

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



**HOUSE OF REPRESENTATIVES**

**4351**

**H. B. No. \_\_\_\_\_**

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Introduced by Rep. Vilma Santos-Recto  
6<sup>th</sup> District of Batangas

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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**

**EXPLANATORY NOTE**

The Philippine Micro, Small and Medium Enterprise (MSME) sector is a critical driver of the country's economic growth<sup>1</sup>. 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 MSMEs<sup>2</sup>.

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

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<sup>1</sup> National Economic and Development Authority. (2011). *Philippine Development Plan 2011-2016*. Pasig City: National Economic and Development Authority

<sup>2</sup> 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>

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 growth<sup>3</sup>. The MSME Development 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 availability<sup>4</sup>. 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 billion<sup>5</sup>. 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 Programs<sup>6</sup>.

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 sector<sup>7</sup>." 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

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<sup>3</sup> 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

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

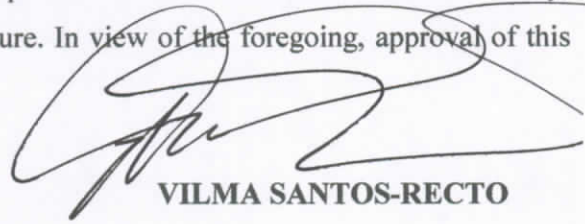
<sup>5</sup> Development Bank of the Philippines. (2017). 2017 Annual Report: Strong and Brilliant @ 70. Makati: Development Bank of the Philippines.

<sup>6</sup> Development Bank of the Philippines. (2017). 2017 Annual Report: Strong and Brilliant @ 70. Makati: Development Bank of the Philippines.

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

services for everyone needing them, provided by a diversity of sound and sustainable institutions<sup>8</sup>.”

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.



VILMA SANTOS-RECTO

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<sup>8</sup> 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 further  
3 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 services  
10 principally to service the medium and long term needs of agricultural and  
11 industrial enterprises, particularly in the countryside and preferably for  
12 **MICRO**, small and medium scale enterprises; *Provided*, however, that the  
13 pursuit of these objectives shall be undertaken within the context of  
14 financially viable and stable banking institutions; *Provided, further*, that the  
15 Bank shall continue to be classified as a development bank; *Provided, finally*,  
16 that unless otherwise provided herein, the Bank may perform all other  
17 functions of a **UNIVERSAL** [~~thrift~~] bank.

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

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

9           “Sec. 3. *Corporate Powers.* The Development Bank of the Philippines  
10 shall have the power:

11           “x x x;

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

20           “x x x.”

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

33           Sec. 4. *Transition Period.* – The Development Bank of the Philippines (DBP) shall  
34 have a period of ten (10) years from the effectivity of this Act to restructure its loan portfolio.

1 The transition milestones shall be identified in the Implementing Rules and Regulations to be  
2 promulgated pursuant to Section 5 of this Act.

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

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

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

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

Approved,