


FOURTEENTH CONGRESS OF THE  
REPUBLIC OF THE PHILIPPINES  
Second Regular Session

8 AUG 27 2014

RECEIVED BY: 

**SENATE**

Senate Bill No. **2568**

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**INTRODUCED BY SEN. MANNY VILLAR**

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**EXPLANATORY NOTE**

The bill consistent with the declared policy of the state to promote a more focused program of poverty eradication, seeks the creation of micro-enterprise development institutions to tap the vast opportunities to promote, enhance and protect the interest of the poor not only to access credit but not have access as well in all related micro-finance services, such as insurance, health care, education, housing, and other value added services to help eradicate poverty in the Philippines.

The proposed legislation takes cognizance of the plight of poor Filipinos who comprise some 40 percent of the country's total population of approximately 88 million, or roughly 35 million individuals or 7 million families. This percentage represents untapped human potentials that could further enhance the nation's wealth-creation efforts and the transformation of the Filipino as the catalyst to a real meaningful change in our society.

Already, the government has provided the platform for this task and mission with the passage of Republic Act No. 8425, or the "Social Reform and Poverty Alleviation Act". President Gloria Macapagal-Arroyo, no less, made specific reference to microfinance as one of the cornerstones in the fight against poverty.

There are more than 300 NGOs currently involved in retail microfinance. With about 1.5 million poor clients and aggregate portfolio of approximately Php5 billion, the microfinance sector has provided a sizeable contribution in the poverty eradication effort. It is thus deemed timely and appropriate to take the necessary legislative measures to optimize the poverty eradication opportunities open in a government partnership and collaboration with Microfinance, Non-Government Organizations (MF-NGOs).

The way forward is to help these MF-NGOS broaden their present services for the poor. This means expanding microfinance to include micro-insurance, education, social housing, and health care in partnership with government agencies, and the provision of human development services like leadership and entrepreneurial skills training. Additionally, this also means the inclusion of business mentoring, or the provision of services on business development solutions that will help micro-entrepreneurs to graduate to being small medium-based entrepreneurs.

The proposed legislation also aims to ensure that the expanded partnership between government and micro-finance-NGO sector becomes even more mutually beneficial particularly in regard to the national efforts to revenue generation and socio-economic development.

In substance, the proposed law shall cover MF-NGO's, to be known as Micro-finance Development Institutions (MEDIs) shall be organized as non-profit institutions, to be accredited by proper government authorities. They shall be subject to a tax of 2% of their gross income as contribution to the People's Development Trust Fund created and established under Republic Act No. 8425, otherwise known as the "The Social Reform and Poverty Alleviation Act". The 2% tax on gross income will be in lieu of all taxes whether imposed by the National or local Governments.

The tax scheme will strengthen the MEDIs as it will simplify their bookkeeping and other government compliance requirements. It will likewise greatly help the poor borrowers of MEDI by keeping the costs of borrowing low since there will be no income tax, value added taxes (where practically all the borrowers being poor have no output VAT), documentary stamp tax, other forms of percentage tax and local tax.

In view of the foregoing, the approval of this bill is earnestly requested.



MANNY VILLAR

FOURTEENTH CONGRESS OF THE  
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**SENATE**

Senate Bill No. **2568**

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**INTRODUCED BY SEN. MANNY VILLAR**

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**AN ACT**  
**GOVERNING THE CREATION AND ACCREDITATION OF MICRO-**  
**ENTERPRISE DEVELOPMENT INSTITUTIONS, AND FOR OTHER**  
**PURPOSES**

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

**PART I – TITLE AND DECLARATION OF POLICY**

Section 1. Title. This Act shall be known and cited as the “Micro-Enterprise Development Institution Act of 2008”.

Section 2. Declaration of Policy, It is hereby declared the policy of the State to pursue a more focused program of poverty eradication wherein every poor Filipino family shall be empowered to meet its minimum basic needs including income security;

In pursuance of this policy, the government shall work in partnership with qualified institutions in the private sector for the poor to have more access to micro-finance, micro-insurance, micro-health care, micro-housing, business development, such as leadership training and entrepreneurs achieve a level of sustainability and empowerment and adopt measures to promote a spirit of generosity and selfless giving among individuals and institutions that would help support all programs directly involved in poverty eradication.

**PART II – COVERAGE AND DEFINITIONS OF TERMS**

Section 3. The Act shall apply to non-stock, non-profit Micro Enterprise Development Institutions whose mission is totally focused on poverty eradication, and are duly *accredited by the Securities & Exchange Commission (SEC), as accrediting entity, and registered with the Bureau of Internal Revenue (BIR).*

Section 4. Definition of Terms, for purposes of implementing this Act, the following definitions shall apply:

- a) "Micro-Enterprise Development Institution (MEDI)" – refers to a non stock, non-profit corporation organized and operated to provide **Micro-Enterprise Development Strategy**, as defined in letter (b) hereof, through the broad package of financial and human development services as well as other business development services to the poor to enable them to operate their own productive economic activities; provided, no part of the net income of the MEDI inures to the benefit of any private individual, and the administrative expenses of which, on an annual basis, conform with the rules and regulations to be prescribed by the Secretary of Finance, upon recommendation of the Commissioner of Internal Revenue, but in no case to exceed thirty percent (30%) of the total expenses;
- b) "Micro-Enterprise Development Strategy" – a social program exclusively for the poor to improve the asset base of households and expand the access to micro-finance services, such as micro-credit, micro-insurance, micro-savings and micro-health care for the poor through the board package of business development services and other non-financial services as well as to the poor to enable them to operate their own productive economic activities;
- c) "Poor" – refers to individuals and families whose income fall below the poverty threshold as defined by the National Economic and Development Authority and/or cannot afford in a sustained manner to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life;
- d) "Social Reform" – refers to the continuing process of address the basic inequities in Filipino society through a systematic, unified and coordinated delivery of socio-economic programs or packages;
- e) "Utilization" by an accredited MEDI – shall refer to;
  - I) Any amount in cash or in kind, including administrative expenses, paid or utilized by an accredited MEDI to accomplish one or more purposes for which it was created or organized; or
  - II) Any amount paid to acquire an asset used, or held for use, directly in carrying out one or more purposes for which the accredited MEDI was created or organized; or
  - III) Any amount in cash or in kind invested in any poverty eradication activity related to the purpose for which it was created or organized; or
  - IV) Any amount set aside for a specific project which comes within one or more purpose or purposes for which the accredited MEDI was created, provided that the amount will be utilized for specific project within a period not to exceed five (5) years, and the project is the one which can be better accomplished by setting aside such amount than by immediate payments of funds;
  - V) Any amount in cash or kind invested in capital sustaining and generating activities, such as but not limited to government securities, endowment funds, trust funds, money market placements, shares of stock and similar instruments. Provided,

that any Income derived from these investments shall be exclusively used in activities directly related to one or more purposes for which the accredited MEDI was created or organized.

VI) "Accrediting Entity" – shall refer to the Securities & Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR), the regulatory powers of which shall be defined in the implementing rules and regulations of this Act.

### PART III – ORGANIZATION

Section 5. **Form of Organization.** A MEDI as defined in Section 4 (a) shall be established as a non-stock non-profit corporation.

Section 6. **Capital Requirements.** A MEDI shall have a fond balance of not less than Fifty Million Pesos (P50,000,000.00).

### PART IV – SUPERVISION, ACCREDITATION AND MONITORING

Section 7. **Supervision and Accreditation.** The Accrediting Entity established under this Act shall establish and operationalize a system of accreditation to determine the qualifications of the MEDI. It shall have the following functions and responsibilities:

- a) Examine evaluate and accredit the MEDI as a pre-requisite for its registration with the BIR for purposes of tax exemption under this Act.
- b) Issue a Certificate of Accreditation to the MEDI upon determination that it meets the criteria for accreditation; provided, that the Certificate of Accreditation shall be valid for such period as may be prescribed by implementing rules and regulations.
- c) Review and deny the application of any MEDI, which does not meet the criteria for accreditation. The MEDI shall be notified of the denial of its application, the reasons therefore and the evaluator's recommendation. The procedure for reconsideration of and/or effecting any corrections amendments to the application shall be provided in the implementing rules and regulations of this Act.

Section 8. **Monitoring and Verification of Annual Information Return.** The Accrediting Entity shall monitor the MEDIs and coordinate to ensure that the provisions of this Act are complied with.

Section 9. **Withdrawal of Certificate of Accreditation and Renovation of the Certificate of Registration.** – The Accrediting Entity shall have the authority to withdraw the Certificate of Accreditation, which it issued to the MEDI upon a determination that the latter no longer meets the criteria for accreditation under Section 7 of this Act.

## **PART V – TAX EXEMPTIONS AND CONTRIBUTION TO PEOPLE’S DEVELOPMENT TRUST FUND**

Section 10. *Exemption from National and Local Taxes.* No Taxes, local and national, shall be imposed on MEDI’s duly accredited by the Accrediting Entity and registered with the BIR. In lieu therefore, two percent (2%) of the gross income derived by the MEDIs shall be remitted to the National Government. This two percent (2%) tax shall be entirely contributed to the Peoples Development Trust Fund established under Republic Act No. 8425 otherwise known as the “Social Reform and Poverty alleviation Act”. In addition borrower of the MEDIs shall not be subject to the documentary stamp tax imposed under Sector 179 of the Tax Code, as amended.

The term “gross income” means gross receipts less sales returns, allowances, discounts and other cost of services, interest expenses of a MEDI shall be deductible from gross receipts as part of cost of services in arriving at gross income. The term gross income shall exclude donations.

Section 11. *Deductibility of Donations.* Donations to a MEDI shall be fully deductible from the gross income of the donor and shall be exempt from donor's tax imposed under Sec. 98 of the Tax Code.

## **PART VI – FINAL PROVISIONS**

Section 12. *Implementing Rules and Regulations.* The SEC, in coordination with the BIR, shall formulate the implementing rules and regulations of this Act within sixty (60) days after its approval. Such rules and regulations shall take effect fifteen (15) days after their publication in a newspaper of general circulation in the Philippines.

Section 13. *Separability Clause.* If any provision of this Act or the application thereof to any person or circumstances is held invalid, the other provisions of this Act and the application of such provisions to other persons or circumstances shall not be affected thereby.

Section 14. *Repealing Clause.* All internal revenue issuances, rules and regulations, or parts thereof, which are contrary to or inconsistent with this Act are hereby repealed, amended or modified accordingly.

Section 15. Effectivity. This Act shall take effect upon its approval

Approved,