EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

Senate
Office of the Secretary

'19 JUL -8 P3:24

SENATE

S. No. 292

Introduced by Senator **PIA S. CAYETANO**

AN ACT
INSTITUTIONALIZING MICROFINANCE PROGRAMS FOR THE DEVELOPMENT OF MICRO AND SMALL ENTERPRISES (MSEs), ALLOCATING FUNDS THEREFOR, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

In the Philippines, the tremendous economic impact of micro, small and medium enterprises (MSMEs) is readily observable. As of 2011, there are 820,255 business enterprises operating in the Philippines. Of these, 99.6% (816,759) are MSMEs, while only 0.4% (3,496) are large enterprises. Of the total number of MSMEs, 91.0% (743,250) are micro enterprises, 8.6% (70,222) are small enterprises, and 0.4% (3,287) are medium enterprises.[1]

MSMEs also generated a total of 3,872,406 jobs in 2011 versus 2,473,336 for large enterprises. This indicates that MSMEs contributed almost 61.0% of the total jobs generated by all types of business establishments that year. Of these, 28.0% or 1,778,353 jobs were generated by micro enterprises; 25.9% or 1,642,492 by small enterprises; and 7.1% or 451,561 by medium enterprises.

However, despite these important contributions, MSMEs and our micro-entrepreneurs are not provided adequate assistance by the government. In order to continue reaping the benefits of MSMEs to our economy, we need to enable our micro-enterprises to cope with different challenges.

Such challenges can generally be categorized into: (1) non-financial barriers (cost

---

[1] Department of Trade and Industry, Micro, Small and Medium Enterprises, *available at* http://www.dti.gov.ph/dti/index.php?p=321, last accessed 3 June 2014. *See also* Small Enterprises Research and Development Foundation (SERDEF), Inc., and UP-ISSI, Bridging the Gap: Philippine SMEs and Globalization, 2001.

of getting electricity, heavy regulation, high tax rates, and corruption); and (2) financial barriers (access to finance).

In particular, while MSMEs may have access to finance, the costs and interests related to it may be prohibitive. For the Philippines to address the need for better access to credit, the State should institutionalize a loan program with a simplified process and with low interests that can provide the working class people in need of capital with sufficient funds to start their own businesses. Thus, this measure provides a program for micro and small enterprises (MSEs) where:

(1) Requirements for loan applications and approval are very basic, and there is no collateral requirement;

(2) Loan proceeds are exclusively used for capital;

(3) Interests are not higher than prevailing bank rates (generally around 2% to 5%);

(4) The lenders have their own collection mechanism; and

(5) The mode of payment is weekly or monthly.

The proposed measure creates a loan program that is similar and as dynamic as the infamous *'5-6'* in terms of access to microfinance, but provides lower interest rates. With this measure in place, Filipino families and enterprises would no longer resort to borrowing from unconscionable *'5-6'* lenders and should be able to feel the effects of the country's exceptional GDP growth through efficient and effective access to loan facilities.

The proposed measure further creates a comprehensive development and assistance program for MSEs, which is national in scope but tailored fit for each administrative region. The goal of the program is to protect the capital of small proprietors, ensure the success of their MSEs, and transform these MSEs into five-star businesses by providing them with assistance and the necessary resources in order to help their businesses flourish. The program for enterprises is comprehensive and includes grants and loans to MSEs with a budget of P90 Billion for the first five (5) years or P18 Billion every year.

In view of the foregoing, approval of this bill is strongly recommended.

PIA S. CAYETANO

EIGHTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

Senate
Office of the Secretary

SENATE

-8 P3:25

S. No. 292

Introduced by Senator **PIA S. CAYETANO**

AN ACT
INSTITUTIONALIZING MICROFINANCE PROGRAMS FOR THE DEVELOPMENT OF MICRO AND SMALL ENTERPRISES (MSEs), ALLOCATING FUNDS THEREFOR, AND FOR OTHER PURPOSES

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

Section 1. *Short Title.* – This Act shall be known as the "Tulong Puhunan Act."

Sec. 2. *Declaration of Policy.* – It shall be the policy of the State to promote genuine inclusive growth and alleviate poverty.

It is likewise the policy of the State to promote a just and dynamic social order that shall promote full employment, a rising standard of living and an improved quality of life for all. The State also recognizes the indispensable role of the private sector, encourages private enterprise, and provides incentives to needed investments. In pursuit of this, the State shall develop a program that will ensure that all of its citizens can readily access the necessary capital to pursue opportunities and uplift their lives.

Access to finance and technical support shall be the core policy of this Act. To operationalize this policy, it shall be ensured that:

a) The process for obtaining micro-financing, grants and technical support in the Philippines shall be simple and practical;

b) The loan proceeds shall be exclusively used for capital; and

c) Interests shall not be unconscionable and not higher than prevailing bank rates.

Sec. 3. *Tulong Puhunan Grant Program.* – The Micro, Small and Medium Enterprise Development (MSMED) Council, in coordination with the National Economic and Development Authority (NEDA), National Anti-Poverty Commission (NAPC), the

Peoples' Credit and Finance Corporation (PCFC), and the Technical Education and Skills Development Authority (TESDA) shall develop a comprehensive program for the development of micro and small enterprises (MSEs) in all regions of the country. The goal of the program is to protect the capital of small proprietors, ensure the success of their MSEs by providing them with assistance and the necessary resources in order to help their businesses flourish.

The MSMED Council shall be guided by the following in the development of the Tulong Puhunan Grant Program:

a) The Program shall be national in scope but shall be tailored to fit the business environment, market demands and available resources of each administrative region;

b) The DTI shall create a registry for all MSEs per administrative region based on their size category and business area;

c) Each region shall choose a maximum of five (5) priority business areas to develop in order to reap the benefits of efficiency and specialization;

d) Each region is encouraged to choose a diversified priority business portfolio in order to minimize risks brought about by natural calamities and changing market demands;

e) Each region shall also establish a proprietor's guild for each of their priority business areas;

f) Free technical and administrative support, including but not limited to product development, skills and leadership training, packaging and design, quality control, market promotion, client or supplier matching, and financial literacy and planning, shall be made available to MSEs falling under the five (5) priority business areas in their respective regions;

g) Every year, the five (5) top-performing enterprises per size category in each region shall be recognized and shall be eligible for grants, not less than ten percent (10%) of their current capital, to be used solely for further business capitalization;

h) Every micro-sized enterprise that evolves into a small enterprise through the help of the Tulong Puhunan Grant Program shall likewise be eligible for a one-time grant of Five Hundred Thousand Pesos (P500,000) to be used solely for further business capitalization;

i) There shall be a mandatory review of the Tulong Puhunan Grant Program every three (3) years in order to ensure that the Program meets the present market demands.

Sec. 4. *Tulong Puhunan Loan Program.* – In addition to the Tulong Puhunan Grant Program, MSMED Council, in consultation with the NAPC, PCFC, and the *Bangko Sentral ng Pilipinas* (BSP) shall develop a loan program catering exclusively to MSEs in need of capital, whether or not they fall under the priority business areas of their respective regions.

The MSMED Council shall be guided by the following in the development of the loan program:

a) Each loan shall not exceed Ten Thousand Pesos (P10,000) for first time borrowers; Thirty Thousand Pesos (P30,000) for second time borrowers; and Two Hundred and Fifty Thousand Pesos (P250,000) for those borrowing for a third time or oftener, *Provided,* that the MSMED Council is hereby authorized to amend these amounts, after the mandatory review provided in this Act, in order to meet present market demands;
b) Collateral shall not be required from borrowers;
c) Loan proceeds shall be exclusively used by the borrower for capital expenditures;
d) The period for repayment shall be mutually agreed upon by the borrower and the lender; *Provided*, that such repayment period shall be at least three (3) months for a first time borrower; at least six (6) months for a second time borrower; and at least one (1) year for those borrowing for a third time or oftener;
e) Delivery of the program shall be through partner lenders which are microfinance institutions like cooperatives and/or associations, microfinance non-governmental organizations (NGOs), government-owned or -controlled corporations (GOCCs), government financial institutions (GFIs) and banks that are registered with the BSP, Cooperative Development Authority (CDA), Securities and Exchange Commission (SEC) or the Insurance Commission (IC), and the DTI. In the absence of such participating partner lenders in the area, government institutions, centers or facilities, which are dedicated to the promotion of inclusive growth and anti-poverty objectives, are mandated to

implement the program;

f) The lenders shall have a collection mechanism, whereby payments are made on a weekly or monthly basis;

g) Government lenders shall not profit from the microfinance program. Neither shall they be entitled to interest proceeds, the amounts of which shall be devoted to a fund for the development of MSEs. Participating partner lenders in the private sector shall be entitled to a reasonable amount of the proceeds of the interest collected by them, as may be determined in rules and regulations promulgated in implementation of this Act;

h) Priority shall be given to MSEs falling under the priority business areas of their respective regions and to MSEs with innovative businesses;

i) This loan program shall be complementary to any existing laws on microfinance; and

j) There shall be a mandatory review of the loan program every three (3) years in order to ensure that the loan program meets the present market demands.

The penalty rates upon default, dispensation of the loan proceeds, and other details and conditionalities of the loan program shall be determined by the MSMED Council.

Sec. 5. *Eligibility for Loan Program.* – To qualify for the loan program under this Act, the borrower must be:

a) At least eighteen (18) years of age;

b) A member in good standing of a duly-registered cooperative or association, or a resident of the local government unit (LGU), from which he/she intends to avail of the loan; and

c) Has attended a DTI-accredited livelihood seminar, as evidenced by a certificate of participation, and possesses credit-worthiness, as likewise proven by a certificate issued by the DTI for that purpose.

Sec. 6. *Registration of Microfinance Institutions.* – The MSMED Council, through the DTI, shall keep a registry of all participating microfinance institutions for monitoring purposes.

Sec. 7. *Local Government Unit Participation.* – Any law, executive order, department order, ordinance and the like, to the contrary notwithstanding, LGUs, through the local *sanggunian*, as defined in the 1991 Local Government Code, are hereby authorized to provide a loan program in cooperation with the cooperatives/associations, NGOs, and peoples' organizations that are lending assistance to MSEs within their jurisdiction.

Provided, That in cities or municipalities where there are no such cooperatives/associations, the LGU shall, within one (1) year from the effectivity of this Act, require the municipal/city social welfare and development office or the local trade and industry office or livelihood development office in the city or municipal government concerned, to develop and implement a loan program consistent with the provisions of this Act, under the supervision of the DTI.

Provided further, That each participating LGU must prepare a comprehensive feasibility study for the development of a loan program. Each LGU must fund, from its internal revenue allotment, allocate at least Five Million Pesos (P5,000,000), where possible and practicable, or Thirty Percent (30%) of the total funding cost related to small business improvement, agricultural improvement, institutional advancement and consumer protection, whichever is higher. Likewise, for this purpose, the LGU shall maintain a separate and dedicated office which shall be responsible for the overall implementation of the program in the locality.

Sec. 8. *Private Sector Participation and the Matching Fund.* – Participating cooperatives or associations, and LGUs with loan programs are hereby authorized to accept donations from the private sector in order to augment the available funds for the loan program.

In order to promote private sector participation in promoting inclusive growth and government poverty alleviation/eradication efforts, donations for purposes of this Act from the private sector to an LGU shall be matched with a corresponding amount by the recipient LGU; *Provided,* that donations of more than Five Million Pesos (P5,000,000) shall be matched by the national government for the LGU. In any case, should the LGU concerned be financially incapable of matching a donation, the national government shall augment the internal revenue allotment of such LGU for this purpose.

Sec. 9. *Incentives for Private Support.* – Any person or corporate entity may donate funds, equipment, materials or services for the improvement of the Tulong Puhunan Grant Program and/or Tulong Puhunan Loan Program. Such donations shall be done through a memorandum of agreement between the cooperative or association, LGU, and the donor. The agreement shall expressly state the value of the donated funds, materials, or services, and shall only be used for the Tulong Puhunan Grant Program and/or Tulong Puhunan Loan Program.

All income, legacies, gifts, and donations for the benefit of the program shall be exempt from the payment of all forms of taxes, fees, assessments, and other charges of the government, its branches, and subdivisions. Subject to the issuance of the appropriate revenue regulations by the Bureau of Internal Revenue, the value of the donation shall also be deductible as an expense in the determination of the taxable income of any donor.

Sec. 10. *Funding.* – The total amount of Ninety Billion Pesos (P90,000,000,000) for the next five (5) years upon implementation of this Act or Eighteen Billion Pesos (P18,000,000,000) per year for the next five (5) years upon implementation of this Act, shall be appropriated for the initial implementation of the Tulong Puhunan Grant Program and the Tulong Puhunan Loan Program. Said amount shall at all times be divided equitably among each administrative region of the country. Thereafter, such sums as may be necessary shall be included in the General Appropriations Act.

In addition, the amount of Five Hundred Million Pesos (P500,000,000) is hereby appropriated as a Special Development Fund to generally support the initial implementation of this Act.

The funds shall be held in trust by the DTI in collaboration with the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP) and other GFIs. The DTI may likewise allocate a portion of the funds to the People's Development Trust Fund (PDTF) under Republic Act No. 8425 otherwise known as the "An Act Institutionalizing the Social Reform and Poverty Alleviation Program, Creating for the Purpose the National Anti-Poverty Council, Defining its Powers and Functions, and for other Purposes": *Provided,* that the funds to be allocated to the PDTF shall be used solely for microfinance-related organizing activities.

Sec. 11. *Primary Implementing Government Agency.* – The DTI shall be the lead agency, which shall ensure the implementation of this Act.

Sec. 12. *Role of Government Financial Institutions.* – All GFIs shall set aside funding for microfinance operations to complement the purposes of this Act. Participating GFIs shall include the DBP, LBP, and other GFIs.

Sec. 13. *Reports.* – The DTI Secretary shall submit to the President of the Philippines, the President of the Senate and the Speaker of the House of

Representatives, an annual accomplishment report on projects covered in this Act, detailing the amount of appropriations released by end of the calendar year, the extent of the work accomplished, further work to be done, and any recommendations for additional appropriations or charges thereof.

Sec. 14. *Full Financial Disclosure, Accountability and Transparency.* – The DTI, as lead agency of the program, and the LGU concerned shall quarterly publish, print, and disseminate at no cost to the public and in an accessible form, in conjunction with Republic Act No. 9485, otherwise known as the "Anti-Red Tape Act of 2007", and through their websites, timely, true, accurate, and updated key information relating to the program. Likewise, they shall endeavor to translate key information and present them in popular form and means.

Sec. 15. *Implementing Rules and Regulations.* – The DTI, in consultation with relevant government agencies, shall prepare such rules and regulations for the proper and effective implementation of this Act, within sixty (60) days from the date of publication. The DTI shall publish such rules and regulations once a week for two (2) consecutive weeks in two newspapers of general circulation.

Sec. 16. *Separability Clause.* – If any provision of this Act is declared unconstitutional, the same shall not affect the validity and effectivity of the other provisions hereof.

Sec. 17. *Repealing Clause.* – All laws, decrees, orders, issuances or portion thereof, which are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

Sec. 18. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation.

Approved,