
CIRCULAR 05-2019

22 April 2019

TO : Heads of Departments, Bureaus, Offices and Agencies of the National Government including State Universities and Colleges, Government Owned and/or Controlled Corporations, Government Financial Institutions and Local Government Units

SUBJECT : Payment through Issuance of Letters of Credit from Government Servicing Banks (GSBs) in favor of Foreign Suppliers

1.0 PURPOSE

This Circular is issued to inform all procuring entities (PEs) that the use of Letters of Credit to guarantee payment of government procurement contracts shall only be made in favor of foreign suppliers and covering those issued by Government Servicing Banks pursuant to Government Procurement Policy Board Resolution No. 12-2019.

2.0 SCOPE

All Departments, Bureaus, Offices and Agencies of the National Government including State Universities and Colleges, Government-Owned and/or Controlled Corporations, Government Financial Institutions and Local Government Units.

3.0 DEFINITION OF TERMS

3.1 **Letter of Credit** – a document issued by a bank to guarantee, on behalf of the procuring entity or buyer, timely payment to the seller or exporter against the receipt of complying stipulated documents.

3.2 **Government Servicing Banks** – authorized government servicing banks, such as the Land Bank of the Philippines, Development Bank of the Philippines, Philippine Veterans Bank, to which Department of Budget and Management (DBM) issues the Notices of Cash Allocation for crediting to the Modified Disbursement System sub-accounts of NGAs.¹

4.0 GENERAL CONSIDERATIONS IN USING LETTERS OF CREDIT

4.1 PEs may only use Letters of Credit issued by a GSB to guarantee the timely payment for the goods delivered by a foreign supplier in accordance with GPPB Resolution No. 12-2019.²

¹ Section 5.8 of DBM Circular Letter No. 23-2016, dated 23 December 2013.

² Dated 22 April 2019.

4.2 In accordance with Section 42.6 of the 2016 revised Implementing Rules and Regulations, Clause 10.5 of the General and Special Conditions of Contract of the 5th Edition of the Philippine Bidding Documents for the Procurement of Goods and GPPB Resolution No. _-2019, PEs may cause the issuance of Letters of Credit subject to the following conditions:

- a.) the letter of credit shall be issued by a GSB;
- b.) the letter of credit shall be made in favor of a foreign supplier;
- c.) the cost for the opening a letter of credit shall be for the account of the foreign supplier which must be stated in the bidding documents; and
- d.) no payment shall be charged against the letter of credit until delivery and acceptance of the goods as certified by the PE.

5.0 For guidance and compliance.

6.0 This Circular shall take effect fifteen (15) days following its publication.

SGD

LAURA B. PASCUA
Alternate Chairperson