

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

NINETEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 5303



Introduced by REP. REX GATCHALIAN

AN ACT
SIMPLIFYING THE PROCESS TO AVAIL OF CREDIT FINANCING FROM
GOVERNMENT AND PRIVATE BANKS AND LENDING INSTITUTIONS BY LOCAL
GOVERNMENT UNITS, AMENDING FOR THIS PURPOSE SECTIONS 296 AND
324 OF REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE LOCAL
GOVERNMENT CODE

EXPLANATORY NOTE

The Local Government Code of 1991 has empowered local government units to create indebtedness and avail of credit facilities to finance local infrastructure and other socio-economic development projects. In this regard, local government units (LGUs) are authorized to avail of credit lines from government or private banks and lending institutions for the purpose of stabilizing local finances.

However, despite being empowered to do so, local chief executives face a herculean mission to exercise this power. Apart from complying with the documentary requirements demanded by lender-banks, LGUs are also made to obtain several other documents from different National Government Agency such as a favorable Monetary Board Opinion from the Banko Sentral ng Pilipinas and a Certificate of Net Debt Service Ceiling and Borrowing Capacity from the Bureau of Local Government Finance. These duplicates the risk-assessment being conducted by lender-banks and makes it particularly difficult for LGUs to contract loans to finance immediate fiscal needs.

It could take several weeks to months to secure a favorable Monetary Board Opinion and another several weeks to months to obtain the Certificate of Net Debt Service Ceiling and Borrowing Capacity. To add to that, lender-banks likewise spend several months doing their own risk-assessment of potential borrower-LGUs.

By the time the LGU gets an approval, the immediate need requiring financing may have come to pass or worse, have deteriorated to a point that a bigger loan may be needed to solve the problem.

Thus, recognizing that every local government unit is a corporation with its own corporate powers, including the capacity to sue and be sued, there is a need to simplify the process by which LGUs can exercise the powers expressly granted to it by the Local Government Code. This bill will simplify that process by doing away with the many different certifications needed if the lender-bank will conduct its own risk assessment.

In view of the foregoing, approval of this bill is earnestly sought.



HON. REX GATCHALIAN
Representative
1st District, Valenzuela City

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GOVERNMENT CODE

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

1 SECTION 1. Section 296 of Republic Act No. 7160, otherwise known as the
2 ‘*Local Government Code of 1991*’, is hereby amended to read as follows:

3
4 “Section 296. *General Policy.* – (a) It shall be the basic policy that any
5 local government unit may create indebtedness, and avail of credit
6 facilities to finance local infrastructure and other socio-economic
7 development projects in accordance with the approved local
8 development public investment program.

9
10 (b) A local government unit may avail of credit lines from government
11 or private banks and lending institutions for the purpose of stabilizing
12 local finances; **PROVIDED THAT, LOCAL CHIEF EXECUTIVES AND**
13 **LOCAL OFFICIALS AVAILING OF CREDIT LINES IN VIOLATION OF**
14 **THIS CODE SHALL BE PERSONALLY LIABLE FOR THE AMOUNTS**
15 **EXCEEDING THE LIMITS IMPOSED HEREIN.**

16
17 SEC. 2. Section 324 of Republic Act No. 7160 is hereby amended to read as
18 follows:
19

1 “Section 324. *Budgetary Requirements.* – The budgets of local
2 government units for any fiscal year shall comply with the following
3 requirements: (a) The aggregate amount appropriated shall not exceed
4 the estimates of income;

5
6 (b) Full provision shall be made for all statutory and contractual
7 obligations of the local government unit concerned: *Provided, however,*
8 That the amount of appropriations for debt servicing shall not exceed
9 twenty percent (20%) of the regular income of the local government unit
10 concerned; **PROVIDED, FURTHER, THAT GOVERNMENT OR**
11 **PRIVATE BANKS AND LENDING INSTITUTIONS SHALL CONDUCT**
12 **THEIR OWN RISK-ASSESSMENT OF LOCAL GOVERNMENT UNITS.**
13 **TOWARDS THIS END THE BUREAU OF LOCAL GOVERNMENT**
14 **FINANCE SHALL PUBLISH AN ANNUAL NEGATIVE LIST AND**
15 **FURNISH THE SAME TO THE DEPARTMENT OF INTERIOR AND**
16 **LOCAL GOVERNMENT, THE LOCAL GOVERNMENT UNITS**
17 **CONCERNED, BANKS, LENDING INSTITUTIONS, AND THE OFFICE**
18 **OF THE PRESIDENT A LIST OF LOANS CONTRACTED BY LOCAL**
19 **GOVERNMENT UNITS AND THE RATIO OF LOANS TO THE**
20 **REGULAR INCOME OF THE LOCAL GOVERNMENT UNITS WITH**
21 **LOANS.”**

22
23 SEC. 3. Section 123 of Republic Act No. 7653, otherwise known as the ‘*New*
24 *Central Bank Act*’ is hereby amended to read as follows:

25
26 “Section 123. *Financial Advice on Official Credit Operations.* – Before
27 undertaking any credit operation abroad, the Government, through the
28 Secretary of Finance, shall request the opinion, in writing, of the
29 Monetary Board on the monetary implications of the contemplated
30 action. Such opinions must similarly be requested by all political
31 subdivisions and instrumentalities of the Government before any credit
32 operation abroad is undertaken by them.

33
34 The opinion of the Monetary Board shall be based on the gold and
35 foreign exchange resources and obligations of the nation and on the

1 effects of the proposed operation on the balance of payments and on
2 monetary aggregates.

3
4 Whenever the Government, or any of its political subdivisions or
5 instrumentalities, contemplates borrowing within the Philippines, the
6 prior opinion of the Monetary Board shall likewise be requested in order
7 that the Board may render an opinion on the probable effects of the
8 proposed operation on monetary aggregates, the price level, and the
9 balance of payments. **PROVIDED, HOWEVER, THAT THE PRIOR**
10 **OPINION OF THE MONETARY BOARD SHALL NOT BE REQUIRED**
11 **FOR LOCAL GOVERNMENT UNITS IF THE LENDER BANK**
12 **CONDUCTS ITS OWN RISK ASSESSMENT.”**

13
14 SEC. 4. *Implementing Rules and Regulations.* – Within sixty (60) days after
15 the effectivity of this Act, the Department of Interior and Local Government, in
16 coordination with the Bureau of Local Government Finance, shall promulgate the
17 rules and regulations for the effective implementation of this Act. The IRR issued
18 pursuant to this section shall take effect thirty (30) days after its publication in a
19 newspaper of general circulation.

20
21 SEC. 5. *Separability Clause.* – If any part, section, or provision of this Act is
22 declared invalid or unconstitutional, the other parts thereof not affected thereby shall
23 remain in full force and effect.

24
25 SEC. 6. *Repealing Clause.* – Bangko Sentral ng Pilipinas Circular Letter,
26 Series of 2002, dated May 28, 2002, Department of Finance Department Order No.
27 054.2016, all laws, acts, presidential decrees, executive orders, administrative
28 orders, rules and regulations, or parts thereof inconsistent with or contrary to the
29 provisions of this Act are hereby modified, amended, or repealed accordingly.

30
31 SEC. 7. *Effectivity.* – This Act shall take effect fifteen (15) days after its
32 publication in the Official Gazette or in a newspaper of general circulation.

33
34 Approved,