



Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Vito Cruz Street
Manila 1004

Department Circular No. 2-99
September 07, 1999



TO : Treasurer of the Philippines; Heads of Government-Owned and/or Controlled Corporations, Chiefs of Financial and Management Services, Budget Officers, Chief Accountants/Heads of Accounting Units, Property Officers/Custodians and COA Unit Auditors of the National Treasury and the Government-Owned and/or Controlled Corporations and All Others Concerned.

SUBJECT : IMPLEMENTING RULES AND REGULATIONS TO ADMINISTRATIVE ORDER NO. 10 ENTITLED "STRENGTHENING AND ENHANCING THE PROCEDURES FOR SETTING THE ANNUAL NET LENDING PROGRAM FOR GOVERNMENT OWNED AND/OR CONTROLLED CORPORATIONS (GOCCs), AND GUIDELINES FOR THE CONVERSION OF NATIONAL GOVERNMENT ADVANCES, INCLUDING INTEREST ON NATIONAL GOVERNMENT ADVANCES INTO EQUITY AND/OR SUBSIDY TO GOCCs"

Section 1. Purpose

To prescribe the guidelines, criteria, grounds and procedures which shall govern: (a) the setting of annual net lending program for GOCCs; (b) obtaining/granting actual NG advances; and (c) endorsement for conversion into equity and/or subsidy of National Government (NG) advances on interest payments and principal repayments on loans of GOCCs, and/or interest charges on net advances made by the Bureau of Treasury (BTr) on the servicing of loans of GOCCs.

Section 2. Coverage

This Circular shall cover all loan obligations directly contracted by GOCCs and government financial institutions, both foreign and domestic whether long-term or short-term, for which the Republic of the Philippines guarantee has been issued, including obligations of GOCCs for which a Performance Undertaking has been issued by the NG; and loans contracted by the National Government and relented to GOCCs whether or not covered by subsidiary relending agreements.

Section 3. Procedures

For setting of annual net lending program, obtaining/granting NG advances and endorsement of conversion into equity and/or subsidy of NG advances including interest on NG Advances.



3.1. Form of request

- a. All requests for annual programming of NG advances, actual NG advances or proposals for the conversion of outstanding NG advances and/or interest on outstanding NG advances shall be signed by the Chief Executive Officer of the requesting GOCC and addressed to the Secretary of Finance, copy furnished the Treasurer of the Philippines.
- b. The request shall clearly indicate the amount of: i) NG advances for annual programming; ii) maturing loan for NG advances; or iii) outstanding NG advances and/or interest on outstanding NG advances which is proposed to be converted into equity and/or subsidy as the case may be.

3.2. Justification and Supporting Documents

The GOCC shall justify the request by submitting the following documents:

- a. For annual programming of net lending:
 - (i) Board of Directors' approval of the request and management plan for the repayment of the requested advance/s;
 - (ii) Corporate/project financial projections covering the life of the loan, consisting of pro-forma income statement, balance sheet and cash flows together with the set of assumptions used;
 - (iii) Schedule of debt servicing of the subject loan and other information on the terms and use of the loan;
 - (iv) Corporate financial performance during the last three (3) years including audited financial statements, annual reports and conventional cashflow statements; and
 - (v) Other documents as may be required by the Department of Finance (DOF).
- b. For actual advances:
 - (i) Purpose, date, terms and outstanding balance of the maturing loan;
 - (ii) Income statement, balance sheet and conventional cash flow for the prior year;
 - (iii) Actual quarterly income statement and balance sheet, and

monthly conventional cash flows for the period prior to the debt servicing period being requested; and projected quarterly income statement and balance sheet, and monthly conventional cash flow(s) for the remaining months of the year;

(iv) Updated actual cash flow and Cash and Investment Balance Report as may be required within the period of processing/evaluation;

(v) Income statement, balance sheet and conventional cash flow for the succeeding year;

(vi) Board of Directors' approval of the request for NG advances beyond the GOCC's net lending program and management plan for the repayment of the requested advance/s; and

(vii) Other documents as may be required by the DOF such as but not limited to Medium Term Projections and Capital Expenditure related information.

c. For conversion into equity or subsidy of outstanding NG advances and interest thereon:

(i) COA Audited balance sheet, income statement and conventional cash flow for two (2) consecutive years prior to the year when the proposal is made;

(ii) Projected income statement, balance sheet and conventional cash flow covering five-year period starting from the year when the proposal is made;

(iii) Certification by the GOCC Board that loans advanced by NG which are being requested for conversion were used for undertakings/projects which are not purely recoverable or which by its nature require NG support ;

(iv) Breakdown of NG advances for conversion as to principal, interest and/or interest on NG advances as reconciled with the BTr indicating the name of creditor, purpose of the loan and date contracted. In case of unreconciled balances, breakdown should indicate BTr and GOCC figures;

(v) Other documents as may be required by the DOF but not limited to medium term projection and capital expenditure related information.

No request shall be acted upon unless the GOCC submits complete documentations of the above requirements.

3.3. Period of submission

- a. All requests for programming of net lending assistance and conversion into equity and/or subsidy of NG advances and/or interest thereon shall be submitted to the DOF on or before February 15 for the programming of required advances and implementation of conversion for the succeeding year.
- b. All applications for actual drawdowns from the net lending program shall be submitted to the DOF ninety (90) days prior to the scheduled actual drawdown.

3.4. Processing of request/proposal

- a. For annual programming of NG advances
 - (i) The DOF-Corporate Concerns Office/Corporate Affairs Group (DOF-CCO/CAG) shall review and evaluate all requests for programming of net lending assistance in accordance but not limited to the criteria provided under Sec. 4.1;
 - (ii) DOF-CCO/CAG shall submit its recommendation to the Department of Budget and Management (DBM) by the first week of April. The DBM shall present the DOF's recommendation to the Executive Technical Board of the Development Budget and Coordinating Committee (DBCC) or its successor. The decision of the DBCC shall be considered in the fiscal programming and monitoring of the Public Sector Borrowing Requirement and the Consolidated Public Sector Financial Position; and
 - (iii) The DOF-CCO/CAG shall closely coordinate with DBM in order to get the final amount for Net Lending Program for the budget year which will be used as one of the basis for the granting of actual NG advances.
- b. Actual NG advances
 - (i) The DOF-CCO/CAG shall review and evaluate all requests for NG advances based on Section 4.2.;
 - (ii) The DOF-CCO/CAG shall favorably endorse to the BTR meritorious requests of GOCCs for actual drawdowns from the net lending program; and
 - (iii) The BTR shall submit to the DOF a monthly report on the outstanding and year-to date advances to and collections from GOCCs, on or before the 15th day of the following

month.

c. Proposals for the conversion of outstanding NG advances and/or interest on outstanding NG advances.

(i) The DOF-CCO/CAG shall review and evaluate all proposals based on Sec. 4.3;

(ii) The BTr shall furnish DOF-CCO/CAG a statement of outstanding advances and/or interest on net advances of the GOCC as reconciled with the GOCC concerned and duly verified by the COA representative at the BTr. The statement shall show the breakdown of advances for each GOCC loan to include those loans being proposed for conversion;

(iii) The DOF-CCO/CAG shall submit the proposal with its findings and recommendations to the Secretary of Finance for decision;

(iv) Before April 15 of the year prior to the year when the conversion shall be implemented, the Secretary of Finance shall notify the DBM in writing, copy furnished the GOCC concerned, about the approval of request for conversion into equity and/or subsidy and shall favorably recommend its inclusion in the proposed budget for the succeeding year;

(v) Before April 15 of the current year when conversion shall be implemented, DOF shall notify the DBM with respect to GOCC's compliance to conditions for conversion, if any or to consider new developments to determine whether the initial recommendation to convert is still applicable; and

(vi) The DOF shall notify the GOCC concerned of any action taken on the proposal for conversion.

Section 4. Criteria for Evaluation

4.1. Annual programming of NG advances

a. The DOF-CCO/CAG shall review and evaluate the projected receipts and expenditures of the requesting GOCC taking into consideration the reasonableness of its existing tariff structure/policy, credit and collection policy and procedures, operating and capital expenditure levels and asset management and disposal;

b. The DOF-CCO/CAG shall also review the loan obligations being requested for inclusion in the annual net lending program taking

into consideration information on the use of the loans, i.e., if the loans were used for undertakings/projects which are not purely recoverable or which by their nature require NG support; and

c. Advances shall be programmed only when the projected cash flow of the requesting GOCC which already takes into account NG subsidy and equity support, clearly indicates insufficiency of funds for the settlement of maturing obligations.

4.2. Granting of actual NG advances to GOCCs

a. Provision of actual NG advances within the net lending program shall be done only when the year-to-date cash flow of the requesting GOCC which already takes into account actual NG subsidy and equity support, clearly indicates insufficiency of funds for the settlement of maturing obligations being requested; and

b. Net lending to GOCCs outside the program shall be allowed only under exceptionally meritorious circumstances resulting from, but not limited to the following:

- i) cash flow difficulties due to high interest payments and foreign exchange losses, heavy reliance on loans, and non-cost recoverable tariff/pricing structure;
- ii) unforeseen events which prevent GOCCs from paying maturing obligations; and
- iii) no workable option for improving its cash position.

4.3. Conversion of outstanding NG advances and/or interest on outstanding NG advances:

a. The DOF shall validate and evaluate the financial position of the requesting GOCC. The evaluation shall utilize generally accepted financial ratios on liquidity, leverage and solvency;

b. The five-year projected cash flows starting from the year when the proposal is made, should indicate insufficiency of funds for the settlement of maturing obligations; Provided, however, that projected receipts and expenditures shall have been carefully reviewed with special consideration on the reasonableness of its existing tariff structure, pricing policy, operating and capital expenditure levels and scope of operations to be monitored;

c. The audited balance sheet of the requesting corporation for two (2) consecutive years prior to the year when the proposal is made, shall also be reviewed. DOF-CCO/CAG shall request the GOCC to submit any available information on the liquidation/sale

of assets which shall be considered in the evaluation as an option in improving its cash position and for servicing of maturing debts;

- d. In order to be considered meritorious, the proposal should clearly show that i) the GOCC is experiencing cash flow difficulties resulting from, but not limited to high interest payments and foreign exchange losses, heavy reliance on loans, and non-cost recoverable tariff/pricing structure; ii) there is no workable option for improving its cash position; and iii) the loans advanced by the NG which are being requested for conversion were used for undertakings/projects which are not purely recoverable or which by their nature require NG support;

- e. DOF-CCO/CAG shall coordinate with the Government Corporate Monitoring and Coordinating Committee (GCMCC) in its evaluation and shall consider information on performance indicators/criteria/targets/standards established by the GCMCC as well as results of GCMCC's performance evaluation, if available. Compliance to certain performance indicators by the GCMCC or by the DOF may be made a condition for conversion. In addition, DOF-CCO/CAG shall also consider the results of mid-year review of GOCC performance undertaken by the DBM;

- f. Proposals from GOCCs for the conversion of NG advances and/or interest on net advances into equity shall be within the authorized capitalization of the GOCC concerned as authorized by law or its charter. If the requesting GOCC's capitalization is fully paid-up or almost fully paid-up, "DOF-CCO/CAG may recommend conversion into subsidy and later on chargeable to equity upon increase in the GOCC's capitalization, depending on grounds for conversion; and

- g. The conversion shall not violate any international commitments and other applicable covenants.

Section 5: The BTR shall ensure the speedy reconciliation of debt servicing records of the GOCC.

Section 6. All loans and other types of obligations of a GOCC and its subsidiaries which were assumed by the NG and which are covered by special issuances shall form part of NG's Debt Service Program.

Section 7. Penalty Charge on NG Advances

For NG advances made without favorable endorsement from the DOF, a penalty charge equivalent to 364 day T-Bill rate plus 5% shall be imposed on the GOCC concerned. This shall be in addition to the interest on NG Advances.

Section 8. Resolution of Related Issues

Cases for clarification and those not covered by the provisions of this Circular shall be referred to the DOF for appropriate action.

Section 9. Repealing Clause

All Circulars or parts thereof which are inconsistent with this Circular are hereby repealed or modified accordingly.

Section 10. Effectivity

This Circular shall take effect immediately upon approval.

APPROVED this 7th day of September 1999.



EDGARDO B. ESPIRITU
Secretary of Finance

