

13TH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)

04 JUL -6 11:06

SENATE

RECEIVED BY:

S. BILL NO. **1353**

Introduced by Senator Ralph G. Recto

EXPLANATORY NOTE

Mandated credit programs (MCPs) are legislation imposed programs on financial institutions as a means of allocating financial resources to target sector beneficiaries with the view that potential social benefits can be derived from the administration of such programs.

Presently, there are two (2) laws mandating banks to set aside a portion of their loan portfolio to specific sectors. Presidential Decree No. 717, otherwise known as the "Agri-Agra Law", requires banks to allocate at least 25% of their net incremental loanable funds for agricultural credit, of which 10% is for agrarian reform and 15% for agriculture-related loans. Republic Act No. 6977, as amended by R.A. 8289 mandates all lending institutions to allocate 6% of their total loan portfolio, for credit to small enterprises and 2% for medium enterprises.

The above-stated laws provide financial institutions forms of alternative compliance. The Agri-Agra Law for instance, allows banks, in the absence of qualified borrowers, to invest any portion of their credit allocation in government securities declared eligible by the Central Bank. It also allows banks to rediscount with the Central Bank eligible papers covering agrarian reform credits. In 1994, loans to other sectors were included for purposes of determining compliance to the Agri-Agra Law. Similarly, the IRR of the Magna Carta for Small and Medium Enterprises allowed the use of the allocated funds for alternative modes of compliance such as investments in instruments offered by the Small Business Guarantee and Finance Corporation (SBGFC) and cash holdings and placements in "due from" accounts, provided these are free, unencumbered and not utilized or earmarked for other purposes.

Data on compliance of banks with PD 717 reveal that as of Sept. 30, 2003, the total banking system provided a total of P268.079 Billion in credit to the agricultural and agrarian reform sectors. This figure is 26.4% of the P1,014.899 Trillion in total loanable funds generated. This amount is higher than the minimum required credit allocation of P 253.724 Billion or 25% of the total loanable funds. However, P 87.664 Billion of the P 268.079 Billion were obtained through alternative compliance and 180.415 Billion or only 17.8% of the total loanable funds were extended through direct compliance. Interpretation of the data would reveal that banks have found alternative ways of complying with the law due to the expanded list of allowable funds considered as compliance.

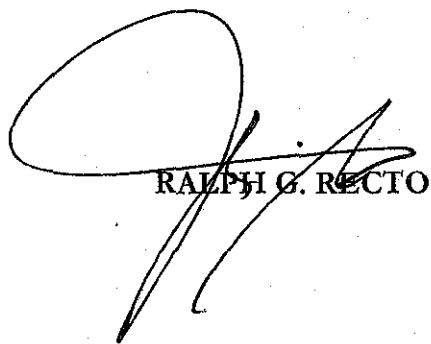
A study on the impact of mandated credit programs on financial institutions¹ further reveal that those who follow the theory and practice of financial markets generally view MCPs as inefficient ways of allocating scarce financial resources to specifically targeted sectors. The banking sector has also expressed the opinion that MCPs have been

¹ Felipe M. Medalla and Johnny Noe E. Ravalo

ineffective in practice because they have so many built-in incentive problems resulting in high monitoring cost or mere compulsory compliance with legal requirements.

It is in this light that this bill proposes to remove existing forms of alternative compliance for banks with *mandated credit programs* and allow *market-determined* forms of compliance without creating distortions in the credit market. Additionally, this bill proposes a gradual reduction in the percentage allocation of the credit fund to allow banks a discretionary allocation of its resources to target beneficiaries without limiting credit to the agricultural and agrarian reform sectors and to small and medium enterprises.

In view of the foregoing, the passage of this bill is earnestly sought.




RALPH G. RECTO

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S. BILL NO. 1353

Introduced by Senator Ralph G. Recto

AN ACT
RATIONALIZING EXISTING MANDATED CREDIT PROGRAMS (MCPs)
IMPOSED ON GOVERNMENT AND PRIVATE FINANCIAL INSTITUTIONS
AND FOR OTHER PURPOSES

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

1 SECTION 1. *Short Title.* This Act shall be known as the Mandated Credit Program
2 Rationalization Act of 2004.

3 SEC. 2. *Declaration of Policy.* It is the policy of the state to promote countryside
4 development through the delivery of adequate and realistic credit and financing support to
5 beneficiaries irrespective of the sector to which they belong, allow private and government
6 financial institutions to extend discretionary credit programs to target beneficiaries and
7 authorize market-determined forms of compliance without creating distortions in the credit
8 market thereby rationalizing the credit and financing system in the country.

9 SEC. 3. *Reduction in the Percentage Allocation of Mandated Credit Programs.*
10 All mandated credit programs (MCPs) imposed by legislation on private and government
11 financial institutions shall be allowed a gradual reduction in the prescribed percentage
12 allocation of the credit fund until the percentage allocation reaches zero, for a period of five
13 years from the effectivity of this Act: *Provided, That* at the end of the five-year period, the
14 financial institutions concerned, in consultation with the Bangko Sentral ng Pilipinas and
15 appropriate government agencies, may extend discretionary credit programs to target
16 beneficiaries.

1 SEC. 4. *Alternative Forms of Compliance.* The alternative forms of compliance
2 provided for financial institutions mandated to extend credit and financing support shall be
3 limited to the following:

4 (a) Financial institutions that exceed the mandated percentages should be able
5 to market their excess to institutions that fall short on the compliance
6 requirement and

7 (b) Financial Institutions may directly float instruments in the primary market
8 and use the proceeds on loans to the target markets.

9
10 SEC. 5. *Implementing Rules and Regulations.* – Within ninety (90) days from the
11 effectivity of this Act, the *Bangko Sentral ng Pilipinas* shall formulate the necessary rules and
12 regulations to implement the provisions of this Act. The rules and regulations issued
13 pursuant to this section shall take effect fifteen (15) days after its publication in a newspaper
14 of general circulation

15 SEC. 6. *Separability Clause.* – If any provision of this Act is held unconstitutional or
16 invalid, all other provisions not affected thereby shall remain valid.

17 SEC. 7. *Repealing Clause.* – All laws, decrees, executive orders, rules and regulations
18 or parts thereof, which are inconsistent with this Act, are hereby repealed, amended or
19 modified accordingly.

20 SEC. 8. *Effectivity.* – This Act shall take effect fifteen (15) days following its
21 publication in the Official Gazette or in two (2) newspapers of general circulation.

22 *Approved,*