

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

EIGHTEENTH CONGRESS
First Regular Session

House Bill No. 5



INTRODUCED BY REPRESENTATIVE ALAN PETER "COMPAÑERO" S. CAYETANO

AN ACT
INSTITUTIONALIZING MICROFINANCE PROGRAMS AND ACCESS TO CAPITAL TO
SUPPORT AND GROW MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES),
ALLOCATING FUNDS THEREFOR, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

"If you are faithful in little things, you will be faithful in large ones..."

- Luke 16:10 (NLT)

Many Filipinos have the talent, skill, drive, and perseverance to run a good business. However, the lack of access to capital and affordable financing limits their opportunity to start their own business, and the same impediment hinder those who currently have businesses to expand.

Ka Santi is a new landowner under the Comprehensive Agrarian Reform Program (CARP). After several years of struggle, he and the members of his organization finally received their Certificate of Land Ownership Awards (CLOA). They were at first elated by the victory, but disconcerted to find out that the support services provided by the government were insufficient to make the land productive. They needed cash to buy farm implements and seeds. Local loan sharks, smelling an opportunity, descended into the village offering easy cash loans to the farmers at very high interest rates. They required the farmers to give their titles as collateral, a practice considered illegal under the law but widely done under-the-table in rural areas of the country. Struggling with the onerous repayment scheme of the loan sharks and encountering a major setback when one of his daughters fell ill, Ka Santi defaulted on his payment. Immediately, the loan shark pounced on him and took over control and cultivation of the land.

Aling Connie is a *carinderia* owner in one of the back alleys of downtown Manila, at the heart of the university belt. Her cheap and filling meals were the main draw of her nondescript eatery, and students were her main clientele. One day, however, a convenience store chain opened a branch right across her *carinderia*, its neon lights enticing students to try hot meals in an air-conditioned atmosphere. The decrease in client base, coupled with the fact that 1/3 of daily profits of her *carinderia* are surrendered to a motorcycle-riding collector at the end of the day, was too much for Aling Connie. After nearly fifteen years, she made a decision to close shop.

Much has been said about the micro-enterprises as drivers of economic growth. In the Philippines, the tremendous economic impact of MSMEs is readily observable. As of 2017, there are 924,721 business enterprises operating in the Philippines. Of these, 99.56% (816,920,677) are

MSMEs, while only 0.44% (4,044) are large enterprises. Of the total number of MSMEs, 89.59% (828,436) are micro enterprises, 9.56% (88,412) are small enterprises, and 0.41% (3,829) are medium enterprises.¹

MSMEs also generated a total of 4,922,251 jobs in 2017 versus 2,909,838 for large enterprises. This indicates that MSMEs contributed 62.85% of the total jobs generated by all types of business establishments that year. Of these, 30.26% or 2,369,748 jobs were generated by micro enterprises; 25.85% or 2,024,470 by small enterprises; and 6.74% or 528,033 by medium enterprises.

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 economic challenges and provide easier access to capital.

The Philippines stands as a completely unique country in the world in more ways than one. In terms of its social and economic system, no other country has as extensive a grassroots business like ours. For instance, there are some 1,300,000 *sari-sari* stores nationwide and is visited by 94% of the population.² A common part of the Filipino life, the *sari-sari* store is an innovative business venture that generates income with a minimal capital outlay.

Sari-sari stores are an example of MSMEs. The key to attain inclusive growth is to develop MSMEs. Economic research shows that a robust MSME sector could bring higher income growth, greater employment of domestic resources, more gainful integration with global and regional trade and investment, and greater equity in access, distribution and development.³ According to the International Finance Corporation, MSMEs account for a larger percentage of overall employment in the Philippines than any other country. However, it has one of the lowest rates of MSMEs per capita. In many countries who have exhibited exceptional economic growth in recent years, MSMEs are a big part of their economic success. For instance, as of 2010, the South Korean economy is around or about 94% comprised of MSMEs.⁴

The outlook on the economy has been very positive after the Philippines recorded a GDP growth of 6.2% in 2018. Socio-Economic Planning and Director-General of the National Economic and Development Authority Secretary Ernesto Pernia has remarked that, "the Philippines is no longer the sick man of East Asia" as the country's growth has sustained its momentum.⁵ However, according to Cielito Habito, a former Socio-economic Planning Secretary of the Philippines, "despite genuine efforts by the Government to create inclusive growth, little progress has been made in changing a structure that for decades has allowed one of Asia's worst rich-poor divides to develop."

In spite of the good economic outlook, inequality in income among regions has widened – where the rich regions get richer, and poor ones barely improve.⁶ Growth can be much more inclusive. Furthermore, despite their contributions to the economy, MSMEs still face a lot of constraints that are not adequately addressed by the government. Such major constraint is the access to capital.

In particular, while MSMEs may have access to affordable financing, the costs and interests related to it may be prohibitive. For the Philippines to address the need for better access to credit,

¹ Department of Trade and Industry available at <https://www.dti.gov.ph/dti/index.php/2014-04-02-03-40-26/news-room/179-workshop-on-market-access-for-MSMe-set>, last accessed 15 July 2019.

² *Opening a Sari-sari Store...*, available at <https://www.entrepreneur.com.ph/news-and-events/opening-a-sari-sari-store-or-market-stall-read-this-to-find-out-if-they-re-growing-or-shrinking-a00200-20180710>, last accessed 15 July 2019

³ Cielito F. Habito, *SMEs for inclusive growth*, available at <http://opinion.inquirer.net/12421/smes-for-inclusive-growth>, last accessed 15 July 2019.

⁴ International Finance Corporation, *MSMEs: International Comparisons*, 2010.

⁵ *PHL is no longer sick man of Asia*, available at <https://news.mb.com.ph/2017/07/19/ph-no-longer-sick-man-of-asia-pernia/>, last accessed 15 July 2019.

⁶ *Rich Philippine Regions Get Richer, Poor Ones Barely Improve*, available at: <https://www.rappler.com/business/231871-charts-regions-get-richer-poor-ones-barely-improve-philippines>, last accessed 15 July 2019.

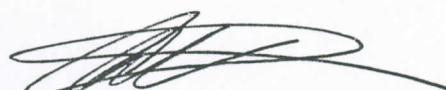
the State should institutionalize a loan program with a simplified process and with low interests that can provide members of the working class in need of capital with sufficient funds to start their own businesses. Thus, this measure provides for a program where:

- (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 very close to prevailing bank rates;
- (4) The lenders have a pragmatic collection mechanism; and
- (5) The mode of payment is on a daily or weekly basis.

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 much lower and affordable 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 MSMEs, 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 MSMEs, and transform these MSMEs into five-star businesses by providing them with assistance and the necessary resources in order to help their businesses flourish. *Puhunan, Tulungan, Kaunlaran (PTK) Act of 2019* embodies the Filipino *Bayanihan* spirit and sense of community where every Filipino would lend a hand to help each other out. Thus, collectively progressing economically.

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



ALAN PETER "COMPAÑERO" S. CAYETANO
Representative
1st District of Taguig-Pateros

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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 “*Puhunan, Tulungan, Kaunlaran (PTK) Act of 2019*.”

Section 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 ensure prosperity, promote full employment, a rising standard of living and an improved quality of life for all. In pursuit of this, the State shall endeavour to develop a program that will ensure that all of its citizens are equipped with or can readily access the necessary capital to pursue opportunities and uplift their lives.

The 1987 Constitution provides that all sectors of the economy and all regions of the country shall be given optimum opportunity to develop. Private enterprises, including corporations, cooperatives, and similar collective organizations, shall be encouraged to broaden the base of their ownership.

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.

Section 3. PTK Five-Star Program. The Department of Trade and Industry (DTI), in coordination with the Department of Interior and Local Government (DILG), Department of Agriculture (DA), Department of Science and Technology (DOST), Department of Tourism (DOT), National Economic and Development Authority (NEDA), and the Technical Education and Skills Development Authority (TESDA) shall develop a comprehensive program for the development of micro, small and medium enterprises (MSMEs) in all regions of the country. The goal of the program is to protect the capital of small proprietors, ensure the success of their MSMEs, and transform these MSMEs into five-star businesses by providing them with assistance and the necessary resources in order to help their businesses flourish.

The DTI shall be guided by the following principles in the development of the PTK Five-Star 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 MSMEs per region based on their size category (*i.e.*, micro, small or medium) and business area (*i.e.*, agriculture, livestock, fisheries, food processing, fabric and clothing, eco-tourism activities, pottery and handicrafts, furnitures and hardwood, information and technology, etc.);
- 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. As much as possible, each region shall be encouraged to choose a diversified priority business portfolio in order to hedge for risks brought about by natural calamities and changing market demands;
- e. To facilitate the implementation of this Act, each region shall 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 MSMEs falling under the five (5) priority business areas in their respective regions;
- g. Every year, the five (5) top-performing enterprises per size and category in each region shall receive a Five-Star award 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 medium-sized enterprise that evolves into a large enterprise through the help of the PTK Five-Star Program shall likewise be eligible for a one-time grant of Twenty Five Thousand Pesos (P25,000) to be used solely for further business capitalization;
- i. There shall be a mandatory review of the PTK Five-Star program every three (3) years in order to ensure that the program meets the present market demands.

Section 4. PTK Loan Program. In addition to the PTK Five-Star Program, the DTI, in consultation with the National Anti-Poverty Commission (NAPC) and the *Bangko Sentral ng Pilipinas* (BSP) shall develop a loan program catering exclusively to micro-enterprises in need of capital, whether or not they fall under the priority business areas of their respective regions.

The DTI shall be guided by the following principles in the development of the loan program:

- a. The loans shall be extended only to borrowers who have satisfied the requirements under this Act;
- b. 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 latter shall be borrowers in good standing. The DTI is hereby authorized to amend these amounts, after the mandatory review provided in this Act, in order to meet present market demands;
- c. Collateral shall not be required from borrowers;
- d. Loan proceeds shall be exclusively used for capital;
- e. 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;

- f. Delivery of the program shall be through partner lenders which are cooperatives and/or associations that are registered with the Cooperative Development Authority (CDA), or the Securities and Exchange Commission (SEC), and the DTI. In the absence of such participating partner lenders in the area, government institutions, centers or facilities, now existing or may be created by law, which are dedicated to the promotion of inclusive growth and anti-poverty objectives, are mandated to implement the program;
- g. The lenders shall have a collection mechanism, whereby payments are made on a weekly or monthly basis. It shall be the duty of the lender to collect the loan principal, together with the interest, from the borrower;
- h. 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 MSMEs. Participating partner lenders 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;
- i. Priority shall be given to MSMEs falling under the priority business areas of their respective regions and to MSMEs with innovative businesses; 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.

In the pursuit of inclusive growth and poverty alleviation, pertinent rules and regulations promulgated in the implementation of this Act shall provide for the details, conditionalities, and other schemes in the operationalization of the program, such as, but not limited to, penalty rates upon default and the dispensation of the proceeds from the loan program.

Section 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 the duly-registered cooperative or association, or a resident of the local government unit (LGU), from which he/she intends to avail of the loan;
- c. Willing to state under oath the facts establishing the foregoing;
- d. Comprehensive feasibility study of the business proposal; and
- e. 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.

Section 6. Registration of Cooperatives and Associations. The DTI shall keep a registry of all participating cooperatives and associations for monitoring and record keeping purposes. Cooperatives and associations which are eligible to participate in Programs provided for in this Act must register to be included in the database.

Section 7. Local Government Unit Participation. Any law, executive order, department order, ordinance and the like, to the contrary notwithstanding, local government units, 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, non-governmental organizations, and peoples' organizations that are lending assistance to MSMEs within their jurisdiction.

Provided, that in cities or municipalities where there are no such cooperatives/ associations,

the local government unit shall, within one 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, 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 over-all implementation of the program in the locality.

Section 8. 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 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.

Section 9. Incentives for Private Support. Any person or corporate entity may donate funds, equipment, materials or services for the improvement of the PTK Five-Star and/or PTK 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.

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.

Section 10. Funding. The total amount of One Hundred Twenty Five Billion Pesos (P125,000,000,000) for the next five years upon implementation of this Act or Twenty Five Billion Pesos (P25,000,000,000) per year for the next five years upon implementation of this Act, shall be appropriated for the initial implementation of the PTK Five-Star Program and the PTK 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 government financial institutions. The DTI may likewise allocate a portion of the funds to the People's Development Trust Fund (PDTF) under Republic Act No. 8425, *provided* that the funds to be allocated to the PDTF shall be used solely for microfinance-related organizing activities.

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

Section 12. Role of Government Financial Institutions. All government financial institutions (GFIs) shall set aside funding for microfinance operations to complement the purposes

of this Act. Participating government financial institutions shall include the DBP, LBP, and other GFIs.

Section 13. PTK Task Force. There shall be a PTK Task Force in charge of coordinating with banks and financial institutions on their existing programs on microfinancing. This shall be consolidated and submitted to DTI to be taken into consideration for the PTK Loan Program.

Section 14. 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.

Section 15. 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.

Section 16. 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.

Section 17. 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.

Section 18. 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.

Section 19. Effectivity – This Act shall take effect fifteen (15) days after its publication in two (2) newspapers of general circulation.

Approved,