implication of the proposed domestic borrowing by LGUs pursuant to Section 123 of Republic Act No. 7653;

WHEREAS, there is a need to prescribe streamlined guidelines and requirements for the issuance of Certificate of Net Debt Service Ceiling (NDSC) and Borrowing Capacity (BC) in order to facilitate and expedite the processing of LGU loan applications to support capital investments and priority development projects;

NOW, THEREFORE, the following guidelines are hereby issued:

Section 1. Coverage. This Order prescribes the updated and streamlined guidelines governing the issuance of Certificate of NDSC and BC ("Certificate") to all LGUs as to the (i) documentary requirements; (ii) computational parameters; and (iii) reportorial requirements for loans involving local and foreign-assisted projects.

Section 2. Issuance of the Certificate. The BLGF shall be responsible in the validation on the accuracy and completeness of the documentary requirements, computation of the NDSC and BC, and issuance of the Certificate. The certification shall reiterate full compliance of the concerned LGU with the requirements of the Local Government Code of 1991 and other existing government rules and regulations to obtain applicable approvals and authorizations.

Section 3. Documentary Requirements for the Issuance of Certificate. The following shall be submitted to the BLGF by the LGU requesting for the issuance of the Certificate:

- 3.1 Letter-request from the Local Chief Executive (Governor/Mayor/Punong Barangay) indicating (i) the selected lending institution; (ii) terms and conditions of the proposed loan (repayment period and interest rate); and (iii) the specific purpose of the loan;
- 3.2 Certification by the Local Treasurer of presence or absence of loan/s, duly certified with the following details: (i) types of loan/s and other obligations contracted; (ii) purpose of loan/s and other obligations contracted; (iii) name of the lending institution/s (iv) date of approval and maturity of loan/s; (v) terms and conditions (interest rate and number of years to pay); (vi) remaining balances of loan/s and other obligation/s; and (vii) annual amortization schedules (segregating the principal from the interest) issued by the lending institution/s;



- 3.3 Commission on Audit (COA) Annual Audit Certificate for the most recent year, which shall be supported by the year-end financial reports for the past three (3) years: (i) Pre-closing Trial Balance (General Fund); and (ii) Detailed Statement of Financial Performance. An Agency Action Plan and Status of Implementation (AAPSI) report on COA recommendations shall be required if the LGU has adverse findings; and
- 3.4 Certification issued by the lending institution stating that it shall not require LGU deposits as compensating balance for the loan, if such lending institution is not (1) not an authorized government depository bank or (2) an authorized government bank required to obtain the prior approval of the DOF, as provided under the DOF Department Circular No. 002.2016 dated 8 July 2016.

Section 4. Documentary Requirements for LGUs Affected by Natural and/or Man-Made Disasters. Local governments that cannot in any way provide the full documentary requirements stated in Section 3 hereof due to natural and/or man-made calamities, and have been declared under state of calamity either by 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 documents required in Sections 3.1 and 3.2 hereof, together with certified copy of such declaration.

Section 5. Computation of the Net Debt Service Ceiling (NDSC) and Borrowing Capacity (BC). For purposes of determining the NDSC and BC of LGUs, the BLGF shall be guided by the following:

- 5.1 **Basis of Computation.** The audited financial statements submitted by the LGU to the Commission on Audit (COA) shall be used as the basis for the computation of the NDSC and BC. The approved SRE reports submitted by the local treasurers to the BLGF through the electronic SRE system may be used as basis for further analysis and computation.
- 5.2 **Computation of the Net Debt Service Ceiling.** The NDSC is defined as DSC less all amortizations for principal and interest, sinking fund, among others, that are payable during the year. The DSC is derived from the parameters set by Section 324(b) of the LGC on the maximum amount that an LGU can appropriate in the annual budget for the payment of statutory and contractual obligations, which shall not exceed twenty (20%) percent of the annual regular income (ARI) of the LGU concerned. In computing the ARI, it shall be derived from the average of immediately previous three (3) years of locally sourced income and other shares from national taxes, as may be authorized by law, plus the current year internal revenue allotment (IRA), as computed by the Department of Budget and Management (DBM), at the time the application was received by the BLGF. For LGUs affected by disaster and declared under state of calamity, either by national or local authorities, the BLGF shall not apply averaging, but rather refer to the financial data of the immediately preceding fiscal year, and use the current year IRA, as computed by the DBM, at the time the application was received by the BLGF.

7

$$DSC = 20\% \times ARI$$

$NDSC = DSC$ – All amortizations payable during the year for principal and interest, sinking fund, among others

- 5.3 **Computation of the Borrowing Capacity.** The BC is defined as the maximum loanable amount for a given period of time and interest rate or annuity factor based on the LGU's ARI.

$$BC = NDSC \times \text{Annuity Factor}$$

Section 6. Effectivity and Applicability of the Certificate Issued. The 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 Certificate. For disaster-stricken LGUs, the Certificate issued shall be effective up to two (2) years after issuance, unless otherwise revoked sooner due to reasons mentioned in this section. For refinancing or restructuring of existing loan/s, either to extend the duration or increase the principal, a new certification shall be secured from the BLGF.

Section 7. Reportorial Requirements. For timely and accurate monitoring of LGU loans and borrowings, the Local Treasurer shall submit a Statement of Indebtedness, Payments and Balances (SIPB) setting out the details of each loan as specified, within ten (10) days after approval of the loan and thereafter update and submit said statement on an annual basis.

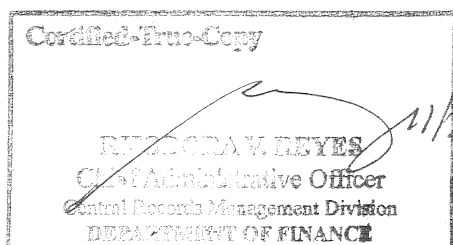
Section 8. Sanctions. Any violation of this Order shall be a ground for the imposition of sanctions in accordance with the Revised Rules on Administrative Cases in Civil Service (RRACCS), without prejudice to criminal and/or administrative liability in accordance with existing laws, rules and regulations.

Section 9. Repealing Clause. All Department issuances which are contrary to or inconsistent with the provisions of this Order are hereby repealed or modified accordingly.

Section 10. Effectivity. This Order shall take effect immediately upon publication in a newspaper of general circulation.


CARLOS G. DOMINGUEZ
Secretary

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Streamlining the Certification of Net Debt Service Ceiling
and Borrowing Capacity of Local Government Units