

NINETEENTH CONGRESS OF THE  
REPUBLIC OF THE PHILIPPINES  
*Second Regular Session*

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**SENATE**  
**S. No. 2632**

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**Introduced by Senator Jinggoy Ejercito Estrada**

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**AN ACT**  
**ENHANCING CREDIT SUPPORT TO MICRO, SMALL AND MEDIUM**  
**ENTERPRISES, AMENDING FOR THE PURPOSE SECTION 15 OF REPUBLIC**  
**ACT NO. 6977, AS AMENDED, OTHERWISE KNOWN AS THE "MAGNA CARTA**  
**FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)**

**EXPLANATORY NOTE**

The International Labour Organization has referred to Micro, Small, and Medium Enterprises as "the backbone of economies worldwide and of the world of work<sup>1</sup>". As of 2022, MSMEs comprise 1,105,143 of business enterprises, accounting for 99.59% of the 1,109,684 business enterprises operating in the country. In terms of employment, MSMEs generated 5,607,748 jobs or 65.10% of the country's total work force of 8.6 million. Broken down by size of enterprise, Micro enterprises generated the biggest share at 2.8 million or 32.69%, followed by small enterprises at 2.2 million or 25.35%, and lastly medium enterprises at 608 thousand or 7.06%. While MSMEs comprise majority of all business establishments, they still do not account for a substantial share in GDP, with latest available data placing their contribution at 40%.

Republic Act No. 6977 or the Magna Carta for Small Enterprises was enacted on 24 January 1991. Section 13 of RA 6977 provides for the Mandatory Allocation of

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<sup>1</sup> Hougbo, Gilbert F. "MSMEs: The backbone of economies and the world of work". ILO Micro-Small and Medium Sized-Enterprises Day Statement. 27 June 2023.

Credit Resources to Small Enterprises. All lending institutions are mandated to set aside a portion of their total loan portfolio for small enterprises wherein at the end of the first year of the effectivity of the Act portion set aside shall be 5%, at the end of the 2<sup>nd</sup> year to the end of the 5<sup>th</sup> year shall be 10%, and and at the end of sixth year at 5%, and may come down to 0 by the end of the 7<sup>th</sup> year. Republic Act No. 9501 was enacted on 23 May 2008 amending Section 13 of RA 6977. Under the amendatory law, lending institutions are mandated to set aside 8% for micro and small enterprises and at least 2% for medium enterprises of their total loan portfolio for a period of ten (10) years.

In spite of this however, access to finance has remained a chronic barrier to MSME growth, and even survival<sup>2</sup>. As of December 2023, compliance with the prescribed allocation of loan portfolio to micro and small enterprises amounted to PhP 200.787 billion or 1.93% and for medium enterprises was P301.422 billion or 2.90%<sup>3</sup>. A University of the Philippines Center for Integrative and Development Studies Discussion Paper has enumerated a number of ways banks have used to avoid allocating the prescribed percentage of their loan portfolio to MSMEs, which include: "giving the bulk of funds charged against SME financing to large firms that hide their true worth in order to qualify as medium enterprises, depositing the required amount to the BSP rather than seek out SME borrowers, and preferring to pay fines rather than 'set aside non-income generating funds for lending to medium enterprises'", or by simply resorting to an alternative such as "buying preferred stocks issued by the SBC (Small Business Corporation) with the money generated used for MSMEs"<sup>4</sup>.

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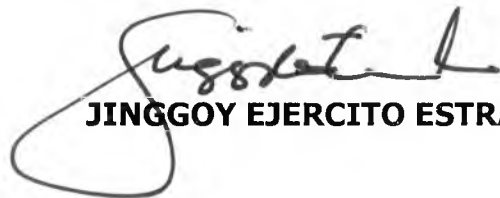
<sup>2</sup> Asian Development Bank. "Asia Small and Medium-Sized Enterprise Monitor 2020". November 2020.

<sup>3</sup> Bangko Sentral ng Pilipinas. "Compliance with Magna Carta for Micro, Small and Medium Enterprises". As of March 2024.

<sup>4</sup> Raquiza, Ma. Victoria R. "Micro, small, and medium enterprise (MSME) sector financing: Issues and Challenges." University of the Philippines Center for Integrative and Development Studies Political Economy Program Discussion Paper 2021-01.

In order to enhance credit support to MSMEs, this bill seeks to further amend Section 15 or RA 6977, as amended by mandating all lending institutions to set aside at least 10% of their total loan portfolio for MSMEs. Furthermore, compliance to this provision will be limited to the actual extension of loans to eligible MSMEs only.

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



**JINGGOY EJERCITO ESTRADA**

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

1 Section 1. Section 15 of Republic Act No. 6977, as amended, is hereby further  
2 amended to read as follows:

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

14 "Compliance of this provision shall be[:] **THE ACTUAL**  
15 **EXTENSION OF LOANS TO ELIGIBLE MSMEs.**

16 [~~"a) actual extension of loans to eligible MSMEs; or~~

1                   ~~"b) actual subscription of preferred shares of stock of~~  
2                   ~~the SB Corporation; or~~

3                   ~~"c) wholesale lending to Participating Financial~~  
4                   ~~Institutions (PFIS) for on-lending to MSMEs; or~~

5                   ~~"d) purchase/discount of MSMEs receivables; or~~

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

8                   ~~or~~

9                   ~~"f) subscribe/purchase of liability instruments as may~~  
10                   ~~be offered by the SB Corporation.]~~

11                   ~~"The [Bangko Sentral ng Pilipinas] **BSP, IN**~~  
12                   ~~**CONSULTATION WITH THE MSMED COUNCIL,**~~ shall  
13                   formulate rules for the effective implementation of this  
14                   provision: *Provided,* That the purchase of government notes,  
15                   securities and other negotiable instruments shall not be  
16                   deemed compliance with the foregoing provisions: *Provided,*  
17                   *further,* That the ~~[Bangko Sentral ng Pilipinas] **BSP, IN**~~  
18                   ~~**CONSULTATION WITH ALL STAKEHOLDERS,**~~ shall  
19                   establish an incentive program to encourage lending to micro,  
20                   small and medium industries beyond the mandatory credit  
21                   allocation to said enterprises, such as possible reduction in  
22                   bank's reserve requirement.

23                   ~~"The MSMED Council shall set up the appropriate systems to~~  
24                   ~~monitor all loan applications of MSMEs in order to account for~~  
25                   ~~the absorptive capacity of the MSME sector.~~

26                   ~~"The [Bangko Sentral ng Pilipinas] **BSP** shall furnish to the~~  
27                   ~~MSMED Council on a quarterly basis comprehensive reports~~  
28                   ~~on the banks' compliance, noncompliance and penalties of the~~  
29                   ~~above provisions on the mandatory credit allocation for~~  
30                   ~~MSMEs.~~

31                   ~~"Lending institutions which are not qualified to acquire or hold~~  
32                   ~~lands of the public domain in the Philippines shall be permitted~~

1 to bid and take part in sales of mortgaged real property in  
2 case of judicial or extra-judicial foreclosure, as well as avail of  
3 receivership, enforcement and other proceedings, solely upon  
4 default of a borrower, and for a period not exceeding five (5)  
5 years from actual possession: *Provided*, That in no event shall  
6 title to the property be transferred to such lending institution.  
7 If the lending institution is the winning bidder, it may, during  
8 said five (5) year period, transfer its rights to a qualified  
9 Philippine national, without prejudice to a borrower's rights  
10 under applicable laws."

11 *Sec. 2. Implementing Rules and Regulations.* – Within ninety (90) days from  
12 the effectivity of this Act, the MSMED Council and the BSP shall promulgate the  
13 necessary rules and regulations for its effective implementation.

14 *Sec. 3. Separability Clause.* – Should any provision herein be declared  
15 unconstitutional, the other provisions not affected shall remain in full force and effect.

16 *Sec. 4. Repealing Clause.* – All laws, decrees, orders, rules and regulations or  
17 other issuances or parts inconsistent with the provisions of this Act are hereby  
18 repealed, amended, or modified accordingly.

19 *Sec. 5. Effectivity.* – This Act shall take effect fifteen (15) days after its  
20 publication in the *Official Gazette* or in a newspaper of general circulation.

*Approved,*