

MALACAÑANG
MANILA

BY THE PRESIDENT OF THE PHILIPPINES

ADMINISTRATIVE ORDER NO. 10

STRENGTHENING AND ENHANCING THE PROCEDURES FOR SETTING THE ANNUAL NET LENDING PROGRAM FOR GOVERNMENT OWNED AND/OR CONTROLLED CORPORATIONS (GOCCs), AND GUIDELINES FOR THE CONVERSION OF NATIONAL GOVERNMENT ADVANCES, INCLUDING INTEREST ON NATIONAL GOVERNMENT ADVANCES INTO EQUITY AND/OR SUBSIDY TO GOCCs

WHEREAS, several Government Owned and/or Controlled Corporations (GOCCs) have continuously relied on the National Government (NG) for advances on the servicing of their relent and/or guaranteed domestic and foreign borrowings resulting in the distortion of the macroeconomic targets of the NG;

WHEREAS, there is a need to rationalize and improve the procedures which govern the extension of advances by the NG for the abovementioned obligations, and the conversion of NG advances, interest on net advances, into equity and/or subsidy to GOCCs;

NOW, THEREFORE, I, JOSEPH EJERCITO ESTRADA, President of the Philippines, by virtue of the powers vested in me by law, do hereby order:

ARTICLE I. POLICY

SECTION 1. Policy Orientation. Consistent with the existing policy on the extension of advances by the NG for the servicing of guaranteed and re-lent domestic and foreign borrowings of GOCCs and the conversion of NG advances including interest on net advances into equity and/or subsidy to GOCCs, this Administrative Order shall enhance the existing principles and procedures in the a) programming and application of NG advances for debt servicing of GOCCs' borrowings; and b) conversion of NG advances and interest on NG advances into equity and/or subsidy.

ARTICLE II. PROCEDURES FOR OBTAINING/GRANTING NG ADVANCES

SEC. 2. Requests for Programming of Assistance and Actual Drawdowns from the Programmed Advances.

- (a) All requests for programming of net lending assistance should be submitted to the Department of Finance (DOF) on or before February 15 for the programming of required advances for the succeeding year; and
- (b) All applications for actual drawdowns from the net lending program should be submitted to the DOF ninety (90) days prior to the scheduled actual drawdown.

SEC. 3. Principles and procedures in the review of proposals and recommendations on requests from GOCCs for NG Advances.

- (a) All requests for NG advances shall be reviewed and evaluated by the DOF. Specifically, the DOF shall review and evaluate the projected receipts and expenditures of the requesting GOCC taking into consideration the reasonableness of its existing tariff structure/policy, credit and collection policy and procedures, operating and capital expenditure levels and asset management and disposal;
- (b) Advances shall be programmed only when the cash flow of the requesting GOCC which already takes into account NG subsidy and equity support, clearly indicates insufficiency of funds for the settlement of maturing obligations. After evaluation by the DOF, advances for net lending to GOCCs shall only then be allowed if included in the approved annual net lending program. Net lending to GOCCs outside the program shall be allowed only under exceptionally meritorious circumstances resulting from unforeseen events which hinder GOCCs from paying its maturing obligations or resulting from, but not limited to circumstances outlined under Article III, Section 4;
- (c) An Inter-Agency Committee chaired by the Department of Finance with members from the Department of Budget and Management (DBM) and Bureau of the Treasury (BTr) shall determine the appropriate amount to be programmed for net lending and submit its final recommendations to the Development Budget and Coordinating Committee (DBCC). The decision of the DBCC shall be considered in the fiscal programming and monitoring of the Consolidated Public Sector Financial Position; and

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- (d) DOF shall endorse to the BTr meritorious requests of GOCCs for actual drawdowns from the net lending program.
- (e) Penalty charge, in addition to the interest on NG advances, shall be imposed on advances made by the NG as guarantor/direct borrower of the GOCC obligations without favorable endorsement from the DOF.
- (f) The BTr shall submit to the DOF a monthly summary of advances to and collections from GOCCs.

ARTICLE III. PROPOSALS AND RECOMMENDATIONS ON THE CONVERSION OF NG ADVANCES AND INTEREST ON NG ADVANCES

SEC. 4. Principles and procedures in the Conversion of NG Advances into Equity and/or Subsidy to GOCCs.

All proposals for conversion shall be addressed to the Secretary of Finance through the Corporate Affairs Group (CAG) for evaluation and processing, copy furnished the Treasurer of the Philippines. The DOF shall make an evaluation on the merits of the proposal for conversion. In order to be considered meritorious, the proposal should clearly show that:

- (a) the GOCC is experiencing cash flow difficulties as a result of, but not limited to: i) high interest payments and foreign exchange losses; ii) heavy reliance on loans; and iii) tariff/pricing structure that is not cost recoverable;
- (b) there is no workable option for improving its cash position; and
- (c) loans advanced by NG being requested for conversion were used for undertakings/projects which are not purely recoverable or which by its nature require NG support.

Likewise, the evaluation of the DOF shall consider the proposal's effect on corporate operations, financial position, international commitments and other applicable covenants which shall be coordinated with the Government Corporate Monitoring and Coordinating Committee (GCMCC) in so far as it relates to performance commitments to the GCMCC. On the other hand, the BTr shall make an evaluation as to the implications of the proposal on the NG's cash position and submit the same to the Secretary of Finance.

Before full conversion is recommended and endorsed to DBM, the requesting GOCC shall agree to and accomplish performance standards and targets prescribed and to be monitored by the DOF.

The recommendations of the Secretary of Finance on the approved conversion shall be endorsed to the DBM in writing and proposed for inclusion in the appropriation for the succeeding year. The Secretary of Finance shall likewise inform the GOCC concerned if the proposal for conversion was disapproved.

SEC. 5. The DBM shall, upon receipt of recommendation from the Secretary of Finance, include the DOF-approved conversion for consideration of an appropriations cover during the budget year.

SEC. 6. The BTr shall cease from charging interest on NG advances on the recommended accounts for conversion based on the cut-off date recommended by the Secretary of Finance.

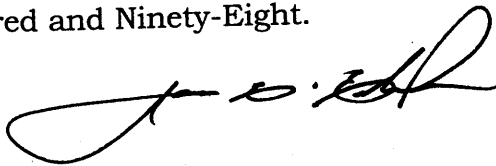
SEC. 7. *Implementing Guidelines.* The DOF is hereby empowered to issue the necessary implementing rules and regulations three months after the issuance of this Administrative Order.

SEC. 8. All executive issuances, orders, rules and regulations, and/or similar issuances inconsistent with this Administrative Order are hereby revoked, amended or modified accordingly.

ARTICLE IV. EFFECTIVITY

SEC. 9. This Administrative Order shall take effect immediately upon approval.

DONE in the City of Manila, this ^{14th} day of August, in the year of Our Lord, Nineteen Hundred and Ninety-Eight.



By the President:



RONALDO B. ZAMORA
Executive Secretary

