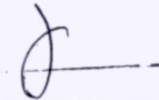


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SENATE

S. No. 469

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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

EXPLANATORY NOTE

The Philippine Micro, Small and Medium Enterprise (MSME) sector is a critical driver of the country's economic growth¹. The 2017 MSME Data from the Department of Trade and Industry reveals that some 99.56% of the 924,721 establishments in the country belong to the MSME Sector. During the same year, the MSMEs generated some 4,922,251 jobs, which is about 62.9% of the total jobs generated in the country. Some 35.7% of all value of goods and service produced in the country came from MSMEs².

Despite its pivotal role in the economic well-being of millions of Filipinos, several factors constrain the performance of MSMEs like high cost of doing business, access to financing and markets, and low productivity and efficiency. With limited resources and capabilities, many MSMEs are not adequately equipped to respond to the challenges and opportunities posed by domestic and international markets.

The task of priming stronger and more competitive MSMEs rests on collaborative efforts between the government and the business sector. Apart from creating a favorable business environment and providing linkages to local and foreign markets, the government must be able to make business financing accessible to MSMEs. The Philippine Institute for Development Studies noted that financing obstacles is one of the four most serious problems that hamper business growth³. The MSME Development

¹ National Economic and Development Authority. (2011). Philippine Development Plan 2011-2016. Pasig City: National Economic and Development Authority
² Department of Trade and Industry. (2017). 2017 MSME Statistics. Accessed on 14 May 2019 from <https://www.dti.gov.ph/dti/index.php/2014-04-02-03-40-26/news-room/179-workshop-on-market-access-for-MSMe-set>
³ Aldaba, R. M. (2012 February). Small and Medium Enterprises' (SMEs) Access to Finance: Philippines. *Discussion Paper Series No. 2012-05*. Makati City: Philippine Institute for Development Studies

Plan 2011-2016 also observed that a number of issues restrict the capacity of MSMEs to maximize the utilization of available financing options in the Philippines, which include the lack of credit information among MSMEs, and the tendency of the banking industry to prioritize larger corporate borrowers due to higher gains, lower credit risk, higher repayment rates, and collateral availability⁴. To develop a MSME sector capable of contributing to the country's economic and social development, it is imperative that the government enact measures to enable MSMEs to bolster their productivity and empower them to be more responsive to rising economic exigencies.

As the government premier development bank, the Development Bank of the Philippines (DBP) is in the best position to close this financing gap. In 2017, the bank registered a comprehensive income of almost six billion pesos with a development loan portfolio worth P184.06 billion⁵. However, only 88.2 billion or 47.92% of this amount were extended to MSME's under the DBP Sustainable Enterprises for Economic Development and the Sustainable Agribusiness Financing Programs⁶.

Thus, this bill seeks to amend the Charter of the DBP, mandating it to devote eighty percent (80%) of its loan portfolio to programs, projects and initiatives of the MSMEs and local government units (LGUs). It reinforces the original purpose of the bank, which recognizes "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 sector⁷." Such intervention is also in line with the idea of financial inclusion, a principle that promotes "universal access at a reasonable cost to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions⁸."

This bill serves two noble purposes: to protect the critical economic drivers of today, and to sustain our economic growth in the future. In view of the foregoing, approval of this bill is earnestly sought.

/mdg



RALPH G. RECTO

⁴ MSMED Council. (2016). *Micro, Small and Medium Enterprise Development Plan 2017-2022*. Makati City: DTI-Bureau of Micro, Small and Medium Enterprise Development.

⁵ Development Bank of the Philippines. (2017). *2017 Annual Report: Strong and Brilliant @ 70*. Makati: Development Bank of the Philippines.

⁶ Development Bank of the Philippines. (2017). *2017 Annual Report: Strong and Brilliant @ 70*. Makati: Development Bank of the Philippines.

⁷ Republic of the Philippines. (1986, December 3). Executive Order Number 81, *Providing for the 1986 Revised Charter of the Development Bank of the Philippines*.


⁸ Her Royal Highness Princess Máxima of the Netherlands. (2011). *Financial Inclusion: A Role for Each of Us*. In *The 2011 Mobile Financial Services Development Report* (pp. 33-35). Geneva: World Economic Forum

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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
3 further amended to read as follows:

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

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

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

1 Sec. 2. Section 3 of Executive Order No. 81, as amended, is hereby further
2 amended to read as follows:

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

5 "x x x;

6 (b) To grant loans for the establishment, development and
7 expansion of any agricultural or industrial enterprise **AND TO LOCAL**
8 **GOVERNMENT UNITS (LGUS): PROVIDED, THAT THE TOTAL**
9 **AMOUNT OF LOANS GRANTED FOR PROGRAMS AND PROJECTS**
10 **OTHER THAN THOSE UNDERTAKEN BY MICRO, SMALL, AND**
11 **MEDIUM ENTERPRISES AND LGUS SHALL NOT EXCEED**
12 **TWENTY PERCENT (20%) OF THE BANK'S TOTAL LOAN**
13 **PORTFOLIO;**

14 "x x x."

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

28 Sec. 4. *Transition Period.* – The Development Bank of the Philippines (DBP) shall
29 have a period of ten (10) years from the effectivity of this Act to restructure its loan
30 portfolio. The transition milestones shall be identified in the Implementing Rules and
31 Regulations to be promulgated pursuant to Section 5 of this Act.

32 Sec. 5. *Implementing Rules and Regulations.* – Within ninety (90) days from
33 effectivity of this Act, the Department of Finance (DOF) shall, in coordination with the
34 DBP, promulgate the rules and regulations to effectively implement the provisions of
35 this Act.

1 Sec. 6. *Separability Clause.* – If, for any reason, any provision of this Act or any
2 part thereof shall be held unconstitutional and invalid, the other parts or provisions of
3 this Act, which are not affected thereby, shall remain in full force and effect.

4 Sec. 7. *Repealing Clause.* – All laws, decrees, orders, rules and regulations or parts
5 thereof inconsistent with any of the provisions of this Act are hereby repealed,
6 amended or modified accordingly.

7 Sec. 8. *Effectivity.* – This Act shall take effect fifteen (15) days after its complete
8 publication in at least two (2) newspapers of general circulation or in the *Official*
9 *Gazette.*

Approved,