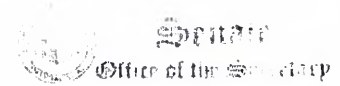


NINETEENTH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES
First Regular Session



'22 JUL 12 A11 :31

SENATE

RECEIVED BY

S. B. NO. 368

Introduced by **SENATOR JOEL VILLANUEVA**

**AN ACT
STRENGTHENING ACCESS TO CREDIT OF 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" AND FOR OTHER
PURPOSES**

EXPLANATORY NOTE

The Philippine Micro, Small and Medium (MSME) sector is an integral factor in the country's economy's growth, comprising around 99.5% of the total establishments in the country, or 952,969 businesses enterprises, and provided a total of 5,380,815 jobs or 62.66% of the country's total employment based on the 2020 Philippine Statistics Authority (PSA) List of Establishments.¹

Despite the significant contribution of MSMEs in the Philippine economy, however, MSMEs continue to have difficulty in accessing credit from lending institutions. According to a 2017 study published by the International Finance Commission,² the Philippine MSME sector lacks US \$221.79 in supply of credit or financing. The study also noted that the size of the Philippine's MSME finance gap accounts for 76% of its gross domestic product.

¹ DTI, 2020 MSME Statistics, available at <https://www.dti.gov.ph/resources/msme-statistics/> (last accessed June 25, 2022).

² MSME Finance Gap Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging markets". 2017. International Finance Corporation. Retrieved from: <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf> (date last accessed: June 29, 2019)

In 2018, World Bank noted that 81.2% of Philippine MSMEs rely mostly on internal savings or earnings to finance their investments.³ This deficit is largely due to the inability of the country's financial institutions to allocate a sustainable portion of their loan portfolio to MSMEs. According to the Bangko Sentral ng Pilipinas, as of March 2019, banks allocate a meager 2.72% of their loan portfolio to micro and small enterprises and 4.19% to medium enterprises.⁴

Meanwhile, on June 16, 2018, the mandatory credit allocation prescribed by Republic Act No. 6977, as amended, otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs) already lapsed, despite the glaring need of MSMEs to access credit.

Lastly, due to the pandemic, the Department of Trade and Industry (DTI) reported that 52.66% of MSMEs fully stopped their operations as of April 29, 2020.⁵ Likewise, a survey conducted by the Asian Development Bank Institute on Philippine enterprises showed dismal results, as 59.9% of micro enterprises surveyed reported no sales in March 2020, while 44.8% and 35.8% for small, and medium enterprises, respectively, reported the same, noting that microenterprises were heavily hit with the strict lockdown.⁶ The survey had a total 2,329 respondents, 1,804 or 77.5% of which were from MSMEs.⁷

In order to ensure continued support and access to financing for MSMEs, this bill seeks to extend the period of the mandatory allocation of credits to MSMEs for another 10 years. This bill also seeks to set a minimum amount of penalty that may be imposed on non-compliant or under-compliant lending institutions.

The immediate passage of this bill is earnestly sought.



SENATOR JOEL VILLANUEVA

³ 2019, February 8. Building SME Lending competencies. Retrieved from: <https://www.manilatimes.net/building-sme-lending-competencies/508472/> (date last accessed: June 29, 2019)

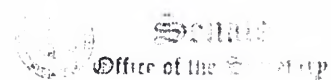
⁴ 70 Compliance with Magna Carta for Micro, Small and Medium Enterprises. Bangko ng Sentral Pilipinas. Retrieved from: http://www.bsp.gov.ph/banking/pbs_new/70.htm (date last accessed: June 29, 2019)

⁵ Philippine Daily Inquirer, DTI: Over half of MSMEs in PH fully stopped operations due to virus outbreak, available at <https://business.inquirer.net/296227/dti-over-half-of-msmes-in-ph-fully-stopped-operations-due-to-virus-outbreak> (last accessed June 25, 2022).

⁶ Shigehiro Shinozaki and Lakshman N. Rao, ADBI Working Paper Series, Covid-19 Impact on Micro, Small, and Medium-Sized Enterprises under the Lockdown: Evidence from a Rapid Survey in the Philippines, accessible at <https://www.adb.org/sites/default/files/publication/677321/adbi-wp1216.pdf> (last accessed July 4, 2022).

⁷ *Id.*

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S. B. NO. 368

Introduced by **SENATOR JOEL VILLANUEVA**

AN ACT
STRENGTHENING ACCESS TO CREDIT OF 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" AND FOR OTHER PURPOSES

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

1 **SECTION 1.** Section 15 of Republic Act No. 6977, as amended, otherwise
2 known as the "Magna Carta for Micro, Small and Medium Enterprises
3 (MSMEs)" is hereby amended to read as follows:
4

5 SEC. 15. Mandatory Allocation of Credit Resources to Micro Small
6 and Medium Enterprises. - For the period of ANOTHER ten (10)
7 years from the date of the effectivity of this amendatory Act, all
8 lending institutions as defined under Bangko Sentral ng Pilipinas
9 rules, whether public or private, shall set aside at least eight percent
10 (8%) for micro and small enterprises and at least two percent (2%)
11 for medium enterprises of their total loan portfolio based on their
12 balance sheet as of the end of the previous quarter, and make it
13 available for MSME credit as herein contemplated.
14

15 Compliance of this provision shall be:
16

17 a) actual extension of loans to eligible MSMEs; or
18

19 b) actual subscription of preferred shares of shares of stock of the
20 SB Corporation; or
21

1 c) wholesale lending to Participating Financial Institutions (PFIS) for
2 on-lending to MSMEs; or

3
4 d) purchase/discount of MSMEs receivables; or

5
6 e) loans granted to export, import, and domestic traders subject to
7 compliance with Section 3 of this Act; or

8
9 f) subscribed/purchase of liability instruments as may be offered by
10 the SB Corporation.

11
12 The Bangko Sentral ng Pilipinas, IN CONSULTATION WITH THE
13 MSMED COUNCIL AND THE SECRETARY OF TRADE AND
14 INDUSTRY, shall formulate rules for the effective implementation of
15 this provision: *Provided*, That the purchase of government notes,
16 securities and other negotiable instruments shall not be deemed as
17 compliance with the foregoing provisions: *Provided*, further, That
18 the Bangko Sentral ng Pilipinas, IN CONSULTATION WITH ALL
19 STAKEHOLDERS, shall establish an incentive program to
20 encourage lending to micro, small and medium industries beyond
21 the mandatory credit allocation to said enterprises, such as possible
22 reduction in bank's reserve requirement; *PROVIDED*, FINALLY,
23 THAT THE PENALTY FOR NON-COMPLIANCE OR UNDER
24 COMPLIANCE OF THE PRESCRIBED PERCENTAGE OF
25 CREDIT ALLOCATION PROVIDED UNDER THIS SECTION
26 SHALL NOT BE LOWER THAN FIVE HUNDRED THOUSAND
27 PESOS (P500,000.00).

28
29 The MSMED Council shall set up the appropriate systems to
30 monitor all loan applications of MSMSEs in order to account for the
31 absorptive capacity of the MSME sector.

32
33 The Bangko Sentral ng Pilipinas shall furnish to the MSMED
34 Council on a quarterly basis comprehensive reports on the banks'
35 compliance, noncompliance, and penalties of the above provisions
36 on the mandatory credit allocation for MSMEs.

37
38 Lending institutions which are not qualified to acquire or hold lands
39 of the public domain in the Philippines shall be permitted to bid and
40 take part in sales of mortgaged real property in case of judicial or
41 extra-judicial foreclosure, as well as avail of receivership,
42 enforcement and other proceedings, solely upon default of a
43 borrower, and for a period not exceeding five (5) years from actual
44 possession: *Provided*, That in no event shall title to the property be
45 transferred to such lending institution. If the lending institution is the
46 winning bidder, it may, during said five (5) year period, transfer its
47 rights to a qualified Philippine national, without prejudice to a
48 borrower's right under applicable laws.

49

1 **SEC. 2. Implementing Rules and Regulations.** – Within sixty (60) days from
2 the effectivity of this Act, the Bangko Sentral ng Pilipinas, in consultation with
3 the Department of Trade and Industry, the MSMED Council and other relevant
4 stakeholders, shall issue the implementing rules and regulations for the
5 effective implementation of this Act.

6
7 **SEC. 3. Separability Clause.** – If for any reason, any part or provision of this
8 Act is declared invalid or unconstitutional, the remaining parts or provisions not
9 affected thereby shall remain in full force and effect.

10
11 **SEC. 4. Repealing Clause.** – All laws, executive orders, presidential decrees,
12 rules and regulations or parts thereof contrary to or inconsistent with any
13 provisions of this Act are hereby repealed, amended or modified accordingly.

14
15 **SEC. 5. Effectivity.** – This Act shall take effect fifteen (15) days after its
16 publication in the Official Gazette or in two (2) national newspapers of general
17 circulation.

18
19 **Approved,**