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

SENATE

S. No. 1276

Introduced by Senator Joseph Victor G. Ejercito

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 micro, small, medium enterprises (MSMEs) drive our national economy. The 2021 Updating of the List of Establishments (ULE) showed that MSMEs comprise 99.5 percent out of 1,080,638 establishments in operation. In its 2020 MSME Statistics, the Department of Trade and Industry (DTI) reported that MSMEs generated a total of 5,380,815 jobs or 62.66 percent of the country's total employment.

Despite their contributions and importance, MSMEs' ability to access more capital faces constraints. In a data released by the Bangko Sentral ng Pilipinas (BSP) as of June 2022, the Philippine banking system had a total loan portfolio of P8,755,657 billion. The micro and small enterprises accessed P173.817 billion or 1.99 percent while medium enterprises contracted P273.172 or 3.12 percent, of lending institutions' total loan portfolio. As of the third quarter 2021, the BSP reported that MSME loans only accounted to 6.8 percent of the total business loans and 4.5 percent share to total banking system loans. The same report also showed that a minute 3 percent of adults borrowed from a bank while 54 percent of them borrowed from informal sources. In the Doing Business 2020, the Philippines has a credit score of 40 out of

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100, ranking 132nd out of 190 economies, trailing behind Malaysia (37th), Indonesia (48th), Thailand (48th), and Lao PDR (80th).

The lack of access to credit is a major barrier which prohibits MSMEs from reaching their full potential. The BSP cited two factors: 1) MSMEs are often reluctant to approach banks due to lack of credit history and acceptable collateral typically required for loan application; and, 2) Banks tend to perceive MSMEs in general as high-risk due to limited understanding and visibility into this market.[1]

Financing MSMEs is an effective method to support our economic recovery in this time of global health and economic crisis. It is important as these enterprises start expanding. Thus, this bill seeks to amend Executive Order No. 81 which provides for the Charter of the Development Bank of the Philippines, by mandating it to allocate 80 percent of its loan portfolio to programs, projects and initiatives of the MSMEs and local government units (LGUs). This encourages MSME lending by improving the availability of more credit resources. The government should continue its efforts under the Bayanihan II in providing relief and assistance to the MSMEs.

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

JOSEPH VICTOR G. EJERCITO

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[1] BSP Governor Benjamin Diokno's Speech during the virtual launch of the Credit Risk database (CRD) Project. Information accessed at https://www.bsp.gov.ph/SitePages/MediaAndResearch/SpeechesDisp.aspx?ItemId=772

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Be it enacted by the Senate and the 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 the
5   Philippines, hereinafter called the Bank, operating under the provisions of
6   Republic Act No. 85, as amended, shall henceforth operate under the
7   provisions of this 1986 Revised Charter. The Bank shall be a body corporate
8   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 the
14   context of financially viable and stable banking institutions; Provided,
15   further, that the Bank shall continue to be classified as a development bank;

1   *Provided, finally,* that unless otherwise provided herein, the Bank may
2   perform all other functions of a **UNIVERSAL [~~thrift~~]** bank.

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

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

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

13   "X x x;

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

21   "x x x."

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

1   conditions thereon, or to dispense with any condition expressed or authorized in any

2   such contract entered into and taking effect prior to this Act.

3   Sec. 4. *Transition Period.* - The Development Bank of the Philippines (DBP) shall

4   have a period of ten (10) years from the effectivity of this Act to restructure its loan

5   portfolio. The transition milestones shall be identified in the Implementing Rules and

6   Regulations to be promulgated pursuant to Section 5 of this Act.

7   Sec. 5. *Implementing Rules and Regulations.* - Within ninety (90) days from

8   effectivity of this Act, the Department of Finance (DOF) shall, in coordination with the

9   DBP, promulgate the rules and regulations to effectively implement the provisions of

10   this Act.

11   Sec. 6. *Separability Clause.* – If, for any reason, any provision of this Act or any

12   part thereof shall be held unconstitutional and invalid, the other parts or

13   Sec. 7. *Repealing Clause.* – All laws, decrees, orders, rules and regulations or

14   parts thereof inconsistent with any provisions of this Act are hereby repealed,

15   amended or modified accordingly.

16   Sec. 8. *Effectivity.* - This Act shall take effect fifteen (15) days after its complete

17   publication in at least two (2) newspapers of general circulation or in the Official

18   Gazette.

       Approved,