

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



14 MAY -7 P1 31

SENATE  
S.B. No. 2218

RECEIVED BY: *ji*

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Introduced by: Senator Paolo Benigno "Bam" A. Aquino IV

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**AN ACT TO INSTITUTIONALIZE THE CREDIT SURETY FUND  
TO ENHANCE THE ACCESSIBILITY OF MICRO, SMALL AND MEDIUM ENTREPRENEURS  
TO THE CREDIT FACILITY OF BANKS AND FOR OTHER PURPOSES**

**EXPLANATORY NOTE**

For a developing country like the Philippines, majority of its businesses come from the Micro, Small and Medium Enterprises (MSMEs). As of 2011, the Department of Trade and Industry (DTI) accounts that 99.6% are MSMEs, employing about 62% of the Philippine workforce. With that, the sector is a major stakeholder in the economic development of the people.

Yet, one of the roadblocks for the continued growth of the MSMEs is access to financing. The existing requirements for credit do not consider the nature and stature of these micro and small businesses. Current prerequisites for financing are marginalizing the sector, which provides jobs and livelihood to the majority of Filipinos.

It is high time that a structure of extension of credit for MSMEs be developed to further grow micro and small enterprises all over the country.

Thus, the bill proposes the establishment of the Credit Surety Fund (CSF) mechanism to enhance the credit worthiness of MSMEs, broaden their access to credit facilities, and sustain the continuous flow of credit in the countryside. This will generate more employment and alleviate poverty through increased investments and economic activities.

The challenge is to grow micro businesses into small enterprises and small enterprises to medium enterprises. If this challenge is addressed, we would better enable the kind of economic growth that not only benefits the few rich, but also the majority of the people, including the poorest Filipino.

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

*Bam Aquino*  
Senator Paolo Benigno "Bam" A. Aquino IV

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

1       **SECTION 1. Title.**

2               This Act shall be known as the "Credit Surety Fund Act of 2014."

3       **SECTION 2. Declaration of Policy.**

4               The State hereby recognizes the need to promote comprehensive development  
5               in order to attain a more equitable distribution of opportunities, income and wealth, a  
6               sustained increase in the amount of goods and services produced in the economy; and  
7               in increasing productivity as a key to raising the quality of life for all. Moreover, the  
8               State affirms its declared policy to foster the creation and growth of cooperatives and  
9               non-government organizations as practical vehicles for promoting self-reliance, inclusive  
10              economic development and social justice.

11              To attain these objectives, the State shall encourage and promote the  
12              establishment of a national fund mechanism that is designed to provide micro, small,  
13              and medium enterprises (MSMEs), as well as cooperatives and non-government  
14              organizations engaged in business and financing, more inclusive access to bank credit,  
15              thereby enhancing their sustainability and growth.

16       **SECTION 3. Statement of Objectives.**

17              The objectives of this Act are as follows:

18              1. Enhance the credit worthiness of MSMEs, cooperatives and non-  
19              government organizations, and broaden their access to the credit facilities of banks.

20              2. Sustain the continuous flow of credit in the countryside through the  
21              establishment of a mechanism by which MSMEs can collateralize their loans from  
22              banking institutions through well and prudently managed Credit Surety Funds, which  
23              shall serve as surety covers.

24              3. Build up the capability of cooperatives and non-government  
25              organizations in the areas of credit evaluation, loan and risk management, and good  
26              governance principles.

27              4. Generate more employment and support the poverty alleviation program  
28              of the government through increased investments and economic activities.

1           **SECTION 4. Definition of Terms.**

2           1.       **Bangko Sentral** - refers to the Bangko Sentral ng Pilipinas with powers  
3 and responsibilities as defined in this Act and the implementing rules and regulations.

4           2.       **Cooperative** - refers to an autonomous and duly registered association of  
5 persons, with a common bond of interest, who have voluntarily joined together to  
6 achieve their social, economic, and cultural needs and aspirations by making equitable  
7 contributions to the capital required, patronizing their products and services by  
8 accepting a fair share of the risks and benefits of the undertaking in accordance with  
9 universally accepted cooperative principles, as defined by Republic Act No. 9520,  
10 otherwise known as the "Philippine Cooperative Code of 2008."

11           A cooperative may either be:

- 12           a)       Primary - the members of which are natural persons;  
13           b)       Secondary - the members of which are primaries; or  
14           c)       Tertiary - the members of which are secondary cooperatives.

15           3.       **Credit Surety Fund, Surety Fund, Fund or CSF** - refers to a fund  
16 generated from the contributions of well-capitalized and well-managed cooperatives  
17 and non-government organizations with counterpart contributions from the Local  
18 Government Unit and Government Financial Institutions. The CSF shall serve as a  
19 security for the loans that will be obtained by qualified borrowers from lending banks  
20 and by way of a surety cover issued by the Fund in lieu of hard collaterals.

21           4.       **Fund Council** - refers to the governing body of the Credit Surety Fund,  
22 whose members consist of the authorized representatives of the Local Government  
23 Units and Government Financial Institutions as ex-officio members and elected  
24 representatives of cooperatives and NGOs contributing to the Fund.

25           5.       **Government Financial Institutions (GFIs)** - refer to financial institutions  
26 or corporations in which the government directly or indirectly owns a majority of the  
27 capital stock and which are registered with or directly supervised by the Bangko Sentral.  
28 For purposes of this Act these are, but not limited to, the Development Bank of the  
29 Philippines (DBP), the Land Bank of the Philippines (LBP), and the Industrial Guarantee  
30 and Loan Fund (IGLF).  
31

32           6.       **Lending Bank** - refers to any authorized banking institution with a  
33 rediscounting line with the Bangko Sentral that is willing to grant credit  
34 accommodations to the qualified borrowers as defined in this act.  
35

36           7.       **Local Government Unit (LGU)** - refers to the provincial or city  
37 government that is authorized under this Act to contribute to the CSF established in  
38 their locality in the form of investment, in an amount at least equal to the total  
39 contributions of the cooperatives and NGOs. Provided, that a municipality may also  
40 contribute to a CSF, which contribution shall be deemed as part of the contribution of  
41 the province.

42           8.       **Micro, Small and Medium Enterprises (MSME)** - refer to any business  
43 activity or enterprise engaged in industry, agri-business and/or services, whether a  
44 single proprietorship, cooperative, or partnership whose total assets inclusive of those  
45 arising from loans but exclusive of the land on which the particular business entity's  
46 office, plant and equipment are situated, must have value falling under the following  
47 categories.  
48

Category	Asset
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Micro	Not more than P3,000,000
Small	P3,000,001 - P15,000,000
Medium	P15,000,001 - P100,000,000

1 The above definitions shall be subject to review and adjustment by the Micro,  
2 Small and Medium Enterprises Development (MSMED) Council under Section 6 of  
3 Republic Act No. 6977, as amended, otherwise known as "The Magna Carta for Small  
4 Enterprises" or upon recommendation of sectoral organizations concerned, taking into  
5 account inflation and other economic indicators. The MSMED Council may use other  
6 variables such as number of employees, equity capital and assets size.

7  
8 **9. Non-Government Organization (NGO)** - refers to any non-profit citizens'  
9 group that contributes to or participates in cooperation projects, education, training,  
10 microfinance or other humanitarian, progressive, or watchdog activities.

11 **10. Qualified Borrowers** - as defined in this Act and in accordance with  
12 implementing rules and regulations, refer to the following:

- 13 a) A cooperative, which has made a contribution to the Fund;  
14 b) An NGO, which has made a contribution to the Fund; or  
15 c) An MSME endorsed by a contributing cooperative or NGO.

16  
17 **11. Surety Cover** - refers to an agreement executed by the authorized  
18 representatives of the Fund Council and the cooperative or NGO endorsing an MSME-  
19 borrower in favor of the lending bank, obligating themselves to be jointly and severally  
20 liable for the account of the MSME-borrower in the event of default.

21  
22 **12. Surety Agreement** - refers to the agreement executed by the proper  
23 parties as defined by this Act and its implementing rules and regulations, in favor of the  
24 lending bank, obligating themselves to be jointly and severally liable with a qualified  
25 borrower in the event of default.

26 A Surety Agreement, for purposes of this Act, shall be endorsed jointly and  
27 severally by the cooperative or NGO endorsing an MSME-borrower and the Fund  
28 Council.

29 **13. Trustee Bank/s** - refers to the bank/s designated by the Fund Council to  
30 manage the CSF. Such bank/s must be authorized by the Bangko Sentral to engage in  
31 trust and other fiduciary business under Republic act No. 8791, otherwise known as the  
32 "General Banking Law of 2000." The implementing rules and regulations shall also  
33 provide for additional eligibility requirements for trustee banks.

34 **SECTION 5. Establishment of a Credit Surety Fund (CSF).**

35 A Credit Surety Fund may be established in each province and chartered city  
36 nationwide to provide an alternative means of collateral cover for the loans or credit  
37 accommodations obtained by qualified borrowers from lending banks.

38 **SECTION 6. Composition of the CSF.**

39 A Credit Surety Fund shall be composed of the following:

40 1. The CSF shall primarily consist of initial contributions from participating  
41 cooperatives and NGOs in a province and/or a chartered city.

42 2. It includes the counterpart contribution of the LGU in an amount at least  
43 equal to the initial total contributions of the contributing cooperatives and NGOS, in the  
44 form of an investment.

1           3.     It also includes the contribution of GFIs such as the DBP, LBP, and the  
2 IGLF, that may or may not be equal to the total contributions of the cooperatives, in the  
3 form of an investment.

4           4.     Any increase in the contribution of existing or new cooperatives, NGOs,  
5 LGU, GFIs and other qualified investors or donors.

6           **SECTION 7. Usage of the Fund.**

7           The contributions and donations pooled from the abovementioned entities shall  
8 constitute the CSF, to be used as surety for the loans of qualified borrowers from  
9 lending banks. The CSF shall be deposited in trustee bank/s as herein defined, and shall  
10 only be invested or placed in safe and high-yielding instruments such as government  
11 securities.

12           **SECTION 8. Administration of the Fund.**

13           For every province or city, the CSF will be governed by a Fund Council, whose  
14 members consist of the authorized representatives of the LGU and GFIs as ex-officio  
15 members and representatives elected by the contributing cooperatives and NGOs. Each  
16 contributor shall be entitled to only one (1) vote, regardless of the amount of its  
17 contribution. The governing Fund Council shall designate any bank authorized to accept  
18 government deposits as administrator of the Fund subject to the eligibility requirements  
19 of the Bangko Sentral.

20           **SECTION 9. Powers of the Fund Council.**

21           The Fund Council shall have the authority to:

- 22           1. Determine and formulate the general policies and guidelines on the proper  
23 administration and management of the CSF and<sup>2</sup> authorize its investment,  
24 reinvestment and disposition;
- 25           2. Act as Administrator of the Fund until such time that a trustee bank is designated  
26 or appointed as Administrator;
- 27           3. Designate a bank duly licensed and highly rated by the Bangko Sentral to accept  
28 government deposits to act as administrator/investment manager of the CSF;
- 29           4. Promulgate such rules and guidelines governing the infusion of additional  
30 contributions to the CSF and admission of new contributors;
- 31           5. Enter into contracts and transactions involving, affecting or relating to the CSF;
- 32           6. Enter into contracts and transactions involving, affecting or relating to the CSF;
- 33           7. Periodically review the CSF's assets as well as its investments, reinvestment and  
34 disposition and is responsible for taking appropriate action on the audit of the  
35 financial condition and operations of the CSF;
- 36           8. Create committees and appoint other officers as it deems necessary;
- 37           9. Delegate to the Chairman, Vice-Chairman, or any member of the Fund Council,  
38 any of its powers whenever deemed necessary for the best interest of the CSF  
39 and as allowed by law;
- 40           10. Exercise general supervision of all affairs of the CSF and shall be directly  
41 accountable to its general membership;
- 42           11. Issue a surety cover jointly with the endorsing cooperative or NGO in favor of the  
43 lending bank to secure the loans of the member or client MSMEs with that bank;  
44 and
- 45           12. Perform such acts and exercises such powers and duties as may be necessary  
46 and proper in order to achieve the purpose for which the CSF was created.

47           **SECTION 10. Withdrawal of Contributions.**

48           Subject to the procedure and requirements stated in the implementing rules and  
49 regulations, a contributing cooperative or NGO may withdraw all or part of its

1 contributions to the CSF subject to such reasonable terms and conditions as shall be  
2 imposed by the Fund Council taking into consideration, among others, the liquidity of  
3 the CSF, the interests of the lending banks/creditors and the outstanding executed  
4 Surety Agreements of the withdrawing cooperative or NGO.

5 **SECTION 11. *Dissolution of the Surety Fund.***

6 The Surety Fund may be dissolved by a majority vote of the members of the  
7 Fund Council and confirmed by two-thirds (2/3) vote of all the contributors to the CSF.  
8 For the purpose of dissolving the Fund, each contributing member shall have only one  
9 vote each regardless of the size of its contribution to the Fund.

10 The Fund Council shall act as liquidator and shall distribute the remaining assets  
11 of the CSF to its stakeholders pro-rated according to their respective contributions.  
12 Thereafter, the Fund Council shall be dissolved.

13 **SECTION 12. *Implementing Government Agency.***

14 Pursuant to its mandate to provide policy direction in the areas of money,  
15 banking and credit under Republic Act No. 7653, and to strengthen its inclusive finance  
16 advocacy to enhance credit creation in the rural areas, the Bangko Sentral shall  
17 spearhead the promotion, encouragement, creation and organizational development of  
18 CSFs all over the country. In addition, the Bangko Sentral shall provide assistance such as  
19 training, technical services, and facilitation measures.

20 **SECTION 13. *Books of Accounts, Records, Reportorial Requirements and Administrative***  
21 ***Fees.***

22 Subject to the requirements stated in the implementing rules and regulations,  
23 the Fund Council shall set and keep accurate accounts and internal financial controls  
24 and shall appoint an external auditor acceptable to the Bangko Sentral.

25 **SECTION 14. *Tax Incentives.***

26 All donations to and income of the CSF shall be exempt from tax.

27 **SECTION 15. *Miscellaneous.***

28 Nothing provided herein shall preclude the contributors from converting the CSF  
29 to a more formal corporate body to carry out its purposes subject to the implementing  
30 rules and regulations as shall be prescribed.

31 **SECTION 16. *Implementing Guidelines.***

32 Within sixty (60) days from the effectivity of this Act, the Bangko Sentral shall  
33 draft and issue the rules and regulations to implement the provisions of this Act.

34 **SECTION 17. *Separability.***

35 Should any provision of this act be declared unconstitutional, the other  
36 provisions not affected thereby shall continue to be in full force and effect.

37 **SECTION 18. *Effectivity Clause.***

38 This Act shall take effect fifteen (15) day after its publication in the Official  
39 Gazette or in two (2) newspapers of general circulation.

40 Approved,