

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

FIFTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1114



Introduced by Hon. FERDINAND MARTIN G. ROMULADEZ

EXPLANATORY NOTE

Adhering with the declared policy of the state to promote a more focused program of poverty eradication, the objective of this proposed legislation is to pursue a more focused poverty eradication program wherein every poor Filipino family will be empowered to meet its basic needs including income security.

The bill seeks the creation of micro-enterprise development institutions (MEDIs) to tap vast opportunities to promote, enhance and protect the interests of the poor not only to access credit but as well as to have access in all related microfinance services, such as insurance, health care, education, housing, and other value added services to help eradicate poverty in the Philippines.

The MEDI will provide the poor immediate relief assistance, resettlement, social and livelihood services and a broader financial package including human and business development services enabling them to operate their own productive economic activities.

Not only that, but of equal importance is that the establishment of MEDIs shall help generate micro-enterprises and open new market opportunities for the existing microfinance (MF) retailers such as rural banks, cooperatives and non-government organizations (NGOs). In fact, the Land Bank of the Philippines has continued to increase its lending to micro-enterprises in recognition of their role as the lifeblood of the economy.

With the considerable number of NGOs currently involved in retail microfinance, this measure aims to create an appropriate policy environment for their active participation for the provision of financial and non-financial services to poor entrepreneurs.

This means expanding microfinance to include micro-insurance, education, social housing, and health care in partnership with government agencies, and the provision of human development services like leadership and entrepreneurial skills training. Additionally, this also means the inclusion of business mentoring, or the provision of services on business development solutions that will help micro-entrepreneurs to graduate to being small or medium-based entrepreneurs.

The proposed legislation also aims to strengthen partnership between government and microfinance-NGO sector to better implement social reform programs particularly in regard to the national efforts to revenue generation and socio-economic development.

In sum, the proposed law shall cover MF-NGOs, to be known as Micro-Finance Development Institutions (MEDIs) which shall be organized as non-profit institutions, to be credited by proper government authorities. They shall be subject to a tax of 2% of their gross income as contribution to the People's Development Trust Fund created and established under Republic Act No. 8425, otherwise known as the "The Social Reform and Poverty Alleviation Act." The 2% tax on gross income will be in lieu of all taxes whether imposed by the National or Local Governments.

Hence, the immediate passage of this bill is earnestly sought.



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AN ACT
GOVERNING THE CREATION AND ACCREDITATION OF MICRO-ENTERPRISE
DEVELOPMENT INSTITUTIONS, AND FOR OTHER PURPOSES

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

Section 1. Title. This Act shall be known and cited as the "Micro-Enterprise Development Institution Act of 2010."

Sec. 2. Declaration of Policy. It is hereby declared the policy of the State to pursue a more focused program of poverty eradication wherein every poor Filipino family shall be empowered to meet its minimum basic needs including income security.

In pursuance of this policy, the government shall work in partnership with qualified institutions in the private sector for the poor to have more access to micro-finance, micro-insurance, health care, micro-housing, business development such as leadership training and entrepreneurial skills training, and human development services to help the poor achieve a level of sustainability and empowerment and adopt measures to promote a spirit of generosity and selfless giving among individuals and institutions that would help support all programs directly involved in poverty eradication.

Sec. 3. Coverage. The scope of coverage of this Act shall apply to non-stock and non-profit micro-enterprise development institutions duly qualified and accredited as provided herein.

Sec. 4. Definition of Terms. For purposes of implementing this Act, the following definitions shall apply:

- a) *Micro-Enterprise Development Institution (MEDI)* refers to a non-stock and non-profit corporation organized to implement a micro-enterprise development strategy, as defined in letter (b) hereof: *Provided*, That no part of the net income of a MEDI inures to the benefit of its member, trustee, director or officer: *Provided, further*, that the administrative expenses shall in no case exceed thirty percent (30%) of the total expenses within a taxable year: *Provided, finally*, that the administrative expenses shall conform with the rules and regulations to be prescribed by the Department of Finance upon the recommendation of the Bureau of Internal Revenue.
- b) *Micro-Enterprise Development Strategy* refers to a social reform program to empower the poor to manage risks and vulnerabilities and thereby improve their asset base and expand access to micro-finance services, such as micro-credit, micro-insurance, micro-savings, health care and micro-housing through a broad package of financial, business and human development services and other non-financial services, including education to enable them to live a productive life.
- c) *Poor* refers to individuals and families whose income fall below the poverty threshold as defined by the National Economic and Development Authority or cannot afford in a sustained manner to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life.
- d) *Social Reform* refers to the continuing process of addressing the basic inequities in Filipino society through a systematic, unified and coordinated delivery of socio-economic programs or packages.
- e) *Micro Finance* refers to the provision of a broad range of financial services exclusively for the poor to improve the asset base of households and

expand their access to savings and enable them to raise their income levels and living standards.

- f) *Accrediting Entity* refers to the entity as designated under Section 8 of this Act.
- g) *Fund Balance* refers to the difference between total assets and total liabilities of the required capitalization for registration as a MEDI.

Sec. 5. Form of Organization. A MEDI as defined in Section 4 (a) hereof shall be established as a non-stock and non-profit corporation in accordance with the Securities and Exchange Commission (SEC) rules and regulations. It shall be governed by a Board of Trustees who shall receive no compensation.

Sec. 6. Capital Requirements. A MEDI shall have a fund balance of Twenty Million Pesos (Php20,000,000.00), or in the case of newly organized MEDIs, an initial fund of Ten Million Pesos (Php10,000,000.00).

Sec.7. Powers and Functions of the MEDI. The MEDI shall exercise such powers and functions and undertake such activities in accordance with the policies, programs and services provided in this Act.

The MEDI may likewise engage in all poverty eradication activities as allowed for non-stock and non-profit corporations under Batas Pambansa Bilang 68 otherwise known as "The Corporation Code" and other relevant laws and issuances.

The accredited MEDI shall not undertake deposit taking activities, engage in the insurance business and carry out fund management activities without the necessary licenses and authority from the relevant regulatory agencies.

For the purpose of implementing this provision, deposit taking does not include taking of funds from current or prospective borrowers for the purpose of equity build-up of an individual borrower's own loans.

Sec. 8. Accrediting Entity. The National Anti-Poverty Commission (NAPC) in consultation with the Department of Finance (DOF), Department of Trade and Industry (DTI), Bangko Sentral ng Pilipinas (BSP) and other concerned agencies and institutions, public and private, shall establish an appropriate accrediting entity to perform the functions provided under this Act.

The accrediting entity shall be assisted by a Secretariat in the performance of its functions.

Sec. 9. Powers and Functions of the Accrediting Entity. The accrediting entity established under this Act shall have the following functions and responsibilities:

- a) Institute and operationalize a system of accreditation for MEDIs;
- b) Issue Certificate of Accreditation as a MEDI to a non-stock and non-profit corporation applicant: *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.

No application shall be processed for accreditation as a MEDI unless it secured a valid registration or license with the government agency that exercises regulatory function over such corporation;

- c) Monitor the performance of the MEDIs to ensure compliance with the provisions of this Act and its implementing rules and regulations;
- d) Suspend or revoke any certificate of accreditation upon determination that a MEDI no longer meets the criteria for accreditation;
- e) Require regular submission of reports by MEDIs;
- f) Collect reasonable accreditation and monitoring fees from a MEDI 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 Congress; and
- h) Perform such other functions as may be necessary to accomplish the purposes and objectives of this Act.

Sec. 10. Taxation of Accredited MEDIs. The taxation of MEDIs shall be as follows:

- a) The MEDIs shall pay two percent (2%) of the gross income in lieu of all national and local taxes which shall be remitted to the National Government. The tax proceeds shall form part of the disbursable portion of the Peoples Development Trust Fund established under Republic Act No. 8425 otherwise known as the "Social Reform and Poverty Alleviation Act."

The term "gross income" means gross receipts less sales returns, allowances, discounts and other costs of services. The term 'cost of services' shall mean all direct costs and expenses necessarily incurred to provide the services required by the customers and clients including salaries and employee benefits of personnel, consultants and specialists directly rendering the service and cost of facilities directly utilized in providing the service and cost of supplies. Interest expenses on borrowings for lending services of a MEDI shall be deductible from gross receipts as part of cost of services in arriving at gross income. The term gross income shall exclude donations.

- b) Donations to the MEDI shall be fully deductible from the gross income of the donor subject to the conditions of Section 34 (c) of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997: *Provided*, however, that the accreditation of the MEDI by the accrediting entity under this Act shall be sufficient.
- c) Donations to the MEDI shall be exempt from donor's tax subject to the qualifications of Section 101 of Republic Act No. 8424, as amended, otherwise known as the National Internal Revenue Code of 1997: *Provided*,

that, for purposes of utilization, accreditation granted under this Act shall be sufficient.

- d) The transaction of the MEDI and its clients shall be exempt from documentary stamp tax.

Sec. 11. *Implementing Rules and Regulations.* The NAPC, in coordination with the DOF, BIR, BSP, DTI and other concerned government agencies and Non-Government Organizations (NGOs), shall formulate the Implementing Rules and Regulations of this Act within ninety (90) days after its approval and shall take effect fifteen (15) days after its publication in a newspaper of general circulation in the Philippines.

Sec. 12. *Separability Clause.* The provisions of this Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

Sec. 13. *Repealing Clause.* All executive orders, rules and regulations, or parts thereof, which are contrary to or inconsistent with this Act are hereby repealed, amended or modified accordingly.

Sec. 14. *Effectivity.* This Act shall take effect after fifteen (15) days from its publication in at least two (2) national newspapers of general circulation.

Approved,