



**Securities and  
Exchange  
Commission**  
P H I L I P P I N E S

# REPUBLIC ACT NO. 10693

(AN ACT STRENGTHENING NONGOVERNMENT  
ORGANIZATIONS (NGOs) ENGAGED IN  
MICROFINANCE OPERATIONS FOR THE POOR or  
the MICROFINANCE NGOs ACT)

# BACKGROUND

- On 03 November 2015, Republic Act No. 10693 otherwise known as “An Act Strengthening Nongovernment Organizations (NGOs) Engaged in Microfinance Operations for the Poor” was approved by the President



# POLICY OF THE STATE (Sec. 2)

- The law was enacted by virtue of the policy of the State to pursue a program of poverty eradication wherein poor Filipino families shall be encouraged to undertake entrepreneurial activities to meet their minimum basic needs



# SCOPE OF APPLICATION (Sec. 4)

- The law shall apply to ALL NGOs with the primary purpose of implementing a microenterprise development strategy and providing microfinance programs, products and services for the poor. These shall be referred to as “Microfinance NGOs” (MF-NGOs, *for brevity*).



## Basic Features and Purposes of a Microfinance NGOs (Sec. 6)

- a. Provide the poor direct access to reasonable and affordable credit and related programs and services
- b. Provide business development opportunities such as leadership training and entrepreneurial skills enhancement



# Basic Features and Purposes of Microfinance NGOs (Sec. 6)

- C. Provide human development services to help the poor achieve a level of sustainability and empowerment, and adopts measures to promote a spirit of generosity and selfless giving among individuals and institutions that shall help support programs directly involved in poverty eradication.



## Basic Features and Purposes of Microfinance NGOs (Sec. 6)

- d. Collect compulsory savings or capital build-up (CBU) only from their clients for purposes of maintaining the compensating balance in relation to the same client's loan. Acceptance of client savings shall not be deemed as deposit-taking.



## Basic Features and Purposes of Microfinance NGOs (Sec. 6)

- e. Are prohibited from directly engaging in the insurance business. However, they may establish partnerships with authorized microinsurance agents and/or entities in the furtherance of their social protection objectives.





# Basic Features and Purposes of Microfinance NGOs (Sec. 6)

- f. Charge reasonable interest and collect such necessary fees and charges incidental to their microfinance operations.
- g. Borrow money or incur such obligations for the purpose of relending to microfinance borrowers. An MF-NGO shall not be deemed as engaged in quasi-banking activities if the proceeds of the borrowings are exclusively used for relending to microfinance borrowers.



# Basic Features and Purposes of Microfinance NGOs (Sec. 6)

- h. Accept donations or grants or contributions in accordance with existing laws and regulations;
- i. Invest their funds in sound, non-speculative enterprises and instruments, subject to rules and regulations of the relevant government regulatory agency;
- j. Maintain a transparent and comprehensive management information system; and
- k. Publish and disclose audited accounts at the end of every financial year.



# Minimum Core Programs and Services of MF-NGOs (Sec. 7)

- (a) Microcredit and financial literacy programs;  
and
- (b) Microcredit and CBU or microsavings.



# Establishment of MICROFINANCE NGO REGULATORY COUNCIL (Sec. 9)

The SEC shall establish an accrediting body to be known as the Microfinance NGO Regulatory Council. The Council shall be composed of 4 permanent members and 3 members from the Microfinance NGO Sector.



# Establishment of MICROFINANCE NGO REGULATORY COUNCIL (Sec. 9)

The 4 permanent members of the Council shall be:

1. Chairman of the SEC or designated representative as the Chairperson of the Council;
2. The Secretary of the DTI or designated representative;
3. The Secretary of the DOF or designated representative;
4. The Secretary of the DSWD or designated representative.



# Establishment of MICROFINANCE NGO REGULATORY COUNCIL (Sec. 9)

The 3 representatives from the MF-NGO sector shall be chosen by at least majority of the permanent members of the Council from among the nominees of organizations, associations, and alliances of MF-NGOs duly registered with the SEC. They shall serve for a term of 3 years



# Accreditation of Microfinance Institutions (Sec. 10)

- Microfinance NGOs shall be required to obtain accreditation from the Council as a condition for the availment of the incentives under this Act.
- Upon the effectivity of this Act, Microfinance NGOs which are certified by the SEC to have no derogatory information shall be deemed accredited for one (1) year, unless earlier revoked by the Council for good cause after review.



# *Functions and Responsibilities of the Microfinance NGO Regulatory Council (Sec. 11)*

(a) Institutes and operationalizes a system of accreditation for MF-NGOs: *Provided*, That the criteria for accreditation shall include sound and measurable standards of financial performance, social performance and governance, pursuant to Sections 12 to 16 of this Act;

(b) Issues certificate of accreditation as an MF-NGO upon determination that the criteria set for this purpose have been fully satisfied





## *Functions and Responsibilities of the Microfinance NGO Regulatory Council (Sec. 11)*

(c) Monitors the performance of Microfinance NGOs to ensure continuing compliance with the provisions of this Act and its implementing rules and regulations;

(d) Places under probation, suspend or revoke any certificate of accreditation upon due determination that a MF-NGO no longer meets the criteria for accreditation;

(e) Requires regular submission of reports by MF-NGOs;



# *Functions and Responsibilities of the Microfinance NGO Regulatory Council (Sec. 11)*

(f) Collects reasonable accreditation and monitoring fees from a MF-NGO which shall be used for the accrediting entity's operational requirements;

(g) Submits an annual report to the President of the Philippines and the concerned committees of both Houses of Congress; and

(h) Performs such other functions as may be necessary to accomplish the purposes and objectives of this Act.



## *Initiative of the Concerned Regulatory Authorities to Examine MF-NGOs (Sec. 17)*

The BSP and the IC may request the Council to examine the operations of MF-NGOs for the purpose of determining that the Microfinance NGOs are not engaged in unauthorized undertaking or activities which are subject to their respective jurisdictions. In case of a finding by the Council that an accredited MF-NGO is engaged in an unauthorized undertaking or activities subject to their said respective regulations, it shall place on probation, suspend or revoke the accreditation of the MF-NGO based on such ground, as may be appropriate under the circumstances.



# *Access to Government Programs and Projects (Sec. 18)*

Duly accredited MF-NGOs shall be given ready access to related programs and projects of the government.



# *Technical Assistance (Sec. 19)*

Duly accredited MF-NGOs are entitled to access any form of technical assistance from the government, donors and other support organizations in facilitating the linkage between the poor households/microenterprises and microfinance institutions, community organizations, and capacity building of the target clientele; social preparation activities, and those that will lead to the broadening and deepening of microfinance services such as development of microfinance products, training in microfinance technologies, and upgrading of performance standards, operating systems and procedures.



## *Taxation of MF-NGOs (Sec. 20)*

A duly registered and accredited Microfinance NGO shall pay a two percent (2%) tax based on its gross receipts from microfinance operations in lieu of all national taxes: *Provided*, That the preferential tax treatment shall be accorded only to NGOs whose primary purpose is microfinance and only on their microfinance operations catering to the poor and low-income individuals in alignment with the main goal of this Act to alleviate poverty. The non-microfinance activities of Microfinance NGOs shall be subject to all applicable regular taxes.



# *Implementing Rules and Regulations* (Sec. 22)

Within ninety (90) days after the effectivity of this Act, the SEC, in coordination with the DTI, the DOF, the DSWD and relevant organizations, shall promulgate, rules and regulations for the implementation of this Act and/or for the public interest or for the protection of Microfinance NGOs accredited or regulated pursuant to the authority granted under this Act, including the requirement of cooperation within and among all Microfinance NGOs and the adoption of appropriate corporate governance principles and practices.



# Remaining Issues for the IRR

1. The DOF and BIR proposes the following provision for the application of the 2% tax:

**“The** preferential rate of two percent tax based on gross receipts from microfinance operation should only refer to lending activities and insurance commission which are bundled and forming integral part of the qualified lending activities of the Microfinance NGOs. All microfinance activities other than lending activities and insurance commission which are bundled and forming integral part of the qualified lending activities of the Microfinance NGOs shall be subject to all applicable taxes.”





# Remaining Issues for the IRR

2. The DOF wants a more specific definition of “low-income”. The law defines “low-income” as:

“*Low-income* – income of individuals or families that fall below the low-income threshold to be defined by the National Economic and Development Authority (NEDA)”



# Recommended definition by NEDA

Low Income threshold –

It is two times (2x) the official national poverty threshold set by the NEDA

(Communicated by the Office of Usec Recente this morning))



# **BIR Reply to APPEND's concern re: Printing of OR**

The IRR of RA 10693 is not a requirement in the approval of an Authority to Print (ATP).  
(BIR Letter to Dir. JFC of SEC dated June 24, 2016)

