

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

EIGHTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 404



Introduced by **HON. LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.**

EXPLANATORY NOTE

The bill recognizes the important role of Micro, Small and Medium Enterprises (MSMEs) in developing the Philippine economy. It also acknowledges the financial barriers being faced by the MSMEs in truly achieving sustainable growth. In line with the foregoing, this bill aims to provide a micro-financing program tagged as "*Pondo sa Pagbabago at Pag-asenso*" to MSMEs.

An MSME is defined as any business activity or enterprise engaged in industry, agri-business and/or services that has: (1) an asset size (less land) of up to PhP100 million; and (2) an employment size with less than 200 employees¹. They help reduce poverty by creating jobs for the country's growing labor force, thus stimulating economic development in rural and far-flung areas. They also serve as valuable partners to large enterprises as suppliers and providers of support services. Hence, a vibrant MSME sector is thus an indication of a thriving and growing economy.

In 1991, the Philippine Congress enacted into law Republic Act No. 6977, further amended by Republic Act No 8289 in 1997, what is more commonly known as the "Magna Carta for Micro, Small and Medium Enterprises". Additionally, Republic Act No. 10644, also known as the "*Go Negosyo Act*", sought to push the development of small businesses through the establishment of "*Negosyo Centers*" around the country. These landmark legislations are geared towards the development of the Filipino entrepreneurial spirit. With over 99% of establishments in the Philippines being MSMEs by 2015, the Magna Carta provided a business environment conducive for their growth in the country. MSMEs have contributed over 60% of the total jobs generated by all types of business establishments.

¹ Based on the definition under Republic Act No. 9501 or the Magna Carta for MSMEs, which amended RA 8289 and RA 6977 (Magna Carta for Small Enterprises); and on the establishment category used by the National Statistics Office (NSO), respectively.

The proposed bill aims to provide an accessible microfinancing program for the MSMEs in the country in order to enable these businesses to move forward. The beneficiaries of the "P3 Fund" shall be micro enterprises and entrepreneurs, including market vendors, agribusinessmen and members of cooperatives, industry associations and cooperators. This will also allow a better alternative for startups and small enterprises to get capital for their business, at a lower interest rate.

The approval of this bill is earnestly sought.



LUIS RAYMUND "LRAY" F. VILLAFUERTE, JR.

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AN ACT
PROVIDING A SOCIALIZED MICROFINANCING PROGRAM FOR MICRO
ENTERPRISES THEREBY PROMOTING ENTREPRENEURSHIP

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

SECTION 1. *Short Title.* – This Act shall be known as the "*Pondo sa Pagbabago at Pag-asenso*" or the "P3 Act".

SECTION 2. *Declaration of Policy.* – It is the declared policy of the State to foster national development, promote inclusive growth, and reduce poverty by promoting the growth of micro, small and medium enterprises (MSMEs) that facilitate local job creation, production and trade in the country. Towards this end, the State shall develop policies, plans and programs, and initiate means to encourage entrepreneurial activities, and to ease the constraints and challenges to MSMEs, particularly on access to financing.

SECTION 3. *Objectives.* – The objectives of this Act are as follows:

- (a) To provide an affordable, accessible and simple micro financing program for the country's micro enterprises, especially those in the poorest populations;
- (b) To provide a better alternative to the informal lenders or the so-called "5-6" money lending system availed of by micro enterprises; and
- (c) To bring down the interest rate at which micro finance is made available to micro enterprises.

SECTION 4. *Creation of the Pondo sa Pagbabago at Pag-asenso (P3).* – There is hereby created the “Pondo sa Pagbabago at Pag-asenso”, hereinafter referred to as the “P3 Fund”, which shall be lent out to qualified MSMEs under such terms and conditions that will meet the purposes of this Act.

The beneficiaries of the “P3 Fund” shall be micro enterprises and entrepreneurs, including market vendors, agribusinessmen and members of cooperatives, industry associations and cooperators.

The fund shall be primarily lent through conduit financial institutions to be accredited for the purpose.

SECTION 5. *Lead Implementing Agency.* – The Small Business Corporation (SB Corp.), the financing arm of the Department of Trade and Industry (DTI), shall be the lead implementing agency for the “P3 Fund”. It shall handle the fund delivery to micro enterprises through the following modes:

- a) Direct lending to micro enterprises;
- b) Wholesale lending to conduits, such as micro finance institutions (MFIs), rural banks and credit cooperatives, which shall on-lend the fund to micro enterprises; and
- c) Provision of guarantees to loans granted by the banks to qualified P3 beneficiaries.

To support administrative and operating expenses of the SB Corp., an amount of not more than ten percent (10%) of the total loans disbursed shall be provided annually to the SB Corp., to be sourced from the earnings of the “P3 Fund”.

SECTION 6. *Features of the “P3 Fund”.* – The “P3 Fund” shall have the following features:

- (a) The components of the “P3 Fund” shall be:
 - (1) Loan fund; and
 - (2) Guarantee fund of not more than twenty-five percent (25%) of the total loan exposure;

- (b) The loanable amount for individual loans, and the interest rate to the conduits and to the end beneficiaries shall be set and regularly reviewed by the Micro, Small and Medium Enterprise Development (MSMED) Council: Provided, That the interest rate shall be lower than the prevailing interest rate charged by the MFIs. The interest earnings shall accrue to the "P3 Fund"; and
- (c) There shall be no collateral requirement from the P3 loan beneficiaries.

SECTION 7. *Policy Oversight Function.* – The MSMED Council shall monitor the utilization and disbursements of the "P3 Fund". It shall submit to the President of the Philippines and to Congress, through the Congressional Oversight Committee on Micro, Small and Medium Enterprise Development (COC-MSMED), a yearly report on the status of the "P3 Fund".

SECTION 8. *Appropriations.* – The amount necessary to carry out the provisions of this Act shall be charged against the appropriations released for the purpose under the General Appropriations Act for the SB Corp. Thereafter, such sums as may be necessary for the continued implementation of this Act shall be included in the annual General Appropriations Act.

SECTION 9. *Implementing Rules and Regulations.* – Within sixty (60) days from the approval of this Act, the DTI, in consultation with the concerned agencies, shall formulate and promulgate the necessary rules and regulations to implement the provisions of this Act. The implementing rules and regulations issued pursuant to this section shall take effect thirty (30) days after its publication in at least two (2) national newspapers of general circulation.

SECTION 10. *Separability Clause.* – If any part or section of this Act is declared unconstitutional, such declaration shall not affect in any manner other parts or sections hereof.

SECTION 11. *Repealing Clause.* – All laws, decrees, proclamations, issuances, or ordinances that are contrary to or inconsistent with the provisions of this Act are hereby amended, repealed or modified accordingly.

SECTION 12. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in any newspaper of general circulation.

Approved,