

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
First Regular Session

House Bill No. 6004



Introduced by CIBAC Party-List Representatives
Eduardo "Bro. Eddie" C. Villanueva and Domingo C. Rivera

**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 over 99% of the total establishments in the country.¹ In 2018, MSMEs generated 63.2% of the total jobs in the Philippines totaling 5,714,262 jobs.

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 billion 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 2017 MSME Statistics-Number of Establishments. Department of Trade and Industry. Retrieved from: <https://www.dti.gov.ph/business/msmes/msme-resources/msme-statistics> (date last accessed: June 29, 2019)

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.

This bill seeks to address this lack of access to credit by extending the period for 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.



HON. EDUARDO "BRO. EDDIE" C. VILLANUEVA



HON. DOMINGO C. RIVERA

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)

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*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 known as
2 the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)" is hereby
3 amended to read as follows:
4

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

13 Compliance of this provision shall be:
14

15 a) actual extension of loans to eligible MSMEs; or
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b) actual subscription of preferred shares of shares of stock of the SB Corporation; or

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

d) purchase/discount of MSMEs receivables; or

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

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

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

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

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

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

1 **SEC. 2. Implementing Rules and Regulations.** – Within sixty (60) days from the
2 effectivity of this Act, the Bangko Sentral ng Pilipinas, in consultation with the
3 Department of Trade and Industry, the MSMED Council and other relevant
4 stakeholders, shall issue the implementing rules and regulations for the effective
5 implementation of this Act.
6

7 **SEC. 3. Separability Clause.** – If for any reason, any part or provision of this Act is
8 declared invalid or unconstitutional, the remaining parts or provisions not affected
9 thereby shall remain in full force and effect.
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11 **SEC. 4. Repealing Clause.** – All laws, executive orders, presidential decrees, rules
12 and regulations or parts thereof contrary to or inconsistent with any provisions of this
13 Act are hereby repealed, amended or modified accordingly.
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15 **SEC. 5. Effectivity.** – This Act shall take effect fifteen (15) days after its publication in
16 the Official Gazette or in two (2) national newspapers of general circulation.
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19 **Approved,**