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SENATE

S. No. 615

RECEIVED BY: *ju*

Introduced by Senator Ralph G. Recto

Explanatory Note

Smallness cannot disqualify enterprises from taking the driver's seat in the economy. Growth in the number of business establishments was reflected in the growth of Micro, Small and Medium Enterprises (MSME) sector. Of the 820,255 business enterprises, 99.6% (816,759) were MSMEs. Of the total MSMEs, micro enterprises comprised 91% (743,250); small, 8.6% (70,222); medium, 0.4% (3,287). Likewise, Micro enterprises lead in job generation with 1,778,353 jobs, or 28 % of total jobs created in 2011.¹

MSMEs also accounted for 35.7% of Gross Value-Added (GVA) to the economy. It is the accepted view that MSMEs still has immense potential for GVA growth such as being exhibited by their counterparts in Indonesia (53.28%), Vietnam (39%) and Thailand (37.8%).²

In order to distinguish them from Large enterprises and to qualify for benefits and incentives, the Magna Carta for Micro, Small and Medium Enterprises defined then categorized MSMEs, thus:

“Section 3. Micro, Small and Medium Enterprises (MSMEs) as Beneficiaries. – MSMEs 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:	not more than P3,000,000
small:	P3,000,001 – P15,000,000
medium:	P15,000,001 – P100,000,000.”

Additionally, the categories are also characterized by the Number of Employees, thus:

micro:	1-9 employees
small:	10-99 employees
medium:	100-199 employees.

To make the Magna Carta responsive to changing economic conditions, the Magna Carta and its Implementing Rules mandate a procedure for review and adjustment of the definitions based on a semestral review and validation of the MSME Development Plan. These measures provided that recommendations to amend the definitions of the three categories shall consider inflation and other economic indicators. The MSMED Council shall use other variables such as number of employees, equity capital and assets size.

¹<http://www.dti.gov.ph/dti/index.php?p=532> (Accessed on March 21, 2013)

² MSME Sector at A Glance, March 2012. Senate Economic Planning Office

However, since the enactment of the Magna Carta in 2008, the definition and categories have remained the same. That barred a good number of Small enterprises from enjoying the benefits, programs and plans that are helping improve the Business Environment for Micro enterprises.

According to a survey of enterprises referred to by the MSMED Plan for 2011-2016, the second most problematic area in improving the business environment for MSMEs is described as follows: "Business registration and licensing procedures are tedious, lengthy, complicated, and expensive." For example, the Philippines has the most number of start-up procedures at 15 steps compared to other Southeast Asian countries. Singapore has 3 steps; Malaysia, 4; Thailand, 5; Indonesia 8; and Vietnam 9.³

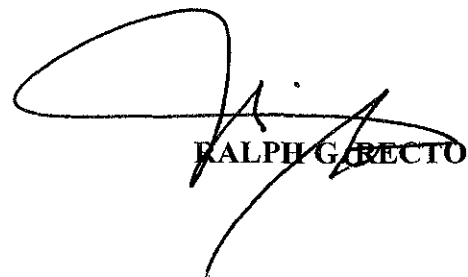
Recognizing the need to provide an enabling environment for the least capable, the Magna Carta extended preferential treatment to Micro enterprises. Of the three categories, Micro enterprises enjoy an additional privilege through *Section 4. Eligibility for Government Assistance*. It provides that "registration, with the office of the municipal or city treasurer shall be deemed sufficient compliance" with the requirements for registration to qualify for assistance, counseling, incentives and promotion. In contrast, Small and Medium enterprises shall have to be registered with other agencies.

Other benefits and privileges were provided in common to both Micro and Small enterprises since they need more government assistance compared to Medium and Large enterprises. MSEs enjoy preference in the access to funds. Under *Section 14. Venture Capital and Micro Finance Trust Fund*, MSEs shall be provided "collateral-free fixed and working capital loans" from the Venture Capital Trust Fund created within the Small Business Corporation.

Likewise, all lending institutions are mandated to set at least 8% of their total loan portfolio (TLP) as mandatory allocation of credit resources for Micro and Small enterprises in contrast to just 2% of TLP for Medium enterprises, as provided for in *Sec. 15 Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises*.

The MSMED Plan for 2011 – 2016 stressed the need to improve the business environment to help MSMEs sustain and expand their operations. This bill, therefore, proposes to redefine the value of the Micro and Small Enterprise categories in order to make more privileges and benefits available to more enterprises. That shall be achieved by amending the definitions, specifically, on the value of total assets of the Micro and Small enterprises, as follows: of Micro enterprises to "not more than P7,500,000" from "not more than P3,000,000", and of Small enterprises to "P7,500,001 – P15,000,000" from "P3,000,001 – P15,000,000".

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



RALPH G. RECTO

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³ Philippine Development Plan, 2011-2016. National Economic and Development Authority



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AN ACT
TO EXPAND THE COVERAGE OF MICRO ENTERPRISES AS BENEFICIARIES OF
THE MAGNA CARTA FOR MICRO, SMALL AND MEDIUM ENTERPRISES OR
REPUBLIC ACT NO. 6977, AS AMENDED BY R. A. NO. 8289 AND¹ FURTHER
AMENDED BY R. A. No. 9501

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

1 **SECTION 1.** Section 3 of the Magna Carta for Micro, Small and Medium Enterprises or
2 R. A. No. 6977, as amended by R. A. No. 8289 and further amended by R. A. No. 9501 is hereby
3 further amended to read as follows:

4 **“SECTION 3. *Micro, Small and Medium Enterprises (MSMEs) as***
5 ***Beneficiaries.*** — MSMEs shall be defined as any business activity or enterprise
6 engaged in industry, agribusiness and/or services, whether single proprietorship,
7 cooperative, partnership or corporation whose total assets, inclusive of those
8 arising from loans but exclusive of the land on which the particular business
9 entity’s office, plant and equipment are situated, must have value falling under the
10 following categories:

11 micro : not more than [P3,000,000] **P7,500,000**

12 small : [P3,000,001] **P7,500,000** - P 15,000,000

13 medium : P15,000,001 - P100,000,000.

14 “x x x

15 “x x x.”

16 **SEC. 2. *Repealing Clause.*** - All laws, decrees, orders, rules and regulations or parts
17 thereof inconsistent with any of the provisions of this Act are hereby repealed, amended or
18 modified accordingly.

19 **SEC. 3. *Effectivity Clause.*** - This Act shall take effect fifteen (15) days after its complete
20 publication in the Official Gazette or in at least two (2) newspapers of general circulation.

Approved,