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SENATE

S. No. 448

BY: *Jui*

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 elsewhere.

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.

With target to halve poverty or bring it down to 16.6% by 2015, the Philippines 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.”

The country’s poverty incidence of 27.9 percent in the first quarter of 2012 practically remained unchanged in comparison with the 2006 and 2009 figures at 28.8 and 28.6 percent, respectively¹. Compared with other Asian countries, the Philippines’ poverty incidence is almost

¹ 2012 First Semester Official Poverty Statistics. National Statistical Coordination Board.

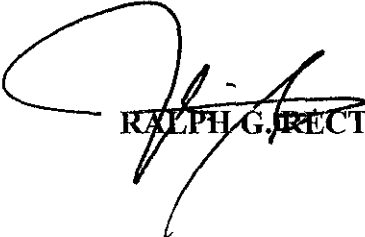
double that of Vietnam with 13.5% and Indonesia's 14.2%, almost triple that of Thailand's 8.5%, and more than six times that of China's 4.2% and Malaysia's 3.6%.

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 816,759 of total establishments in the country, generate 61% or 3.87 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% of establishments and 28% of total jobs created in 2011.²

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.

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



RALPH G. RECTO

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² Department of Trade and Industry. Micro, Small and Medium Enterprises Statistics. Accessed at: <http://www.dti.gov.ph/dti/index.php?p=321> on June 26, 2012.

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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:

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

4 **"SECTION 2. Name, Purpose and Domicile.** The Development Bank of
5 the Philippines, hereinafter called the Bank, operating under the provisions of
6 Republic Act No. 85, as amended, shall henceforth operate under the provisions
7 of this 1986 Revised Charter. The Bank shall be a body corporate and shall exist
8 for a period of fifty years.

9 "The primary purpose of the Bank shall be to provide banking services
10 principally to service the medium and long term needs of agricultural and
11 industrial enterprises, particularly in the country[-]side and preferably for
12 **MICRO**, small and medium scale enterprises; *Provided*, however, that the pursuit
13 of these objectives shall be undertaken within the context of financially viable
14 and stable banking institutions; *Provided, further*, that the Bank shall continue to
15 be classified as a development bank; *Provided, finally*, that unless otherwise
16 provided herein, the Bank may perform all other functions of a **UNIVERSAL**
17 [thrift] bank.

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

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

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

3 "x x x;

4 (b) To grant loans for the establishment, development and expansion of any
5 agricultural or industrial enterprise[;] AND TO LOCAL GOVERNMENT
6 UNITS (LGUs): *PROVIDED*, THAT THE TOTAL AMOUNT OF LOANS
7 GRANTED FOR PROGRAMS AND PROJECTS OTHER THAN TO
8 MICRO-, SMALL-, MEDIUM ENTERPRISES AND LGUs SHALL NOT
9 EXCEED TWENTY PERCENT (20%) OF THE TOTAL BANK LOAN
10 PORTFOLIO.;

11 "x x x"

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

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

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

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

Approved,