



SEVENTEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*Third Regular Session* )

19 JAN 21 P6:35

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S E N A T E  
S. B. No. 2164

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Introduced by Senator Aquilino "Koko" Pimentel III

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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)” AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Since its first enactment in 1991, the Magna Carta for MSMEs has been the backbone of the current national policy to promote, support, strengthen, and encourage the growth and development of micro, small and medium enterprises (MSMEs).

The Duterte Administration puts a high priority on the development of the MSME sector considering that, based on 2016 data<sup>1</sup>, MSMEs account for 99.57% of total business establishments in the Philippines. Of the total number of MSMEs, 89.63% are micro

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<sup>1</sup> 2016 MSME Statistics available at <https://www.dti.gov.ph/businesses/msmes/msme-resources/msme-statistics>; last accessed on January 16, 2019.

enterprises, 9.5% are small enterprises, and 0.44% are medium enterprises.

Despite the sector's importance to the economy, our MSMEs continue to struggle with lack of access to financing and related forms of support. Thus, further strengthening the Magna Carta for MSMEs is a necessary policy response to this real need for governmental support.

The salient features of this bill, among others, are the following:

- Allocating 10% of all public procurement opportunities to eligible MSMEs;
- Extension of mandatory lending provisions to MSMEs for another 10 years;
- Increasing the capitalization of SB Corporation and strengthening its guarantee program; and
- Providing for bankruptcy preventive measures in the form of a guarantee fund for distressed enterprises.

It is hoped that the passage of this bill will reduce inequality and expand economic opportunities for our MSMEs, consistent with the Philippine Development Plan 2017-2022.

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



AQUILINO "KOKO" PIMENTEL III

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"MAGNA CARTA FOR MICRO, SMALL AND MEDIUM  
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*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  
2 hereby further amended to read as follows:  
3

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

1 encourage the establishment of MSMEs and ensure their  
2 continuing viability and growth and thereby attain countryside  
3 industrialization by:

4           x x x

5  
6       **SEC. 2.** Section 4 of the same Act, as amended, is hereby further  
7 amended to read as follows:

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

12           x x x

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

27  
28       The [Department of Budget and Management]  
29 **GOVERNMENT PROCUREMENT POLICY BOARD  
30 (GPPB)** shall **FORMULATE RULES FOR THE  
31 EFFECTIVE IMPLEMENTATION OF THIS PROVISION  
32 AND** monitor the compliance of government agencies on the  
33 required procurement for MSMEs and submit its report to the  
34 MSMED Council on a semestral basis and to the Congress of  
35 the Philippines, through its appropriate committees on a yearly  
36 basis.

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

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

XXX

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

XXX

**SEC. 4.** Section 6 of the same Act is amended to read as follows:

*SEC. 6. Micro, Small and Medium Enterprises Development Plan (MSMEDP).* – The President shall approve a six-year micro, small and medium enterprises development plan prepared by the Department of Trade and Industry (DTI) which shall form part of the [Medium Term] Philippine Development Plan ([MT]PDP). It

1 shall be formulated in consultation with the private sector, validated  
2 and updated semestrally. Such plan shall include a component on a  
3 micro credit financing scheme.

5 **SEC. 5.** Section 7 of the same Act, as amended, is hereby further  
6 amended to read as follows:

8       **SEC. 7. Micro, Small and Medium Enterprise**  
9 *Development (MSMED) Council.* – The existing Small and  
10 Medium Enterprise Development Council, which was created  
11 by Republic Act No. 6977, as amended by Republic Act No.  
**12 8289 AND REPUBLIC ACT NO. 9501, AND FURTHER**  
**13 AMENDED BY REPUBLIC ACT NO. 10644,** shall be  
14 strengthened to effectively spur the growth and development of  
15 MSMEs throughout the country, and to carry out the policy  
16 declared in this Act and shall now be known as the Micro,  
17 Small and Medium Enterprise Development (MSMED)  
18 Council. The Council shall be attached to the Department of  
19 Trade and Industry and shall be constituted within sixty (60)  
20 days after the approval of this Act.

21                   x x x

24 **SEC. 6.** Section 7-A of the same Act, as amended, is hereby  
25 further amended to read as follows:

27       **SEC. 7-A. Composition of the Micro, Small and Medium**  
28 *Enterprises Development (MSMED) Council.* – The members  
29 of the Council shall be the following:

- 30       (a) The Secretary of Trade and Industry as Chair;  
31       (b) The Secretary of Agriculture;  
32       (c) The Secretary of the Interior and Local Government;  
33       **(D) THE SECRETARY OF FINANCE;**  
34       [(d)] **(E)** Three (3) representatives from the MSME sector,  
35 [to represent Luzon, Visayas and Mindanao, with at least one  
36 (1) representative from the microenterprise sector] **TO BE**

1           **DESIGNATED BY A NATIONAL ORGANIZATION**  
2           **REPRESENTING AND DOMINATED BY MSMEs; AND**

3           [(e) One (1) representative from the women sector  
4           designated by the Philippine Commission on Women;]  
5           [(f) One (1) representative from the youth sector designated  
6           by the National Youth Commission; and]

7           [(g)] **(F)** The Chairman of THE Small Business Corporation.

9           A. *Advisory Unit.* – There shall be an Advisory Unit to the  
10          Council, which shall consist of the following:

11          (a) The Secretary of Science and Technology;  
12          (b) The Governor of the *Bangko Sentral ng Pilipinas*;  
13          (c) The President of the Land Bank of the Philippines;  
14          (d) The President of the Development Bank of the  
15          Philippines;

16          (e) The Director General of the National Economic and  
17          Development Authority;

18           **(F) THE EXECUTIVE DIRECTOR OF THE**  
19           **COOPERATIVE DEVELOPMENT AUTHORITY;**

20           **(G) A REPRESENTATIVE OF A NATIONAL**  
21           **ORGANIZATION REPRESENTING AND DOMINATED**  
22           **BY MSMEs;**

23          [(f)] **(H)** One (1) representative from the labor sector, to be  
24          nominated by accredited labor groups;

25          [(g)] **(I)** A representative from the private banking sector to  
26          serve [alternatively] **ALTERNATELY** between the chamber of  
27          thrift banks, and the Rural Banker's Association of the  
28          Philippines (RBAP);

29          [(h)] **(J)** A representative of the microfinance  
30          nongovernment organizations (NGOs), **DESIGNATED BY**  
31          **THE MICROFINANCE NGO REGULATORY COUNCIL;**

32          [(i)] **(K)** A representative of the University of the  
33          Philippines-Institute for Small Scale Industries (UP-ISSI);  
34          [and]

35          [(j)] **(L)** The President of the Credit Information  
36          Corporation[.];

1                   **(M)ONE (1) REPRESENTATIVE FROM THE  
2 WOMEN SECTOR DESIGNATED BY THE PHILIPPINE  
3 COMMISSION ON WOMEN; AND**

4                   **(N) ONE (1) REPRESENTATIVE FROM THE YOUTH  
5 SECTOR DESIGNATED BY THE NATIONAL YOUTH  
6 COMMISSION.**

7                   **(O) A REPRESENTATIVE FROM NONSTOCK  
8 SAVINGS AND LOAN ASSOCIATIONS DESIGNATED  
9 BY THE ALLIANCE OF NON-STOCK SAVINGS AND  
10 LOAN INSTITUTIONS, INC. (ANSLI).**

11                   x x x

12                  **SEC. 7.** Section 7-B of the same Act, as amended, is hereby  
13 further amended to read as follows:

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

16                   x x x;

17                  h) To promote the productivity and viability of MSMEs **IN**  
18 **DTI'S TOP PRIORITY INDUSTRIES FOR**  
19 **DEVELOPMENT** by way of directing and/or assisting  
20 relevant government agencies and institutions at the national,  
21 regional and provincial levels towards the:

22                   x x x

23                  12) Through appropriate government agencies:

24                   x x x

25                  f) Set-up new MSME **NEGOSYO** centers and revitalize  
26 already established MSME **NEGOSYO** centers to provide  
27 MSMEs in the regions easier access to services such as, but not  
28 limited to, the following:

1           x x x  
2

3           **B. Additional Functions of the MSMED Council. – THE**  
4           MSMED Council shall have the following additional functions:  
5

6           (a) Coordinating and Oversight Body for the **MSME**  
7           Negosyo Center. – The MSMED Council, through the DTI,  
8           shall act as the coordinating and supervising body for all the  
9           agencies involved in the establishment and operation of the  
10          **MSME** Negosyo Centers. Further, the MSMED Council shall  
11          monitor and assess the progress of the Negosyo Centers, which  
12          shall be included in its annual report submitted to the Congress.  
13

14          (b) Provision of a Compliance Guide. – For each rule or  
15          group of related rules issued by any government agency for  
16          compliance by MSMEs, the Council shall publish compliance  
17          guidelines which shall be written in plain language or in the  
18          local dialect, if necessary.  
19

20          The Council shall prepare separate compliance guides  
21          covering groups or classes of similarly affected MSMEs and  
22          shall cooperate with industry associations to develop and  
23          distribute such compliance guides. The publication of each  
24          compliance guide shall include the posting of the guide in an  
25          easily identified location on the website of the agency, and  
26          distribution of the guide to known industry contacts, such as  
27          small entities, associations or industry leaders affected by the  
28          rule. The issuing government agency shall publish and  
29          disseminate the compliance rules within ninety (90) days from  
30          the date of issuance.  
31

32          (c) Conduct of Research on Women Entrepreneurship. – The  
33          Council shall conduct research to support women  
34          entrepreneurship including, but not limited to entrepreneurial  
35          behavior, barriers, participation and cessation rates,  
36          discriminatory practices and contribution to the national  
37          economy and growth.

1                             (d) Policy Formulation on Women Entrepreneurship. – The  
2 Council shall provide policy direction towards recognizing  
3 women's propensity in doing business as well as establish  
4 linkages that will enable more opportunities for women to  
5 engage in entrepreneurship.

6  
7                             (e) Development of Entrepreneurial Education and Training.  
8 – The MSMED Council shall develop, in coordination with the  
9 Department of Education, TESDA and CHED, a course  
10 curriculum or training program in entrepreneurship that will  
11 promote entrepreneurial culture and competence.  
12 Entrepreneurship shall be integrated in the curriculum of  
13 educational and training institutions in all levels.”

14  
15                         **SEC. 8.** Section 11-A of the same Act, as amended, is hereby  
16 further amended to read as follows:

17  
18                         SEC. 11-A. Composition of the Board of Directors and  
19 its Powers. – The [SB Corporation] corporate powers **OF SB**  
20 **CORPORATION** shall be vested on a Board of Directors  
21 composed of [eleven (11)] **THIRTEEN (13)** members which  
22 shall include the following:

- 23  
24                         a) The Secretary of Trade and Industry;  
25                         b) The Secretary of Finance;

26                         **C) THE PRESIDENT OF THE GOVERNMENT  
27 SERVICE INSURANCE SYSTEM (GSIS);**

28                         **D) THE PRESIDENT OF THE SOCIAL  
29 SECURITY SYSTEM (SSS);**

30                         [c)] **E)** A private sector representative to be appointed by  
31 the President upon the recommendation of the MSMED  
32 Council;

33                         [d)] **F)** Seven (7) representatives of the SB Corporation  
34 common stock shareholders who shall be elected based on  
35 proportional distribution, in accordance with Section 24 of  
36 the Corporation Code; and

1           [e] G) The president of the SB Corporation as *ex-officio*  
2 member and to serve as vice chairman of the Board.

3  
4           The President shall appoint the chairman of the Board  
5 from among its members.  
6

7           All members of the Board so appointed, except for the  
8 *ex-officio* members, shall serve for a term of three (3) years  
9 [without] **WITH ONE (1) reappointment. AN**  
10 **INCUMBENT DIRECTOR WHOSE TERM HAS**  
11 **EXPIRED SHALL CONTINUE TO HOLD OFFICE**  
12 **UNTIL A SUCCESSOR IS APPOINTED.** The person so  
13 appointed to replace a member who has resigned, died, or  
14 been removed for cause shall serve only for the unexpired  
15 portion of the term.

16  
17           The Board of Directors shall have, among others, the  
18 following specific powers and authorities:  
19

20           x x x; and  
21

22           f) [Notwithstanding the provisions of Republic Act No.  
23 6758 and Compensation Circular No. 10, Series of 1989  
24 issued by the Department of Budget and Management, the  
25 Board shall have the authority to p]Provide for the  
26 organizational structure, [and] staffing pattern [of SB  
27 Corporation and to extend to the employees and personnel  
28 thereof salaries, allowances and fringe benefits similar to  
29 those extended to and currently enjoyed by employees and  
30 personnel of other government financial institution.] **AND**  
31 **COMPENSATION OF EMPLOYEES AND**  
32 **PERSONNEL OF SB CORPORATION, FOR**  
33 **SUBMISSION TO THE GOVERNANCE**  
34 **COMMISSION FOR GOCCs.**

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

4           **SEC. 11-B. *Corporate Structure and Powers.* –**

5           **A.** The SB Corporation shall:

7           x x x.

9           **B.** For this purpose, the SB Corporation [subject to  
10 compliance with the rules and regulations to be issued by the  
11 *Bangko Sentral ng Pilipinas (BSP)* and the Securities and  
12 Exchange Commission,] shall have the following functions and  
13 duties:

14           a) Source and adopt development initiatives for globally  
15 competitive MSMES in finance and business technologies;

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

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

30           x x x

31           f) Apply for, receive and accept grants and donations from  
32 sources within and outside the country; [and]

33           g) Hold, own, purchase, acquire, sell, mortgage, dispose or  
34 otherwise invest or re-invest in stocks, bonds, treasury bills,  
35 debentures, securities and similar forms of indebtedness of the  
36 government, its agencies and instrumentalities or any  
37 government financial institution[.]; **AND**

1                   **H)SUBMIT AN ANNUAL REPORT TO THE MSMED**  
2                   **COUNCIL, THE CONGRESS OF THE PHILIPPINES**  
3                   **AND THE GOVERNANCE COMMISSION FOR GOCCS**  
4                   **ON THE PERFORMANCE AND FINANCIAL**  
5                   **CONDITION OF THE CORPORATION.**

6  
7                   **THE SB CORPORATION SHALL BE EXEMPT FROM**  
8                   **SECURING PRIOR BSP AUTHORIZATION FOR**  
9                   **ENGAGING IN QUASI-BANKING ACTIVITIES AND**  
10                  **SHALL NOT BE SUBJECT TO BSP SUPERVISION AND**  
11                  **REGULATION FOR SUCH ACTIVITIES.”**

12  
13                  **SEC. 10.** A new sub-section is hereby inserted after Section 11-B  
14 of the same Act, as amended, and numbered as Section 11-C to read as  
15 follows:

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

25  
26                  **THE SB CORPORATION SHALL ADOPT A**  
27                  **BALANCED SCORECARD APPROACH, SUBJECT TO**  
28                  **THE REVIEW AND APPROVAL OF THE**  
29                  **GOVERNANCE COMMISSION FOR GOCCs, IN ITS**  
30                  **STRATEGIC MANAGEMENT TO ENABLE IT TO**  
31                  **MANAGE ITS FINANCIAL PERFORMANCE WHILE**  
32                  **PURSUING THEIR PUBLIC POLICY OBJECTIVES OF**  
33                  **SUPPORTING MICRO, SMALL AND MEDIUM**  
34                  **ENTERPRISES DEVELOPMENT.**

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

**SEC. 12. Capitalization and Funding of the SB Corporation.**

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

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

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

12  
13                **SEC. 12.** Section 13 of the same Act, as amended, is hereby  
14                deleted.

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

19  
20                **SEC. 13.** Section 14 of the same Act, as amended, is hereby  
21                renumbered as Section 13, and further amended to read as follows:

22  
23                **SEC. [14]13. Venture Capital and Micro Finance Trust Fund.** –  
24                The SB Corporation may set aside an amount of money to encourage the  
25                setting up of a venture capital and micro finance trust fund for the  
26                purpose of promoting business opportunities available to MSME sector.  
27                The Venture Capital Fund shall be used mainly for venture capital  
28                finance especially in technology-oriented industries. The micro finance  
29                trust fund shall be used to provide collateral-free fixed and working  
30                capital loans to micro and small enterprises run by those emerging out of  
31                poverty. **A SEED AMOUNT OF AT LEAST TEN PERCENT**  
32                **(10%) OF THE ADDITIONAL EQUITY CONTRIBUTION OF**  
33                **THE NATIONAL GOVERNMENT TO THE CAPITALIZATION**  
34                **OF THE SMALL BUSINESS CORPORATION BUT NOT MORE**  
35                **THAN FIVE HUNDRED MILLION PESOS (P500,000,000.00)**  
36                **SHALL BE SET ASIDE TO FUND THE VENTURE CAPITAL**  
37                **AND MICRO FINANCE TRUST FUND.**

1       **SEC. 14.** Section 15 of the same Act, as amended, is hereby  
2 renumbered as Section 14, and further amended to read as follows:  
3

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

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  
19 offered by the SB Corporation. **THE SAME SHALL NOT BE**  
20 **DEEMED AS QUASI-BANKING OPERATIONS, AND**  
21 **SHALL NOT REQUIRE A QUASI-BANKING LICENSE**  
22 **FROM THE BSP; OR**

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

32  
33       The *Bangko Sentral ng Pilipinas*, **IN CONSULTATION**  
34 **WITH THE MSMED COUNCIL AND THE SECRETARY**  
35 **OF TRADE AND INDUSTRY**, shall formulate rules for the  
36 effective implementation of this provision: *Provided*, That the  
37 purchase of government notes, securities and other negotiable

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

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

34 Lending institutions which are not qualified to acquire or  
35 hold lands of the public domain in the Philippines shall be  
36 permitted to bid and take part in sales of mortgaged real  
37 property in case of judicial or extra-judicial foreclosure, as well

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

9

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

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

15

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

18

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

21

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

24

25       SEC. [19]**18.** *Penalty Clause.* – The **BANGKO SENTRAL**  
26 **NG PILIPINAS** shall impose administrative sanctions and  
27 other penalties on the lending institutions for non[-]compliance  
28 with **THE** provisions of this Act [including a fine of not less  
29 than Five hundred thousand pesos (P500,000.00)]. **THE**  
30 **MINIMUM PENALTY FOR NONCOMPLIANCE IS SET**  
31 **AT FIVE HUNDRED THOUSAND PESOS (P500,000.00)**  
32 **AND THE MAXIMUM PENALTY FIVE MILLION**  
33 **PESOS (P5,000,000.00), IN PROPORTION TO THE**  
34 **BANK'S OR OTHER ENTITY'S LEVEL OF**  
35 **COMPLIANCE: PROVIDED, THAT A SMALLER**  
36 **PENALTY IS SET AT ONE HUNDRED THOUSAND**  
37 **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 REVIEWED BY THE MSMED COUNCIL: PROVIDED, FINALLY, THAT THE AFOREMENTIONED PENALTIES SHALL NOT BE IMPOSED ON NEWLY-ESTABLISHED DOMESTIC AND FOREIGN BANKS WITHIN ONE (1) YEAR FROM THE DATE THEY COMMENCED THEIR OPERATIONS.*

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

**THE MSMED COUNCIL SHALL SUBMIT TO THE CONGRESS OF THE PHILIPPINES AN ANNUAL REPORT ON THE STATUS OF THE PENALTIES REMITTED AND HOW THE SAME WERE USED OR ARE BEING USED IN RELATION TO THE IMPLEMENTATION OF SERVICES TO MSMES IN THE AREAS OF CAPACITY BUILDING, TECHNOLOGY INFORMATION, COLLECTION AND DISSEMINATION, AND OTHER INTERVENTIONS FOR MSME DEVELOPMENT, GROWTH AND SUSTAINABILITY.**

**SEC 17. Implementing Rules and Regulations.** — The Department of Trade and Industry, through the Bureau of Micro, Small and Medium Business Development and in consultation with the *Bangko Sentral ng Pilipinas* and other concerned government agencies, nongovernment organizations and private sector agencies involved in the promotion of MSMEs, shall formulate the implementing rules and regulations (IRR)

1 necessary to implement the provisions of this Act within ninety (90)  
2 days from the approval of this Act: *Provided*, That the IRR shall be  
3 reviewed yearly: *Provided, further*, That the IRR shall be approved by  
4 the MSMED Council. The IRR issued pursuant to this section shall take  
5 effect thirty (30) days after its publication in a national newspaper of  
6 general circulation.

7

8       **SEC. 18. Separability Clause.** – The provisions of the Act are  
9 hereby declared to be separable. If any provision of this Act shall be  
10 held unconstitutional, the remainder of the Act not otherwise affected  
11 shall remain in full force and effect.

12

13       **SEC. 19. Repealing Clause.** – All laws, executive orders, rules and  
14 regulations, or parts thereof, inconsistent herewith are hereby repealed or  
15 modified accordingly.

16

17       **SEC. 20. Effectivity Clause.** – This Act shall take effect within  
18 fifteen (15) days from its publication in at least two (2) newspapers of  
19 general circulation.

*Approved,*