

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

EIGHTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 1070



Introduced by Representatives Jocelyn S. Limkaichong and Christian S. Unabia

EXPLANATORY NOTE

The Magna Carta for Micro, Small and Medium Enterprises (MSMEs) was enacted as Republic Act No. 6977 in 1991, and was amended by Republic Act No. 8289 in 1997 and Republic Act No. 9501 in 2008, and further amended by Republic Act No. 10644 in 2014. It defines the current national policy to promote, support strengthen and encourage the growth and development of MSMEs. It is geared towards the development of the Filipino entrepreneurial spirit by providing a business environment conducive for MSMEs.

MSMEs account for 99.57% of the total number of establishments in the country, broken down into 89.63% micro, 9.5% small and 0.44% medium enterprises. They employ 63.3% of the total labor force and contribute approximately 35.7% to the gross domestic product. Moreover, 60% of all exporters are MSMEs. These data show us that the Philippines is relying on the success of its MSMEs to boost the economy to its maximum potential, as entrepreneurs are the backbone of our economy, the engines of economic growth.

President Rodrigo Duterte recognizes the vital importance of MSMEs to economic benefits and job creation in the country. He has reaffirmed his administration's commitment to support MSMEs.

One of the more important provisions of the Magna Carta for MSMEs is the mandatory allocation of credit resources by lending institutions for MSMEs which expired on June 17, 2018. There is therefore the need to amend the said law in order to extend the said mandated lending for MSMEs.

Furthermore, the Magna Carta for MSMEs has to be amended to ensure the full capitalization of the Small Business Corporation (SB Corp.). For 17 years since November 2001, the paid up capital of the Small Business Corporation (SB Corp.) has remained at P1.9 billion out of its authorized capitalization of P10 billion. This is to enable the SB Corp., which is the financing arm of the Department of Trade and Industry (DTI), to better serve the MSME sector.

The strengthening of the Magna Carta for MSMEs in other aspects also have to be looked into, among which are:

- Enhancement of the financing programs for MSMEs;

- Provision of a fund source for the Venture Capital and Micro Finance Trust Fund;
- Expansion of the membership of the Micro, Small and Medium Enterprise Development (MSMED) Council and the Advisory Unit; and
- Increase in the penalties for noncompliance of the banks with the mandatory lending.

In the 17th Congress, the amendatory bill to the Magna Carta for MSMEs was approved by the Committee on Small Business and Entrepreneurship Development. It was approved on 3rd reading by the House of Representatives as House Bill No. 8714, and was transmitted to the Senate.

The immediate passage of this bill is earnestly sought.



JOCELYN S. LIMKAICHONG



CHRISTIAN S. UNABIA

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AN ACT

FURTHER PROMOTING ENTREPRENEURSHIP BY STRENGTHENING, EMPOWERING AND ENHANCING THE FINANCING PROGRAMS FOR MICRO, SMALL AND MEDIUM ENTERPRISES, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 6977, AS AMENDED, OTHERWISE KNOWN AS THE "MAGNA CARTA FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)"

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

1 SECTION 1. Section 2 of Republic Act No. 6977, as amended, is hereby further
2 amended to read as follows:

3 "SEC. 2. *Declaration of Policy.* – Recognizing that MSMEs have the potential
4 [for] TO GENERATE more employment [generation] and SPUR economic growth
5 and therefore can help provide a self-sufficient industrial foundation for the
6 country, it is hereby declared the policy of the State to promote, support,
7 strengthen and encourage the growth and development of MSMEs in all
8 productive sectors of the economy particularly rural/agri-based,
9 MANUFACTURING, FINANCE AND SERVICES enterprises. To this end, the State
10 shall recognize the specific needs of the MSMEs and shall undertake to promote
11 entrepreneurship, support entrepreneurs, encourage the establishment of
12 MSMEs and ensure their continuing viability and growth and thereby attain
13 countryside industrialization by:

14 "x x x."

15 SEC. 2. Section 4 of the same Act, as amended, is hereby further amended to
16 read as follows:

1 “SEC. 4. *Eligibility for Government Assistance.* — To qualify for assistance,
2 counseling, incentives and promotion under this Act, businesses falling under
3 the above definition must be:

4 “x x x

5 “~~[Eligible MSMEs shall be entitled to a share of at least ten percent (10%)~~
6 ~~of total procurement value of goods and services supplied to the Government,~~
7 ~~its bureaus, offices and agencies annually.]~~ THE NATIONAL GOVERNMENT,
8 ITS BUREAUS, OFFICES AND AGENCIES SHALL ALLOCATE AT LEAST TEN
9 PERCENT (10%) OF ALL ITS PROCUREMENT OPPORTUNITIES FOR GOODS
10 AND SERVICES TO ELIGIBLE MSMEs IN ACCORDANCE WITH THE
11 PROVISIONS OF REPUBLIC ACT NO. 9184, OTHERWISE KNOWN AS THE
12 “GOVERNMENT PROCUREMENT REFORM ACT”, AND ITS IMPLEMENTING
13 RULES AND REGULATIONS.

14 “The ~~[Department of Budget and Management]~~ GOVERNMENT
15 PROCUREMENT POLICY BOARD (GPPB) shall FORMULATE RULES FOR THE
16 EFFECTIVE IMPLEMENTATION OF THIS PROVISION AND monitor the
17 compliance of government agencies on the required procurement for MSMEs
18 and submit its report to the MSMED Council on a semestral basis and to the
19 Congress of the Philippines, through its appropriate committees on a yearly
20 basis.”

21 SEC. 3. Section 5 of the same Act, as amended, is hereby further amended to
22 read as follows:

23 “SEC. 5. *Guiding Principles.* — To set the pace for MSME development,
24 the State shall be guided by the following principles:

25 “x x x

26 “c) *Coordination of government efforts.* Government efforts shall be
27 coordinated to achieve coherence in objectives. All appropriate offices,
28 particularly those under the Departments of Trade and Industry, Finance,
29 Budget and Management, Agriculture, Agrarian Reform, Environment and
30 Natural Resources, Labor and Employment, Transportation [and
31 Communications], INFORMATION AND COMMUNICATIONS
32 TECHNOLOGY, Public Works and Highways, Science and Technology,
33 Interior and Local Government, and Tourism as well as the National
34 Economic and Development Authority, Philippine Information Agency and
35 the *Bangko Sentral ng Pilipinas*, through their national, regional and
36 provincial offices shall, to the best of their efforts and in coordination with
37 local government units, provide the necessary support and assistance to
38 MSMEs. THE DEPARTMENT OF TRADE AND INDUSTRY SHALL BE THE
39 LEAD AGENCY THEREFOR.

1 "x x x."

2 SEC. 4. Section 6 of the same Act, as amended, is hereby further amended to
3 read as follows:

4 "SEC. 6. *Micro, Small and Medium Enterprises Development Plan*
5 *(MSMEDP)*. — The President shall approve a six-year micro, small and medium
6 enterprises development plan prepared by the Department of Trade and
7 Industry (DTI) which shall form part of the [~~Medium-Term~~] Philippine
8 Development Plan ([~~MT~~]PDP) . It shall be formulated in consultation with the
9 private sector, validated and updated semestraly. Such plan shall include a
10 component on a micro credit financing scheme."

11 SEC. 5. Section 7 of the same Act, as amended, is hereby further amended to
12 read as follows:

13 "SEC. 7. *Micro, Small and Medium Enterprise Development (MSMED) Council*.
14 — The existing Small and Medium Enterprise Development Council, which was
15 created by Republic Act No. 6977, as amended by Republic Act No. 8289 AND
16 REPUBLIC ACT NO. 9501, AND FURTHER AMENDED BY REPUBLIC ACT NO.
17 10644, shall be strengthened to effectively spur the growth and development of
18 MSMEs throughout the country, and to carry out the policy declared in this Act
19 and shall now be known as the Micro, Small and Medium Enterprise
20 Development (MSMED) Council. The Council shall be attached to the
21 Department of Trade and Industry and shall be constituted within sixty (60)
22 days after the approval of this Act.

23 "x x x."

24 SEC. 6. Section 7-A of the same Act, as amended, is hereby further amended
25 to read as follows:

26 "SEC. 7-A. *Composition of the Micro, Small and Medium Enterprises*
27 *Development (MSMED) Council*. — The members of the Council shall be the
28 following:

29 "(a) The Secretary of Trade and Industry as Chair;

30 "(b) The Secretary of Agriculture;

31 "(c) The Secretary of the Interior and Local Government;

32 "(D) THE SECRETARY OF FINANCE;

33 "[~~(d)~~] (E) Three (3) representatives from the MSME sector, [~~to represent~~
34 ~~Luzon, Visayas and Mindanao, with at least one (1) representative from the~~
35 ~~microenterprise sector]~~ TO BE DESIGNATED BY A NATIONAL
36 ORGANIZATION REPRESENTING AND DOMINATED BY MSMEs; AND

1 ~~"[(e) One (1) representative from the women sector designated by the~~
2 ~~Philippine Commission on Women];~~
3 ~~"[(f) One (1) representative from the youth sector designated by the National~~
4 ~~Youth Commission; and]~~
5 "[(g)] (F) The Chairman of the Small Business Corporation.
6 "A. *Advisory Unit.* - There shall be an Advisory Unit to the Council, which
7 shall consist of the following:
8 "(a) The Secretary of Science and Technology;
9 "(b) The Governor of the *Bangko Sentral ng Pilipinas*;
10 "(c) The President of the Land Bank of the Philippines;
11 "(d) The President of the Development Bank of the Philippines;
12 "(e) The Director General of the National Economic and Development
13 Authority;
14 "(F) THE EXECUTIVE DIRECTOR OF THE COOPERATIVE
15 DEVELOPMENT AUTHORITY;
16 "(G) A REPRESENTATIVE OF A NATIONAL ORGANIZATION
17 REPRESENTING AND DOMINATED BY MSMEs;
18 "[(f)] (H) One (1) representative from the labor sector, to be nominated by
19 accredited labor groups;
20 "[(g)] (I) A representative from the private banking sector to serve
21 ~~[alternatively]~~ ALTERNATELY between the Chamber of Thrift Banks
22 and the Rural Banker's Association of the Philippines (RBAP);
23 "[(h)] (J) A representative of the microfinance nongovernment
24 organizations (NGOs), DESIGNATED BY THE MICROFINANCE NGO
25 REGULATORY COUNCIL;
26 "[(i)] (K) A representative of the University of the Philippines - Institute for
27 Small Scale Industries (UP-ISSI); ~~and~~
28 "[(j)] (L) The President of the Credit Information Corporation;
29 "(M) ONE (1) REPRESENTATIVE FROM THE WOMEN SECTOR
30 DESIGNATED BY THE PHILIPPINE COMMISSION ON WOMEN;
31 "(N) ONE (1) REPRESENTATIVE FROM THE YOUTH SECTOR
32 DESIGNATED BY THE NATIONAL YOUTH COMMISSION; AND
33 "(O) A REPRESENTATIVE FROM NONSTOCK SAVINGS AND LOAN
34 ASSOCIATIONS DESIGNATED BY THE ALLIANCE OF NONSTOCK
35 SAVINGS AND LOAN INSTITUTIONS, INC. (ANSLI).
36 "x x x."

1 SEC. 7. Section 7-B of the same Act, as amended, is hereby further amended
2 to read as follows:

3 "SEC. 7-B. *Powers and Functions.* – **A.** The MSMED Council shall
4 have the following powers, duties and functions:

5 "x x x;

6 "h) To promote the productivity and viability of MSMEs IN DTI'S TOP
7 PRIORITY INDUSTRIES FOR DEVELOPMENT by way of directing
8 and/or assisting relevant government agencies and institutions at
9 the national, regional and provincial levels towards the:

10 "x x x;

11 "12) Through appropriate government agencies:

12 "x x x;

13 "f) Set-up new MSME **NEGOSYO** centers and revitalize already
14 established MSME **NEGOSYO** centers to provide MSMEs in
15 the regions easier access to services such as, but not limited
16 to, the following:

17 "x x x."

18 "**B.** *Additional Functions of the MSMED Council.* – The MSMED Council
19 shall have the following additional functions:

20 "(a) Coordinating and Oversight Body for the **MSME** Negosyo Center. –
21 The MSMED Council, through the DTI, shall act as the coordinating and
22 supervising body for all the agencies involved in the establishment and
23 operation of the **MSME** Negosyo Centers. Further, the MSMED Council shall
24 monitor and assess the progress of the **MSME** Negosyo Centers, which shall
25 be included in its annual report submitted to the Congress.

26 "(b) Provision of a Compliance Guide. – For each rule or group of related
27 rules issued by any government agency for compliance by MSMEs, the Council
28 shall publish compliance guidelines which shall be written in plain language
29 or in the local dialect, if necessary.

30 "The Council shall prepare separate compliance guides covering groups
31 or classes of similarly affected MSMEs and shall cooperate with industry
32 associations to develop and distribute such compliance guides. The
33 publication of each compliance guide shall include the posting of the guide in
34 an easily identified location on the website of the agency, and distribution of
35 the guide to known industry contacts, such as small entities, associations or
36 industry leaders affected by the rule. The issuing government agency shall

1 publish and disseminate the compliance rules within ninety (90) days from
2 the date of issuance.

3 “c) Conduct of Research on Women Entrepreneurship. – The Council
4 shall conduct research to support women entrepreneurship including, but not
5 limited to entrepreneurial behavior, barriers, participation and cessation
6 rates, discriminatory practices and contribution to the national economy and
7 growth.

8 “d) Policy Formulation on Women Entrepreneurship. – The Council
9 shall provide policy direction towards recognizing women’s propensity in doing
10 business as well as establish linkages that will enable more opportunities for
11 women to engage in entrepreneurship.

12 “e) Development of Entrepreneurial Education and Training. – The
13 MSMED Council shall develop, in coordination with the Department of
14 Education, TESDA and CHED, a course curriculum or training program in
15 entrepreneurship that will promote entrepreneurial culture and competence.
16 Entrepreneurship shall be integrated in the curriculum of educational and
17 training institutions in all levels.”

18 SEC. 8. Section 11-A of the same Act, as amended, is hereby further amended
19 to read as follows:

20 “SEC. 11-A. *Composition of the Board of Directors and its Powers.* — The
21 SB Corporation [~~corporate powers shall be vested on~~] SHALL HAVE a Board of
22 Directors composed of [~~eleven (11)~~] THIRTEEN (13) members which shall
23 include the following:

24 “a) The Secretary of Trade and Industry;

25 “b) The Secretary of Finance;

26 “C) THE PRESIDENT OF THE GOVERNMENT SERVICE INSURANCE
27 SYSTEM (GSIS);

28 “D) THE PRESIDENT OF THE SOCIAL SECURITY SYSTEM (SSS);

29 “[c] E) A private sector representative to be appointed by the President OF
30 THE PHILIPPINES upon the recommendation of the MSMED Council;

31 “[d] F) Seven (7) representatives of the SB Corporation common stock
32 shareholders who shall be elected based on proportional distribution,
33 in accordance with Section 24 of the Corporation Code; and

34 “[e] G) The president of the SB Corporation as *ex-officio* member and to
35 serve as vice chairman of the Board.

1 “The President shall appoint the chairman of the Board from among its
2 members.

3 “All members of the Board so appointed, except for the *ex-officio* members,
4 shall serve for a term of three (3) years [~~without reappointment,~~] AND MAY BE
5 REAPPOINTED TO ANOTHER TERM UNLESS EARLIER REVOKED. IF THE
6 TERM OF THE INCUMBENT MEMBER HAS EXPIRED, THE MEMBER SHALL
7 CONTINUE TO FUNCTION IN A HOLDOVER CAPACITY UNTIL A
8 REPLACEMENT HAS BEEN APPOINTED AND QUALIFIED. [~~The~~]ANY person
9 [~~so~~] appointed to replace a member who has resigned, died, or been removed
10 for cause shall serve only for the unexpired portion of the term.

11 “The Board of Directors shall have, among others, the following specific
12 powers and authorities:

13 “x x x; and

14 “f) [~~Notwithstanding the provisions of Republic Act No. 6758 and~~
15 ~~Compensation Circular No. 10, Series of 1989 issued by the~~
16 ~~Department of Budget and Management, the Board shall have the~~
17 ~~authority to p]Provide for the organizational structure, [and] staffing~~
18 ~~pattern [of SB Corporation and to extend to the employees and~~
19 ~~personnel thereof salaries, allowances and fringe benefits similar to~~
20 ~~those extended to and currently enjoyed by employees and personnel~~
21 ~~of other government financial institution.”] AND COMPENSATION OF~~
22 EMPLOYEES AND PERSONNEL OF THE SB CORPORATION, FOR
23 SUBMISSION TO THE GOVERNANCE COMMISSION FOR GOCCs.”

24 SEC. 9. Section 11-B of the same Act, as amended, is hereby further amended,
25 to read as follows:

26 “SEC. 11-B. *Corporate Structure and Powers.* — **A.** The SB Corporation
27 shall:

28 “x x x.

29 “**B.** For this purpose, the SB Corporation [~~subject to compliance with the~~
30 ~~rules and regulations to be issued by the *Bangko Sentral ng Pilipinas (BSP)*~~
31 ~~and the Securities and Exchange Commission,~~] shall have the following
32 functions and duties:

33 “a) Source and adopt development initiatives for globally competitive
34 MSMES in finance and business technologies;

35 “b) [~~To~~] [e] Extend all forms of financial assistance, EXCEPT GRANTS
36 AND SUBSIDIES, to eligible MSMEs, AND NOT TO PRECLUDE RETAIL

1 LENDING IN AREAS WHERE PRIVATE BANKS ARE NOT ABLE TO SERVE,
2 SUBJECT TO CONSULTATION WITH THE PRIVATE BANKS; [SB Corporation
3 may also engage in wholesale lending. The SB Corporation shall be given two
4 (2) years from the effectivity of this Act to comply with this requirement;]

5 "c) Guarantee loans obtained by qualified MSMEs under such terms and
6 conditions adopted by the SB Corporation Board of Directors, AS WELL AS
7 ESTABLISH A GUARANTEE SYSTEM FOR DISTRESSED ENTERPRISES AS
8 INSURANCE AGAINST EXTRAORDINARY DISASTERS;

9 "x x x;

10 "f) Apply for, receive and accept grants and donations from sources
11 within and outside the country; [and]

12 "g) Hold, own, purchase, acquire, sell, mortgage, dispose or otherwise
13 invest or re-invest in stocks, bonds, treasury bills, debentures, securities and
14 similar forms of indebtedness of the government, its agencies and
15 instrumentalities or any government financial institution [.]; AND

16 "H) SUBMIT AN ANNUAL REPORT TO THE MSMED COUNCIL, THE
17 CONGRESS OF THE PHILIPPINES AND THE GOVERNANCE COMMISSION
18 FOR GOCCs ON THE PERFORMANCE AND FINANCIAL CONDITION OF THE
19 CORPORATION.

20 THE SB CORPORATION SHALL BE EXEMPT FROM SECURING
21 PRIOR BSP AUTHORIZATION FOR ENGAGING IN QUASI-BANKING
22 ACTIVITIES AND SHALL NOT BE SUBJECT TO BSP SUPERVISION AND
23 REGULATION FOR SUCH ACTIVITIES.

24 SEC. 10. A new sub-section is hereby inserted after Section 11-B of the same
25 Act, as amended, and numbered as Section 11-C to read as follows:

26 "SEC. 11-C. *STRATEGIC MANAGEMENT OF THE SB CORPORATION.* -
27 THE BOARD OF THE SB CORPORATION, THROUGH ITS CHAIRMAN,
28 SHALL BE FULLY RESPONSIBLE AND ACCOUNTABLE FOR THE
29 PERFORMANCE OF THE CORPORATION'S MANDATE. TO ENSURE THIS,
30 THE BOARD SHALL BE CONSTITUTED AS A MANAGING BOARD, LED BY
31 ITS CHAIRMAN, TO CONCEPTUALIZE THE STRATEGIC PLANS AND
32 POLICIES OF THE CORPORATION.

33 "THE SB CORPORATION SHALL ADOPT A BALANCED SCORECARD
34 APPROACH, SUBJECT TO THE REVIEW AND APPROVAL OF THE
35 GOVERNANCE COMMISSION FOR GOCCs, IN ITS STRATEGIC

1 MANAGEMENT TO ENABLE IT TO MANAGE ITS FINANCIAL PERFORMANCE
2 WHILE PURSUING THEIR PUBLIC POLICY OBJECTIVES OF SUPPORTING
3 MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT.”

4 SEC. 11. Section 12 of the same Act, as amended, is hereby further amended
5 to read as follows:

6 “SEC. 12. *Capitalization and Funding of the SB Corporation.* — The SB
7 Corporation shall have an authorized capital stock of Ten billion pesos
8 (P10,000,000,000.00). The initial capital of One billion pesos
9 (P1,000,000,000.00) shall be established from a pool of funds to be
10 contributed in the form of equity investments in common stock by the Land
11 Bank of the Philippines (LBP), the Development Bank of the Philippines
12 (DBP), in the amount of Two hundred million pesos (P200,000,000.00) each.
13 The Social Security System (SSS) and the Government Service Insurance
14 System (GSIS) shall also set aside Two hundred million pesos
15 (P200,000,000.00) each for the SB Corporation. Authorized capital stock of
16 the [s]Small [b]Business [c]Corporation shall be divided into 80,000,000
17 common shares and 20,000,000 preferred shares with a par value of One
18 hundred pesos (P100.00) per share: *Provided*, That the common shares
19 which have been issued, including those issued against the assets of the
20 KKK Guaranty Fund consolidated under the [s]Small [b]Business
21 [c]Corporation by virtue of Executive Order No. 233, Series of 2000 and
22 Executive Order No. 19, Series of 2001 and including those already
23 subscribed, shall form part of the capitalization of the corporation: *Provided*,
24 *further*, That holders of preferred shares issued under Republic Act No. 6977,
25 as amended, shall have the option to convert the same into common shares.
26 Additional equity funding shall come from trust placements of excess and
27 unused funds of existing government agencies, bilateral and multilateral
28 official development assistance funds, subscriptions from government
29 owned or controlled corporations AND THE NATIONAL GOVERNMENT
30 THROUGH THE DEPARTMENT OF BUDGET AND MANAGEMENT (DBM),
31 and investments of private financial institutions and corporations: *Provided*,
32 *finally*, That any investment from the private sector shall only be in the form
33 of preferred shares.

34 THE NATIONAL GOVERNMENT SHALL PROVIDE FOR THE FULL
35 CAPITALIZATION OF THE SB CORPORATION WITHIN A PERIOD OF FIVE
36 (5) YEARS FROM THE APPROVAL OF THIS ACT.

1 ~~“[To allow for capital build up, SB Corporation shall be given a five (5)~~
2 ~~year grace period on dividend commitments beginning on the date of~~
3 ~~effectivity of this amendment. Thereafter, it]~~ THE SB CORPORATION may
4 [only] declare as dividend not more than thirty percent (30%) of its net
5 income and the rest withheld as retained earnings.”

6 SEC. 12. Section 13 of the same Act, as amended, is hereby deleted.

7 ~~“[SEC. 13. The SB Corporation shall be subject to the supervision and~~
8 ~~examination of the *Bangko Sentral ng Pilipinas* taking into consideration its~~
9 ~~developmental objectives.”]~~

10 SEC. 13. Section 14 of the same Act, as amended, is hereby renumbered as
11 Section 13, and further amended to read as follows:

12 “SEC. [14] 13. *Venture Capital and Micro Finance Trust Fund.* — The SB
13 Corporation may set aside an amount of money to encourage the setting up of
14 a venture capital and micro finance trust fund for the purpose of promoting
15 business opportunities available to MSME sector. The Venture Capital Fund
16 shall be used mainly for venture capital finance especially in technology-
17 oriented industries. The micro finance trust fund shall be used to provide
18 collateral-free fixed and working capital loans to micro and small enterprises
19 run by those emerging out of poverty. A SEED AMOUNT OF AT LEAST TEN
20 PERCENT (10%) OF THE ADDITIONAL EQUITY CONTRIBUTION OF THE
21 NATIONAL GOVERNMENT TO THE CAPITALIZATION OF THE SMALL
22 BUSINESS CORPORATION BUT NOT MORE THAN FIVE HUNDRED MILLION
23 PESOS (P500,000,000.00) SHALL BE SET ASIDE TO FUND THE VENTURE
24 CAPITAL AND MICRO FINANCE TRUST FUND.”

25 SEC. 14. Section 15 of the same Act, as amended, is hereby renumbered as
26 Section 14, and further amended to read as follows:

27 “SEC. [15] 14. *Mandatory Allocation of Credit Resources to Micro, Small*
28 *and Medium Enterprises.* — For a period of ANOTHER ten (10) years from the
29 date of effectivity of this amendatory Act, all lending institutions as defined
30 under *Bangko Sentral ng Pilipinas* rules, whether public or private, shall set
31 aside at least eight percent (8%) for micro and small enterprises and at least
32 two percent (2%) for medium enterprises of their total loan portfolio based on
33 their balance sheet as of the end of the previous quarter, and make it
34 available for MSME credit as herein contemplated.

35 “Compliance of this provision shall be:

36 “a) actual extension of loans to eligible MSMEs; or

1 “x x x; or

2 “f) subscribe/purchase of liability instruments as may be offered by the
3 SB Corporation. THE SAME SHALL NOT BE DEEMED AS QUASI-BANKING
4 OPERATIONS, AND SHALL NOT REQUIRE A QUASI-BANKING LICENSE
5 FROM THE BSP; OR

6 “G) LOANS TO MSME VALUE CHAIN ACTORS WHO ALLOW MSMEs TO
7 PARTICIPATE IN ORGANIZED OR FORMAL VALUE CHAINS. VALUE CHAIN
8 ACTORS INCLUDE, AMONG OTHERS, TRADERS, SUPPLIERS,
9 PROCESSORS, AGGREGATORS WHO CONDUCT LINKED SEQUENCE OF
10 VALUE ADDING ACTIVITIES INVOLVED IN BRINGING A PRODUCT TO
11 FINAL CONSUMERS.

12 “The *Bangko Sentral ng Pilipinas* , IN CONSULTATION WITH THE
13 MSMED COUNCIL AND THE SECRETARY OF TRADE AND INDUSTRY, shall
14 formulate rules for the effective implementation of this provision: *Provided*,
15 That the purchase of government notes, securities and other negotiable
16 instruments shall not be deemed compliance with the foregoing provisions:
17 *Provided, further*, That the *Bangko Sentral ng Pilipinas*, IN CONSULTATION
18 WITH ALL STAKEHOLDERS, shall establish ~~[an]~~ A MEANINGFUL incentive
19 ~~[program]~~ SYSTEM to encourage ~~[lending to micro, small and medium~~
20 ~~industries beyond the mandatory credit allocation to said enterprises]~~
21 COMPLIANCE WITH THIS PROVISION, such as possible reduction in bank’s
22 reserve requirement[.]; *PROVIDED, FINALLY*, THAT THE *BANGKO SENTRAL*
23 *NG PILIPINAS* SHALL ALIGN ITS REGULATIONS ON THE PENALTIES FOR
24 BANKS AND OTHER ENTITIES, FOR NONCOMPLIANCE WITH THE
25 PROVISION FOR MANDATORY LENDING.”

26 “The MSMED Council shall set up the appropriate systems to monitor
27 all loan applications of MSMEs in order to account for the absorptive
28 capacity of the MSME sector. EACH LENDING INSTITUTION SHALL
29 DESIGNATE A CHIEF COMPLIANCE OFFICER WHO WILL PREPARE AND
30 SIGN THE REPORT ON COMPLIANCE AND NONCOMPLIANCE WITH THE
31 MANDATORY CREDIT ALLOCATION, FOR SUBMISSION TO THE *BANGKO*
32 *SENTRAL NG PILIPINAS*. The *Bangko Sentral ng Pilipinas* shall furnish the
33 MSMED Council on a quarterly basis comprehensive reports on the banks’
34 compliance[.] AND noncompliance ~~[and penalties of]~~ WITH the above
35 provisions on the mandatory credit allocation for MSMEs[.], AND SHALL
36 SUBMIT AN ANNUAL REPORT, SIGNED BY AN OFFICER WITH THE RANK

1 OF AT LEAST A MANAGING DIRECTOR, ON THE AMOUNTS OF THE
2 PENALTIES FOR NONCOMPLIANCE WITH THE MANDATORY LENDING
3 PROVISION OF THIS ACT.

4 "Lending institutions which are not qualified to acquire or hold lands
5 of the public domain in the Philippines shall be permitted to bid and take
6 part in sales of mortgaged real property in case of judicial or extra-judicial
7 foreclosure, as well as avail of receivership, enforcement and other
8 proceedings, solely upon default of a borrower, and for a period not exceeding
9 five (5) years from actual possession: *Provided*, That in no event shall title to
10 the property be transferred to such lending institution. If the lending
11 institution is the winning bidder, it may, during said five (5) year period,
12 transfer its rights to a qualified Philippine national, without prejudice to a
13 borrower's rights under applicable laws."

14 SEC. 15. Sections 16, 17 and 18 of the same Act, as amended, are hereby
15 renumbered as Sections 15, 16 and 17, respectively, to read as follows:

16 "SEC. [16] 15. *Micro, Small, and Medium Enterprise Week*. — x x x"

17 "SEC. [17] 16. *Presidential Awards for Outstanding MSME*. — x x x"

18 "SEC. [18] 17. *Congressional Oversight Committee*. — x x x"

19 SEC. 16. Section 19 of the same Act, as amended, is hereby renumbered as
20 Section 18, and further amended, to read as follows:

21 "SEC. [19] 18. *Penal Clause*. - The *Bangko Sentral ng Pilipinas* shall
22 impose administrative sanctions and other penalties on the lending
23 institutions for non[-]compliance with THE provisions of this Act. [~~including a~~
24 ~~fine of not less than five hundred thousand pesos (P500,000.00),~~] THE
25 MINIMUM PENALTY FOR NONCOMPLIANCE IS SET AT FIVE HUNDRED
26 THOUSAND PESOS (P500,000.00) AND THE MAXIMUM PENALTY FIVE
27 MILLION PESOS (P5,000,000.00), IN PROPORTION TO THE BANK'S OR
28 OTHER ENTITY'S LEVEL OF COMPLIANCE: *PROVIDED*, THAT A SMALLER
29 PENALTY IS SET AT ONE HUNDRED THOUSAND PESOS (P100,000.00) FOR
30 SMALLER BANKS' NONCOMPLIANCE. AS USED IN THIS ACT, SMALL BANKS
31 SHALL BE DEFINED AS BANKS WITH CAPITALIZATION OF NOT MORE THAN
32 FIVE HUNDRED MILLION PESOS (P500,000,000.00): *PROVIDED, FURTHER*,
33 THAT THE DEFINITION OF SMALL BANKS SHALL BE REGULARLY
34 REVIEWED BY THE MSMED COUNCIL: *PROVIDED, FINALLY*, THAT THE
35 AFOREMENTIONED PENALTIES SHALL NOT BE IMPOSED ON NEWLY-

1 ESTABLISHED DOMESTIC AND FOREIGN BANKS WITHIN ONE (1) YEAR
2 FROM THE DATE THEY COMMENCED THEIR OPERATIONS.”

3 “Penalties on noncompliance shall be directed to the development of the
4 MSME sector. Ninety percent (90%) of the penalties collected should go to the
5 MSMED Council Fund, while the remaining ten percent (10%) should be given
6 to the BSP to cover for administrative expenses.

7 “THE MSMED COUNCIL SHALL SUBMIT TO THE CONGRESS OF THE
8 PHILIPPINES AN ANNUAL REPORT ON THE STATUS OF THE PENALTIES
9 REMITTED AND HOW THE SAME WERE USED OR ARE BEING USED IN
10 RELATION TO THE IMPLEMENTATION OF SERVICES TO MSMEs IN THE
11 AREAS OF CAPACITY BUILDING, TECHNOLOGY INFORMATION,
12 COLLECTION AND DISSEMINATION, AND OTHER INTERVENTIONS FOR
13 MSME DEVELOPMENT, GROWTH AND SUSTAINABILITY.”

14 SEC. 17. *Implementing Rules and Regulations.* — The Department of Trade
15 and Industry, through the Bureau of Micro, Small and Medium [Business]
16 ENTERPRISE Development and in consultation with the *Bangko Sentral ng Pilipinas*
17 and other concerned government agencies, nongovernment organizations and private
18 sector agencies involved in the promotion of MSMEs, shall formulate the
19 implementing rules and regulations (IRR) necessary to implement the provisions of
20 this Act within ninety (90) days from the approval of this Act: *Provided*, That the IRR
21 shall be reviewed yearly: *Provided, further*, That the IRR shall be approved by the
22 MSMED Council. The IRR issued pursuant to this section shall take effect thirty (30)
23 days after its publication in a national newspaper of general circulation.

24 SEC. 18. *Separability Clause.* — The provisions of this Act are hereby declared
25 to be separable. If any provision of this Act shall be held unconstitutional, the
26 remainder of the Act not otherwise affected shall remain in full force and effect.

27 SEC. 19. *Repealing Clause.* — All laws, executive orders, rules and
28 regulations, or parts thereof inconsistent herewith are hereby repealed or modified
29 accordingly.

30 SEC. 20. *Effectivity.* — This Act shall take effect within fifteen (15) days from
31 its publication in the Official Gazette or in a newspaper of general circulation.

32 Approved,