

Republic of the Philippines  
**HOUSE OF REPRESENTATIVES**  
Quezon City



**18TH CONGRESS**  
First Regular Session  
2121  
HOUSE BILL NO. \_\_\_\_\_

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**Introduced by Representatives Michael L. Romero and  
Enrico A. Pineda**

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### **EXPLANATORY NOTE**

The Small Business Guarantee and Finance Corporation (SBGFC) was created on 24 January 1991 *under Republic Act 6977*, (as amended by *Republic Act 8289*). The Corporation was given a mantle of authority to offer a wide range of financial services, specifically for small and medium enterprises engaged in manufacturing, processing, agribusiness (*except crop level production*) and services (*except trading*). These financial services include among others guarantee, direct and indirect lending, financial leasing, secondary mortgage, venture capital operations and the issuance of debt instruments for compliance with the mandatory allocation provision.

On November 16, 2001; the Small Business Guarantee and Finance Corporation (SBGFC) and the Guarantee Fund for Small and Medium Enterprises (GFSME) were merged through Executive Order 28, and became known as the Small Business Corporation (**SB Corporation**).

Aside from the creation of SBGFC, the law likewise has the following significant provisions:

- 1)** the creation of the Small and Medium Enterprise Development (SMED);
- 2)** the mandatory allocation of credit resources to small enterprises; and
- 3)** the rationalization of government assistance programs and agencies concerned with the development of SMEs. SBGFC commenced its operations on July 16, 1992. It is attached to the Department of Trade and

Industry and is under the policy, program and administrative supervision of the Small and Medium Enterprise Development (SMED) Council.

At the time of the merger, GFSME was a guarantee fund operated independently by a Management Committee and professional staff under the Livelihood Corporation, a corporation attached to the Office of the President of the Philippines. GFSME's services were restricted to offering of guarantee services to participating financial institutions lending to SMEs from the time it started commercial operations in 1984.

This House Bill seeks to create a more effective financial institution better geared to meet the needs of the Small Medium Enterprises (SME) market. With the merger, the National Government became the single biggest stockholder of Small Business Corporation.

Earnest approval of this bill is hereby requested.

**MICHAEL L. ROMERO Ph.D.**

  
**ENRICO A. PINEDA**

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**AN ACT  
FURTHER PROMOTING ENTREPRENEURSHIP BY  
STRENGTHENING, EMPOWERING AND ENHANCING THE  
FINANCING PROGRAMS FOR 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  
(MSMEs)"**

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

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

3       “SEC. 2. *Declaration of Policy.* – Recognizing that MSMEs have the  
4 potential [for] TO GENERATE more employment [generation] and SPUR  
5 economic growth and therefore can help provide a self-sufficient industrial  
6 foundation for the country, it is hereby declared the policy of the State to  
7 promote, support, strengthen and encourage the growth and development of  
8 MSMEs in all productive sectors of the economy particularly rural/agri-  
9 based, MANUFACTURING, FINANCE AND SERVICES enterprises. To this  
10 end, the State shall recognize the specific needs of the MSMEs and shall

1       undertake to promote entrepreneurship, support entrepreneurs, encourage  
2       the establishment of MSMEs and ensure their continuing viability and  
3       growth and thereby attain countryside industrialization by:

4             “x x x.”

5

6       **SECTION 2.** Section 4 of the same Act, as amended, is hereby further  
7       amended to read as follows:

8             “SEC. 4. *Eligibility for Government Assistance.* — To qualify for  
9       assistance, counseling, incentives and promotion under this Act, businesses  
10      falling under the above definition must be:

11             “x x x

12             “[Eligible MSMEs shall be entitled to a share of at least ten percent  
13      (10%) of total procurement value of goods and services supplied to the  
14      Government, its bureaus, offices and agencies annually.] THE NATIONAL  
15      GOVERNMENT, ITS BUREAUS, OFFICES AND AGENCIES SHALL  
16      ALLOCATE AT LEAST TEN PERCENT (10%) OF ALL ITS PROCUREMENT  
17      OPPORTUNITIES FOR GOODS AND SERVICES TO ELIGIBLE MSMEs IN  
18      ACCORDANCE WITH THE PROVISIONS OF REPUBLIC ACT NO. 9184,  
19      OTHERWISE KNOWN AS THE “GOVERNMENT PROCUREMENT REFORM  
20      ACT”, AND ITS IMPLEMENTING RULES AND REGULATIONS.

21             “The [Department of Budget and Management] GOVERNMENT  
22      PROCUREMENT POLICY BOARD (GPPB) shall FORMULATE RULES FOR  
23      THE EFFECTIVE IMPLEMENTATION OF THIS PROVISION AND monitor the  
24      compliance of government agencies on the required procurement for  
25      MSMEs and submit its report to the MSMED Council on a semestral basis  
26      and to the Congress of the Philippines, through its appropriate committees  
27      on a yearly basis.”

28

29       **SECTION 3.** Section 5 of the same Act, as amended, is hereby further  
30       amended to read as follows:

1           “SEC. 5. *Guiding Principles.* — To set the pace for MSME development,  
2           the State shall be guided by the following principles:

3           “x x x

4           “c) *Coordination of government efforts.* Government efforts shall be  
5           coordinated to achieve coherence in objectives. All appropriate offices,  
6           particularly those under the Departments of Trade and Industry,  
7           Finance, Budget and Management, Agriculture, Agrarian Reform,  
8           Environment and Natural Resources, Labor and Employment,  
9           Transportation [and Communications], INFORMATION AND  
10          COMMUNICATIONS TECHNOLOGY, Public Works and Highways,  
11          Science and Technology, Interior and Local Government, and Tourism  
12          as well as the National Economic and Development Authority,  
13          Philippine Information Agency and the *Bangko Sentral ng Pilipinas*,  
14          through their national, regional and provincial offices shall, to the best  
15          of their efforts and in coordination with local government units, provide  
16          the necessary support and assistance to MSMEs. THE DEPARTMENT  
17          OF TRADE AND INDUSTRY SHALL BE THE LEAD AGENCY  
18          THEREFOR.

19           “x x x.”

20

21           **SECTION 4.** Section 6 of the same Act, as amended, is hereby further  
22          amended to read as follows:

23           “SEC. 6. *Micro, Small and Medium Enterprises Development Plan*  
24          (*MSMEDP*). — The President shall approve a six-year micro, small and  
25          medium enterprises development plan prepared by the Department of  
26          Trade and Industry (DTI) which shall form part of the [~~Medium-Term~~]  
27          Philippine Development Plan ([~~MT~~]PDP). It shall be formulated in  
28          consultation with the private sector, validated and updated semestrally.  
29          Such plan shall include a component on a micro credit financing scheme.”

30

31           **SECTION 5.** Section 7 of the same Act, as amended, is hereby further  
32          amended to read as follows:

33           “SEC. 7. *Micro, Small and Medium Enterprise Development (MSMED)*  
34          *Council.* — The existing Small and Medium Enterprise Development

1 Council, which was created by Republic Act No. 6977, as amended by  
2 Republic Act No. 8289 AND REPUBLIC ACT NO. 9501, AND FURTHER  
3 AMENDED BY REPUBLIC ACT NO. 10644, shall be strengthened to  
4 effectively spur the growth and development of MSMEs throughout the  
5 country, and to carry out the policy declared in this Act and shall now be  
6 known as the Micro, Small and Medium Enterprise Development (MSMED)  
7 Council. The Council shall be attached to the Department of Trade and  
8 Industry and shall be constituted within sixty (60) days after the approval  
9 of this Act.

10 "x x x."

11  
12 **SECTION 6.** Section 7-A of the same Act, as amended, is hereby further  
13 amended to read as follows:

14 "SEC. 7-A. *Composition of the Micro, Small and Medium Enterprises*  
15 *Development (MSMED) Council.* — The members of the Council shall be the  
16 following:

17 "(a) The Secretary of Trade and Industry as Chair;

18 "(b) The Secretary of Agriculture;

19 "(c) The Secretary of the Interior and Local Government;

20 "(D) THE SECRETARY OF FINANCE;

21 "[{(d)} (E) Three (3) representatives from the MSME sector, [to represent  
22 Luzon, Visayas and Mindanao, with at least one (1) representative from  
23 the microenterprise sector] TO BE DESIGNATED BY A NATIONAL  
24 ORGANIZATION REPRESENTING AND DOMINATED BY MSMEs; AND

25 "[{(e)} One (1) representative from the women sector designated by the  
26 Philippine Commission on Women];

27 "[{(f)} One (1) representative from the youth sector designated by the  
28 National Youth Commission; and]

29 "[{(g)} (F) The Chairman of the Small Business Corporation.

30 "A. *Advisory Unit.* - There shall be an Advisory Unit to the Council, which  
31 shall consist of the following:

- 1       “(a) The Secretary of Science and Technology;
- 2       “(b) The Governor of the *Bangko Sentral ng Pilipinas*;
- 3       “(c) The President of the Land Bank of the Philippines;
- 4       “(d) The President of the Development Bank of the Philippines;
- 5       “(e) The Director General of the National Economic and Development  
6              Authority;
- 7       “(F) THE EXECUTIVE DIRECTOR OF THE COOPERATIVE  
8              DEVELOPMENT AUTHORITY;
- 9       “(G) A REPRESENTATIVE OF A NATIONAL ORGANIZATION  
10             REPRESENTING AND DOMINATED BY MSMEs;
- 11       “[(f)] (H) One (1) representative from the labor sector, to be nominated  
12             by accredited labor groups;
- 13       “[(g)] (I) A representative from the private banking sector to serve  
14             [alternatively] ALTERNATELY between the Chamber of Thrift Banks  
15             and the Rural Banker's Association of the Philippines (RBAP);
- 16       “[(h)] (J) A representative of the microfinance nongovernment  
17             organizations (NGOs), DESIGNATED BY THE MICROFINANCE NGO  
18             REGULATORY COUNCIL;
- 19       “[(i)] (K) A representative of the University of the Philippines - Institute  
20             for Small Scale Industries (UP-ISSI); and
- 21       “[(j)] (L) The President of the Credit Information Corporation;
- 22       “(M) ONE (1) REPRESENTATIVE FROM THE WOMEN SECTOR  
23             DESIGNATED BY THE PHILIPPINE COMMISSION ON WOMEN;
- 24       “(N) ONE (1) REPRESENTATIVE FROM THE YOUTH SECTOR  
25             DESIGNATED BY THE NATIONAL YOUTH COMMISSION; AND
- 26       “(O) A REPRESENTATIVE FROM NONSTOCK SAVINGS AND LOAN  
27             ASSOCIATIONS DESIGNATED BY THE ALLIANCE OF NONSTOCK  
28             SAVINGS AND LOAN INSTITUTIONS, INC. (ANSLI).

29       “x x x.”

1           **SECTION 7.** Section 7-B of the same Act, as amended, is hereby further  
2 amended to read as follows:

3           “*SEC. 7-B. Powers and Functions.* – **A.** The MSMED Council shall  
4 have the following powers, duties and functions:

5           “x x x;

6           “h) To promote the productivity and viability of MSMEs IN DTI’S  
7           TOP PRIORITY INDUSTRIES FOR DEVELOPMENT by way of  
8           directing and/or assisting relevant government agencies and  
9           institutions at the national, regional and provincial levels  
10           towards the:

11           “x x x;

12           “12) Through appropriate government agencies:

13           “x x x;

14           “f) Set-up new MSME **NEGOSYO** centers and revitalize  
15           already established MSME **NEGOSYO** centers to provide  
16           MSMEs in the regions easier access to services such as, but  
17           not limited to, the following:

18           “x x x.”

19           **B. Additional Functions of the MSMED Council.** – The MSMED  
20           Council shall have the following additional functions:

21           “(a) Coordinating and Oversight Body for the **MSME** Negosyo Center.  
22           – The MSMED Council, through the DTI, shall act as the coordinating and  
23           supervising body for all the agencies involved in the establishment and  
24           operation of the **MSME** Negosyo Centers. Further, the MSMED Council  
25           shall monitor and assess the progress of the **MSME** Negosyo Centers,  
26           which shall be included in its annual report submitted to the Congress.

27           “(b) Provision of a Compliance Guide. – For each rule or group of  
28           related rules issued by any government agency for compliance by MSMEs,  
29           the Council shall publish compliance guidelines which shall be written in  
30           plain language or in the local dialect, if necessary.

1            "The Council shall prepare separate compliance guides covering  
2 groups or classes of similarly affected MSMEs and shall cooperate with  
3 industry associations to develop and distribute such compliance guides.  
4 The publication of each compliance guide shall include the posting of the  
5 guide in an easily identified location on the website of the agency, and  
6 distribution of the guide to known industry contacts, such as small  
7 entities, associations or industry leaders affected by the rule. The issuing  
8 government agency shall publish and disseminate the compliance rules  
9 within ninety (90) days from the date of issuance.

10            "c) Conduct of Research on Women Entrepreneurship. – The Council  
11 shall conduct research to support women entrepreneurship including, but  
12 not limited to entrepreneurial behavior, barriers, participation and  
13 cessation rates, discriminatory practices and contribution to the national  
14 economy and growth.

15            "d) Policy Formulation on Women Entrepreneurship. – The Council  
16 shall provide policy direction towards recognizing women's propensity in  
17 doing business as well as establish linkages that will enable more  
18 opportunities for women to engage in entrepreneurship.

19            "e) Development of Entrepreneurial Education and Training. – The  
20 MSMED Council shall develop, in coordination with the Department of  
21 Education, TESDA and CHED, a course curriculum or training program  
22 in entrepreneurship that will promote entrepreneurial culture and  
23 competence. Entrepreneurship shall be integrated in the curriculum of  
24 educational and training institutions in all levels."

25  
26            **SECTION 8.** Section 11-A of the same Act, as amended, is hereby further  
27 amended to read as follows:

28            "SEC. 11-A. *Composition of the Board of Directors and its Powers.* —  
29 The SB Corporation [corporate powers shall be vested on] SHALL HAVE a  
30 Board of Directors composed of [eleven (11)] THIRTEEN (13) members  
31 which shall include the following:

- 1        "a) The Secretary of Trade and Industry;
- 2        "b) The Secretary of Finance;
- 3        "C) THE PRESIDENT OF THE GOVERNMENT SERVICE INSURANCE
- 4        SYSTEM (GSIS);
- 5        "D) THE PRESIDENT OF THE SOCIAL SECURITY SYSTEM (SSS);
- 6        "[c] E) A private sector representative to be appointed by the President
- 7        OF THE PHILIPPINES upon the recommendation of the MSMED
- 8        Council;
- 9        "[d] F) Seven (7) representatives of the SB Corporation common stock
- 10      shareholders who shall be elected based on proportional
- 11      distribution, in accordance with Section 24 of the Corporation
- 12      Code; and
- 13      "[e] G) The president of the SB Corporation as *ex-officio* member and
- 14      to serve as vice chairman of the Board.

15      "The President shall appoint the chairman of the Board from among

16      its members.

17      "All members of the Board so appointed, except for the *ex-officio*

18      members, shall serve for a term of three (3) years [~~without reappointment~~,]

19      AND MAY BE REAPPOINTED TO ANOTHER TERM UNLESS EARLIER

20      REVOKED. IF THE TERM OF THE INCUMBENT MEMBER HAS EXPIRED,

21      THE MEMBER SHALL CONTINUE TO FUNCTION IN A HOLDOVER

22      CAPACITY UNTIL A REPLACEMENT HAS BEEN APPOINTED AND

23      QUALIFIED. [The]ANY person [se] appointed to replace a member who has

24      resigned, died, or been removed for cause shall serve only for the unexpired

25      portion of the term.

26      "The Board of Directors shall have, among others, the following

27      specific powers and authorities:

28      "x x x; and

29      "f) [~~Notwithstanding the provisions of Republic Act No. 6758 and~~

30      ~~Compensation Circular No. 10, Series of 1989 issued by the~~

31      ~~Department of Budget and Management, the Board shall have the~~

1 authority to p]Provide for the organizational structure, [and]  
2 staffing pattern [of SB Corporation and to extend to the employees  
3 and personnel thereof salaries, allowances and fringe benefits  
4 similar to those extended to and currently enjoyed by employees  
5 and personnel of other government financial institution."] AND  
6 COMPENSATION OF EMPLOYEES AND PERSONNEL OF THE SB  
7 CORPORATION, FOR SUBMISSION TO THE GOVERNANCE  
8 COMMISSION FOR GOCCs."

9

10 **SECTION 9.** Section 11-B of the same Act, as amended, is hereby further  
11 amended, to read as follows:

12 "SEC. 11-B. *Corporate Structure and Powers.* — **A.** The SB  
13 Corporation shall:

14 "x x x.

15 "B. For this purpose, the SB Corporation [subject to compliance with  
16 the rules and regulations to be issued by the *Bangko Sentral ng Pilipinas*  
17 (*BSP*) and the Securities and Exchange Commission,] shall have the  
18 following functions and duties:

19 "a) Source and adopt development initiatives for globally competitive  
20 MSMES in finance and business technologies;

21 "b) [T~~e~~] [e] Extend all forms of financial assistance, EXCEPT GRANTS  
22 AND SUBSIDIES, to eligible MSMEs, AND NOT TO PRECLUDE RETAIL  
23 LENDING IN AREAS WHERE PRIVATE BANKS ARE NOT ABLE TO  
24 SERVE, SUBJECT TO CONSULTATION WITH THE PRIVATE BANKS; [SB  
25 Corporation may also engage in wholesale lending. The SB Corporation  
26 shall be given two (2) years from the effectivity of this Act to comply with  
27 this requirement;]

28 "c) Guarantee loans obtained by qualified MSMEs under such terms  
29 and conditions adopted by the SB Corporation Board of Directors, AS  
30 WELL AS ESTABLISH A GUARANTEE SYSTEM FOR DISTRESSED  
31 ENTERPRISES AS INSURANCE AGAINST EXTRAORDINARY DISASTERS;

1           “x x x;

2           “f) Apply for, receive and accept grants and donations from sources  
3           within and outside the country; [and]

4           “g) Hold, own, purchase, acquire, sell, mortgage, dispose or otherwise  
5           invest or re-invest in stocks, bonds, treasury bills, debentures, securities  
6           and similar forms of indebtedness of the government, its agencies and  
7           instrumentalities or any government financial institution [.]; AND

8           “H) SUBMIT AN ANNUAL REPORT TO THE MSMED COUNCIL, THE  
9           CONGRESS OF THE PHILIPPINES AND THE GOVERNANCE  
10           COMMISSION FOR GOCCs ON THE PERFORMANCE AND FINANCIAL  
11           CONDITION OF THE CORPORATION.

12           THE SB CORPORATION SHALL BE EXEMPT FROM SECURING  
13           PRIOR BSP AUTHORIZATION FOR ENGAGING IN QUASI-BANKING  
14           ACTIVITIES AND SHALL NOT BE SUBJECT TO BSP SUPERVISION AND  
15           REGULATION FOR SUCH ACTIVITIES.

16

17           **SECTION 10.** A new sub-section is hereby inserted after Section 11-B of  
18           the same Act, as amended, and numbered as Section 11-C to read as follows:

19           “SEC. 11-C. STRATEGIC MANAGEMENT OF THE SB CORPORATION. -  
20           THE BOARD OF THE SB CORPORATION, THROUGH ITS CHAIRMAN,  
21           SHALL BE FULLY RESPONSIBLE AND ACCOUNTABLE FOR THE  
22           PERFORMANCE OF THE CORPORATION’S MANDATE. TO ENSURE  
23           THIS, THE BOARD SHALL BE CONSTITUTED AS A MANAGING BOARD,  
24           LED BY ITS CHAIRMAN, TO CONCEPTUALIZE THE STRATEGIC PLANS  
25           AND POLICIES OF THE CORPORATION.

26           “THE SB CORPORATION SHALL ADOPT A BALANCED SCORECARD  
27           APPROACH, SUBJECT TO THE REVIEW AND APPROVAL OF THE  
28           GOVERNANCE COMMISSION FOR GOCCs, IN ITS STRATEGIC  
29           MANAGEMENT TO ENABLE IT TO MANAGE ITS FINANCIAL  
30           PERFORMANCE WHILE PURSUING THEIR PUBLIC POLICY

1 OBJECTIVES OF SUPPORTING MICRO, SMALL AND MEDIUM  
2 ENTERPRISES DEVELOPMENT."

3 **SECTION 11.** Section 12 of the same Act, as amended, is hereby further  
4 amended to read as follows:

5 "SEC. 12. *Capitalization and Funding of the SB Corporation.* — The SB  
6 Corporation shall have an authorized capital stock of Ten billion pesos  
7 (P10,000,000,000.00). The initial capital of One billion pesos  
8 (P1,000,000,000.00) shall be established from a pool of funds to be  
9 contributed in the form of equity investments in common stock by the  
10 Land Bank of the Philippines (LBP), the Development Bank of the  
11 Philippines (DBP), in the amount of Two hundred million pesos  
12 (P200,000,000.00) each. The Social Security System (SSS) and the  
13 Government Service Insurance System (GSIS) shall also set aside Two  
14 hundred million pesos (P200,000,000.00) each for the SB Corporation.  
15 Authorized capital stock of the [s]Small [b]Business [c]Corporation shall  
16 be divided into 80,000,000 common shares and 20,000,000 preferred  
17 shares with a par value of One hundred pesos (P100.00) per share:  
18 *Provided*, That the common shares which have been issued, including  
19 those issued against the assets of the KKK Guaranty Fund consolidated  
20 under the [s]Small [b]Business [c]Corporation by virtue of Executive  
21 Order No. 233, Series of 2000 and Executive Order No. 19, Series of 2001  
22 and including those already subscribed, shall form part of the  
23 capitalization of the corporation: *Provided, further*, That holders of  
24 preferred shares issued under Republic Act No. 6977, as amended, shall  
25 have the option to convert the same into common shares. Additional  
26 equity funding shall come from trust placements of excess and unused  
27 funds of existing government agencies, bilateral and multilateral official  
28 development assistance funds, subscriptions from government owned or  
29 controlled corporations AND THE NATIONAL GOVERNMENT THROUGH  
30 THE DEPARTMENT OF BUDGET AND MANAGEMENT (DBM), and  
31 investments of private financial institutions and corporations: *Provided,*

1                    *finally*, That any investment from the private sector shall only be in the  
2                    form of preferred shares.

3                    THE NATIONAL GOVERNMENT SHALL PROVIDE FOR THE FULL  
4                    CAPITALIZATION OF THE SB CORPORATION WITHIN A PERIOD OF  
5                    FIVE (5) YEARS FROM THE APPROVAL OF THIS ACT.

6                    “[~~To allow for capital build up, SB Corporation shall be given a five~~  
7                    ~~(5) year grace period on dividend commitments beginning on the date of~~  
8                    ~~effectivity of this amendment. Thereafter, it]~~ THE SB CORPORATION  
9                    may [only] declare as dividend not more than thirty percent (30%) of its  
10                  net income and the rest withheld as retained earnings.”

11  
12                  **SECTION 12.** Section 13 of the same Act, as amended, is hereby deleted.

13                  [~~SEC. 13. The SB Corporation shall be subject to the supervision~~  
14                  ~~and examination of the Bangko Sentral ng Pilipinas taking into~~  
15                  ~~consideration its developmental objectives.”]~~

16  
17                  **SECTION 13.** Section 14 of the same Act, as amended, is hereby  
18                  renumbered as Section 13, and further amended to read as follows:

19                  “SEC. [14] 13. *Venture Capital and Micro Finance Trust Fund.* — The  
20                  SB Corporation may set aside an amount of money to encourage the  
21                  setting up of a venture capital and micro finance trust fund for the purpose  
22                  of promoting business opportunities available to MSME sector. The  
23                  Venture Capital Fund shall be used mainly for venture capital finance  
24                  especially in technology-oriented industries. The micro finance trust fund  
25                  shall be used to provide collateral-free fixed and working capital loans to  
26                  micro and small enterprises run by those emerging out of poverty. A SEED  
27                  AMOUNT OF AT LEAST TEN PERCENT (10%) OF THE ADDITIONAL  
28                  EQUITY CONTRIBUTION OF THE NATIONAL GOVERNMENT TO THE  
29                  CAPITALIZATION OF THE SMALL BUSINESS CORPORATION BUT NOT  
30                  MORE THAN FIVE HUNDRED MILLION PESOS (P500,000,000.00) SHALL

1 BE SET ASIDE TO FUND THE VENTURE CAPITAL AND MICRO FINANCE  
2 TRUST FUND.”  
3

4 **SECTION 14.** Section 15 of the same Act, as amended, is hereby  
5 renumbered as Section 14, and further amended to read as follows:

6 “SEC. [15] 14. *Mandatory Allocation of Credit Resources to Micro,*  
7 *Small and Medium Enterprises.* — For a period of ANOTHER ten (10) years  
8 from the date of effectivity of this amendatory Act, all lending institutions  
9 as defined under *Bangko Sentral ng Pilipinas* rules, whether public or  
10 private, shall set aside at least eight percent (8%) for micro and small  
11 enterprises and at least two percent (2%) for medium enterprises of their  
12 total loan portfolio based on their balance sheet as of the end of the  
13 previous quarter, and make it available for MSME credit as herein  
14 contemplated.

15 “Compliance of this provision shall be:

16 “a) actual extension of loans to eligible MSMEs; or

17 “x x x; or

18 “f) subscribe/purchase of liability instruments as may be offered by  
19 the SB Corporation. THE SAME SHALL NOT BE DEEMED AS QUASI-  
20 BANKING OPERATIONS, AND SHALL NOT REQUIRE A QUASI-BANKING  
21 LICENSE FROM THE BSP; OR

22 “G) LOANS TO MSME VALUE CHAIN ACTORS WHO ALLOW MSMEs  
23 TO PARTICIPATE IN ORGANIZED OR FORMAL VALUE CHAINS. VALUE  
24 CHAIN ACTORS INCLUDE, AMONG OTHERS, TRADERS, SUPPLIERS,  
25 PROCESSORS, AGGREGATORS WHO CONDUCT LINKED SEQUENCE  
26 OF VALUE ADDING ACTIVITIES INVOLVED IN BRINGING A PRODUCT  
27 TO FINAL CONSUMERS.

28 “The *Bangko Sentral ng Pilipinas*, IN CONSULTATION WITH THE  
29 MSMED COUNCIL AND THE SECRETARY OF TRADE AND INDUSTRY,  
30 shall formulate rules for the effective implementation of this provision:

1       Provided, That the purchase of government notes, securities and other  
2       negotiable instruments shall not be deemed compliance with the  
3       foregoing provisions: *Provided, further,* That the *Bangko Sentral ng*  
4       *Pilipinas, IN CONSULTATION WITH ALL STAKEHOLDERS,* shall  
5       establish [an] A MEANINGFUL incentive [program] SYSTEM to encourage  
6       [lending to micro, small and medium industries beyond the mandatory  
7       credit allocation to said enterprises] COMPLIANCE WITH THIS  
8       PROVISION, such as possible reduction in bank's reserve requirement[.]:  
9       ~~PROVIDED, FINALLY, THAT THE BANGKO SENTRAL NG PILIPINAS~~  
10      SHALL ALIGN ITS REGULATIONS ON THE PENALTIES FOR BANKS AND  
11      OTHER ENTITIES, FOR NONCOMPLIANCE WITH THE PROVISION FOR  
12      MANDATORY LENDING."

13       The MSMED Council shall set up the appropriate systems to  
14       monitor all loan applications of MSMEs in order to account for the  
15       absorptive capacity of the MSME sector. EACH LENDING INSTITUTION  
16       SHALL DESIGNATE A CHIEF COMPLIANCE OFFICER WHO WILL  
17       PREPARE AND SIGN THE REPORT ON COMPLIANCE AND  
18       NONCOMPLIANCE WITH THE MANDATORY CREDIT ALLOCATION, FOR  
19       SUBMISSION TO THE *BANGKO SENTRAL NG PILIPINAS*. The *Bangko*  
20       *Sentral ng Pilipinas* shall furnish the MSMED Council on a quarterly  
21       basis comprehensive reports on the banks' compliance[,] AND  
22       noncompliance [~~and penalties of~~] WITH the above provisions on the  
23       mandatory credit allocation for MSMEs[.], AND SHALL SUBMIT AN  
24       ANNUAL REPORT, SIGNED BY AN OFFICER WITH THE RANK OF AT  
25       LEAST A MANAGING DIRECTOR, ON THE AMOUNTS OF THE  
26       PENALTIES FOR NONCOMPLIANCE WITH THE MANDATORY LENDING  
27       PROVISION OF THIS ACT.

28       Lending institutions which are not qualified to acquire or hold  
29       lands of the public domain in the Philippines shall be permitted to bid  
30       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 rights under applicable laws."

**SECTION 15.** Sections 16, 17 and 18 of the same Act, as amended, are hereby renumbered as Sections 15, 16 and 17, respectively, to read as follows:

"SEC. [16] 15. *Micro, Small, and Medium Enterprise Week.* — x x x"

"SEC. [17] 16. *Presidential Awards for Outstanding MSME.* — x x x"

"SEC. [18] 17. *Congressional Oversight Committee.* — x x x"

**SECTION 16.** Section 19 of the same Act, as amended, is hereby renumbered as Section 18, and further amended, to read as follows:

"SEC. [19] 18. *Penal Clause.* - The *Bangko Sentral ng Pilipinas* shall impose administrative sanctions and other penalties on the lending institutions for non[-]compliance with THE provisions of this Act. ~~[including a fine of not less than five hundred thousand pesos (P500,000.00),]~~ THE MINIMUM PENALTY FOR NONCOMPLIANCE IS SET AT FIVE HUNDRED THOUSAND PESOS (P500,000.00) AND THE MAXIMUM PENALTY FIVE MILLION PESOS (P5,000,000.00), IN PROPORTION TO THE BANK'S OR OTHER ENTITY'S LEVEL OF COMPLIANCE: *PROVIDED*, THAT A SMALLER PENALTY IS SET AT ONE HUNDRED THOUSAND PESOS (P100,000.00) FOR SMALLER BANKS' NONCOMPLIANCE. AS USED IN THIS ACT, SMALL BANKS SHALL BE DEFINED AS BANKS WITH CAPITALIZATION OF NOT MORE THAN FIVE HUNDRED MILLION PESOS (P500,000,000.00): *PROVIDED, FURTHER*, THAT THE DEFINITION OF SMALL BANKS SHALL BE REGULARLY

1           REVIEWED BY THE MSMED COUNCIL: PROVIDED, FINALLY, THAT THE  
2           AFOREMENTIONED PENALTIES SHALL NOT BE IMPOSED ON NEWLY-  
3           ESTABLISHED DOMESTIC AND FOREIGN BANKS WITHIN ONE (1) YEAR  
4           FROM THE DATE THEY COMMENCED THEIR OPERATIONS.”

5           “Penalties on noncompliance shall be directed to the development of  
6           the MSME sector. Ninety percent (90%) of the penalties collected should  
7           go to the MSMED Council Fund, while the remaining ten percent (10%)  
8           should be given to the BSP to cover for administrative expenses.

9           “THE MSMED COUNCIL SHALL SUBMIT TO THE CONGRESS OF THE  
10          PHILIPPINES AN ANNUAL REPORT ON THE STATUS OF THE PENALTIES  
11          REMITTED AND HOW THE SAME WERE USED OR ARE BEING USED IN  
12          RELATION TO THE IMPLEMENTATION OF SERVICES TO MSMEs IN THE  
13          AREAS OF CAPACITY BUILDING, TECHNOLOGY INFORMATION,  
14          COLLECTION AND DISSEMINATION, AND OTHER INTERVENTIONS FOR  
15          MSME DEVELOPMENT, GROWTH AND SUSTAINABILITY.”

16  
17          **SECTION 17. IMPLEMENTING RULES AND REGULATIONS.** — The  
18          Department of Trade and Industry, through the Bureau of Micro, Small and  
19          Medium [Business] ENTERPRISE Development and in consultation with the  
20          *Bangko Sentral ng Pilipinas* and other concerned government agencies,  
21          nongovernment organizations and private sector agencies involved in the  
22          promotion of MSMEs, shall formulate the implementing rules and regulations  
23          (IRR) necessary to implement the provisions of this Act within ninety (90) days  
24          from the approval of this Act:

25           *Provided*, That the IRR shall be reviewed yearly:

26           *Provided, further*, That the IRR shall be approved by the MSMED Council.  
27          The IRR issued pursuant to this section shall take effect thirty (30) days after its  
28          publication in a national newspaper of general circulation.

29  
30          **SECTION 18. SEPARABILITY CLAUSE.** — The provisions of this Act are  
31          hereby declared to be separable. If any provision of this Act shall be held

1 unconstitutional, the remainder of the Act not otherwise affected shall remain in  
2 full force and effect.

3

4       **SECTION 19. REPEALING CLAUSE.** — All laws, executive orders, rules  
5 and regulations, or parts thereof inconsistent herewith are hereby repealed or  
6 modified accordingly.

7

8       **SECTION 20. EFFECTIVITY** — This Act shall take effect within fifteen  
9 (15) days from its publication in the Official Gazette or in a newspaper of general  
10 circulation.

11

12       Approved,