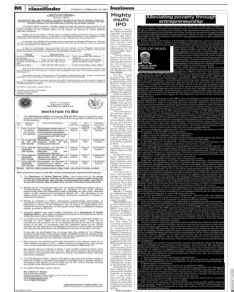


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Alleviating poverty through entrepreneurship

For so many years, reducing poverty has been one of the top priorities of the government. Anti-poverty policies such as Pantawid Pamilyang Pilipino Program (4Ps) was introduced to address the short-term financial needs of the poorest among the poor families of society, but the government recognized that it can also help these families in the long-term. Hence, on Nov. 3, 2015, Republic Act 10693 or the Microfinance NGOs Act was signed into law by then-president Benigno Aquino III.

Under Section 2 of said law, it is 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 including income security." To achieve this policy, the same section further provides that "the State shall support and work in partnership with qualified NGOs in promoting financially inclusive and pro-poor financial and credit policies and mechanisms, such as microfinance and its allied services." It can be said that RA 10693 is a landmark law because it gives poor families an opportunity to start their own small businesses with the help of microfinance NGOs.

The noble objective of RA 10693 was put into effect when the Implementing Rules and Regulations (IRR) of the law was signed on

Aug. 16, 2016. The IRR defined microfinance nongovernment organization or "microfinance NGO" as non-stock, non-profit organization duly registered with the Securities and Exchange Commission (SEC) with the primary purpose of implementing a microenterprise development strategy and offering microfinance programs, products and services for the poor and low-income clients. It is essential that the microfinance NGO must provide programs that will empower the poor and increase their access to reasonable and affordable credit and related programs and services which shall include, but shall not be limited to, microcredit, microinsurance, microsavings, health care and micro-housing. Thus, it can be understood that only a microfinance NGO which has said primary purpose may apply for accreditation and avail of the incentives under the law.

One important feature of the IRR is the establishment of the Microfinance NGO Regulatory Council which is tasked to accredit qualified microfinance NGOs. Section 1, Rule 3 of the IRR provides that the council is composed of four permanent members from the government sector and three other members from the microfinance NGO sector. The permanent members of the council are: a) The Securities and Exchange Commission chairman or designated representative, who will also act as the chairman of the council, b) The Department of Finance secretary or designated representative, c) The Department of Trade and Industry secretary or designated representative; and d) The Department of Social Welfare and Development secretary or designated representative. On the other hand, organizations, associations and alliances of microfinance NGOs, which must have at least five microfinance NGO members, may submit a list of nominees where the other three members of the council shall be chosen by at least a majority of the permanent members. The three representatives shall serve for a term of three years and they may seek reappointment.

As to accreditation requirements, it is essential that the microfinance NGO shall comply with the following requisites:

1. Must be a non-stock, non-profit corporation.
2. Has at least P1,000,000 capital contribution.
3. Must comply with the corporate / trade name and articles of incorporation / by-laws requirements set out under Section 1, Rule 4 of the IRR.
4. Should primarily implement a microfinance development strategy and

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provide micronnance programs, products and services to the poor.

5. Provides the basic minimum core programs and services under Section 1, Rule 5 of the IRR. The microfinance NGO is required to provide at least any of the following: 1) Microcredit and financial literacy programs and 2) Microcredit and capital build-up or microsavings. This list is not exclusive because they are allowed to undertake other programs and services provided that these are in compliance with applicable laws and regulations.

6. Must be operating for at least three consecutive years.

After the microfinance NGO has submitted the necessary documents for accreditation, its application shall be evaluated based on the comprehensive accreditation standards under Section 3, Rule 4 of the IRR. Said provision states that the council shall apply the following criteria in determining the qualification of the microfinance NGO: a) Financial performance standards, b) Social performance standards and c) Governance standards. Further, the council may relax the accreditation standards for the first three years from the effectivity of the IRR so that the microfinance NGO sector can adjust to the standards. After the lapse of the three-year period, full compliance shall be required from them.

Once the microfinance NGO has satisfied the requirements and standards set by the IRR, a Certificate of Accreditation shall be issued. The said certification shall be valid for three years from the date of its issuance. Further, in connection with its microfinance operations, the microfinance NGO is allowed to:

1. Borrow money or incur such obligations for the purpose of relending to microfinance borrowers; it is necessary that the proceeds of the borrowings must be entirely used for relending to microfinance borrowers in order not to be considered engaging in quasi-banking activities.

2. Accept donations or grants or contribution. However, the microfinance NGO is not allowed to give donations if the purpose is in aid of any political party or candidate or for purposes of partisan political activity.

3. Invest its funds in sound, non-speculative enterprises and instruments.

The microfinance NGO shall be required to maintain books of accounts for its microfinance operations. However, in case it shall engage in other businesses, Section 2, Rule 7 of the IRR requires the maintenance of separate books of accounts for such businesses. The microfinance NGO is also required to disclose and publish its audited financial statements (AFS) within 120 days from the end of its financial year. Said publication and disclosure may be done either by: a) publication through the website of the microfinance NGO or the alliance/association to which it belongs, or b) posting in public markets where the clients of the microfinance NGO are located.

As to its taxation, the duly registered and accredited microfinance NGO shall be entitled to pay a preferential tax rate of two percent on its gross receipts from its microfinance operations which shall be in lieu of all national taxes. Section 2, Rule 6 of the IRR provides that such preferential tax treatment should only refer to lending activities and insurance commission that form an integral part of the qualified lending activities of the microfinance NGO. Thus, all appropriate taxes shall be applied to its other income that are not generated from its microfinance operations. Please take note that Certificate of Accreditation is necessary before the microfinance NGO can avail the two percent preferential tax treatment.

And lastly, it is worthy to note that the council, through the request of Bangko Sentral ng Pilipinas or Insurance Commission, may examine the operations of the microfinance NGO to determine whether or not it is involved in illegal activities. If indeed it is engaged in illegal activities, the council may either place the microfinance NGO on probation, suspend or revoke its accreditation. Further, the accreditation of the microfinance NGO may also be revoked on any of the following grounds:

1. Noncompliance with reportorial requirements.

2. Misrepresentation in, or falsification of, any documents submitted in support of its application for accreditation or any document submitted after.

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3. Bankruptcy or insolvency.

4. Revocation of its primary license as a corporate entity.

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