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SENATE  
S.B. 1577

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**Introduced by Senator Villar**

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**Explanatory Note**

The small- and medium-scale enterprises (SMEs) are the lynchpin of the Philippine economy. They are considered the backbone of the nation's development. Representing almost 70 % of employment and 99 % of all registered companies, SMEs account for 32 % value added to the economy.

In the 1987 Philippine Constitution, the following State policies encourages the flourishing of SMEs:

- Article II, Section 20 stating, "[t]he State recognizes the indispensable role of the private sector, encourages private enterprise and provides incentives to needed investments";
- Article II, Section 19 enshrining the tenet, "[t]he State shall develop a self-reliant and independent national economy effectively controlled by Filipinos."

In 1991, recognizing the valuable contribution of SMEs, Republic Act 6977 was enacted. The statute aside from creating the Small- and Medium-Scale Enterprises Development Council rationalizes government assistance and provide a general framework for the creation and establishment of small business.

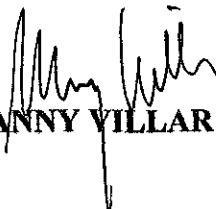
The SMEs contribution in society and the advancement of people are mirrored in our daily lives. They provide the goods and services which the citizens need. They provide us with the basic necessities. It is the entrepreneur that makes these goods and services not only available but conveniently accessible.

The SMEs and entrepreneurs set up business in small towns and cities help develop these areas and assist the rural people to stay in their locales. The SMEs help a country prosper not only because they manufacture and produce commodities but because they provide opportunities to people.

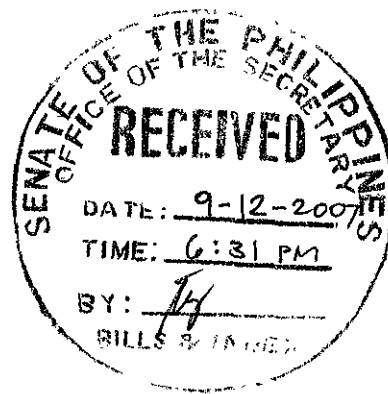
But barriers exist. There are still areas that need to be improve to strengthen further the small- and medium-scale enterprises. The lack of adequate government support, the redefinition of SMEs, the introduction of remedial policies addressing administrative and technical support to them, the expansion of access of SMEs vis-à-vis capital, and other concerns should be adopted to complement their efforts.

This legislation is submitted to bridge the gap in the present policy.

And hence, early recognition of this bill is sought very strongly.

  
MANNY VILLAR

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



SENATE  
S.B. 1577

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**Introduced by Senator Manny Villar**

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**AN ACT  
TO FURTHER PROMOTE ENTREPRENEURSHIP AND THE DEVELOPMENT OF  
SMALL AND MEDIUM ENTERPRISES, AMENDING FOR THE PURPOSE  
REPUBLIC ACT NO. 6977, AS AMENDED, OTHERWISE KNOWN AS THE MAGNA  
CARTA FOR SMALL ENTERPRISES.**

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

**Section 1.** Section 1 of Republic Act No. 6977 is hereby amended to read as follows:

“Section 1. Title. – This Act shall be known as the Magna Carta for Small and Medium Enterprises.”

**SEC. 2.** Section 2 of Republic Act No. 6977 is hereby amended to read as follows:

“SEC. 2. *Declaration of policy.* – Recognizing that small and medium scale enterprises (SMEs) have the potential for more employment generation and economic growth and therefore can help provide a self-sufficient industrial foundation for the country, it is hereby declared the policy of the state to promote, support, strengthen and encourage the growth and development of [small and medium enterprises] SMEs in all productive sectors of the economy particularly rural/agri-based enterprises. To this end, the state shall undertake to [spur the growth and development of small and medium enterprises throughout the country] **PROMOTE ENTREPRENEURSHIP, SUPPORT ENTREPRENEURS, ENCOURAGE THE ESTABLISHMENTS OF SMALL AND MEDIUM AND ENSURE THEIR CONTINUING VIABILITY AND GROWTH** and thereby attain countryside industrialization by:

a) [By assuring, through the establishments of adequate support structure, and the creation and promotion of an environment conducive to the viability of these enterprises, establishment of mechanisms, the access and transfer of appropriate technology needed by small and medium enterprises; ]

[(b)] [By] intensifying and expanding programs for training in entrepreneurship and for skills development for labor;

[(c)] B [by] facilitating their access to sources of funds;

[d] C) [by] assuring to them to a fair share of government contracts and related incentives and preferences;

- b) By complementing and supplementing financing programs for small and medium enterprises and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;
- c) By instituting safeguards for the protection and stability of the credit delivery system;
- d) By raising government efficiency and effectiveness in providing assistance to Small and Medium Enterprises throughout the country, at the least cost;
- e) By promoting linkages among Small, Medium and Large enterprises, and by encouraging the establishment of common service facilities;
- f) By making the private sector a partner in the task of building up Small and Medium Enterprises through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and
- g) By assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of Small and Medium Enterprises (SMEs)

**SEC. 3.** Section 3 of Republic Act no. 6977, as amended, is hereby further amended to read as follows:

“SEC.3. Small and Medium Enterprise as Beneficiaries. –

Small and Medium enterprise (SMEs) shall be defined as any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Micro:           less than P 1,500,000

Small:           P 1,500,001-15,000,000

Medium:        P 15,000,001 - P (60,000,000) 100,000,000

The above definitions shall be subject to review and adjustment by the said council *motu proprio* by the SMED COUNCIL CREATED UNDER SECTION 5 OF THIS LAW or upon recommendation of the sectoral organization(s) concerned taking into account inflation and other economic indicators. The Council may use other variables such as, the number of employees, equity capital and asset size.

**SEC. 4.** Section 4 of Republic Act No. 6977, as amended, is hereby further amended to read as follows:

"SEC. 4. Eligibility for Government Assistance. - To Qualify for assistance, counseling, incentives and promotion under this Act, business falling under the above definition must be;

- a) Duly registered with the appropriate agencies as presently provided by law; Provided, That in the case of micro enterprises, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement:
- b) One hundred percent (100%) owned and capitalized, AND OPERATED by Filipino citizens, WHETHER single proprietorship, partnership, CORPORATION, OR COOPERATIVE. If the enterprise is a juridical entity, at least sixty percent (60%) of its capital or outstanding stocks must be owned by Filipino citizens.
- c) A business activity within the major sectors of the economy, namely: industry, services, including the practice of one's profession, the operation of tourism-related establishments, and agri-business, which for purposes of this Act refers to any business activity involving the manufacturing, processing, and/or production of agricultural produce, excluding farm level agricultural/crop production;
- d) It must not be a branch, subsidiary or division of a large-scale enterprise nor may its policies be determined by a large scale enterprise or any persons who are not owners or employees of the enterprise.

However, this requirement shall not preclude a small and medium enterprise SME from accepting subcontracts from large enterprises or firms AND ENTERING INTO FRANCHISE PARTNERSHIP WITH LARGE ENTERPRISES OR FROM joining in cooperative activities with other small and medium enterprises SMEs.

- e) It must be registered and accredited by the SMED council in accordance with the guidelines duly approved by the SMED Council Board of Directors.

Programs of the financing corporation SB CORPORATION as provided in subsequent PROVISIONS of this Act shall be exclusively DELIVERED AND DIRECTED to medium, small, and micro-sized enterprises BONAFIDE SMEs.

Registered small enterprises shall be entitled to a share of at least ten percent (10%) of total procurement value of goods and services supplied to the government, its bureaus, offices and agencies annually: *Provided*, That prices and quality of goods offered by the registered small enterprise are competitive.

THE DEPARTMENT OF BUDGET AND MANAGEMENT SHALL MONITOR THE COMPLIANCE OF GOVERNMENT AGENCIES ON THE REQUIRED PROCUREMENT FOR SMEs AND SUBMIT ITS REPORT TO THE SMED COUNCIL ON A SEMESTRAL BASIS OR AS NEEDED.

SEC. 5. Section 5 of Republic Act No. 6977, as amended, is hereby further amended to read as follows:

**“SEC 5. Guiding Principles. - To set the pace for small and medium enterprise SME development, the State shall be guided by the following principles:**

- a) **Minimal set of rules and simplification of procedures and requirements. All government agencies, having to do with small enterprise shall pursue the principles of minimum regulation to ensure stability of rules and to encourage entrepreneurial spirit among the citizenry. The agencies shall see to it that procedural rules and requirements, within their respective offices and in coordination with other agencies, are minimized in the act of registration, availment of financing and accessing other government services and assistance.**
- b) **Role of the private sector. In order to hasten growth and expansion of small and medium enterprises SMEs, the private sector throughout the country shall be encouraged to assist in the effective implementation of this Act by participating in government programs for small and medium enterprises SMEs strictly in accordance with the law, and consistent with the attainment of the purposes hereof. To encourage private sector participation, the Council, in consultation with the concerned sector, may recommend simplified procedure and localized incentives to small enterprises SMEs. The Government shall encourage the organization and establishment of small and medium enterprise SME industry associations at the local and regional levels preferably unified under a national federation/association.**
- c) **Coordination of government efforts. Government efforts shall be coordinated to achieve coherence in objectives. All appropriate offices, particularly those under the Departments of Trade and Industry, Finance, Budget and Management, Agriculture, Agrarian Reform, Environment and Natural Resources, Labor and Employment, Transportation and Communications, Public Works and Highways, Science and Technology, INTERIOR AND Local Government and Tourism as well as the National Economic and Development Authority, PHILIPPINE INFORMATION AGENCY and the Bangko Sentral ng Pilipinas, through their national, regional and provincial offices, shall to the best of their efforts and in coordination with local government units, provide the necessary support and assistance to small and medium enterprises SMEs.**
- d) **Decentralization. The State shall accelerate the decentralization process by establishing regional and provincial offices in order to enhance and attain greater efficiency in the provision of services to the countryside and the implementation of this Act, in coordination with local government units. To this end, the government agencies shall effect a substantial delegation of authority to their regional and provincial offices to make decisions, particularly in the registration of beneficiaries of this law, qualification for availment of benefits, accreditation of private voluntary organizations, industry associations and cooperatives, and to resolve complaints for violation of applicable laws.**

**SEC. 6. Section 6 of Republic Act No. 6977, as amended, is hereby further amended to read as follows:**

**"SEC. 6. Creation of a Small and Medium Enterprise**

**Development (SMED) Council.** - To effectively spur the growth and development of small and medium enterprises SMEs throughout the country, and to carry out the policy declared on this act, a Small and Medium Enterprise Development (SMED) Council is hereby created. The Council shall be attached to the Department of Trade and Industry and shall be constituted within sixty (60) days after the approval of this Act.

The Council shall be the primary agency responsible for the promotion, growth and development of small and medium enterprises SMEs in the country by way of facilitating and closely coordinating national efforts to promote the viability and growth of small and medium enterprises including assisting relevant agencies in tapping of local and foreign funds for small and medium enterprise development, as well as promoting the use of existing programs, AND seeking ways to maximize the use of our labor resources.

**SEC. 7.** Section 7 of Republic Act No. 6977, as amended, is hereby further amended to read as follows:

**"SEC. 7. Composition.** - The Council shall be headed by the Secretary of Trade as Chairman, and may elect from among themselves a Vice Chairman to preside over the meetings in the absence of the Chairman. The members shall be the following:

- a) Director General of the National Economic and Development Authority;
- b) Secretary of Agriculture;
- c) Secretary of Labor and Employment;
- d) Secretary of Environment and Natural Resources;
- e) SECRETARY OF INTERIOR AND LOCAL GOVERNMENT;
- f) Secretary of Science and Technology;
- g) Secretary of Tourism;
- h) The Chairman of the Monetary Board;
- i) Chairman of Small Business Guarantee and Finance Corporation;
- j) Chairman of the small and medium enterprises promotion body to be established under this Act; and
- k) Three (3) representatives from the private sector at large, all Filipino citizens, to represent Luzon, Visayas and Mindanao, and two representatives from the small and medium enterprise sectors to be appointed by the President;
- l) A representative from the private banking sector to serve alternately among the chamber of Thrift Banks, Rural Bankers Association of the

Philippines (RBAP) and the Bankers' Association of the Philippines (BAP); AND

- m) CHAIRPERSONS OF THE COMMITTEE ON ECONOMIC AFFAIRS OF THE SENATE AND HOUSE OF REPRESENTATIVES OR ANY APPROPRIATE COMMITTEES AS MAY BE IDENTIFIED AS EQUIVALENT THEREOF.

ALL MEMBERS OF THE COUNCIL SO APPOINTED, EXCEPT FOR THE EX-OFFICIO MEMBERS, SHALL SERVE FOR A TERM OF THREE (3) YEARS. THE PERSON SO APPOINTED TO REPLACE A MEMBER WHO HAS RESIGNED, DIED, OR BEEN REMOVED FOR CAUSE SHALL SERVE ONLY FOR THE EXPIRED PORTION OF THE TERM.

EXCEPT FOR THE DTI SECRETARY, cabinet-rank ex officio members of the Council shall designate an undersecretary or assistant secretary, and the chairman of the Monetary Board or his representative as their permanent representative in case they fail to attend meetings of the Council.

The private sector members of the Council shall initially receive a per diem of One Thousand pesos (1,000) per meeting, for a maximum of twenty-four (24) meetings per year, which per diem may be adjusted by the council: Provided, That any such adjustment shall take effect upon approval of the President. THE AMOUNT OF WHICH SHALL BE DETERMINED BY THE SMED COUNCIL.

The Department of Trade and Industry shall allocate five million pesos (5,000,000) out of its savings for the initial operating expenses of the Council, after which the Council's budget shall be included in the annual appropriation of the Department of Trade and Industry.

THE COUNCIL SHALL HAVE A SEPARATE ANNUAL APPROPRIATION WHICH SHALL BE PROVIDED IN THE GENERAL APPROPRIATIONS ACT STARTING IN THE FISCAL YEAR IMMEDIATELY FOLLOWING THE APPROVAL OF THIS ACT.

The Council may call (from time to time) call upon the participation of any NATIONAL OR LOCAL government agency or association PRIVATE SECTOR ORGANIZATION when such agency OR PRIVATE SECTOR ORGANIZATIONS is DIRECTLY OR INDIRECTLY concerned with and/or affecting the growth and development of small and medium enterprises MSMEs in any particular area of manner.

The Council may create an Executive Committee of five (5) members elected by the Council from among themselves or their designated permanent representatives, with at least two (2) members representing the private sector, and with authority to act for and on behalf of the Council during intervals of Council meetings and within the specific authority granted by the Council.

**SEC. 8.** Section 8 of Republic Act No. 6977 is hereby amended to read as follows:

"SEC. 8. Powers and Functions. - The Small and Medium Enterprise Development (SMED) Council shall have the following powers, duties and functions:

- a) To help establish the needed environment and opportunities conducive to the growth and development of the small and medium enterprises SME sector;
- b) To recommend to the president and the Congress all policy matters affecting small and medium enterprises SME sector;
- c) To formulate a comprehensive small and medium enterprises SME development plan to be integrated into the National Economic and Development Authority (NEDA) Development Plans;
- d) To coordinate and integrate various government and private sector activities relating to small and medium enterprises SMEs;
- e) To review existing policies of government agencies that would affect the growth and development of small and medium enterprises SMEs and recommend changes to the President and/or to the Congress THROUGH THE COMMITTEE ON ECONOMIC AFFAIRS OF THE SENATE AND HOUSE OF REPRESENTATIVES, whenever deemed necessary. This shall include efforts to simplify rules and regulations, as well as procedural and documentary requirements in the registration, financing, and other activities relevant to small and medium enterprises SMEs;
- f) To monitor and determine the progress of various agencies geared towards the development of the sector. This shall include overseeing, in coordination with local government units and the Department of THE INTERIOR AND Local Government as well as private sector groups/associations, the developments among small and medium enterprises SMEs particularly the cottage and micro-sized firms;
- g) To promulgate implementing guidelines, programs, and operating principles as may be deemed proper and necessary in the light of government policies and objectives of this Act;
- h) To provide the appropriate policy and coordinative framework in assisting relevant government agencies, in coordination with the NEDA and the Coordinating Council of the Philippine Assistance Program, as may be necessary, in the tapping of local and foreign funds for small and medium enterprises SME development;
- i) To promote the productivity and viability of small and medium enterprises (SMEs) by way of directing and/or assisting relevant



government agencies and institutions at the national, regional and provincial levels towards the:

- 1) Provision of business training courses, technical training for technicians and skilled laborers and continuing skills upgrading programs;
- 2) Provision of labor-management guidance, assistance and improvement of the working conditions of employees in small and medium enterprises (SMEs);
- 3) Provision of guidance and assistance regarding product quality/product development and product diversification;
- 4) Provision of guidance and assistance for the adoption of improved production techniques and commercialization of appropriate technologies for the product development and for increased utilization of indigenous raw materials;
- 5) Provision of assistance in marketing and distribution of production of small and medium enterprises SMEs through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants refrigerated storage, cooperative trucking facilities, etc;
- 6) Intensification of assistance and guidance to enable greater access to credit through a simplified multi-agency financing program; to encourage development of other models of financing such as leasing and venture capital activities; to provide effective credit guarantee systems, and encourage the formation of CREDIT GUARANTEE ASSOCIATIONS, INCLUDING SETTING UP OF credit records and information systems, and to decentralize loan approval mechanisms;
- 7) Provision of concessional interests rates, lower financing fees, which may include incentives for prompt credit payments, arrangements tying amortizations to business cash flows, effective substitution of government guarantee cover on loans for the borrower's lack of collateral;
- 8) Provision of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises, and the establishment of measures such as insurance against extraordinary disasters;
- 9) Intensification of information dissemination campaigns and entrepreneurship education activities;
- 10) Easier access to and availment of tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws;

- 11) Provision of support for product experimentation and research and development activities as well as access to information on commercialized technologies; and
  - 12) Provision of more infrastructure facilities and public utilities to support operations of small and medium enterprises SMEs;
- j) To submit to the president and the Congress, THROUGH THE SENATE COMMITTEE ON ECONOMIC AFFAIRS AND THE SPECIAL COMMITTEE ON ENTREPRENEURSHIP DEVELOPMENT, OR ANY APPROPRIATE COMMITTEE OF THE HOUSE OF REPRESENTATIVES, a yearly report on the status of small and medium enterprises SMEs in the country, including the progress and impact of all relevant government policies, programs and legislation as well as private sector activities;
  - k) To assist in the establishment of modern industrial estates outside urban centers; and
  - l) To exercise all power and functions necessary for the attainment of the objectives and purposes of this Act.

SEC. 9. Section 9 of Republic Act No. 6977, as amended, is hereby further amended to read as follows:

“Sec 9. Designation of the Bureau of Small and Medium [Business] ENTERPRISE Development of the DEPARTMENT OF TRADE AND INDUSTRY as council Secretariat. - The Bureau of Small and Medium [Business] ENTERPRISE Development is hereby designated to act as the Council Secretariat and shall have the following duties and functions:

- 1) To Formulate, implement, coordinate and monitor all non-financing government programs, including fee-based services, to support and promote MSMEs AND [to] prepare, in coordination with NATIONAL AGENCIES, local government [officials] UNITS AND PRIVATE SECTOR ORGANIZATIONS, [and recommend] annual as well as medium-term small and medium enterprise development plans for approval of the Council;
- 2) To coordinate the preparation of position papers and background materials for discussion or approval during Council meeting;
- 3) To assist the Council in coordinating and monitoring [small and medium enterprises] SMEs policies and programs and activities of all government agencies with respect to small medium enterprises;
- 4) To prepare [ collate] and integrate all inputs to the Council’s yearly report on the status of [small and medium] enterprises] SMEs in the country;
- 5) To submit periodic reports to the Council on the progress and accomplishment of its work programs; and
- 6) To perform *ad hoc* functions as authorized by the Council.

SEC. 10. Section 10 of republic Act no. 6977, as amended, is hereby further amended to read as follows:

THE POLICY AND PROGRAM SUPERVISION OF THE SMED COUNCIL. IT SHALL HAVE ITS PRINCIPAL OFFICES IN METRO MANILA AND WHENEVER NECESSARY, ESTABLISH BRANCH OFFICES IN THE PROVINCES.

THE SMALL BUSINESS CORPORATION SHALL EXERCISE ALL THE GENERAL POWERS EXPRESSLY CONFERRED BY LAW UPON CORPORATION UNDER THE CORPORATION CODE. FOR THIS PURPOSE, SMALL BUSINESS CORP. MAY ALSO:

- A) HOLD, PURCHASE, LEASE OR OTHERWISE ACQUIRE AND OWN REAL AND PERSONAL PROPERTY, INTRODUCE NECESSARY IMPROVEMENTS THEREON AND TO SELL, MORTGAGE, ENCUMBER OR OTHERWISE DISPOSE OF THE SAME AS MAY BE NECESSARY IN THE NORMAL COURSE OF BUSINESS, NOTWITHSTANDING ANY LAW TO THE CONTRARY;
- B) APPLY FOR, RECEIVE AND ACCEPT GRANTS AND DONATIONS FROM SOURCES WITHIN AND OUTSIDE THE COUNTRY;
- C) HOLD, OWN, PURCHASE, ACQUIRE, SELL, MORTGAGE, DISPOSE OR OTHERWISE INVEST OR REINVEST IN STOCKS, BONDS, TREASURY BILLS, DEBENTURES, SECURITIES AND SIMILAR FORMS OF INDEBTEDNESS OF THE GOVERNMENT, ITS AGENCIES AND INSTRUMENTALITIES OR ANY GOVERNMENT FINANCIAL INSTITUTION, NOTWITHSTANDING ANY LAW TO THE CONTRARY.

"SEC. 13. COMPOSITION, POWERS AND AUTHORITY. - THE SMALL BUSINESS CORPORATION'S CORPORATE POWERS SHALL BE VESTED ON A BOARD DIRECTORS COMPOSED OF ELEVEN (11) MEMBERS WHICH SHALL INCLUDE THE FOLLOWING:

- A) THE SECRETARY OF TRADE AND INDUSTRY
- B) THE SECRETARY OF FINANCE
- C) A PRIVATE SECTOR REPRESENTATIVE TO BE APPOINTED BY THE PRESIDENT OF THE PHILIPPINES UPON THE RECOMMENDATION OF THE SMED COUNCIL;
- D) SEVEN (7) REPRESENTATIVES OF SMALL BUSINESS CORP. HOLDERS OF COMMON SMED COUNCIL;
- E) THE PRESIDENT OF SMALL BUSINESS CORP. AS EX-OFFICIO MEMBER AND TO SERVE AS VICE CHAIRMAN OF THE BOARD.

THE PRESIDENT OF THE PHILIPPINES SHALL APPOINT THE CHAIRMAN OF THE BOARDS FROM AMONG ITS MEMBERS.

THE BOARDS OF DIRECTORS SHALL HAVE, AMONG OTHERS THE FOLLOWING SPECIFIC POWER AND AUTHORITIES:

- A) TO FORMULATE POLICIES NECESSARY TO CARRY OUT EFFECTIVELY THE PROVISIONS OF THIS CHARTER AND TO PRESCRIBE, AMEND AND REPEAL BY LAWS, RULES AND REGULATIONS FOR THE EFFECTIVE OPERATIONS OF SMALL BUSINESS CORP.
- B) ESTABLISH SUCH BRANCHES, AGENCIES AND SUBSIDIARIES AS MAY BE DEEMED NECESSARY AND CONVENIENT;
- C) COMPROMISE OR RELEASE, IN WHOLE OR IN PART, ANY CLAIM OR LIABILITY WHATSOEVER FOR OR AGAINST SMALL BUSINESS CORP. INCLUDING INTEREST, PENALTIES, FEES AND/OR OTHER CHARGES IN ACCORDANCE TO ITS OWN BY-LAWS AND *BANGKO SENTRAL NG PILIPINAS* RULES;
- D) FIX THE FEATURES OF NON-VOTING PREFERRED SHARES WHICH SHALL BE PRINTED ON THE STOCK CERTIFICATES EVIDENCING THE SAME;
- E) EXERCISE ALL OTHER SUCH POWERS AS MAY BE NECESSARY OR INCIDENTAL TO CARRY OUT SMALL BUSINESS CORP. PURPOSES.

SEC. 13. Section 12 of republic Act No. 6977, as amended, is hereby amended to read as follows:

“SEC. 20. Capitalization and funding of Small Business Corporation. – The [Small Business Guarantee and Finance] SMALL BUSINESS CORP. shall have an authorized capital stock of [Five] TEN billion pesos (P [5] 10,000,000,000.00). The initial capital of One billion pesos (P 1,000,000,000.00) shall be established from a pool of funds to be contributed in the form of equity investment in common stock by the Land Bank of the Philippines (LBP), the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP) in the amount of Two hundred million pesos (P200,000,000.00 each. The Social Security System (SSS) and the Government Service Insurance System (GSIS) shall also set aside Two hundred million pesos (P200,000,000.00) each to be placed in preferred stocks of the SMALL BUSINESS CORP. [SBGFC.]

THE TEN BILLION PESOS AUTHORIZED CAPITAL STOCK OF SMALL BUSINESS CORP. SHALL BE DIVIDED INTO 80,000,00 COMMON SHARES AND 20,000,000 PREFERRED SHARES WITH A PAR VALUE OF ONE HUNDRED PESOS (P100.00) PER SHARE: *PROVIDED*, THAT THE COMMON SHARES WHICH HAVE BEEN ISSUED, INCLUDING THOSE ISSUED AGAINST THE ASSETS OF THE KKK GUARANTY FUND CONSOLIDATED UNDER THE SMALL BUSINESS CORP. BY VIRTUE OF EXECUTIVE ORDER NOS. 233, SERIES OF 2000, AND 19, SERIES OF 2001, AND INCLUDING THOSE ALREADY SUBSCRIBED, SHALL FORM PART OF THE CAPITALIZATION OF THE CORPORATION. *PROVIDED FURTHER*, THAT PREFERRED SHARES ALREADY ISSUED UNDER REPUBLIC ACT NO. 6977, AS AMENDED, SHALL BE CONVERTED INTO COMMON SHARES. Additional EQUITY funding shall come from trust placements of excess and unused

funds of existing government agencies, bilateral and multilateral official development assistance funds subscription from government owned or controlled corporations, and investments of private financial institutions and corporations, *PROVIDED*, THAT ANY INVESTMENT FROM THE PRIVATE SECTOR SHALL ONLY BE IN THE FORM OF PREFERRED SHARED.

TO ALLOW FOR CAPITAL BUILD-UP, SMALL BUSINESS CORP. SHALL BE GIVEN A FIVE (5) YEAR GRACE PERIOD ON DIVIDEND COMMITMENTS BEGINNING ON THE DATE OF EFFECTIVITY OF THIS AMENDMENT. THEREAFTER, IT MAY ONLY DECLARE AS DIVIDEND NOT MORE THAN 30% OF ITS NET INCOME AND THE REST WITHHELD AS RETAINED EARNINGS.

SEC. 14. There shall be incorporated new sections to read as follows:

**"SEC. 16. ORGANIZATIONAL STRUCTURE. - THE BOARDS OF DIRECTORS SHALL HAVE THE AUTHORITY TO PROVIDE FOR AN ORGANIZATIONAL STRUCTURE AND STAFFING PATTERN FOR OFFICERS AND EMPLOYEE OF SMALL BUSINESS CORP. AND UPON RECOMMENDATION OF ITS PRESIDENT, APPOINT AND FIX THEIR REMUNERATION, EMOLUMENTS AND FRINGE BENEFITS AND RETIREMENT BENEFITS.**

ALL POSITIONS IN A SMALL BUSINESS CORP. SHALL BE GOVERNED BY A COMPENSATION AND POSITION CLASSIFICATION SYSTEM AND QUALIFICATION STANDARDS APPROVED BY THE BOARD OF DIRECTORS BASED ON A COMPREHENSIVE JOB ANALYSIS AND AUDIT OF ACTUAL DUTIES AND RESPONSIBILITIES. THE COMPENSATION PLAN, WHICH SHALL INCLUDE A PROVIDENT FUND, SHALL BE COMPARABLE WITH THE PREVAILING COMPENSATION PLANS OF OTHER GOVERNMENT FINANCIAL INSTITUTIONS AND SHALL BE SUBJECT TO PERIODIC REVIEW BY THE BOARD NOT MORE THAN ONCE EVERY FOUR (4) YEARS WITHOUT PREJUDICE TO YEARLY MERIT REVIEWS OR INCREASES BASED ON PRODUCTIVITY AND PROFITABILITY. SMALL BUSINESS CORP. SHALL BE EXEMPT FROM EXISTING LAWS, RULES AND REGULATIONS ON COMPENSATION, POSITION CLASSIFICATION AND QUALIFICATION STANDARDS.

**"SEC. 17. LEGAL COUNSEL. NOTWITHSTANDING ANY LAW OR STATUTE TO THE CONTRARY, SMALL BUSINESS CORP. SHALL HAVE ITS OWN LEGAL DEPARTMENT AND HIRE EXTERNAL COUNSELS FOR ALL ITS CASES PENDING BEFORE ANY COURT, TRIBUNAL, ADMINISTRATIVE BODY, OR ANY QUASI-JUDICIAL BODY.**

**"SEC. 18. SMALL AND MEDIUM ENTERPRISE WEEK. - IN ORDER TO INSTITUTE CONTINUING AWARENESS OF THE PRIMACY OF SMALL BUSINESS IN NATION BUILDING AND IN PEOPLE EMPOWERMENT, AND TO CELEBRATE AND ESPOUSE THE FIRM COMMITMENT OF THE STATE IN THE PROMOTION, GROWTH AND DEVELOPMENT OF SMALL BUSINESS, THE SECOND WEEK OF MARCH OF EVERY YEAR SHALL BE DECLARED AS THE "SMALL AND MEDIUM ENTERPRISE DEVELOPMENT WEEK" THE SMED COUNCIL, THE DEPARTMENT OF TRADE AND INDUSTRY, AND THE SMALL BUSINESS**

CORP. SHALL BE JOINTLY RESPONSIBLE IN ORGANIZING ACTIVITIES FOR THE EVENT.

**"SEC. 19. PRESIDENTIAL AWARDS FOR OUTSTANDING MSME'S- PRESIDENTIAL AWARDS FOR OUTSTANDING MSME'S CONSISTING OF REWARDS IN CASH OR IN KIND SHALL BE GRANTED TO 100% FILIPINO OWNED COMPANIES DURING THE SME DEVELOPMENT WEEK.**

**SEC. 15.** Sections 13 and 14 of Republic Act No. 6977, as amended, are hereby renumbered as sections 21 and 22, respectively, and amended further to read as follows:

**"SEC. 20. Mandatory allocation of Credit Resources to Small AND MEDIUM Enterprises. - For a period of ten (10) years from the date of the effectivity of this Act, all lending institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, shall set aside at least (six) EIGHT percent ((6) 8%) for small enterprises and at least two percent (2%) for small and medium enterprises, respectively of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and it make it available for small and medium enterprises SMEs credit as herein contemplated.**

**COMPLIANCE OF THIS PROVISION SHALL BE:**

- A) ACTUAL EXTENSION OF LOANS TO QUALIFIED AND REGISTERED ACCREDITED SMALL AND MEDIUM ENTERPRISIS; OR**
- B) ACTUAL SUBSCRIPTION OF PREFERRED SHARES OF STOCK OF SB CORPORATION.**

The SMED Council shall set up the appropriate systems to monitor all loan applications of small and medium enterprises SME's in order to account for the absorptive capacity of the small and medium sector.

The Bangko Sentral ng Pilipinas shall require lending institutions covered by this Act to furnish to the Small and Medium Development Council SMED Council on a quarterly basis regular COMPREHENSIVE reports on their compliance with the above provisions on the mandatory credit allocations for small and medium enterprises and expeditiously act on the Council's reports of non-compliance therewith, **ON THE BANKS' COMPLIANCE, NON-COMPLIANCE AND PENALTIES OF THE ABOVE PROVISIONS ON THE MANDATORY CREDIT ALLOCATION FOR SME'S.**

**"SEC. 21. Penalty Clause. - The Bangko Sentral ng Pilipinas shall impose administrative sanctions and other penalties on the lending institutions for non-compliance with the provision on Mandatory Allocation of Credit Resources of not less than Five hundred thousand pesos (P500,000) WHICH MAY BE IMPOSED BY THE MONETARY BOARD BUT IN NO CASE EXCEED THIRTY THOUSAND PESOS (PHP30,000.00 ) PER DAY FOR EACH VIOLATION.**

**SEC. 16.** Sections 15, 16 and 17 of Republic Act No. 6977, as amended are hereby renumbered as Sections 23, 24 and 25, respectively.

**SEC. 17. Separability Clause.** - The provisions of this Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

**SEC. 18. Repealing Clause.** - All laws, executive orders, rules and regulations. Or parts thereof, inconsistent herewith are hereby repealed or modified accordingly.

**SEC. 19. Effectivity Clause.** - This Act shall take effect within fifteen (15) days from its publication in at least two (2) national newspapers of general circulation.

Approved,