



Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Pablo Ocampo, Sr. Street
Manila 1004

DEPARTMENT CIRCULAR NO. 006-2020

- TO** : All Heads of the Municipal Development Fund Office (MDFO); Bureau of the Treasury (BTr); Government Financial Institutions (GFIs); Budget Officers, Heads of Accounting; and All Others Concerned
- SUBJECT** : **IMPLEMENTING RULES AND REGULATIONS ON THE ABANDONMENT OF PURPOSE AND UTILIZATION OF THE BALANCES OF THE MUNICIPAL DEVELOPMENT FUND (MDF) UNDER SECTION 4 (ttt) OF REPUBLIC ACT NO. 11494 "BAYANIHAN TO RECOVER AS ONE ACT"**
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1.0 LEGAL BASIS

- 1.1 Republic Act No. 11494 known as the "Bayanihan To Recover As One Act" (R.A. No. 11494) affirmed the existence of a continuing national emergency due to the Coronavirus Disease 2019 (COVID-19) and authorizes the President of the Philippines to exercise powers that are necessary and proper to undertake and implement certain COVID-19 response and recovery interventions.
- 1.2 Pursuant to Section 4 (ttt) of R.A. No. 11494:
- a. Any unutilized or unreleased balance in the Municipal Development Fund (MDF) created under Presidential Decree No. 1914 including investments and undrawn portions of all loans shall be considered to have their purpose abandoned (MDF balances).
 - b. All such unspent, unutilized, unreleased or undrawn money or funds shall be utilized and are hereby automatically appropriated:
 1. Ten billion pesos (Php 10,000,000,000.00) in proceeds of the Municipal Development Fund Office (MDFO) investments in

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government securities (GS) – for such measures to address the COVID-19 situation and accomplish the declared national policy herein; and

2. The remainder of all investments, loans, credits, grants, or other credit accommodations existing at the time of effectivity of the Act shall be assigned to the Government Financial Institutions (GFIs) – for Local Government Unit (LGU) loans and borrowings from GFIs, including the provision of loan interest rate subsidy until 2022.
- 1.3 Paragraph D (8) of the Memorandum from the Executive Secretary dated 23 October 2020 authorized the Secretary of Finance to issue rules and regulations on the implementation of Section 4 (ttt) of R.A. No. 11494.
- 1.4 In the Memorandum from the Executive Secretary dated 23 October 2020, the Office of the President adopted the *“Implementing Guidelines of Republic Act No. 11494, ‘An Act Providing for Covid-19 Response and Recovery Interventions and Providing Mechanisms to Accelerate the Recovery and Bolster the Resiliency of the Philippine Economy, Providing Funds Therefor, and for Other Purposes’”*, hereinafter referred to as the *“Omnibus Guidelines”*.
- 1.5 Sections 2.2.3.1 and 2.2.4.1 of the Omnibus Guidelines provide that unless otherwise instructed by the Secretary of Finance, the balances in the MDF and all existing loan agreements between MDFO and LGUs shall be assigned to the Land Bank of the Philippines (LBP).
- 1.6 In compliance with Section 4 (ttt) of R.A. No. 11494, and Section 2.2.3 of the Omnibus Guidelines, MDFO investments in GS with the total market value of Php 10,448,534,714.74, which are sponsored by LBP in the National Registry of Scripless Securities, have been transferred to the Bureau of Treasury (BTr) on 06 October 2020.
- 1.7 There is an urgent need to pool the available resources of the government to address the adverse impact of the COVID-19 pandemic to the Philippine economy and society.



2.0 COVERAGE

Section 2.2.1 of the Omnibus Guidelines provides that the MDF shall cover the following:

- 2.1 Cash and cash equivalents held in bank/s;
- 2.2 Investments in GS or with private institutions, if any;
- 2.3 Unreleased balances of obligated amounts to ongoing LGU subprojects covered by loan agreements or Memorandum of Agreement with Certificate of Availability of Funds (CAF);
- 2.4 Loan repayment receivables under executed loan agreements;
- 2.5 Receivables arising from sources other than loan agreements; and
- 2.6 All other unutilized or unreleased balances in the MDF.

The balances to be transferred to LBP shall not include the following, which will be assigned later to the proper parties:

- a. Funds held by MDFO as fund administrator under specific Official Development Assistance projects, which are separate from the MDF; and
- b. Funds kept separately by MDFO in its Operations Account and Administrative Fees Account, as authorized by its Policy Governing Board and the Department of Budget and Management for use in its operations.

3.0 PURPOSE(s)

- 3.1 To provide the guidelines for the treatment of the proceeds of MDFO's investments in GS which were transferred to and liquidated by the BTr pursuant to Section 4 (ttt) of R.A. No. 11494; and
- 3.2 To prescribe the guidelines in the assignment to the LBP of the remainder of all cash, investments, loans, credits, grants, or other credit accommodations existing at the time of effectivity of the Act, which shall be accessed and utilized exclusively by the LGUs.

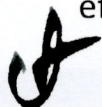


4.0 TRANSFER AND LIQUIDATION OF MDFO INVESTMENTS IN GS

- 4.1 The amount of ten billion pesos (Php 10,000,000,000.00) taken from the proceeds of the liquidation of the GS transferred from MDFO to BTr shall form part of the General Fund. This shall serve as funding source for such measures to address the COVID-19 situation and accomplish the declared national policy under R.A. No. 11494.
- 4.2 The BTr shall hold in trust, until the cut-off date referred to in Section 5.4.1 below, the excess over ten billion pesos (Php 10,000,000,000.00) of the total proceeds from the liquidation of the GS transferred from MDFO to BTr.

5.0 ASSIGNMENT OF REMAINING BALANCES AND EXECUTED LOAN AGREEMENTS TO LBP

- 5.1 Pursuant to Section 2.2.3.2 of the Omnibus Guidelines, LBP shall establish a separate trust account for the exclusive use of lending to LGUs at preferential rates. All balances received by LBP, including the excess GS proceeds referred to in Section 4.2 above, shall be placed in said separate trust account. For this purpose, LBP will maintain separate books of accounts.
- 5.2 The Board of Directors of LBP shall, with respect to the separate trust account to be established under Section 5.1 above, exercise the following functions in accordance with existing laws and national policies promoting the development of local governments as self-reliant communities:
- a. to establish lending program/s for LGUs and formulate policies pertinent thereto, including but not limited to those prescribing the following:
 1. procedure and requirements for processing and granting of loans, grants, and other credit accommodations;
 2. terms and conditions to govern the agreements with LGUs, such as interest rates and repayment duration, which shall be substantially similar to the terms and conditions offered by MDFO to LGUs prior to the effectivity of R.A. No. 11464;



3. the amount of management fee which may be imposed by LBP, which shall not exceed 3.5% per annum based on the quarterly average loan balance (ALB), and the frequency of its collection; and
 4. fund management.
 - b. to approve all loans, grants and other credit accommodations to LGUs and may delegate such approving authority within the LBP;
 - c. to implement organizational changes as may be necessary for the effective operation of the relevant department/s in the LBP;
 - d. to condone penalty charges under the loan agreements; and
 - e. to perform such other incidental functions as the Secretary of Finance may require or authorize.
- 5.3 Under Section 2.2.4 of the Omnibus Guidelines, the existing loan agreements executed by MDFO with LGUs shall also be assigned by MDFO to LBP.
 - 5.3.1 LBP shall henceforth have all the rights and obligations of the MDFO under the assigned contracts.
 - 5.3.2 All approved loans and undisbursed balances for committed LGU loans and borrowings shall continue to be disbursed and will be administered by LBP.
- 5.4 Pursuant to Sections 2.2.3.5 and 2.2.4.5 of the Omnibus Guidelines, the assignment of the remaining balances in the abandoned MDF, as well as the loan agreements executed by MDFO with LGUs, shall be covered by a Deed of Assignment to be executed by the MDFO, through its Executive Director, and the LBP, through its President.
 - 5.4.1 The assignment shall have a final cut-off date of 15 December 2020, provided that assignments of loans under Section 5.3 hereof may be done on or before said cut-off date.



5.4.2 Under Section 2.2.4.7 of the Omnibus Guidelines, the MDFO shall transmit to the LBP within fourteen (14) days from the date of execution of the Deed of Assignment:

- a. Originals of all loan agreements, both pertaining to the ongoing sub-projects which are still subject to LGU drawdowns as of the cut-off date, and the fully-disbursed loans which are already subject to collection of LGU repayments; and
- b. All other relevant records and documents pertaining to ongoing sub-projects as of the cut-off date.

5.4.3 The relevant records and documents for the fully-disbursed loans which are already subject to collection of LGU repayments shall be transmitted by the MDFO to the LBP within six (6) months from the date of execution of the Deed of Assignment.

5.4.4 MDFO shall send to the concerned LGUs a written notice of the assignment of their loan agreements to LBP.

5.5 After the cut-off date, the LBP shall submit to the DOF a quarterly report on the utilization of funds and efficiency of the lending program/s administered by the LBP.

6.0 TRANSITORY PROVISIONS

Existing L/As

6.1 Prior to the cut-off date of the assignment provided for under Section 5.4.1 above, the MDFO may continue to process LGUs' requests for release of funds for ongoing projects covered by loan agreements.

6.1.1 Upon receipt of a request for release of funds, the MDFO shall evaluate if the LGU has complied with all conditions precedent to the release of loan proceeds in accordance with the loan agreement.



6.1.2 If, based on the evaluation, the MDFO has determined that the LGU has complied with all requirements, then the MDFO shall release the funds to the LGU in accordance with the schedule of releases.

6.1.3 All fund release requests which MDFO may receive prior to the cut-off date, but for which the evaluation is not completed by MDFO on or before the cut-off date, shall be endorsed to LBP for processing.

6.1.4 All fund release requests after the cut-off date shall be submitted to LBP for processing. LGUs shall be notified accordingly.

Approved L/A but unsigned

6.2 For loans which have already been approved by the MDFO Policy Governing Board prior to the effectivity date of R.A. No. 11494, the pertinent loan agreement may still be signed by the authorized signatories of the MDFO, provided that all requirements are complete.

6.2.1 These loan agreements shall be included among the loan agreements that will be transferred to LBP under Section 5.3 above.

6.2.2 Approved loans with unsigned loan agreements as of the cut-off date shall be endorsed to LBP for execution of the loan agreement under the terms and conditions previously approved by the MDFO Policy Governing Board.

Loans Pending Approval

6.3 Loan applications of LGUs that are still pending approval of the MDFO Policy Governing Board as of the effectivity date of R.A. No. 11494 shall be endorsed by the MDFO to the LBP for processing and evaluation in accordance with its own policies, as provided for under Section 5.2 above.

6.3.1 MDFO shall send written notices to the concerned LGUs that pursuant to Section 4 (ttt) of R.A. No. 11494, their pending loan applications shall be endorsed to the LBP.



6.3.2 At the cut-off date provided for under Section 5.4.1 above, the MDFO shall transmit to LBP all pending loan applications, together with all relevant documents.

6.3.3 After the cut-off date, MDFO shall no longer accept new loan applications from LGUs. Applicant LGUs shall be informed that their loan applications must be submitted to LBP under its lending program/s referred to in Section 5.3 hereof.

Amendment of Existing L/As

6.4 All written requests of LGUs for the amendment of existing loan agreements with MDFO, or any part thereof, including but not limited to condonation of penalties or extension of the loan closing date, which are still pending approval of the MDFO Policy Governing Board as of the effectivity date of R.A. No. 11494, shall be endorsed by the MDFO to the LBP for review and appropriate action.

6.4.1 MDFO shall send written notices to the concerned LGUs that pursuant to Section 4 (ttt) of R.A. No. 11494, their pending requests shall be endorsed to the LBP upon assignment of the pertinent loan agreements.

6.4.2 Simultaneous with the assignment of the existing loan agreements, the MDFO shall transmit to LBP all such pending requests pertinent thereto, together with all relevant documents.

6.5 Prior to the cut-off date of the assignment provided for under Section 5.4.1 above, the MDFO may settle outstanding liabilities of the MDF out of its remaining balances. At cut-off date, all unsettled liabilities of the MDF shall also be transferred to LBP.

6.6 Prior to the cut-off date of the assignment provided for under Section 5.4.1 above, the MDFO may continue to send billing statements to the LGUs to facilitate timely payment and collection of loan repayments.

6.6.1 MDFO shall notify the concerned LGUs that after the cut-off date, payments must be made to LBP through its designated bank account.



6.7 All actions taken by the MDFO, through its Executive Director, BTr, and LBP under Section 4 (ttt) of R.A. No. 11494, in relation to transfer of the Php 10,000,000,000.00 proceeds from the MDFO investments in GS to the BTr and the assignment of fund balances and existing loan agreements to the LBP are hereby ratified and confirmed.

7.0 SEPARABILITY

If any provision of this Department Circular is declared invalid or unconstitutional, the other provisions not thereby affected shall remain valid and subsisting.

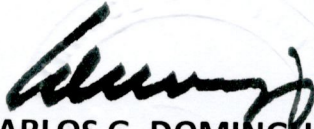
8.0 REPEALING CLAUSE

All provisions of existing circulars and other issuances inconsistent with this Department Circular are hereby modified/repealed.

9.0 EFFECTIVITY

This Department Circular shall take effect immediately.




CARLOS G. DOMINGUEZ
Secretary of Finance
DEC 04 2020