(as of 9/27/1999)

DRAFT OPERATING GUIDELINES OF EO 138

(Directing Government Entities involved in the implementation of Credit Programs to adopt the Credit Policy Guidelines Formulated by the National Credit Council)

1. Rationale

This Executive Order implements current government policy to pursue a liberalized and market-oriented economy where the private sector plays a major role and the government provides the enabling environment for the efficient functioning of markets and the participation of the private sector. This EO also implements a government directive (AO 86) in 1994 to rationalize directed credit programs in all sectors of the economy. The AO creates and mandates the National Credit Council (NCC), an inter-agency body, to implement the directive.

In 1997, Congress likewise formulated measures that support the implementation of this policy - the Agriculture and Fisheries Modernization Act (AFMA) and Social Reform and Poverty Alleviation Act in 1997. These laws espoused the implementation of market-based financial and credit policies and the establishment of a viable and sustainable financial market. The AFMA in particular provides for the phase-out of directed credit programs in the agriculture sector over a four-year period.

2. Basic Policy Principles

Greater role of the private sector in the provision of financial services to the basic sector, as defined under RA 8425, the Anti-Poverty and Social Reform Act;

Adoption of market-oriented financial and credit policies, e.g. market-oriented interest rates on loans and deposits;

Government to provide an enabling policy environment, critical support services and capability-building services that will facilitate the increased participation of the private sector in the delivery of credit services;

Non-participation of government non-financial agencies and government-owned and controlled corporation in the implementation of credit programs.

3. Definition of Terms

3.1 Government non-financial agencies (GNFAs) - these refer to all the departments and line agencies involved in the delivery of basic support and infrastructure services to clients of specific sectors (e.g. Department of Agriculture, Department of Trade and Industry etc.)

3.2 Government financial institutions (GFIs)

3.3 Government-owned and controlled corporations (GOCCs)

3.4 Private financial institutions - these are the non

4. Coverage of the Executive Order

4.1 The provisions of EO 138 covers all directed credit programs (DCPs) implemented by the government non-financial agencies (GNFAs), government financial institutions (GFIs) and government-owned and controlled corporations (GOCCs). As defined in the implementing rules and regulations (Rule 4.1.6) of the AFMA, DCPs to be rationalized refer to "*credit projects, activities and programs targeted at a specific sector or sectors of the population, implemented by a government or quasi-government non-financial agency directly or indirectly through an executing agency, fund manager, administrator or conduit, and whose funding comes at least partly from government or public resources, appropriations, local or foreign grants to government, loan proceeds from any source, or which involve government guarantee.*"

4.2 The EO excludes government financing for housing and for local government units. Current programs for housing are financed by members of the Social Security System (SSS), and Government Service Insurance System (GSIS). These programs do not receive direct budgetary allocation from the government. Local government finance uses the Municipal Development Fund, which is an intra-government lending facility.

5. DCP Rationalization Program

5.1 The DCP rationalization program mentioned in section 3.a.4 of the Executive Order refers to the phase-out of GNFA involvement in the delivery of credit services and the transfer of this function to GFIs. This program shall follow the DCP phase-out period (within four years) in the agriculture sector as mandated by the Agriculture and Fisheries Modernization Act (AFMA).

5.2 GNFAs and GOCCs will no longer be engaged in providing credit. Funds of existing credit programs being implemented by GNFAs will be channeled through GFIs.

6. Mechanics for the phase-out of credit programs from line agencies

6.1 All credit programs covered by the Executive Order will be audited to determine the total loanable funds and the remaining balances of each of the credit programs. The DOF/NCC in coordination with the Department of Budget and Management (DBM) and the Commission on Audit (COA) shall take the lead on this.

6.2 Auditing and accounting of funds will include but not be limited to the following:

Total amount of funding for the DCP (initial fund and additional allocation)

Outstanding fund balances

Fund balance placements or status

Status of loan receivables

6.3 After due accounting and audit, remaining balances and outstanding loans of credit programs implemented by GNFAs will be transferred to GFIs in the form of special time deposits. The funds will be deposited in the name of the GNFA and will bear special time deposit rates. Interest earnings will be re-flowed to the fund and will form part of the GNFA account with the GFI.

6.4 GFIs will collect all the outstanding loans of phased-out DCPs. GFIs will be given a premium for the collection of these accounts.

6.5 The phase-out and transfer process will be implemented in two stages:

6.5.1 Stage I - this will cover DCPs funded out of the budget. The NCC in coordination with DBM and COA will work out the smooth transfer of funds from concerned GNFAs to GFIs.

GNFAs and GOCCs must transfer their domestically-funded credit programs to GFIs within the same period stipulated in the AFMA.

GOCCs may be allowed to continue the implementation of credit programs funded out of their own corporate funds. These credit programs will not be transferred to GFIs.

Except for those credit programs mandated by law, there will be no new or additional budgetary allocation for credit programs of line agencies effective year 2001.

Funds for on-going credit programs with budgetary appropriations in year 2000 will be released to GFIs under the account of the department concerned. The GFI will implement the credit program.

6.5.2 Stage II - this will cover DCPs that are foreign funded. The NCC in coordination with DFA, DOF-IFG, DOF-CAG and the NEDA will renegotiate with the concerned donors to make the loan agreements and/or memorandum of agreement covering the DCPs consistent with the provision of this EO.

On-going foreign-assisted credit programs that are terminating on or before February 2001 shall continue to be implemented by GNFAs and GOCCs until project completion, after which these shall be transferred to GFIs. (***as provided for in section 5.2.1.2 of these guideline--- need to check this out)***

On-going foreign-assisted credit programs implemented by GNFAs and/or GOCCs that are terminating beyond February 2001 shall work out a phase-out plan with the objective of transferring the credit program to GFIs by February 2001 OR. (Foreign-funded credit programs of GNFAs and GOCCs will be transferred immediately to GFIs after the completion of the foreign assistance as determined in the loan or grant agreement.)

There will be no new approvals for foreign funding of credit programs implemented by GNFAs and GOCCs.

6.5.3 **Stage III - This will cover DCPs that are covered by special laws. The NCC will take the initiative in proposing congressional action on these programs.**

The proposal should be consistent with the design of the Agriculture Modernization Credit and Financing Program (AMCFP) of AFMA.

7. Implementation of credit programs by GFIs

7.1 **<u>Credit programs funded out of budgetary allocation (these include those programs that will be phased-out)</u>**

7.1.1 **The GNFA concerned and the GFI will execute a memorandum of agreement indicating the broad target clientele for which the money deposited by the agency will be used.**

7.1.2 **GFIs will bear the full credit risk of lending to the target clientele of the GNFAs. In this regard, accreditation and screening criteria of GFIs will be used in designing the credit program.**

7.1.3 **The GFIs will coordinate with the GNFAs in designing credit programs for specific clientele. GNFAs will provide the necessary support and infrastructure services to the clientele to ensure their bankability.**

7.1.4 **All credit programs to be implemented by the GFIs will be charged market-based interest rates which is defined as the 90-day Treasury bill weighted average interest rate.**

7.2 **<u>Credit programs that are foreign-funded</u>**

7.2.1 **GFI borrowings from foreign sources for on-lending purposes may be allowed if the terms of the funding shall conform to the basic policy principles of EO 138.**

7.2.2 **The National Credit Council prior to discussion and final approval of the Investment Coordinating Committee should endorse all credit programs funded by foreign loans and/or grants.**

7.2.3 **Grants from donor agencies should be used by line agencies to finance capability-building and support services that will improve the viability and bankability of the clientele of the agencies.**

7.2.4 **Grant funds for on-lending may be allowed as long as the relending terms and conditions of the fund shall conform to the basic policy principles of these guidelines.**

8. Timetable of Activities

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