Guarantees and Onlending to Sub-National and Parastatal Borrowers: The Case of the Philippines

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Outline of Presentation

- Institutional Arrangements
- Policy Considerations
- Risk Management
- Areas for Improvement
- Current Policy Thrusts and Objectives
- Concluding Remarks
Institutional Arrangements

Various Ways of Raising Debt

- Depends on credit standing
- Bank financing including from Government Financial Institutions (GFIs)
- Capital Markets
- Official Development Assistance (usually through onlending schemes)
- Creditors usually ask for a sovereign guarantee
Institutional Arrangements

- Institutionalized Approval Process
  - President of the Philippines
  - Monetary Board of the Bangko Sentral
  - National Economic and Development Authority (NEDA) Board
  - Department of Finance (DOF)
  - Department of Justice (DOJ)
  - Governing Boards/Bodies
Institutional Arrangements

- Legal Bases is a Must
  - Foreign Borrowings Act
  - General Appropriations Act
  - Respective Charters of the Government Owned or Controlled Corporations (GOCCs) and GFIs – at least 51% ownership
  - National Government (NG) legally prohibited from guaranteeing borrowings of Local Government Units (LGUs)
Institutional Arrangements

NG Guarantee depends on Charter

- Subject to Contract (Not automatic)
- Automatic
- Solidary (NG as primary obligor)
- Subsidiary
- Subject to Excussion
- Finance Secretary sign off on guarantee.
- In practice, NG advances funds to prevent a guarantee call and avoid cross default.
Policy Considerations

- Approval process incorporates various checks and balances to prevent abuse of authority.
- Seeks to avoid repeat of historical experience.
- Borrowings for productive activities and must be consistent with NG priorities, plans and programs.
- Extension of guarantees must be legally, socially and economically justified.
Policy Considerations

- Impact on NG Fiscal Position and the Consolidated Public Sector Financial Position.
- Policy bias for private sector as engine of economic growth and privatization.
- Adoption of hard budget constraints for GOCCs/GFIs.
- Current arrangement needs improvement.
Risk Management

- Interagency approval process focuses on entry conditions.
- Conditions attached such as payment of guarantee fees, establishment of sinking fund, legal and prudential ceilings etc.
- Focused on 14 monitored non-financial government corporations (MNFGCs) and GFIs.
- Emphasis on explicit guarantees.
Risk Management

- Privatization e.g. power sector.
- Creation of Debt and Risk Management Office (July 2010).
- Increasing attention to contingent liabilities, including performance undertakings on PPP’s and their estimation.
- Is work in progress. Needs further improvement.
Areas for Improvement

- Debt and Risk Management functions of the DOF, including capacity building measures.
- Oversight of government corporate sector beyond the 14 MNFGCs and GFIs.
- Better estimation and management of fiscal risks arising from contingent liabilities e.g. inclusion in budgetary process.
- Higher standards transparency and disclosure e.g. fiscal risk document.
Current Policy Thrusts and Objectives

- Proactive debt and risk management under a centralized system in the DOF.
  - Pursue local currency borrowing and other innovative financing structures that will reduce forex and other risks.
  - Proactive engagement with investors and rating agencies.
  - Diversify currency, market and investor base.
Current Policy Thrusts and Objectives

- Enhanced oversight of the government corporate sector under a centralized oversight body.
  - Quality at entry for Board Directors.
  - Strengthened board governance, including the Audit and Risk Management Committee functions.
  - Adoption of higher standards of transparency and disclosure.
  - Adoption of performance contracts.
Current Policy Thrusts and Objectives

- Better management of fiscal risks resulting from guarantees and onlending activities.
  - Stricter implementation of hard budget constraints.
  - Closer scrutiny of requests for borrowing and NG advances.
  - Better financial and operational performance through clear performance metrics.
  - Tariffs allowed to adjust to at least cover costs.
  - Subsidies, if any, will be better targeted and focused on those needing it most.
Concluding Remarks

- Aquino Administration’s focus on governance reforms augurs well for the management of fiscal risks emanating from guarantees and onlending activities.
- DOF under the leadership of Finance Secretary Cesar Purisima is committed to governance reform and is driving the fiscal reform process.
THANK YOU!