

[ REPUBLIC ACT No. 10693 ]

AN ACT STRENGTHENING NONGOVERNMENT ORGANIZATIONS (NGOs) ENGAGED IN MICROFINANCE OPERATIONS FOR THE POOR

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 "Microfinance NGOs Act".

SEC. 2. *Declaration of Policies.* - It is hereby declared the policy of the State to pursue a program of poverty eradication wherein poor Filipino families shall be encouraged to undertake entrepreneurial activities to meet their minimum basic needs including income security. Towards this end, the

State recognizes the indispensable role of nongovernment organizations (NGOs) in fostering local enterprise development and social entrepreneurship, including the provision of microfinance services to microenterprises. In pursuance of this policy, the State shall support and work in partnership with qualified NGOs in promoting financially inclusive and pro-poor financial and credit policies and mechanisms, such as microfinance and its allied services.

SEC. 3. *Definition of Terms.* - As used in this Act, the following terms shall mean:

(a) *Accreditation* - the process of giving official recognition to duly registered microfinance NGOs, after meeting the minimum standards set by the relevant regulator;

(b) *Compensating balance* - the proportion of the total loan of a microfinance client, which is retained with the microfinance institution as capital build-up (CBU) or microsavings. This amount can be used by the microfinance institution to offset the clients' outstanding balance in case of default;

(c) *Gross receipts from microfinance operations* - interest income, penalties, surcharges, commissions and discounts, service and general fees, and other charges related to microfinance operations;

(d) *Low-income* - income of individuals or families that fall below the low-income threshold to be defined by the National Economic and Development Authority (NEDA);

(e) *Microenterprise development strategy* - a social reform program to empower the poor, manage risks and vulnerabilities and thereby improve their asset base and expand access to microfinance services, such as microcredit, microinsurance, microsavings, health care and microhousing through a broad package of financial, business and human development services and other nonfinancial services, including education to enable them to lead productive lives;

(f) *Microfinance* - the viable and sustainable provision of a broad range of financial services to poor and low-income individuals engaged in livelihood and microenterprise activities. It uses nontraditional and innovative methodologies and approaches, namely: the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, cash flow-based lending, alternative loan repayments, minimum requirements for CBU/minimum balance retention, and small denominated savers' instruments aimed to improve their asset base and expand their access to capital and savings;

(g) *Microfinance loans* - small loans granted to the basic sectors, as defined in Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act", and other loans, as defined by the government as to their amount, scope, and coverage that are granted to the poor and low-income individuals for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured;

(h) *Microfinance NGO* - a nonstock, nonprofit organization duly registered with the Securities and Exchange Commission (SEC), with the primary purpose of implementing a microenterprise development strategy and providing microfinance programs, products, and services, such as microcredit and microsavings, for the poor and low-income clients;

(i) *Microsavings* - the program of a Microfinance NGO to collect relatively small amounts of money from their clients for purposes of maintaining a compensating balance;

(j) *Nongovernment organization (NGO)* - a nonstock, nonprofit organization duly registered with the SEC, focusing on the upliftment of the basic or disadvantaged sectors of society by providing advocacy, training, community organizing, research, access to resources, and other similar activities, as defined in Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act";

(k) *Poor* - individuals and families whose income fall below the poverty threshold as defined by the NEDA. Generally, the poor are regarded as those who cannot afford, in a sustained manner, to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life as defined by Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act";

(l) *Social performance* - the effective translation of a Microfinance NGO's mission into practice; and

(m) *Social welfare promotion/purposes* - the thrusts, objectives, plans, programs, services and activities designed to aid and/or ameliorate the living conditions of the poor, disadvantaged, marginalized, vulnerable and underprivileged individuals and their families in order to attain improved quality of life and well-being.

SEC. 4. *Scope of Application.* - This Act shall apply to NGOs with the primary purpose of implementing a microenterprise development strategy and providing microfinance programs, products and services for the poor. These shall be referred to as "Microfinance NGOs".

SEC. 5. *Core Principles of Microfinance NGOs.* - Microfinance NGOs shall conduct its operations in accordance with the basic principles of microfinance which include, but are not limited to, the following:

(a) The State recognizes Microfinance NGOs as its effective partners in promoting social welfare and development and pursuing poverty alleviation and holistic transformation and acknowledges microfinance as a viable solution to empower the poor;

(b) The poor shall be given access to appropriate financial services that are convenient, flexible and reasonably priced including, but not limited to, credit, savings, and insurance;

(c) Microfinance shall be undertaken on a sustainable basis, where providers shall be able to recover all of its costs to allow sustainable operation and regular provision of financial services to the poor;

(d) Microfinance NGOs shall aim to provide both financial and social protection programs to an increasing number of disadvantaged and for underprivileged people;

(e) Microfinance NGOs shall abide by the Client Protection Principles such as, but not limited to, appropriate product design and delivery, prevention of over-indebtedness, promotion of transparency, practice of responsible pricing, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaint resolution;

(f) Microfinance NGOs shall develop financial, social and governance performance standards that shall help define and govern the industry toward greater outreach and sustainability; and

(g) Microfinance NGOs shall develop and provide the appropriate community development projects and programs to ensure attainment of social welfare and holistic transformation of the poor.

SEC. 6. *Basic Features and Purposes of Microfinance NGOs.* - A Microfinance NGO shall have the following features and purposes:

(a) Provides the poor direct access to reasonable and affordable credit and related programs and services which shall include, but shall not be limited to, microfinance, microinsurance, microenterprise development, health care, and microhousing, subject to existing laws and regulations;

(b) Provides business development opportunities such as leadership training and entrepreneurial skills enhancement;

(c) Provides human development services to help the poor achieve a level of sustainability and empowerment, and adopts measures to promote a spirit of generosity and selfless giving among individuals and institutions that shall help support programs directly involved in poverty eradication;

(d) Collects compulsory savings or CBU only from its clients for purposes of maintaining the compensating balance in relation to the same client's loan. Acceptance of client savings for this purpose shall not cause the Microfinance NGO to be deemed engaged in deposit-taking operations;

A Microfinance NGO shall not, at any time, undertake deposit-taking activities.

For the purpose of implementing this provision, deposit-taking shall not include taking of funds from current or prospective borrowers for the purpose of equity build-up of an individual borrower's own loans. A Microfinance NGO shall be a net lender at all times, wherein net loans mean total loans minus total equity build-up. The compensating balance or total CBU should not exceed the total loan portfolio;

(e) Is prohibited from directly engaging in the insurance business. However, a Microfinance NGO may establish partnerships with authorized microinsurance agents and/or entities in the furtherance of its social protection objectives;

(f) Charges reasonable interest and collects such necessary fees and charges incidental to its microfinance operations;

(g) Borrows money or incurs such obligations for the purpose of relending to microfinance borrowers, subject to existing laws; *Provided*, That a Microfinance NGO shall not be deemed as engaged in quasi-banking activities if the proceeds of such borrowings are exclusively used for relending to microfinance borrowers;

(h) Accepts donations or grants or contributions in accordance with existing laws and regulations;

(i) Invests its funds in sound, non-speculative enterprises and instruments, subject to rules and regulations of the relevant government regulatory agency;

(j) Maintains a transparent and comprehensive management information system; and

(k) Publishes and discloses audited accounts at the end of every financial year.

Nothing in this section shall be construed as precluding a Microfinance NGO from performing such services or exercising such powers as may be granted by law or as may be necessary or incidental to its activities as a nonstock, nonprofit NGO.

SEC. 7. *Minimum Core Programs and Services.* - Microfinance NGOs shall provide at least any of the following programs, products, or services:

- (a) Microcredit and financial literacy programs; and
- (b) Microcredit and CBU or microsavings.

SEC. 8. *Other Programs and Services.* - The following are the other programs and services that Microfinance NGOs may undertake, subject to existing laws and regulations:

- (a) Agricultural microfinance;
- (b) Housing microfinance;
- (c) Microinsurance, in partnership with authorized microinsurance companies, agents and/or entities;
- (d) Electronic payment system such as mobile or any innovative digital platforms or channels;
- (e) Money transfer and other related remittance services, in partnership with authorized agents and/or entities; and
- (f) Other relevant and/or innovative programs, products and services that address social welfare purposes and which are not contrary to existing laws and regulations.

SEC. 9. *Establishment of the Microfinance NGO Regulatory Council.* - The SEC shall establish an accrediting body to be known as the Microfinance NGO Regulatory Council, herein referred to as the "Council". The Council shall be composed of four (4) permanent members and three (3) members from the Microfinance NGO sector.

The permanent members of the Council shall be composed of the following:

- (a) The Chairman of the SEC or designated representative as the Chairperson of the Council;
- (b) The Secretary of the Department of Trade and Industry (DTI) or designated representative;
- (c) The Secretary of the Department of Finance (DOF) or designated representative; and
- (d) The Secretary of the Department of Social Welfare and Development (DSWD) or designated representative.

The three (3) representatives from the Microfinance NGO sector shall be chosen by at least majority of the permanent members of the Council from among the nominees of organizations, associations, and alliances of Microfinance NGOs duly registered with the SEC. They shall serve for a term of three (3) years.

Once the full membership of the Council is obtained, all members of the Council are entitled to one (1) vote each in the conduct of its business.

The Council shall be assisted by a secretariat to be lodged in the SEC, which shall coordinate the activities involved in the accreditation process.

SEC. 10. *Accreditation of Microfinance Institutions Registered as Nonstock, Nonprofit Corporation.* - Microfinance NGOs shall be required to obtain accreditation from the Council as a condition for the availment of the incentives under this Act.

Upon the effectivity of this Act, Microfinance NGOs which are certified by the SEC to have no derogatory information shall be deemed accredited for one (1) year, unless earlier revoked by the Council for good cause after review.

SEC. 11. *Functions and Responsibilities of the Microfinance NGO Regulatory Council.* - As the accrediting entity, the Council shall have the following functions and responsibilities:

(a) Institute and operationalize a system of accreditation for Microfinance NGOs; *Provided*, That the criteria for accreditation shall include sound and measurable standards of financial performance, social performance and governance, pursuant to Sections 12 to 16 of this Act;

(b) Issue certificate of accreditation as a Microfinance NGO upon determination that the criteria set for this purpose have been fully satisfied; *Provided*, That the certificate of accreditation shall be valid only for such period as may be prescribed under the implementing rules and regulations of this Act;

(c) Monitor the performance of Microfinance NGOs to ensure continuing compliance with the provisions of this Act and its implementing rules and regulations;

(d) Place under probation, suspend or revoke any certificate of accreditation upon due determination that a Microfinance NGO no longer meets the criteria for accreditation;

(e) Require regular submission of reports by Microfinance NGOs;

(f) Collect reasonable accreditation and monitoring fees from a Microfinance NGO which shall be used for the accrediting entity's operational requirements;

(g) Submit an annual report to the President of the Philippines and the concerned committees of both Houses of Congress; and

(h) Perform such other functions as may be necessary to accomplish the purposes and objectives of this Act.

SEC. 12. *Financial Performance Management.* - Microfinance NGOs shall develop and implement systems, practices, and controls for efficient, effective, and sustainable financial operations through prudent resource management, asset-liability management, liquidity management, and financial information management.

SEC. 13. *Social Performance Management.* - Microfinance NGOs must have an institutionalized process of translating social mission into practice, which includes setting clear social goals, monitoring progress towards these objectives and using information to improve performance and practice. Social performance information must be integrated into the Microfinance NGO's work, operational routines, and value system to affect decision-making practices at both operational and strategic levels.

SEC. 14. *Financial Performance Standards.* - The Council shall establish a set of parameters for assessing the financial performance of Microfinance NGOs such as, but not limited to, portfolio quality, efficiency, sustainability, and outreach.

SEC. 15. *Social Performance Standards.* - The Council shall establish a set of parameters for assessing the social performance of Microfinance NGOs such as, but not limited to, their social objectives; governance and accountability mechanisms; transparency; product design, services and delivery channels; and ethical treatment of clients.

SEC. 16. *Governance Standards.* - The Council shall establish the standards and principles of good corporate governance for Microfinance NGOs such as, but not limited to, fairness, management responsibility, respect for rights, corporate integrity, loyalty, compliance with regulations and transparency.

SEC. 17. *Initiative of the Concerned Regulatory Authorities to Examine Microfinance NGOs.* - The Bangko Sentral ng Pilipinas and the Insurance Commission may request the Council to examine the operations of Microfinance NGOs for the purpose of determining that the Microfinance NGOs are not engaged in unauthorized undertaking or activities which are subject to their respective jurisdictions. In case of a finding by the Council that an accredited Microfinance NGO is engaged in an unauthorized undertaking or activities subject to their said respective regulations, it shall place on probation, suspend or revoke the accreditation of the Microfinance NGO based on such ground, as may be appropriate under the circumstances.

SEC. 18. *Access to Government Programs and Projects.* - Duly accredited Microfinance NGOs shall be given ready access to related programs and projects of the government. Government agencies and government financial institutions shall develop and make available support programs for Microfinance NGOs operating in areas and sectors with poverty, or affected by or vulnerable to natural disaster or armed conflict. Support programs may include the provision of operational and capacity building grants, low interest loans and guarantee funds.

SEC. 19. *Technical Assistance.* - Duly accredited Microfinance NGOs are entitled to access any form of technical assistance from the government, donors and other support organizations in facilitating the linkage between the poor households/microenterprises and microfinance institutions, community organizations, and capacity building of the target clientele; social preparation activities, and those that will lead to the broadening and deepening of microfinance services such

as development of microfinance products, training in microfinance technologies, and upgrading of performance standards, operating systems and procedures.

SEC. 20. *Taxation of Microfinance NGOs.* - A duly registered and accredited Microfinance NGO shall pay a two percent (2%) tax based on its gross receipts from microfinance operations in lieu of all national taxes; *Provided*, That preferential tax treatment shall be accorded only to NGOs whose primary purpose is microfinance and only on their microfinance operations catering to the poor and low-income individuals in alignment with the main goal of this Act to alleviate poverty. The non-microfinance activities of Microfinance NGOs shall be subject to all applicable regular taxes.

Duly registered and accredited Microfinance NGOs, as well as their clients, shall be required to have a Taxpayer Identification Number (TIN); *Provided*, That this shall be accomplished within a reasonable time as prescribed by the Council; *Provided, further*, That the relevant government agencies, in coordination with the Council, shall provide simplified forms and procedures for securing the TIN.

SEC. 21. *Appropriations.* - The amount necessary to carry out the initial implementation of this Act shall be included in the General Appropriations Act.

SEC. 22. *Implementing Rules and Regulations.* - Within ninety (90) days after the effectivity of this Act, the SEC, in coordination with the DTI, the DOF, the DSWD and relevant organizations, shall promulgate rules and regulations for the implementation of this Act and/or for the public interest or for the protection of Microfinance NGOs accredited or regulated pursuant to the authority granted under this Act, including the requirement of cooperation within and among all Microfinance NGOs and the adoption of appropriate corporate governance principles and practices.

SEC. 23. *Separability Clause.* - If, for any reason, any provision or part hereof is declared invalid or unconstitutional, the other provisions not affected thereby shall remain in full force and effect.

SEC. 24. *Repealing Clause.* - All laws, issuances, rules and regulations inconsistent with any provision of this Act shall be deemed amended, modified, or repealed accordingly.

SEC. 25. *Effectivity.* - This Act shall take effect fifteen (15) days after its publication in any newspaper of general circulation.

Approved,

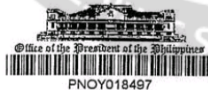
FELICIANO BELMONTE JR. Speaker of the House of Representatives  
FRANKLIN M. DRILON President of the Senate

This Act which is a consolidation of Senate Bill No. 2752 and House Bill No. 5217 was finally passed by the Senate and the House of Representatives on September 14, 2015.

MARILYN B. BARRA-YAP Secretary General House of Representatives  
OSCAR C. YABES Secretary of the Senate

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Approved:

BENIGNO S. AQUINO III President of the Philippines



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