



## **LGU GUARANTEE CORPORATION OPERATING HIGHLIGHTS**

### **1998**

LGU Guarantee Corporation (LGUGC) was formally incorporated on March 2, 1998 with a total paid-up capital of P216MM. This was the culmination of more than one year of planning and preparation. Then Development Bank of the Philippines (DBP) Chairman Mr. Alfredo C. Antonio invited the Bankers Association of the Philippines (BAP) to join hands and form a guarantee corporation primarily to encourage private banks to lend to local government units (LGUs).

Considered as a pioneering institution, LGUGC was the first to introduce a guarantee mechanism for LGU borrowings in the Philippines and the first private corporation to go into the guarantee business in the country. The company's vision was to provide a viable alternative to local government financing. Its operations were in keeping with the provision for fiscal autonomy specified in the Local Government Code of 1991, which expanded the local governments' fiscal authority by allowing them to borrow from private financial institutions or float debt instruments even without prior approval from the Department of Finance.

LGUGC was expected to accelerate the competitive access of LGUs to financial markets and ultimately to pave the way for further development and growth opportunities for both the government and the private banking sector.

### **1999**

In its first year of operation, LGUGC institutionalized the systems and procedures for an effective guarantee mechanism. It extended its guarantees to the City of Urdaneta and the Province of Aklan for bond issues of P25MM and P40MM, respectively. Four (4) financial institutions and a financial advisor were involved in the bond issues. The internal LGU Credit Screening and Rating System (LCSRS) was pilot-tested on these two accounts.

Extensive advocacy work was done on LGU Leagues, NGOs, multilateral agencies, and the Department of Interior and Local Government (DILG), and a pro-active marketing stance was developed to hurdle institutional challenges. In September, the US Agency for International Development (USAID)/ Development Credit Authority (DCA) signed an agreement with LGUGC where DCA undertook to co-guarantee 30% of the risk of qualified borrowers up to an aggregate exposure of \$8.55MM.

With these efforts, LGUGC laid the groundwork for the development of a municipal bond market in line with its vision of an active capital market for LGU debts.

### **2000**

In less than three years, LGUGC hit the P1B mark in guarantee portfolio, with a total of P940MM bond issuances guaranteed for the Puerto Princesa "Green" Bonds and the Caloocan City "Katipunan" Bonds during the year. Two financial advisors submitted a total of five projects

for evaluation during the year and the number of involved financial institutions increased from four to five.

To sustain its growth in portfolio and the achievements during its early years of operations, LGUGC worked on the following: (1) extension of financial advisory and credit rating services, (2) completed the pilot-testing of its internal LCSRS, (3) institutionalization of a Project Monitoring Board for each guaranteed LGU bond issue, (4) entered into escrow arrangement with DBP-Trust to ring-fence a guarantee fund that may be used only for payment of claims, and (4) started negotiations for equity infusion with various BAP member banks and bilateral/multilateral institutions. Recognizing LGUGC's thrusts and achievements, the USAID Regional Urban Development Office for South and Southeast Asia chose LGUGC as a model of public-private sector partnership for other Asian developing economies.

## **2001**

Despite the local elections, LGUGC guaranteed the bond issuances of Tagaytay City for P220MM and of Iloilo City for P130MM. LGUGC took advantage of the lull in guarantee activities to review its internal policies and procedures. Work towards the computerization of its LCSRS and Portfolio Monitoring System (PMS) began with technical assistance from the Philippines-Australia Governance Facility (PAGF) of Australian Aid. USAID, on the other hand, approved a technical assistance for the expansion of the LCSRS database from 120 to 500. LGUGC likewise participated in various presentations, seminars and forums of the Department of Finance, DILG, DBM and FINEX. Management's efforts to make LGU bonds attractive investment instruments resulted to two BSP circulars making LGU debts eligible alternative agri-agra compliance and reducing LGUGC-guaranteed LGU bonds' risk weight from 100% to 50%.

The company evaluated a total of four project feasibility studies during the year, worked with two financial advisors and maintained its close relationship with its existing partner financial institutions.

## **2002**

Total guarantee portfolio stood at P1.231 billion by yearend with two deals aggregating P117MM booked for the bond issuances of the municipalities of Daraga and Bayambang for a public market and reconstruction of a dry goods market, respectively. Ten feasibility studies were actually evaluated. The company worked with five private financial advisors and added an investment house to its pool of active partner financial institutions.

LGUGC continued to advocate for a policy environment conducive to LGU debt market advancement through the development of strong ties with national government agencies and private financial sectors. LGUGC signed MOAs with DOF/BLGF as well as with individual GFIs on information exchange regarding LGU debts. LGUGC had a wider pool of private sector partners – six financial advisors, seven lead and participating underwriters and two trustees. Complementing these partnerships was the completion of the computerization of the LGU rating and portfolio management systems through the PAGF technical assistance.

Noteworthy were the various recognitions accorded to LGUGC: cited by the USAID as one of the Successful Development Models for the 21<sup>st</sup> Century, and as one of the Six Best Practices of USAID's-Development Credit Authority (DCA).

## **2003**

2003 marked the fifth year of LGUGC as a credit enhancer for LGU debts. LGUGC capped the year with two bond issues of P205MM and P390MM for an academic center in Leyte and a commercial complex in San Juan, respectively.

LGUGC advocacy initiatives included: (1) tapping insurance companies for possible partnerships which resulted to the Insurance Commission's acceptance of LGUGC-guaranteed bonds as reserve investments of insurance companies, (2) hosting a consultative meeting among

technical representatives of national government agencies involved in LGU bonds, (3) conducting an orientation on the mandate and services of LGUGC to the NEDA Regional Development Officers, (4) participating in the nationwide advocacy campaigns of FINEX on alternative LGU fund sourcing, and (5) a meeting with Japan Bank for International Cooperation. Moreover, USAID support remained evident with a technical assistance obtained on portfolio risk management and determination of actuarially-sound leveraging ratio and the expansion of LGU database from 120 to 500 LGUs and publication of the screening results of said LGUs.

A total of six project feasibility studies were submitted and evaluated. The company added two new financial advisors to its pool of seven and increased the number of its active partner financial institutions from six to eight.

## **2004**

2004 marked the beginning of a new milestone for LGUGC with its new service offering - program management. World Bank, with the full backing of the Dept. of Finance, tapped LGUGC as its Guarantee Program Manager for the US\$10 million Electric Cooperative System Loss Reduction- Partial Credit Guarantee Program (EC-PCG) to be conducted through the Department of Energy.

At the same time, LGUGC enhanced the bond floatation of three (3) LGUs for infrastructure projects worth P697MM. These were extended to the Municipalities of Carmona and Imus and City of Pasay for middle-income housing subdivision, slaughterhouse and the construction of a two-storey modern public market and commercial center, respectively. Nine project feasibility studies were submitted and evaluated during the year. The company held extensive discussions with ten financial advisors and eight financial institutions for various prospective LGU projects

The institution remained unwavering in its advocacy to obtain an open declaration of national government support for the LGU bond market development in the country. The effort to liberalize the trusteeship of LGU bonds then limited only to government banks finally paid off. BSP approved the proposal and allowed PFIs to serve as trustee agents of any mortgage or bond issuances by LGUs and issued a circular containing the guidelines for PFI eligibility as trustee of LGU debt instruments.

Another milestone in 2004 is the signing of Memorandum of Agreement among USAID, JBIC, DBP and LGUGC to pilot a financing scheme for water projects, referred to as the Municipal Water Loan Financing Initiative (MWLFI). The MWLFI was aimed at testing the possibility of blending official development assistance (ODA - from JBIC via DBP) funds with private resources (PFIs loan co-guaranteed by LGUGC and USAID) to make it affordable to water service providers, which otherwise cannot meet pure private sector credit finance terms. The MWLFI was eventually pilot tested through Metro Iloilo Water District in 2006. The MWLFI was the precursor of the Philippine Water Revolving Fund (PWRF) that will be proposed by JBIC and USAID in 2006.

## **2005**

The company successfully completed negotiations for additional capital infusion by Asian Development Bank. A subscription agreement was entered into between Asian Development Bank (ADB) and the Company, whereby ADB formally expressed its desire to subscribe shares equivalent to 25% of the outstanding capital stock of the Company, fully diluted. This further enhanced LGUGC's financial position as a credit guarantee institution in the eyes of the various stakeholders it serves.

LGUGC continued to actively pursue a policy environment conducive to the development of the LGU bond market through its various advocacies and involvement in both government and private sector -led forums concerning LGU financing. The advocacy activities included: 1) eligibility of PFIs as LGU depository bank, 2) Adoption of LGUGC FA accreditation

system, 3) LGU credit rating as a pre-requisite for bond issuance, 4) amendment of the local government accounting system to introduce separate record-keeping for each economic enterprise, and 5) review and implementation of the 1996 DOF LGU Financing Policy Framework.

In late 2005, LGUGC management also reviewed its corporate vision, mission and strategies to maintain its competitive edge. The company expanded its guarantee coverage to include water districts, and opened its services to include direct loans and not just bond issuances. It likewise implemented a more aggressive direct marketing strategy.

A total of five project feasibility studies were evaluated for possible bond floatation but nothing materialized. One account was disapproved by the Board. At this time, partner financial advisors cannot get mandates from LGUs primarily due to relatively cheaper cost of funds in loans over bonds.

## **2006**

LGUGC continued to pursue an active marketing campaign in accordance with its revised strategies. This resulted in two closed deals aggregating P89MM, one of which is a water district direct loan guarantee. Towards the second half of the year, LGUGC rationalized its organizational structure and enhanced its marketing unit. The effectiveness of these moves were apparent in the rise in number of projects submitted for guarantee and the approval of applications of the two more water districts, Metro Cebu Water District for P250MM and Meycauayan Water District for P180MM. The year also saw LGUGC sign two more guarantee program management agreements for 1) CBRED-Loan Guarantee Fund Program and 2) RPP-Loan Guarantee Fund for Photovoltaic System Loans. Moreover, the company further expanded its guarantee coverage to include electric cooperatives (ECs), renewable energy technology providers, and state universities and colleges (SUCs).

During the fourth quarter of 2006, management started its aggressive marketing campaign particularly among private banks. Advocacy with PFIs was a strategy implemented to allow LGUGC to piggy back on PFI's branch networks. While a total of 11 financial institutions participated in the past 15 projects of LGUGC only PNB, Allied and Maybank were still actively marketing the LGUGC guarantee. As a result of initial presentations to PFIs, BPI, MetroBank and Union Bank committed to market the LGUGC guarantee.

LGUGC continued to coordinate with its pool of FAs (currently at 10) though only 3 had live mandates for potential LGUGC guarantee extension. Three projects were being reviewed as of year-end, all of which came from LGUGC direct marketing efforts with an LGU and water districts.

In 2006, LGUGC was made a member of the PWRF Steering Committee which was constituted to design the Philippine Water Revolving Fund. The PWRF Steering Committee was formed in 2005 by the Department of Finance (DOF), National Economic and Development Authority (NEDA), BAP, JBIC and USAID. The Steering Committee and its Technical Working Group have been working to explore options and modalities for such a water revolving fund.

With LGUGC's continued advocacy, PFIs' interest on water sector financing grew as evidenced by their attendance in several PWRF consultation meetings. In February 2006, five PFIs indicated interest to fund the second water project to be reviewed by LGUGC. Given the profile of accounts in the pipeline, it is anticipated that substantial portion of LGUGC's new guarantees for 2007 shall be from water projects.

LGUGC management did not slow down on its advocacies for the development of the LGU debt market. Recent advocacy activities included (1) Proposal to BSP for the application of the 50% risk weight applied on LGU bonds also to LGU loans under the same conditions, with LGUGC guarantee and covered by a deed of assignment of IRA of the LGU, (2) Insurance

Commission approval of the request to make LGU bonds guaranteed by LGUGC as automatic reserve eligible for insurance companies, and (3) Proposal to the Office of the President for an Executive Order declaring LGU bonds as a core developmental concern of the National Government.

## **2007**

2007 being an election year, the management implemented a shift in strategy and focused its marketing efforts on water districts (WDs), with encouraging results. It made landmark deals on water projects with eight water district loans totaling P1.046 Billion approved for 85% guarantee cover during the year. Booked guarantees were, however, only at P385MM or 64% of the P600MM target due primarily to some borrowers' decision to delay loan availments to 2008. The loans approved for guarantee were for efficiency improvement, water supply improvement, and expansion projects.

To further assist the water sector, LGUGC entered into a Memorandum of Agreement with the Local Water Utilities Administration (LWUA) where LWUA agrees to co-finance loans to WDs with LGUGC accredited banks, provide a standby liquidity guarantee to co-lender after the latter's maximum loan term expires to allow loan terms to stretch to as long as 25 years, and take over the management and policy making functions of defaulting WDs on behalf of LGUGC and its partner accredited bank.

The year also saw the Company venturing into development sectors such as the renewable energy sector and the e-laboratory projects of state universities and colleges, with one project each approved for guarantee aggregating P55MM.

Despite its shift in market focus, LGUGC management continued to keep an eye on opportunities among the LGUs. As of year-end, the guarantee applications of three LGUs were being processed.

Due to its aggressive marketing campaign among private banks to avail of its guarantee, LGUGC ended the year 2007 with a total of 12 accredited financial institutions. Advocacy to private financial institutions (PFIs) was a strategy implemented to allow LGUGC to piggy back on the PFIs' branch networks.

LGUGC continues to have the support of the USAID through its co-guarantee agreement with USAID-Development Credit Authority. This partnership has been extended 5 times since the agreement first expired in September 2004, the latest expiry date being September 30, 2008. (In March 2008, LGUGC and USAID finalized the renewal of the agreement for another five years.)

LGUGC is likewise the recipient of two types of technical assistance from USAID. The first is the study on the methodology for pricing its guarantee, and the second, the formulation of a credit rating framework for water districts. Both studies are targeted for delivery to LGUGC by the end of March 2008.

The year 2007 saw a major shift in the marketing strategy of LGUGC for the EC-PCG Program. Additional services were made available to electric cooperatives (ECs) such as: assistance in completing the requirements of lenders, the Energy Regulatory Board (ERC) and other regulatory agencies; grant for feasibility study on capital expenditures as prescribed by ERC; and grant for tariff rate increase study. The new marketing strategy paid off with six electric cooperatives signing the memorandum of understanding (MOU) to show their commitment to avail of the program before full due diligence is initiated.

In 2007, LGUGC established its RPP-LGF program management office (PMO) and worked closely with the Department of Energy in developing the market base for RPP-LGF. The PMO touched base with a number of network organizations in the microfinance industry to develop linkages and pave the way for partnerships with photovoltaic system providers. As of year-end, three MFIs were accredited under the program.

LGUGC management attached the program management office (PMO) of CBRED-LGF to its Relationship Marketing Department (RMD). LGUGC actively promoted the program to financial institutions (FIs) and encouraged FIs to integrate the program in their regular product lines. As of year-end, the CBRED-LGF had 14 accredited financial institutions and two approved renewable energy projects.

## 2008

In line with its vision to be the recognized private sector link in public-private partnerships for local development financing, the company continued to focus its efforts toward ensuring that private resources are channeled to more local development projects in 2008. LGUGC's marketing efforts were concentrated on water districts and local government units, specifically for projects involving the improvement of water quality and supply, and efficiency in the delivery of services in the countryside. These resulted to the approval of 6 projects, 4 for water districts and 2 for LGUs, aggregating P782.48 million in loan amount. LGUGC booked P645 million worth of guarantees against its target of P605 million.

LGUGC management continued to keep an eye on opportunities among the LGUs and other eligible markets. As of year-end, the guarantee applications of 3 LGUs, 2 WDs, 1 electric cooperative and 1 BOT proponent for a public market were being processed. LGUGC likewise increased its number of partner financial institutions from 12 in 2007 to 15 in 2008.

LGUGC likewise continued to enjoy the support of the United States Agency for International Development (USAID) through its co-guarantee agreement with USAID-DCA Credit Authority. In September 2008, a new five-year agreement was signed by LGUGC and USAID, specifically for water projects of LGUs, water districts and private water suppliers.

LGUGC remained an active participant of the Philippine Water Revolving Fund (PWRF), a collaborative effort of the USAID, JICA (formerly JBIC), the Department of Finance, Municipal Development Fund Office (MDFO), the Development Bank of the Philippines and LGUGC.

LGUGC continued to advocate for policy reforms and innovative undertakings in support of local development financing. The MDFO Policy Governing Board approval of the LGUGC-proposed terms and conditions for a standby credit facility for LGU water project deals under the PWRF is a major breakthrough as it allows PFI loans to LGU water projects to be amortized for 15 years. The approval carries with it an MDFO commitment to take out the PFI loan at the end of 10 years or when the interest rate reaches a pre-agreed cap, at the same terms and conditions as the PFI loan. This makes it possible for PFIs to compete for LGU water project business.

LGUGC was invited to the Philippines Development Forum Sub Working Group on Water Supply and Sanitation, specifically on Financing and Infrastructure Development, in recognition of its important role in the development of the water sector. The main function of the sub-working group is to serve as the forum of the Philippine government to apprise all stakeholders in the guiding principles and policies for the water supply and sanitation sector's development agenda.

Exploratory discussions were conducted with Asia Clean Energy Accelerator for potential collaboration via guarantee of renewable energy projects beyond the CBRED-LGF cap of P20MM per project, and the Department of Environment and Natural Resources (DENR) regarding referral of potential renewable energy proponents with viable projects.

LGUGC was invited by the International Resources Group (IRG) – Philippines to be its fund manager partner in its bid for consulting services to the Chiller Project. The IRG is an international professional services firm that specializes in all renewable energy fields, energy efficiency, environmental management and greenhouse gas mitigation. The 7-year chiller project will assist the country replace inefficient CFC Chillers with new non-CFC, energy

efficient and cost effective chillers. We are currently waiting for the result of the project evaluation being conducted by the DENR and World Bank.

## 2009

LGUGC achieved its guarantee volume target, booking P647 million from approved guarantees of P1.496 billion as of yearend against projection of P620 million, making 2009 another fruitful year. Its operating income covered total expenses by 155%, much higher than the 130% target. LGUGC maintained its zero default record, with a Contingent Liability of P2.025 Billion as of year-end 2009 for a leverage ratio of 4.3x against the Net Worth.

In keeping with its vision to be the recognized private sector link in public-private partnerships for local development financing, the company focused its efforts toward ensuring that private resources are channeled to more local development projects in 2009 by: 1) maintaining close linkages with partner financial institutions, financial advisors, associations of target markets, and institutional partners, 2) improving guarantee evaluation and processing system and timeline, and 3) expanding guarantee coverage to include renewable energy (RE) proponents and private water service providers.

LGUGC further strengthened the EC-PCG program by signing a Memorandum of Agreement (MOA) with NEA on June 16, 2009 to co-finance EC capex requirements. With the MOA, the EC-PCG program is expected to finally take off. To date, NEA has referred 18 EC accounts to LGUGC under the co-financing agreement.

The CBRED-LGF program is being marketed aggressively. A new DOE policy directive issued in November 2009 requires proponents to be registered under DOE as RE technology providers before they may qualify for the program.

The RPP-LGF was terminated on June 30, 2009 in accordance with the DOE-World Bank RPP Project Agreement. The company was able to deliver the following under the RPP-LGF: 1) accredited 5 MFIS with P1MM Automatic Guarantee Lines each, 2) a total of 188 PV installations guaranteed, and 3) guaranteed loan portfolio amounting to P1.370MM.

The LGUGC Board and Management continued to advocate for policy reforms in support of local development financing. The company actively participated in conferences, forums and workshops with public-private partnership opportunities as the private sector representative. LGUGC also has a pending proposal with the Bangko Sentral ng Pilipinas for the reduction of the risk weight of LGUGC-guaranteed LGU loans and water district loans and bond issuances from 100% to 50%.