

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH CONGRESS
Third Regular Session

H.B. No. 5788



Introduced By Representative Teofisto "TG" Guingona III

EXPLANATORY NOTE

Subsidized loans or directed credit programs were introduced by the government in the 1970's and early 80's due to the belief that regular banks and financial institutions did not and will not cater to poor citizens of the country. Indeed, the intent was noble but the results were a P40 billion disaster -- based on a study of the National Credit Council (NCC).

According to the said study, all the 111 government agencies that served as distribution outlets of the subsidized loans during said period failed.

The failure was apparently due to political intervention and patronage in the selection of beneficiaries; red tape; and beneficiaries' perception that the loans were dole-outs.

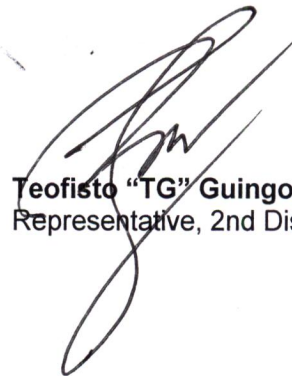
Due to the clear and undeniable failure of subsidized loans, a number of legislations and executive issuances tried to minimize its offering. The Agricultural and Fisheries Modernization Act (AFMA), for instance, was enacted in 1997, and replaced subsidized loans or directed credit programs with a market-oriented credit policy framework for agricultural lending. It was also in the same year that the Social Reform and Poverty Alleviation Act was passed. This law recognized and institutionalized the need of the poor (or the disadvantaged sector) for access to credit through the use of viable alternative credit schemes and savings programs including the extension of small loans. Furthermore, this law simplified loan application procedures, recognized group character loans and collateral-free arrangements. It also recognized alternative loan repayments, provided minimum requirements for savings, and small denominated saver's instruments.

Executive Order (E.O.) No. 138 was issued in 1999, which laid the framework for all government subsidized loans or directed credit programs to be transferred to private financial institutions using market-based interest rates. The role of government non-financial agencies (GNFAs) and government-owned or controlled corporations (GOCCs) were limited to the provision of an enabling environment, critical support services and capability building services that will facilitate the increased participation of the private sector in the delivery of credit services. The participation of government financial institutions (GFIs), on the other hand, was basically limited to the provision of wholesale funds to private financial institutions.

With the disastrous experience on subsidized loans or directed credit programs in the 1970's and 1980's, the issuance of E.O. 138 was therefore taken with much relief by both the government institutions and the private sector. E.O 138 stopped the country's coffer from bleeding, while at the same time providing the disadvantaged sector with a sustainable access to loans free from unnecessary political intervention and patronage, and red tape, and enabled private financial institutions to grow.

Last August, however, E.O. 138 was silently and mysteriously repealed by E.O. 558. Key finance officials admitted that they were neither informed nor consulted. They also voiced alarm as to the havoc that the repeal may create on the country's finances. Even the World Bank and IMF joined in the dismay over the mysterious repeal of E.O. 138.

With the foregoing, this representation files this bill not only to bring back the spirit and wisdom of E.138, but also to give it a greater anchor on permanency. The immediate approval of this bill, therefore, is earnestly sought.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

Teofisto "TG" Guingona III
Representative, 2nd District of Bukidnon

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AN ACT PROVIDING A SUSTAINABLE LOAN PROGRAM
THROUGH A RATIONALIZED GOVERNMENT-PRIVATE SECTOR FINANCIAL
SERVICES SYSTEM, AND FOR OTHER PURPOSES

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

Section 1. Short Title. – This act shall be known as the "*Sustainable Loan Program Act of 2006*."

Section 2. Definition of selected terms. – When used in this Act:

- a) "Basic rural infrastructure" shall refer but not be limited to rural roads, farm to market roads, and irrigation systems.
- b) "Capability-building services" shall refer but not be limited to education and training, and operation of information centers.
- c) "Private financial institutions" shall include rural banks, thrift banks, development banks, cooperatives, cooperative rural banks, non-government organizations and people's organizations and other financial institutions regulated by the *Banko Sentral ng Pilipinas* with acceptable experience in credit delivery.

Section 3. Declaration of policy and principles. – It is hereby declared a policy of the State to put priority on the alleviation of poverty not through the inefficient and ineffective system of dole-outs but through a sustainable loan program made possible through a complementary and rationalized government-private sector credit system. Towards this end, the following principles are being adopted:

- a) *Greater role for private sector.* -- The private sector shall be given greater role in the provision of financial services to the disadvantaged sector;
- b) *Market-orientation.* -- Market-oriented financial and credit policies, e.g. market-oriented interest rates on loans and deposits, shall be adopted;
- c) *Facilitative role of government.* -- The government shall provide an enabling environment, critical support services and capability building services that will facilitate the increased participation of the private sector in the delivery of credit services; and
- d) *Non-participation in implementation.* -- Government non-financial agencies and government-owned and controlled corporations shall not participate in the implementation of credit programs.

Section 4. *Savings and interest rates.* – In line with the foregoing policy and principles, the following policies on savings and interest rates will be followed:

a) Savings Mobilization

1. Savings mobilization will be promoted and encouraged among financial institutions engaged in the delivery of financial services within the appropriate regulatory framework.
2. Use of internally generated funds and savings deposits as source of loanable funds will be given priority.
3. Appropriate regulatory and prudential standards will be enforced to promote the use of small savings instruments, particularly in the rural areas.

b) Interest Rate

1. Interest rates charged by government credit programs should not be lower than the prevailing market rates.
2. The recovery of financial and operational costs of the wholesale/retail financial conduit should be a paramount consideration in the interest rate setting.

Section 5. *Mandatory guidelines.* – To give flesh to the policies and principles enshrined in this Act, the following mandatory guidelines shall be adopted and enforced:

a) Government Non-Financial Agencies (GNFAs) and Government-Owned and Controlled Corporations (GOCCs)

1. *Provision and facilitation of critical services.* -- GNFAs will focus on the provision and facilitation of critical services such as basic rural infrastructure, human and organizational infrastructure to make rural-and-urban-based micro-enterprises profitable.
2. *Provision of capability-building services.* -- GNFAs and GOCCs, in partnership with appropriate private sector institutions, will focus on the provision of capability-building services to those institutions in the delivery of credit services to the disadvantaged sector.
3. *Prohibition to engage in credit services.* -- GNFAs and GOCCs will no longer provide credit services either directly or indirectly to various sectors. Funds of existing credit programs being implemented by GNFAs will be channeled through GFIs. *Provided*, that though the credit decision will be made by GFIs, they shall however consult and work together with the GNFAs in identifying the broad target clientele.
4. *Rationalization of current directed credit programs.* -- GNFAs and GOCCs which are currently implementing directed credit programs are hereby enjoined to start the rationalization of the program in accordance with the rationalization program of the National Credit Council.

b) Government Financial Institutions (GFIs)

1. *Wholesale funds.* -- GFIs will be the main government vehicle for the delivery of credit services to the clientele by providing wholesale funds to private financial institutions that will be engaged in retail lending.
2. *Retail services.* -- GFIs may provide retail services to sectors not adequately served by private financial institutions.

3. *Developing institutional and financial linkages.* – In line with the direction towards wholesale lending, GFIs shall enhance institutional and financial linkages with private financial institutions.

c) Donor Agencies and External Funding

1. *Tapping external funding.* – External funding may be tapped by the government /GFIs if the terms of the funding will not distort the financial market.
2. *Limit on the use of grant fund.* – Grant funds from donor agencies will only be used to finance capability and institution-building activities. However, grant funds for on-lending may be allowed as long as the re-lending terms and conditions of the of the fund shall conform policies, principles and guidelines of this Act.
3. *Review and approval of the usage of funds.* – The NCC, in coordination with concerned government agencies, shall review the proposed usage of on-lending loan funds from donor-agencies, and make appropriate recommendations to the Department of Finance (DOF), which will thereafter rule to approve or disapprove the usage of loan funds.

Section 6. *Regulatory authorities.* – The Cooperative Development Authority (CDA) for cooperatives, and *Bangko Sentral ng Pilipinas* (BSP) for private financial institutions, shall establish regulatory and supervisory standards appropriate for credit institutions engaged in the delivery of financial services. The National Credit Council (NCC) shall also establish a system to monitor the implementation of credit programs of government financial institutions.

Section 7. *Implementing Rules and Regulations.* --- The Department of Finance (DOF), in consultation with the *Bangko Sentral ng Pilipinas* (BSP), the Cooperative Development Authority (CDA), and other agencies that the DOF may deem necessary to consult, shall issue the implementing rules and regulations (IRR) of this Act using the operating guidelines of Executive Order 138, series of 1999, as a starting point. The IRR of this Act shall be issued within two (2) months from the effectivity thereof.

Section 8. *Separability Clause.* -- If any provision of this Act shall be declared unconstitutional, no other provision hereof shall be affected thereby.

Section 9. *Repealing Clause.* -- All Acts, Decrees, or Laws inconsistent with the provisions of this Act are hereby repealed and/ or modified accordingly.

Section 10. *Effectivity.* — This Act shall take effect fifteen (15) days after the date of its publication in two (2) newspapers of general circulation.

Approved,