

EXECUTIVE ORDER NO. 138

DIRECTING GOVERNMENT ENTITIES INVOLVED IN THE IMPLEMENTATION OF CREDIT PROGRAMS TO ADOPT THE CREDIT POLICY GUIDELINES FORMULATED BY THE NATIONAL CREDIT COUNCIL

WHEREAS, the government puts priority on the alleviation of poverty in the country;

WHEREAS, greater access to financial services is considered one of the important components in improving the living conditions of the disadvantaged sectors of the economy;

WHEREAS, there a number of government-funded credit programs that are inefficiently managed and implemented, resulting in huge inefficiencies and waste of scarce government resources;

WHEREAS, the basic sector still lacks access to credit services despite the proliferation of several directed credit programs implemented by government line agencies;

WHEREAS, in 1994, Administrative Order No. 86 mandated the National Credit Council (NCC) to rationalize directed credit programs with the government providing a supportive and appropriate policy environment and institutional framework towards a viable and sustainable financial market;

WHEREAS, directed credit programs refer to those programs implemented by the government which are funded out of budgetary allocation, special funds from the government, loans or grants from donor agencies and are lent out at subsidized interest rates;

WHEREAS, the government will continue to pursue a liberalized and market-oriented economy where the private sector plays a major role and the government provides the enabling environment for the efficient functioning of markets and the participation of the private sector;

WHEREAS, this policy is explicitly espoused in the recently enacted Agriculture and Fisheries Modernization Act and the Social Reform and Poverty Alleviation Act;



WHEREAS, under this policy, subsidies provided by the government will be transparent to encourage the private sector to provide financial services to the basic sector. The government will, likewise provide welfare assistance, instead of credit, to the most disadvantaged sector of the economy;

WHEREAS, in accordance with the NCC mandate stated in AO No. 86 and as the lead agency in the Flagship Program on Credit, the Social Reform Agenda designated the National Credit Council (NCC) to formulate the necessary policy guidelines for government credit programs;

NOW, THEREFORE, I, JOSEPH EJERCITO ESTRADA, President of the Philippines, by virtue of the powers vested upon me by law, hereby order the concerned government financial and non-financial agencies to adopt the following policy guidelines for the implementation of credit programs.

SECTION 1. The policy of providing the basic sector access to financial services is anchored on the following principles:

Greater role of the private sector in the provision of financial services to the basic sector;

Adoption of market-oriented financial and credit policies, e.g. market-oriented interest rates on loans and deposits;

Government to provide an enabling policy environment, critical support services and capability-building services that will facilitate the increased participation of the private sector in the delivery of credit services;

Non-participation of government non-financial agencies and government-owned and controlled corporation in the implementation of credit programs.

SEC. 2. In line with the foregoing policy principles, the following policies on savings and interest rates will be adopted:

Savings Mobilization

Savings mobilization will be promoted and encouraged among financial institutions engaged in the delivery of financial services within the appropriate regulatory framework.



PJEE Hologram # 6782

Use of internally generated funds and savings deposits as source of loanable funds will be given priority.

Appropriate regulatory and prudential standards will be enforced to promote the use of small savings instruments, particularly in the rural areas.

Interest Rate

Interest rates charged for government credit programs should not be lower than the prevailing market rates.

The recovery of financial and operational costs of the wholesale/retail financial conduit should be a paramount consideration in interest rate setting.

SEC. 3. The following guidelines will also be adopted and used by the various institutions involved in the delivery of credit services:

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

1. GNFA's will focus on the provision and facilitation of critical services such as basic rural infrastructure (e.g. rural roads, farm to market roads, irrigation services, etc.), human and organizational infrastructure to make rural-and-urban based on micro-enterprises profitable.
2. GNFA's and GOCC's in partnership with appropriate private sector institutions will focus on the provision of capability building services (e.g. education and training, operation of information centers, etc.) to those institutions in the delivery of credit services to the basic sector.
3. GNFA's and GOCC's will no longer be engaged in providing credit services directly or indirectly to various sectors. Funds of existing credit programs being implemented by GNFA's will be channeled through GFIs. GNFA's will work closely with GFIs in identifying the broad target clientele. The credit decision will be with the GFIs.
4. GNFA's and GOCC's are directed to immediately start the rationalization of directed credit programs that they are currently implementing in accordance with the rationalization program of the National Credit Council.



- 5 Designated regulatory authorities (e.g. Coöperative Development Authority (CDA) for coops and Bangko Sentral ng Pilipinas (BSP) for private financial institutions) will establish regulatory and supervisory standards appropriate for credit institutions engaged in the delivery of financial services. A system to monitor the implementation of credit programs of government financial institutions will also be established under the responsibility of the National Credit Council.

b. Government Financial Institutions (GFIs)

- 1 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. 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 Bangko Sentral ng Pilipinas with acceptable experience in credit delivery.
2. For sectors not adequately served by the private financial institutions, GFIs may provide retail services to these sectors.
3. In line with the direction to move towards wholesale lending, GFIs should develop and strengthen institutional and financial linkages with participating private financial institutions.

c. Donor Agencies and External Funding

- 1 The government/GFIs will tap external funding if the terms of the funding do not result in the distortion of the financial market.
- 2 Grant funds from donor agencies will only be used to finance capability and institution-building activities. Grant funds for on-lending may be allowed as long as the relending terms and conditions of the fund shall conform to the guidelines provided in this Order.
3. Use of loan funds from donor agencies for on-lending purposes of GFIs will be subject to approval by the Department of Finance. The National Credit Council, in coordination with concerned government agencies, shall undertake the review of proposed loan programs and make pertinent recommendations to the DOF.



SEC. 4. The National Credit Council is hereby directed to formulate the operating guidelines of this Executive Order in consultation with the concerned agencies of the government, and implement a rationalization program for Directed Credit Programs using the policy guidelines in this Executive Order. In view of this, the Department of Budget and Management (DBM) is directed to coordinate with the National Credit Council before budgetary funds for the implementation of Credit Programs by GNFA's and GOCCs are released.

SEC. 5. All government financial and non-financial agencies are directed to adopt these policy guidelines.

SEC. 6. The government directed credit programs to be covered by this executive order include those but not limited to the list shown in Annex 1 of this Executive Order.

SEC. 7. This Executive Order shall take effect immediately.

DONE in the City of Manila, this *10TH* day of *August* in the year of Our Lord, nineteen hundred and ninety nine.

By the President:

RONALDO B. ZAMORA
Executive Secretary

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Note: Copy of Annex 1 may be secured in the National Credit Council