LGUGC Facts

Brief History
• Incorporated in March 1998 with 51% ownership by BAP member banks, and 49% DBP ownership
• Initially opened only to Local Government Units (LGUs)
• Essentially launched the Municipal Bond Market in the Philippines
• Opened to Electric Cooperatives (ECs) in 2004, Renewable Energy Projects in 2006, and Water Districts (WDs) in 2008

Vision & Mission
• Advocate for reforms that will mobilize resources of the private sector toward financing local development projects
• Continue to advocate for policy reforms for local government unit (LGU) debts, whether bond floatation or direct loans, and
• Instill value of good governance to enhance the borrower’s enterprise management and creditworthiness, especially local government and utility companies
LGUGC – Institutional Linkages

- United States Agency for International Development (USAID) – Development Credit Authority (DCA): Co-Guarantee Agreement for Water Projects


- European Union (EU)/Global Partnership on Output-Based Aid (GPOBA)/World Bank – Access to Sustainable Energy Programme: Program Management Agreement (ASEP)
WHAT WE DO

CREDIT GUARANTEE

GUARANTEE PROGRAM MANAGEMENT

LGU GC

CREDIT RATING

RELATIONSHIP MANAGEMENT WITH FINANCIAL INSTITUTIONS

COLLABORATION WITH NATIONALGOVERNMENT
REGULAR GUARANTEE SYSTEM

- Guarantees FIs against borrower default
- Pays FIs in case of default according to original amortization schedule
- Provides loans
- Underwrites bond issues
- Pays loans / bond amortization
- Calls on guarantee if borrower defaults

Due Diligence / Credit Rating

LGUGC

Provides up to 50% co-guarantee for water projects

BORROWER

Financial Institutions

USAID

From the American People
CBRED-LGF PROGRAM

Grant Provider: Global Environment Facility (GEF)
Implementing Agency: United Nations Development Programme (UNDP)
Republic of the Philippines: DOF and DOE

Geographic Scope: Philippines

US$1.6MM

Project Agreement & LGUGC Grant Agreement
Guarantee Program Implementation Agreement
Guarantee Reserve Escrow Agreement

ESCROW AGENT

BDO

LGUGC
LGU GUARANTEE CORPORATION
# GUARANTEED ACCOUNTS - REGULAR
(as of December 31, 2015)

<table>
<thead>
<tr>
<th>BORROWER TYPE</th>
<th>NOS. OF PROJECTS</th>
<th>AGGREGATE LOAN AMOUNT (US$ MM)</th>
<th>AGGREGATE GUARANTEED AMOUNT (US$ MM)</th>
<th>LEVERAGE RATIO vs. LGUGC CAPITAL (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government Units - Bonds</td>
<td>17</td>
<td>68</td>
<td>68</td>
<td>14.80</td>
</tr>
<tr>
<td>Local Government Units - Direct</td>
<td>13</td>
<td>22</td>
<td>19</td>
<td>4.88</td>
</tr>
<tr>
<td>Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Government Units - AGL</td>
<td>9</td>
<td>18</td>
<td>16</td>
<td>3.96</td>
</tr>
<tr>
<td>Water Districts</td>
<td>15</td>
<td>45</td>
<td>38</td>
<td>9.68</td>
</tr>
<tr>
<td>Electric Cooperatives</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>2.00</td>
</tr>
<tr>
<td>Medium and Large Ent.</td>
<td>21</td>
<td>44</td>
<td>37</td>
<td>9.56</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>80</strong></td>
<td><strong>207</strong></td>
<td><strong>185</strong></td>
<td><strong>44.89</strong></td>
</tr>
</tbody>
</table>

* Leverage ratio computed using LGUGC paid-up capital of US$5MM and aggregate loan amount @ P46.92=US$1
## GUARANTEED ACCOUNTS
### ECPCG AND CBRED-LGF PROGRAMS
(as of December 31, 2015)

<table>
<thead>
<tr>
<th>BORROWER TYPE</th>
<th>NOS. OF PROJECTS</th>
<th>AGGREGATE LOAN AMOUNT (US$ MM)</th>
<th>AGGREGATE GUARANTEED AMOUNT (US$ MM)</th>
<th>LEVERAGE RATIO vs. PROGRAM FUND (x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECPCG</td>
<td>19</td>
<td>61</td>
<td>49</td>
<td>3.81</td>
</tr>
<tr>
<td>CBRED-LGF</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>1.36</td>
</tr>
</tbody>
</table>
## STANDARD TERMS AND CONDITIONS

<table>
<thead>
<tr>
<th></th>
<th>REGULAR</th>
<th>ECPCG</th>
<th>CBRED-LGF</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lender</strong></td>
<td>Any LGUGC partner financial institution (PFI)</td>
<td>Any LGUGC PFI</td>
<td>Any LGUGC PFI</td>
</tr>
<tr>
<td><strong>Loan Term</strong></td>
<td>Cash flow-based</td>
<td>Up to 10 years</td>
<td>Up to 10 years</td>
</tr>
<tr>
<td><strong>Grace Period</strong></td>
<td>Depending on project requirement</td>
<td>At least 1 year grace period, but not to exceed the PFI loan term</td>
<td>Maximum 2 years grace period, but not to exceed the PFI loan term</td>
</tr>
<tr>
<td><strong>Single Guarantee Limit</strong></td>
<td>25% of LGUGC Net Worth</td>
<td>USD2.5 Million</td>
<td>PhP50 Million</td>
</tr>
</tbody>
</table>
| **Guarantee Coverage**  | Up to 85% of the debt service to the PFI; up to 80% for ECs             | Up to 80% of the loan principal amount and 3 months interests, subject to LGUGC interest rate cap | • Up to 85% of the principal amortization  
• To be determined based on PFI request and Borrower Risk Rating results |
| **Guarantee Fee**       | • Risk-based                                                            | 0.25% per annum                                                        | 0.25 per annum                                                         |
NAMA Support Project
Enabling Distributed Solar in the Philippines

Country context

• The Philippines is one of the fastest growing economies in Asia

• Among the world’s most vulnerable countries to extreme weather events, natural disasters, and the impacts of climate change

• A comparatively insignificant GHG emitter, the priority for the Philippines is to build adaptive capacity and resilience to the effects of climate change

• Recognizing that low carbon development also promotes sustainable economic growth, the country has sought to pursue climate change mitigation strategies towards this goal
Energy Sector Context

• In 2012, the energy sector was the largest contributor to GHG emissions
• 67% all power generation is derived from fossil fuel, 50% from coal
  • Coal consumption in 2014: 20 million tons, of which 15.2 are imports
  • Annual coal consumption could rise by more than two-thirds over the next two decades
• High rates of population growth and economic development are projected to increase power-related emissions by 400% between 2007 and 2030, in a BAU scenario
• Emerging renewables currently only comprise 0.4% of total energy mix

Energy Policy Framework

Renewable Energy Act of 2008 (RA 9513)

• National Renewable Energy Program (NREP)
• 2010: Adoption of the FIT Rules, which established the FIT as a fixed tariff
  • Priority connection to the grid
  • Priority purchase and transmission of and payment for by grid system operators
  • Fixed tariff for 20 years
  • To be applied for generation utilized in compliance with RPS
• 2013: Adoption of Net-metering Rules and Interconnection Standards
• 2013: Implementation of open access and retail competition for electricity end-users with an average monthly peak of at least 1MW
Rationale for the NAMA Support Project

Despite the existence of the following

• Net Metering Rules and Interconnection Standards exist since 2014
• Economic for solar rooftop are favorable (retail tariffs over 0.20 USD/kWh)
• Existing codes cover specific aspects to both grid/distribution integration of variable renewable energy (VRE)

➤ **Consumers are not taking advantage of these opportunities on a large scale**

What is preventing the uptake of solar rooftop units in the Philippines?
Barriers to Solar Rooftop Uptake

- **Regulatory and Policy**
  - Permitting requirements across multiple authorities (i.e. the local government units, the distribution network operators) create project delays and lengthy approval processes
  - High administrative costs results in increased risk premiums for project developers

- **Economic**
  - High upfront costs for renewable energy technology. PV installations are up to 80% higher in the Philippines than in Europe for similar technologies, in part due to lack of competition, small market size, high soft costs

- **Technical**
  - Lack of certified technology, no standardized accreditation processes for vendors
  - Little public and consumer awareness of the availability of NEM projects

- **Financial**
  - Lack of available financing options at competitive interest rates for consumers
  - Financial institutions lack long-term funding, and view RE projects as risky
  - Electric cooperatives need credit enhancement tools to increase investments in RE
Goals of the NAMA Support Project

The project’s activities will address these barriers to add on-grid distributed energy from renewable sources.
How the NAMA will achieve its goals

**Policy/Technical component:**
- Facilitate the expansion of private-sector distributed solar by
  - Looking at appropriate policy changes
    - Net metering regulation
      - Supporting the Philippines Energy Regulatory Commission’s (ERC) efforts to improve net metering regulation (including revising the NEM rates to make NEM more sustainable)
    - Streamlining interconnection standards
      - Slow response times for application
        - In August 2013, only 2 distribution network operators indicated that they had an interconnection policy in place
      - Strive toward eliminating distribution impact study (DIS) requirements (costly, time-consuming) for smaller size installations
  - Streamlining the permitting process
    - Build capacity of local governments and utilities to evaluate and approve projects
    - Pilot streamlined applications in selected jurisdictions
  - Accrediting vendors & creating a technology certification program
    - Will reduce technology risks to consumers, grid operators, and banks
How the NAMA will achieve its goals (2)

**Financial Component**
- Establish a Credit Guarantee Fund, expand the financing options available for distributed solar projects
  - Would reduce risks of banks to lend to RE DG and allow for entering the RE DG market on bigger scale and extending better financing terms to RE DG customers
  - Will allow rural electric cooperatives to borrow funds for RE DG development
- Leverage private sector finance for RE DG
- Build capacity of local financial institutions to finance projects
  - Technical assistance to banks to develop standardized products, documents, and technology and project evaluation
- Market development: Initiate a pipeline of “finance ready” projects
Project Stakeholders

- The Department of Energy of the Philippines, Renewable Energy Management Bureau
- The LGU Guarantee Corporation (LUGGC)
- Center for Clean Air Policy
- The World Bank

Timeline: Proposal to the NAMA Facility was made October 31, 2016
NAMA Financing

• International Support Requested: € 20 million
  • Financial component to establish the Credit Guarantee Fund
  • Technical component to develop 1) accreditation program for vendors 2) technology certification 3) project pipeline – fund may cover a portion of development costs

• Leveraged Private Sector Finance
  • The Credit Guarantee Fund will be leveraged at least 5 times by private banks in terms of the amount of loans provided to projects
  • With equity invested, the total leverage will be 9 times the initial seed funding of the Credit Guarantee Fund
Conclusions

• **Cost-effective**: Leverage €89 million in private sector funds and catalyze the distributed solar market estimated at €400-800 million annually.

• **National commitment and political buy-in**: Continued support from the Department of Energy whose mission is to “improve the quality of life of the Filipino by formulating and implementing policies and programs to ensure sustainable, stable, secure, sufficient, and accessible energy” and the Climate Change Commission.

• The proposal **needs support** to remove the main barrier to investment in the DG RE market, namely lack of access to non-recourse financing due to perceived risk by local financial institutions.
Thank you!

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