FIFTEENTH CONGRESS OF THE REPUBLIC OF THE PHILIPPINES)
Second Regular Session)

SENATE

S. B. No. 3181

Introduced by Senator Ralph G. Recto

EXPLANATORY NOTE

Our new development paradigm as contained in the Philippine Development Plan (PDP) 2011-2016 is the promotion of inclusive growth. It is a world apart from the old models of economic growth wherein nations, most notably the Least Developed Countries and Heavily-Indebted Poor Countries were asked to wait for the "ripple effect" of growth in wealthier countries or in domestic Big Business. Worse, the poor alongside policy makers were falsely assured with claims of rapidly closing the income gap thru the so-called "trickle-down effect" from increased productivity and capital formation happening somewhere else.

Decades of adherence to those development strategies failed to "end the poverty trap". Thus, international institutions, including the United Nations Capital Development Fund, decided to rethink development policies it has previously promoted. The same concern finds coherence among the country's development experts and policy makers who craft measures to attain inclusive growth, a challenge that resonates across our country that is marked not only by economic inequality but also by geographic fragmentation.

Another cause for concern is the aggravating fact, that, just as wealth can be inherited, poverty can become chronic from continuing war or by transmission across several generations in a family, among others. With target to halve poverty or bring it down to 16.6% by 2015, the Philippines perforce embarked on the search for new instruments to enable the poor to escape the poverty cycle. Among these policies, programs and projects to "end poverty traps", is the crafting of the Medium-Term Development Plan for the Financial Sector. This Plan adopted specific reform strategies including the promotion of a "regionally-responsive and inclusive financial system" or financial inclusion.

This Bill seeks to enhance the capacity of the Development Bank of the Philippines to implement our vision of inclusive growth through financial inclusion. It is defined as "universal access to a broad range of financial services, at a reasonable cost, provided by a diversity of sound and sustainable institutions." In the Philippine setting, it construes a financial system wherein the poor gain access to financial resources and services without the obstacles posed by "physical incapacity, geographic distance, high cost of credit and stringent documentary requirements."

Financial inclusion is in harmony with the DBP Charter which cites "a clear role for direct government participation in the banking system through a government development bank, particularly in servicing the medium and long-term requirements of agriculture, and small and medium scale industry, export development, and the government sector."

In 2009, the country's poverty incidence was at 26.5 per cent representing 3.86 million families, according to the National Statistics Office. Compared with other Asian countries, the

Philippines' poverty incidence is dismal. Our poverty incidence is almost double that of Vietnam with 13.5% and Indonesia's 14.2%, almost triple that of Thailand's 8.5%, and more than six times that of China's 4.2% and Malaysia's 3.6%. The PDP 2011-2016 also cited that 6.4 million farmers, fisher folk and other workers dependent on agriculture and fisheries sectors remain poor despite these sectors' contribution of 35% of Gross Domestic Product and 50% of employment. Likewise, we find most of the poor in outlying areas as shown by regional poverty statistics with regions being physically remote from major growth areas becoming the three poorest, namely Caraga with 39.8% poverty incidence, the Autonomous Region of Muslim Mindanao with 38.1% and Region IX with 36.6%.

Recognizing the impact of growth in MSMEs, the Micro, Small and Medium Enterprise Development Plan for 2011-2016 included Access to Finance or financial inclusion as the second of four outcome portfolios. Latest figures show MSMEs comprise 99.6% or 777,357 of total establishments in the country, generate 63.2% or 3.39 M jobs and contribute 35.7% or PhP 751.94 Billion of total-value added. It also traditionally accounts for 25% of total export revenues. Specifically, micro enterprises account for 91.4% of establishments and 30.4% of employment.

As the country's premier development bank, the DBP has developed several programs consistent with its mandates, as follows: Retail Lending for Micro and Small Enterprises, Sustainable Entrepreneurship Enhancement and Development (SEED) Programs such as Organic Agriculture Program, High-Value Crops Financing Program, Cleaner Public Transport Program, One Town One Project Program, Credit Surety Fund Credit Facility, and Venture Capital Program. Despite all these programs and while being the premier development bank, the DBP trails other government financial institutions in loans released to MSMEs from 2004 to 2010.

However, we are nowhere near closing the income gap. Therefore, the Bank must be empowered to exercise greater flexibility for the attainment of its development banking goals. The Bank has to go to areas and sectors that remain underserved by banks and other financial institutions and provide credit to the poor. Thus, our proposal to amend the Charter of the DBP to limit twenty percent (20%) of its total loan portfolio for programs and projects other than to micro-, small- medium enterprises and local government units. This will be responsive to rising economic exigencies and will effectively channel financial resources to these sectors acknowledged as critical drivers of economic growth.

In order to serve as a deterrent to the grant of behest loans, a new provision is added such that loans to individuals or corporate borrowers amounting to One Hundred Million Pesos (PhP100 Million) or more shall need the approval of the President who shall act on recommendation of the Bank Board within three months, otherwise, the loan shall be considered granted.

The review by a higher authority of the loans of significant amounts will prevent the grant of behest loans that are not covered by sufficient collateral and have a high probability of payment default. However, in order that the grant of legitimate loans is not unduly delayed, the Office of the President is given only three months to act on the loan application.

In view of the foregoing, approval of this Bill is earnestly sought.

RALPH G. RECTO

FIFTEENTH CONGRESS OF THE)
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Senate
Office of the Secretary

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SENATE

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RECEIVED BY: [signature]

Introduced by Senator Ralph G. Recto

AN ACT
INSTITUTING REFORMS TO FURTHER PROTECT AND DEVELOP MICRO, SMALL AND MEDIUM ENTERPRISES, AMENDING FOR THE PURPOSE EXECUTIVE ORDER NO. 81, OTHERWISE KNOWN AS "THE 1986 REVISED CHARTER OF THE DEVELOPMENT BANK OF THE PHILIPPINES," AS AMENDED

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

SECTION 1. Section 2 of Executive Order No. 81, otherwise known as "The 1986 Revised Charter of the Development Bank of the Philippines," as amended, is hereby further amended to read as follows:

> **SECTION 2.** ***Name, Purpose and Domicile.*** The Development Bank of the Philippines, hereinafter called the Bank, operating under the provisions of Republic Act No. 85, as amended, shall henceforth operate under the provisions of this 1986 Revised Charter. The Bank shall be a body corporate and shall exist for a period of fifty years.
>
> The primary purpose of the Bank shall be to provide banking services principally to service the medium and long term needs of agricultural and industrial enterprises particularly in the country[-]side and preferably for **MICRO,** small and medium scale enterprises AND OF LOCAL GOVERNMENT UNITS (LGUs); *Provided,* however, that the pursuit of these objectives shall be undertaken within the context of financially viable and stable banking institutions; *Provided, further,* that the Bank shall continue to be classified as a development bank; *Provided, finally,* that unless otherwise provided herein, the Bank may perform all other functions of a **UNIVERSAL** [thrift] bank.

The Bank's principal office and place of business shall be in the National Capital Region, also known as Metro Manila. It may open and maintain branches, agencies or other offices at such places in the Philippines as its Board of Directors may deem advisable, with the prior approval of the Monetary Board of the [Central Bank of the Philippines] **BANGKO SENTRAL NG PILIPINAS.**

SEC. 2. Section 3 of Executive Order No. 81, as amended by Republic Act 8523, is hereby further amended to read as follows:

"**SEC. 3.** ***Corporate Powers.*** The Development Bank of the Philippines shall have the power:

"x x x

"(b) To grant loans for the establishment, development and expansion of any agricultural or industrial enterprise, PARTICULARLY IN THE COUNTRYSIDE AND PREFERABLY FOR MICRO, SMALL AND MEDIUM SCALE ENTERPRISES AND PRIORITY PROGRAMS AND PROJECTS OF LOCAL GOVERNMENT UNITS (LGUs): [;] *PROVIDED,* THAT THE TOTAL AMOUNT OF LOANS GRANTED FOR PROGRAMS AND PROJECTS OTHER THAN TO MICRO-, SMALL-, MEDIUM ENTERPRISES AND LGUs SHALL NOT EXCEED TWENTY PERCENT (20%) OF THE TOTAL BANK LOAN PORTFOLIO: *PROVIDED, FURTHER,* THAT LOANS TO INDIVIDUAL OR CORPORATE BORROWERS AMOUNTING TO ONE HUNDRED MILLION PESOS (PHP 100,000,000) OR MORE SHALL HAVE THE APPROVAL OF THE PRESIDENT OF THE PHILIPPINES WHO SHALL ACT ON THE RECOMMENDATION OF THE BANK BOARD WITHIN THREE (3) MONTHS OTHERWISE THE LOAN SHALL BE CONSIDERED GRANTED;

x x x"

SEC. 3. ***Savings Clause.*** – Nothing in this Act, shall affect the validity or legality of any right, duty, or obligation created by or in respect of the Bank by virtue of its loan operations as a universal bank prior to this Act. Any receivables pertaining to loans granted prior to this Act, which might be affected by this Act, shall be valid and enforceable upon the terms and conditions under which the loans were made, including the pledge of collateral against which they were issued, and all loans made and security or collateral therefore held by the bank shall remain enforceable according to the terms unless they may be lawfully terminated in accordance with this Act, nor shall this Act supersede the operation of any law protecting or preserving vested contractual rights or be construed to change the terms of any legal contract between the bank and any third party or to impose any new conditions thereon, or to dispense with any condition expressed or authorized in any such contract entered into and taking effect prior to this Act.

SEC. 4. ***Separability Clause.*** - If, for any reason, any provision of this Act or any part thereof shall be held unconstitutional and invalid, the other parts or provisions of this Act, which are not affected thereby, shall remain in full force and effect.

SEC. 5. ***Repealing Clause.*** - All laws, decrees, orders, rules and regulations or parts thereof inconsistent with any of the provisions of this Act are hereby repealed, amended or modified accordingly.

SEC. 6. ***Effectivity Clause.*** - This Act shall take effect fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation.

Approved,