

THIRTEENTH CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)

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S E N A T E

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S. No 263

Introduced by Senator S. R. Osmeña III

EXPLANATORY NOTE

It has been thirteen years since the Magna Carta for Small Enterprises was enacted and four years when amendments were passed into law, and yet, the problems of small and medium enterprises (SMEs) have not been fully addressed. Limited capital and access to financing, slow adoption of new technology, increased competition from imported products, inadequate market information, high cost of doing business and lack of infrastructure still hound our entrepreneurs.

Notably, SMEs are the country's new source of competitive advantage as it spur entrepreneurial activity and contribute to capital investment and productivity growth. SMEs require swift and efficient delivery of services to stay competitive in a fast changing world. This is particularly true when rapid advances in information and communication technologies have created a new wave of industrial revolutions which practically rendered geographical considerations a thing in the past, forcing SMEs to adapt quickly lest they be eased out of the competition.

While Congress, by virtue of R.A. No. 6977 as amended by R.A. No. 8289, created the Small Business Guarantee and Finance Corporation (SBGFC) to source and adopt development initiatives for globally competitive SMEs in terms of finance, technology, production management and business linkage, various SME problems remain unattended. This may be attributed to the mandate of SBGFC to support SMEs through the provision and promotion of various alternative modes of financing which limits the said agency to concentrate its programs on providing access to credit.

Financing of SMEs is a vital issue that must be addressed but there are other equally significant concerns that must be responded to by the government. It is imperative that SMEs are provided with the necessary support in such other areas as training, infrastructure and information services.

R.A. No. 6977, as amended, is a step in the right direction in that it recognizes the important role SMEs play in the Philippine economy and the need to encourage their growth. What is now required is the establishment of an organization with the flexibility to implement much needed reforms. An organization that clearly has the mandate, personnel and financial resources to promote structural modernization and upgrading of SMEs, enhance their capacity to develop technology, assist SMEs in marketing, and help them train human resources.

The Philippine Small Business Corporation (PSBC) is envisioned to take on this role. By expanding the mandate of the present SBGFC, the proposed PSBC is expected to oversee the implementation of SME programs jointly developed by government and the private sector.

SMEs create employment opportunities for the informal sector, generating livelihood activities, increasing incomes and consequently, decreasing poverty. SMEs also bring about rural industrialization through the development and decentralization of industries. Our SMEs need all the assistance they can get in order to achieve global competitiveness. Let us bank on the entrepreneurial spirit of Filipinos and help them propel the country's development.

In view of the foregoing, approval of this bill is earnestly requested.



SERGIO OSMEÑA III

Senator

THIRTEENTH CONGRESS OF THE REPUBLIC)
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SENATE

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AN ACT
FURTHER PROMOTING THE DEVELOPMENT OF SMALL AND MEDIUM
ENTERPRISES AMENDING FOR THIS PURPOSE REPUBLIC ACT 6977, AS
AMENDED, OTHERWISE KNOWN AS THE MAGNA CARTA FOR SMALL
ENTERPRISES

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

1 SECTION 1. Section 10 of Republic Act No. 6977, as amended, is hereby
2 amended to read as follows:

3 "Sec. 10. Rationalization of Existing Small and Medium Enterprise
4 Programs and Agencies. — The Council shall conduct continuing review
5 of government programs for small and medium enterprises and submit to
6 Congress and the President a report thereon together with its policy
7 recommendations.

8 [The President is hereby also empowered to establish a small and
9 medium enterprise promotion body which shall be the principal
10 government agency that will formulate, implement, coordinate and
11 monitor all non-financing government programs, including fee-based
12 services, to support and promote micro, small and medium enterprises. It
13 shall be attached to the Department of Trade and Industry and shall be
14 under the policy, program and administrative supervision of the SMED
15 Council. The said office shall receive no less than fifty percent (50%) of
16 the assets, and budgetary allocations of the agencies for promotion,

1 development and financing of small and medium enterprises that may be
2 henceforth dissolved and/or abolished and absorbed, incorporated and
3 integrated into the SMED Council.] "

4 SEC. 2. Section 11 of the same Act is hereby amended to read as
5 follows:

6 "Sec. 11. Creation of [Small Business Guarantee and Finance
7 Corporation] PHILIPPINE SMALL BUSINESS CORPORATION. — There
8 is hereby created a body corporate to be known as the [Small Business
9 Guarantee and Finance Corporation] PHILIPPINE SMALL BUSINESS
10 CORPORATION, hereinafter referred to as [SBGFC] PSBC, which shall
11 [source and adopt development initiatives for globally competitive small
12 and medium enterprises in terms of finance, technology, production,
13 management and business linkages, and provide, promote, develop and
14 widen in both scope and service reach various alternative modes of
15 financing for small and medium enterprises, including but not limited to,
16 direct and indirect project lending venture capital, financial leasing,
17 secondary mortgage and/or rediscounting of loan papers to small
18 businesses, secondary/regional stock markets: Provided, That crop
19 production financing shall not be serviced by the Corporation] BE
20 CHARGED WITH THE PRIMARY RESPONSIBILITY OF
21 IMPLEMENTING COMPREHENSIVE POLICIES AND PROGRAMS TO
22 ASSIST SMALL AND MEDIUM ENTERPRISES IN THE AREAS OF
23 FINANCE, INFORMATION SERVICES, TECHNOLOGY TRAINING AND
24 MARKETING.

25 ["The Corporation shall guarantee loans obtained by qualified
26 small and medium enterprises, local and/or regional associations' small
27 enterprises and industries, private voluntary organizations and/or
28 cooperatives, under such terms and conditions adopted by its Board. It
29 may guarantee loans up to one hundred percent (100%). It may also

1 provide second level guarantee (i.e., reinsurance) on the credit and/or
2 investment guarantees made by credit guarantee associations and other
3 institutions in support of small entrepreneurs.

4 "The Corporation shall become liable under its guarantees upon
5 proof that the loan has become past due under such terms and
6 guidelines adopted by its Board and printed on the contract of guarantee.

7 "The Small Business Guarantee and Finance Corporation shall:

8 "a) be attached to the Department of Trade and Industry and shall be
9 under the policy, program and administrative supervision of the SMED
10 Council;

11 "b) have its principal place of business in Metro Manila and endeavor
12 to have one or more branch offices in every province of the country;

13 "c) exercise all the general powers conferred by law upon
14 corporations under the Corporation Code as are incidental or conducive
15 to the attainment of the objectives of this Act;

16 "d) have a board of directors upon which the powers of the
17 Corporation shall be vested, to be composed of nine (9) members
18 including:

19 "1) three (3) members from the private sector appointed by the
20 President upon recommendation of the SMED Council and from among
21 whom the Chairman of the Board shall be appointed by the President to
22 serve on a full-time basis;

23 "2) the Secretary of Trade and Industry or his Undersecretary; and

24 "3) a representative from each of the five (5) government financial
25 institutions mandated in this Act to provide the initial capital of the
26 Corporation, who shall be designated, under guidelines agreed upon by
27 the Board Chairmen of said institutions;

28 "e) notwithstanding the provisions of Republic Act No. 6758, and
29 Compensation Circular No. 10, series of 1989 issued by the Department

1 of Budget and Management, the Board of Directors of SBGFC shall have
2 the authority to extend to the employees and personnel thereof the
3 allowance and fringe benefits similar to those extended to and currently
4 enjoyed by the employees and personnel of other government financial
5 institutions.]”

6 SEC. 3. Two new sections are hereby added after Section 11 of the same
7 Act, as amended, to read as follows:

8 “SEC. 11-A. POWERS AND FUNCTIONS. – THE CORPORATION
9 SHALL HAVE THE FOLLOWING POWERS AND FUNCTIONS:

10 (A) SOURCE AND ADOPT DEVELOPMENT INITIATIVES FOR
11 GLOBALLY COMPETITIVE SMALL AND MEDIUM
12 ENTERPRISES IN TERMS OF FINANCE, TECHNOLOGY,
13 PRODUCTION, MANAGEMENT AND BUSINESS LINKAGES,
14 AND PROVIDE, PROMOTE, DEVELOP AND WIDEN IN BOTH
15 SCOPE AND SERVICE REACH VARIOUS ALTERNATIVE
16 MODES OF FINANCING FOR SMALL AND MEDIUM
17 ENTERPRISES, INCLUDING BUT NOT LIMITED TO, DIRECT
18 AND INDIRECT PROJECT LENDING, VENTURE CAPITAL,
19 FINANCIAL LEASING, SECONDARY MORTGAGE, AND/OR
20 REDISCOUNTING OF LOAN PAPERS TO SMALL BUSINESS,
21 SECONDARY REGIONAL STOCK MARKETS: PROVIDED, THAT
22 CROP PRODUCTION FINANCING SHALL NOT BE SERVICED
23 BY THE CORPORATION;

24 (B) GUARANTEE LOANS OBTAINED BY QUALIFIED SMALL AND
25 MEDIUM ENTERPRISES, LOCAL AND/OR REGIONAL
26 ASSOCIATION'S SMALL ENTERPRISES AND INDUSTRIES,
27 PRIVATE VOLUNTARY ORGANIZATIONS AND/OR
28 COOPERATIVES, UNDER SUCH TERMS AND CONDITIONS
29 ADOPTED BY ITS BOARD. IT MAY GUARANTEE LOANS UP

1 TO ONE HUNDRED (100%). IT MAY ALSO PROVIDE SECOND
2 LEVEL GUARANTEE (i.e. REINSURANCE) ON THE CREDIT
3 AND/OR INVESTMENT GUARANTEES MADE BY CREDIT
4 GUARANTEE ASSOCIATIONS AND OTHER INSTITUTIONS IN
5 SUPPORT OF SMALL ENTREPRENEURS;

6 (C) PROVIDE CONSULTANCY AND ADVISORY SERVICES IN THE
7 AREA OF FINANCING AND IMPROVE SME'S MANAGEMENT
8 STRUCTURE AND TO ASSIST SMEs IN ADAPTING TO THE
9 CHANGING ENVIRONMENT;

10 (D) OFFER TRAINING PROGRAMS TO SMEs AND TO
11 GOVERNMENT AND OTHER ORGANIZATIONS IN CHARGE OF
12 PROVIDING GUIDANCE TO SMEs;

13 (E) PROVIDE SMEs WITH UP-TO-DATE, TIMELY AND RELEVANT
14 MARKET INFORMATION;

15 (F) ASSIST IN THE DEVELOPMENT OF MACHINERY AND
16 EQUIPMENT THAT IS ESSENTIAL TO SMEs IN THEIR
17 EFFORTS TO OVERCOME LABOR SHORTAGE, RATIONALIZE
18 AND AUTOMATE PRODUCTION PROCESS OR TO PROTECT
19 THE ENVIRONMENT;

20 (G) DEVELOP SME's ABILITY TO UTILIZE INFORMATION
21 TECHNOLOGY;

22 (H) FACILITATE INTERNATIONALIZATION OF SMEs BY
23 PROVIDING ASSISTANCE AND ADVICE IN ACTIVITIES SUCH
24 AS, BUT NOT LIMITED TO, THE ESTABLISHMENT OF A
25 CORPORATION, SELECTION OF OVERSEAS PARTNERS,
26 JOINT VENTURE AND OTHER SIMILAR BUSINESS TIE-UPS;

27 (I) SET-UP MUTUAL RELIEF SYSTEM FUNDS THROUGH
28 SUBSCRIBER CONTRIBUTIONS TO SUPPORT INDIVIDUAL

1 BUSINESS AND CORPORATE OFFICES WHO RETIRE, GO
2 OUT OF BUSINESS OR TO PREVENT BANKRUPTCIES;

3 (J) COMPILE AND INTEGRATE STATISTICAL DATABANK ON
4 PHILIPPINE SMEs;

5 (K) SET-UP AND ORGANIZA FIELD OFFICES (SME CENTERS) TO
6 PROVIDE SMEs IN THE REGIONS EASIER ACCESS TO
7 SERVICES SUCH AS, BUT NOT LIMITED TO, THE
8 FOLLOWING:

9 i. ACCEPT AND ACT ON ALL REGISTRATION APPLICATIONS
10 OF SMEs;

11 ii. PROVIDE ENTREPRENEUR AND ASPIRING
12 ENTREPRENEURS WITH ALL THE NECESSARY
13 GOVERNMENT SUPPORT FOR REGISTRATION UP TO THE
14 LAST REQUIREMENT NEEDED IN SETTING UP A
15 BUSINESS, THEREBY FACILITATING THE PROCESSING
16 OF ALL DOCUMENTARY REQUIREMENTS FOR THE
17 ESTABLISHMENT OF BUSINESS ENTERPRISES IN THE
18 COUNTRY;

19 iii. PROVIDE ALL INFORMATION AND REFERRAL SERVICES
20 IT SHALL DEEM NECESSARY OR ESSENTIAL TO THE
21 DEVELOPMENT AND PROMOTION OF SMEs;

22 iv. ESTABLISH A DATABANK WHICH SHALL BE THE SOURCE
23 OF ALL INFORMATION NECESSARY FOR PROJECT
24 MONITORING, RESEARCH AND INFORMATION
25 DISSEMINATION;

26 v. PROVIDE LOCAL AND INTERNATIONAL NETWORK AND
27 LINKAGES FOR SMEs DEVELOPMENT;

1 vi. SUPPLY INFORMATION AND SERVICES IN TRAINING
2 FINANCING, MARKETING AND TECHNOLOGY TRANSFER
3 TO SMEs;

4 vii. CONDUCT OTHER PROGRAM OR PROJECTS FOR
5 ENTREPRENEURIAL DEVELOPMENT IN THEIR
6 RESPECTIVE AREAS.”

7 “SEC. 11 – B. CORPORATE STRUCTURE AND POWERS. THE
8 PHILIPPINE SMALL BUSINESS CORPORATION (PSBC) SHALL:

9 (A) BE ATTACHED TO THE DEPARTMENT OF TRADE AND
10 INDUSTRY AND SHALL BE UNDER THE POLICY, PROGRAM
11 AND ADMINISTRATIVE SUPERVISION OF THE SMED
12 COUNCIL;

13 (B) HAVE ITS PRINCIPAL PLACE OF BUSINESS IN METRO
14 MANILA AND ENDEAVOR TO HAVE ONE OR MORE BRANCH
15 OFFICES IN EVERY PROVINCE OF THE COUNTRY;

16 (C) EXERCISE ALL THE GENERAL POWERS CONFERRED BY
17 LAW UPON CORPORATIONS UNDER THE CORPORATION
18 CODE AS ARE INCIDENTAL OR CONDUCIVE TO THE
19 ATTAINMENT OF THE OBJECTIVES OF THIS ACT;

20 (D) HAVE A BOARD OF DIRECTORS UPON WHICH THE POWERS
21 OF THE CORPORATION SHALL BE VESTED, TO BE
22 COMPOSED OF ELEVEN (11) MEMBERS INCLUDING:

23 i) FIVE (5) MEMBERS FROM THE PRIVATE SECTOR
24 APPOINTED BY THE PRESIDENT UPON
25 RECOMMENDATION OF THE SMED COUNCIL AND
26 FROM AMONG WHOM THE CHAIRMAN OF THE BOARD
27 SHALL BE APPOINTED BY THE PRESIDENT TO SERVE
28 ON A FULL TIME BASIS;

1 ii) THE SECRETARY OF TRADE AND INDUSTRY OR HIS
2 UNDERSECRETARY; AND

3 iii) A REPRESENTATIVE EACH OF THE FIVE (5)
4 GOVERNMENT FINANCIAL INSTITUTIONS MANDATED
5 IN THIS ACT TO PROVIDE INITIAL CAPITAL OF THE
6 CORPORATION, WHO SHALL BE DESIGNATED, UNDER
7 GUIDELINES AGREED UPON BY THE BOARD
8 CHAIRMEN OF SAID INSTITUTIONS.

9
10 (E) NOTWITHSTANDING THE PROVISIONS OF REPUBLIC ACT NO.
11 6758, AND COMPENSATION CIRCULAR NO. 10, SERIES OF 1989
12 ISSUED BY THE DEPARTMENT OF BUDGET AND MANAGEMENT,
13 THE BOARD OF DIRECTORS OF PSBC SHALL HAVE THE
14 AUTHORITY TO EXTEND TO THE EMPLOYEES AND PERSONNEL
15 THEREOF THE ALLOWANCE AND FRINGE BENEFITS SIMILAR TO
16 THOSE EXTENDED TO AND CURRENTLY ENJOYED BY THE
17 EMPLOYEES AND PERSONNEL OF OTHER GOVERNMENT
18 FINANCIAL INSTITUTIONS.

19 SEC. 4. Transitory Provision. All real and personal assets and
20 properties, including liabilities, which upon the effectivity of this Act are vested
21 in, pertaining to and owned by the Small Business Guarantee and Finance
22 Corporation (SBGFC) are hereby transferred to the Philippine Small Business
23 Corporation (PSBC). All contracts, records, and documents pertaining to the
24 operations of SBGFC are likewise transferred to the corporation.

25 SEC. 5. Separability Clause. If, for any reason, any section or provision
26 of this Act is declared to be unlawful or unconstitutional, the other provisions of
27 this Act shall remain valid.

1 SEC. 6. Effectivity. This Act shall take effect fifteen (15) days after its
2 publication in the Official Gazette or in at least two (2) newspapers of general
3 circulation whichever comes earlier.

4 Approved,