SESSION 7: GOVERNANCE FRAMEWORK TO MANAGE RISKS FROM CONTINGENT LIABILITIES

Rosalia V. De Leon
Treasurer of the Philippines
National Government Direct Guarantees
We provide two guarantees: Direct Guarantees (support to GOCCs) and Indirect Guarantees

GOCC Charters

- Authority to borrow
- Example: NFA is allowed to borrow commercially to finance its operations with NG guarantees

Republic Act 4860 (Foreign Borrowings Act), amended under Presidential Decree No. 1939

- NG caps outstanding guarantees to GOCCs at USD7.5B

Department of Finance Circular 1-2016

- Risk-based guarantee framework

Executive Order 245

- BTr’s mandate to guarantee foreign exchange cover fees due NG

Republic Act No. 8182, as amended (Official Development Assistance)

- Guarantee foreign loans extended to GOCCs for economic development purposes provided that at least 75% is spent for projects which are revenue-generating and self-liquidating
National Government provides guarantee to GOCC projects which are:

- Consistent with the objectives and goals under Philippine Development Plan and are within the identified priority programs and projects under the Medium Term Public Investment Program
- GOCC projects which passed the test of economic and social viability and have satisfied all the conditions set forth by the Investment Coordinating Committee (ICC)
- Off balance sheet – Contingent Liabilities
National Government Guaranteed Borrowings undergo a stringent process to ensure prudent management of contingent liabilities.

<table>
<thead>
<tr>
<th>Timeliness</th>
<th>Monitoring</th>
<th>Inter-Agency Evaluation and Appropriation</th>
<th>Penalty Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Request for programming of net lending assistance submitted to DOF on or before the succeeding year of the required advances</td>
<td>• Projected receipts and expenditures submitted by GOCCs are reviewed and evaluated</td>
<td>• The DBCC consisting of DOF, BTr and DBM determines the appropriate amount to be programmed for net lending</td>
<td>• NG imposes penalty charges to advances made by NG as guarantor of GOCC obligations without endorsement from DOF</td>
</tr>
<tr>
<td>• Actual drawdowns from the net lending program submitted 90 days prior to actual drawdown</td>
<td>• BTr submits a monthly summary of advances to and collections from GOCCs</td>
<td>• The decision is considered in the fiscal programming and monitoring of the Consolidated Public Sector Financial Position</td>
<td></td>
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</table>
DIRECT GUARANTEES

Declining exposure to NG direct guarantees as % to total GDP

GOCCs’ Share of Outstanding Guaranteed Debt

August 2018
Old approach

- Old framework – flat pricing
  - 1% guarantee fee rate
  - 3% FX cover fees regardless of currency
Risk-based Policy Framework | Issuance and Pricing of Guarantees

Forms part of the **prudent fiscal management** of the NG to improve the management of guaranteed debt, **recognize the real cost** of a guarantee and FX risk cover as it relates to the financial conditions of GOCCs according to **set parameters**, and for the framework to **align with international standards**.

**Key Features**

- **Cap of Fees**
  - 1.5% cap on guarantee fees since GOCCs charged greater than 1.5% are usually highly subsidized.

- **Performance Monitoring**
  - The GOCCs and GFIs’ performance are monitored.

- **Adjustment Rate**
  - Based on performance, guarantee fees are subject to a step-up or reduction rate. The adjustment will be at least 10bps.

- **Qualitative Factors**
  - Governance rating, development goals and other qualitative factors are considered in the final guarantee fee payable.
Indirect Guarantees: Public Private Partnerships
Public-Private Partnerships (PPP)

• LEGAL BASIS:
  • CL based on individual PPP contracts
  • Build Operate Transfer Law

• Indirect Guarantee

• Regulatory risk instead of market risk
TECHNICAL WORKING GROUP
On Contingent Liabilities

MEMBERS
- Bureau of Treasury (secretariat)
- Department of Finance
- Department of Budget and Management
- PPP Center

TASKS
- Manage CL of PPPs
- Monitor project implementation
- Policy recommendation
- Valuation methodology to guide policy:
  - Portfolio Risk Management Approach
Risk Management Program (RMP)

✓ Unprogrammed Appropriation
✓ Since 2014
✓ Can be availed with the recommendation of TWG-CL given:
  ✓ Excess revenue Collection
  ✓ New Source of Revenue
✓ FY 2018 Provision, FY 2019 Proposal is PHP 30 billion

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Number of Projects</th>
<th>Size (Php Billions)</th>
<th>CL Value (Php Bilions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current (2010 onwards)</td>
<td>16</td>
<td>200.76</td>
<td>11.65</td>
</tr>
<tr>
<td>Legacy (pre-2010)</td>
<td>61</td>
<td>752.66</td>
<td>10.97</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>77</strong></td>
<td><strong>953.42</strong></td>
<td><strong>22.62</strong></td>
</tr>
</tbody>
</table>

Total in USD

~17.65 B
~ 418 M
FISCAL RISK STATEMENT

Comprehensive view of the exposure to fiscal risks from

✓ Fiscal projections and turnouts
✓ public debt and
✓ contingent liabilities
  ✓ Stock and flow
  ✓ GOCCs, PPPs, LGUs, Natural Disasters, etc

PPPs

✓ List of awarded PPPs
✓ Details on expected disbursements

Reforms and risk-mitigation efforts
Thank you.