

**LOCAL GOVERNMENT UNIT BOND FLOTATION  
FOR FINANCING DEVELOPMENT  
IN THE PHILIPPINE SETTING:  
CASE STUDIES  
AND  
VITAL LESSONS LEARNED**

A Dissertation

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## LIST OF ACRONYMS

ADB	Asian Development Bank
AKELCO	Aklan electrical Cooperative
ASEAN	Association of South East Asian Nations
BAP	Bankers Association of the Philippines
BIR	Bureau of Internal Revenue
BLGF	Bureau of Local Government Finance
BAPB	Boracay-Aklan Provincial Bonds
BOT	Build-Operate Transfer
BMA	Bangkok Metropolitan Administration
CALABARZON	Cavite, Laguna, Batangas, Rizal and Quezon
CEBUs	Cebu Equity Bond Units
CHK	Czech Republic Kurona (currency)
COA	Commission on Audit
CP	Commercial Paper
CPVDC	Cebu Property Ventures and Development Corporation
DOF	Department of Finance
DBM	Department of Budget and Management
ECDPM	European Centre for Development Policy Management
EO	Executive Order
GAA	General Appropriations Act
GO	General Obligation
GOCC	Government-Owned and Controlled Corporation
GOPP	Goal-Oriented Project Planning
HGC	Housing Guarantee Corporation
HIGC	Home Insurance Guarantee Corporation
ICRCP	Investment Company Representative Certificate Program
IMF	International Monetary Fund
IIRR	International Institute for Rural Reconstruction
IRA	Internal Revenue Allotment
JV	Joint Venture
LDC	Less Developed Countries
LGC	Local Government Code
LGU	Local Government Unit
LGUGC	Local Government Unit Guarantee Corporation
LWUA	Local Water Utilities Administration
MBB	Municipal Bond Bank
MDF	Municipal Development Fund
MIB	Multinational Investment Bancorporation
MIMAROPA	Mindoro Occidental, Mindoro Oriental, Marinduque, Romblon and Palawan
NCCC	New City Commercial Center
NCPAG	National College of Public Administration and Governance

NEDA	National Economic Development Authority
NEDF	Negros Economic Development Foundation
NG	National Government
NSCB	National Statistical Coordination Board
NWFP	North-West Frontier Province
OECD	Organisation for Economic Co-operation and Development
PAO	Provincial Administrative Organization
PBAC	Pre-Bids and Awards Committee
PD	Presidential Decree
PGB	Project Governing Board
PIDS	Philippine Institute for Development Studies
PRC	People's Republic of China
PSE	Philippine Stock Exchange
PSGC	Philippine Standard Geographic Code
RA	Republic Act
RTI	Research Triangle Institute
TRA	Tax Reform Act
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USBMA	United States Bond Market Association
VMC	Victorias Milling Company
VRESCO	Victorias Rural Electrification Service Company
WB	World Bank

## **ABSTRACT**

Financing local development projects has been a perennial problem for local government units (LGUs). Traditionally, LGUs have depended on three sources of revenue: (1) the Internal Revenue Allotment (IRA) from the national government; (2) local tax revenues; and (3) non-tax sources such as grants. These three sources, however, have proven to be inadequate in satisfying the financing needs of LGU-initiated development projects in particular and bridging the "funding gap" in general. The latter arises when infrastructure development projects and delivery of services are imperiled and could be put on hold because traditional sources of financing (local taxes, user charges, central government transfers, and so forth) cannot adequately meet the capital requirements of the said project.

Bond flotation is an innovative borrowing alternative. Its purpose is to fund revenue-generating projects which would eventually lessen the LGUs' reliance on the IRA. Moreover, it applies the theory of governance by uniting the purpose of the government (public sector) with that of civil society and the business sector (private sector).

It has long been a favored way of raising funds in developed countries like the United States. More recently, developing countries (e.g. Poland, South Africa, Zimbabwe) have chosen to pursue this financing alternative. In Asia, countries like China, Pakistan, Sri Lanka, Malaysia, India, Indonesia, Thailand and the Philippines have

had bond flotation experiences which were developed with the assistance from the United States Agency for International Development (USAID).

In the Philippines, the enactment of the Local Government Code of 1991 solidified the government's decentralization efforts. Under Article 200 of the Code, local government units were encouraged to venture into credit-financing, build-operate-transfer schemes, bond flotation and other innovative means to finance local development projects. Making use of this provision, sixteen Philippine LGUs floated local government bonds in the capital market.

Despite being a promising financing alternative however, only a limited number of LGUs have ventured into bond-financing because of the perceived complexity of the process. Thus, the thrust of the paper is to explore the bond flotation process and extract valuable lessons from the bond flotation experiences of selected LGUs. This will facilitate the bridging of the funding gap so as to enhance LGU's capacity to finance development projects through partnerships between and among the sectors of the society.

Chronicling the success in bond flotation of some Philippine LGUs could serve as an inspiration and encouragement for other LGUs whose development projects are in need of funding aid. At the same time, a perusal of the less successful ones could also benefit LGUs and policymakers by alerting and guiding them on what should be avoided when floating bonds.

This study is envisioned to significantly contribute to the current literature on bond flotation by studying the Philippine experience and evaluating its overall applicability in the Philippine local government scenario. To achieve this aim, the study

used both quantitative and qualitative research methods. This generated a comprehensive view of the implementation process in the Philippine setting. It used two major approaches: (1) the case study method, which includes financial ratio analysis, documents review and analysis, on-site ocular inspection, and semi-structured interview; and (2) a comparative analysis of the different scenarios presented in the case studies.

The study focuses on five different LGUs that have undertaken bond flotation: (1) Tagaytay City, (2) Puerto Princesa City in Palawan, (3) Urdaneta City in Pangasinan, (4) Victorias Municipality in Negros Occidental, and (5) Aklan Province. These sites were selected on the basis of three criteria in order to ensure sample diversity. These are: (1) LGU-level (e.g. municipality, city or province); (2) type of project financed (e.g. abattoir, convention centers for tourism, public housing projects); and (3) degree of success.

The case study method generated information on the bond flotation implementation, the strategies that were adopted, the stakeholders involved, and the reasons for bond flotation. The similarities and differences in experiences yielded an array of generalized strengths, weaknesses and lessons learned such as: (1) the need for accuracy in feasibility studies and other pre-flotation procedure, (2) ways on how to engender business and civil sector involvement, (3) and the need for national-to-local government linkages.

The study concludes by laying out recommendations to improve the bond flotation process and procedures particularly in the preparation, execution and evaluation phases. These recommendations suggest that floating of bonds, although an attractive

funding alternative, is still a debt instrument that requires the building of investor-confidence through prompt payment and good/sound financial management. It is also laden with bottlenecks and challenges which when ironed out and addressed could pave the way for more development projects. In the long run, it could possibly contribute to the fiscal sustainability of the LGUs.