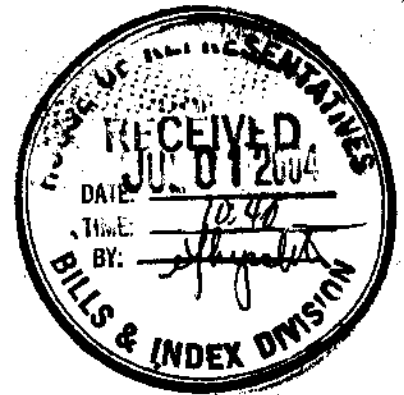


Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

THIRTEENTH (13th) CONGRESS
First Regular Session

HOUSE BILL NO. 180



Introduced by *The Honorable* **WILHELMINO M. SY-ALVARADO**

EXPLANATORY NOTE

Small and medium enterprises (SMEs) constitute ninety-nine percent (99%) of all the country's business establishments. In terms of employment, SMEs account for almost seventy percent (70%) of all jobs generated. They contribute thirty-two percent (32 %) of value added to the economy, and make up sixty percent (60%) of Filipino exporters.

Thus, as industrial breeding grounds, sources of constant renewal of industry and commerce, and wellsprings of competition and dynamism, SMEs enjoy the attention and patronage of the Philippine Congress.

Republic Act No. 6977, otherwise known as the Magna Carta for Small Enterprises and enacted in January 1991, formally acknowledged the strategic importance of SMEs in the local economy as its competitive advantage in the global market. It outlined the general principles, policies and strategies for the development of the SME sector.

Under the same law, the Small and Medium Enterprise Development (SMED) Council was created to serve as the primary agency that shall oversee the overall coordination and implementation of national efforts to promote the viability and growth of SMEs. Another salient provision of RA 6977 mandated the banking system to set aside a portion of its funds for lending to SMEs. This requirement was tiered and had a time bound of seven (7) years from the effectivity of the law.

To complement the delivery of credit to SMEs by the banking sector, the Magna Carta for Small Enterprises established the Small Business Guarantee and Finance Corporation (SBGFC) to source and adopt development initiatives for globally-competitive SMEs in terms of finance, technology, production, management and business linkages; and provide, promote, develop in scope and service various alternative modes of financing for SMEs.

Several years after the enactment of the same Magna Carta, Congress saw the need to strengthen the law by modifying some of its fundamental provisions.

Among others, Republic Act No. 8289, which was passed into law in 1997 and which amended RA 6977, expanded the membership of the SMED Council to include additional representatives from the government and private sector. It also extended the period of mandatory lending to SMEs by another ten (10) years. Lending institutions were further required to set aside at least six percent (6 %) and at least two percent (2 %) for small and medium enterprises, respectively, of their total loan portfolio.

RA 8289 also called for a rationalization of the SME financing system. This was eventually accomplished in 2001 with the merger of the Guarantee Fund for Small and Medium Enterprises (GFSME), a fund created in 1984 to provide credit guarantees for SMEs, with the SBGFC.

In seeking to further amend the Magna Carta for Small Enterprises, the Bill seeks to enhance and make the law work effectively for the benefit of SMEs given present-day realities and conditions.

The domestic and world environments for SMEs have altered significantly since 1991, and in the past five (5) years alone, dramatic changes have largely influenced the direction of trade and commerce both here and abroad, and in between. For one, the twenty-first (21st) century has seen economic globalization become a reality for all businesses, from multinational corporations to micro enterprises. Goods and services produced by Philippine SMEs now face stiff competition from cheaper imports and substitutes. In a borderless economy, the survival of SMEs hinges largely on their ability to innovate and remain productive. Correspondingly, state plans, programs, as well as laws, must adapt with the changing business environment.

Further, the Asian financial crisis in 1997, the September 11, 2001 terrorist attacks on the World Trade Center, the conflict in Iraq, their aftermath and other turbulences that have ravaged both local and global economies, have contributed to the sharp decline in the competitiveness and viability of SMEs.

The challenge, therefore, is to come up with concrete measures in order to stop the sputtering growth of SMEs while empowering them again as they compete in a liberalized and globalized business environment.

Moreover, the Bill seeks to make extensive use of the lessons drawn from the decade-long implementation of RA 6977, as amended. For one, experience and anecdotes have shown that banks are not exactly keen on knocking on the doors of small business and wooing them with their loan offers. Too often, lending to SMEs is associated with high transaction costs and thin profit margins.

Nevertheless, both SBGFC and GFSME have demonstrated that, following certain models of financing which complement the banking sector's financing services, SME development financing need not be prohibitively costly for government, and is sustainable in the long run.

Yet, funds available to SME development financing are still far from adequate. The P= 2 Billion available to SMEs through the SBGFC is but a drop in the bucket compared to the needs of the sector.

From the annals of the SMED Council, the need for an adequately empowered national policy, program planning and coordination body with effective and appropriate linkages with the various sectors of local economies has long been recognized.

As a primary and recurring feature, the Bill seeks to accord explicit recognition to micro enterprises which has been traditionally lumped as part of the small enterprise sector. The role of micro enterprises in the Philippine economy can no longer be overlooked, as they comprise ninety-one percent (91 %) of the SME sector alone.

Likewise, the Bill seeks to introduce the following amendments to RA 6977, as amended, viz:

1. Broaden the membership of the SMED Council to include additional members from the Executive (i.e. the Secretary of the Interior and Local Government) and from the Legislature (i.e. the Chairpersons of the Senate Committee on Economic Affairs and the House of Representatives Committee on Trade and Industry and Special Committee on Entrepreneurship Development);
2. Eventually rename the SMED Council as the 'Micro, Small and Medium Enterprise Development (MSMED) Council';
3. Modify the charter of the SBGFC, hereinafter referred to as the 'Small Business Corporation', particularly those relating to its functions; corporate powers; board composition, powers, and authority; capitalization and funding; sovereign guarantee; organizational structure; and other powers as a government financial institution;
4. Increase the mandatory allocation of credit resources by lending institutions to at least eight percent (8 %) for micro and small enterprises, up from six percent (6 %) under RA 8289, while retaining the minimum two percent (2 %) allotted for medium enterprises;
5. Prescribe the compliance to this mandatory credit allocation provision either through a.) actual extension of loans to qualified and registered micro, small and medium enterprises (MSMSEs); or b.) actual subscription of preferred shares of the Small Business Corporation;
6. Redefine MSMEs based on asset size, to wit:

Micro	:	not more than P 3,000,000
Small	:	P 3,000,001 - P 15,000,000
Medium	:	P 15,000,001 - P100,000,000

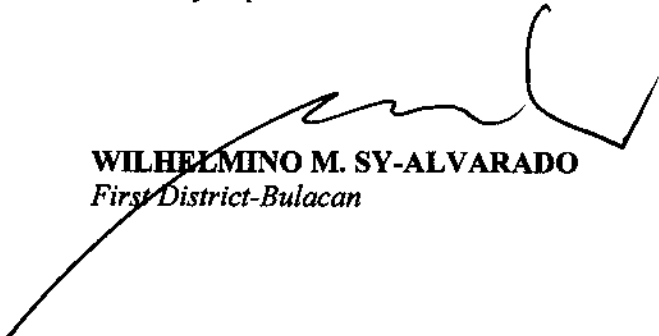
in line with the new definition of micro enterprises under Republic Act No. 9178, also known as the Barangay Micro Business Enterprises (BMBEs) Act of 2002, and to make the definition of small and medium enterprises more realistic;

7. Grant Presidential Awards for Outstanding MSMEs;
8. Declare the second week of July of every year as the 'Micro, Small and Medium Enterprise Development Week';
9. Increase administrative sanctions and other penalties on lending institutions for non-compliance with the mandatory credit allocation provision; and
10. Eventually revise the short title of the Act to 'Magna Carta for Micro, Small and Medium Enterprises'

Moreover, the Bill is envisioned to complement the National SME Development Plan, a key objective of which is to graduate micro enterprises into small and medium businesses, targeted at 38,000 enterprises, in three (3) years. Another goal is to increase the productivity in terms of gross value added of Philippine SMEs from thirty-two percent (32%) to the ASEAN average level of forty percent (40%).

A key component of the same Development Plan is the SME Unified Lending Opportunities for National Growth or SULONG Program, which seeks to mobilize P= 25 to P= 30 Billion yearly in loans and guarantees to promising MSMEs. As the lead agency of the same Program, the Small Business Corporation's ability to provide financing hinges largely on the proposed amendments to its Charter as espoused under this Bill.

Henceforth, the passage of this Bill is earnestly requested.



WILHELMINO M. SY-ALVARADO
First District-Bulacan

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

THIRTEENTH (13th) CONGRESS
First Regular Session

HOUSE BILL NO. 180

Introduced by *The Honorable* WILHELMINO M. SY-ALVARADO

AN ACT
TO FURTHER PROMOTE ENTREPRENEURSHIP AND SUPPORT THE
DEVELOPMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES,
AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 6977, AS AMENDED,
OTHERWISE KNOWN AS THE MAGNA CARTA FOR SMALL ENTERPRISES.

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

"Section 1. *Title.* - This Act shall be known as the Magna Carta for
MICRO, Small AND MEDIUM Enterprises. "

SEC. 2. Section 2 of the same Act, as amended, is hereby further amended to read as follows:

"SEC. 2. *Declaration of Policy.* - Recognizing that **MICRO**, small and medium scale enterprises (**MSMEs**) [have the potential for] **CAN GENERATE** more employment [generation] and **SPUR** economic growth and **CAN** therefore [can] help provide a self-sufficient industrial foundation

for the country, it is hereby declared the policy of the State to promote, support, strengthen and encourage the growth and development of [small and medium enterprises] MSMEs in all productive sectors of the economy particularly rural/agri-based enterprises. To this end, the State shall undertake to [spur the growth and development of small and medium enterprises throughout the country] **PROMOTE ENTREPRENEURSHIP, SUPPORT ENTREPRENEURS, ENCOURAGE THE ESTABLISHMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES AND ENSURE THEIR CONTINUING VIABILITY AND GROWTH** and thereby attain countryside industrialization by:

a) [by assuring, through the establishment of adequate support structure, and the creation and promotion of an environment conducive to the viability of these enterprises, establishment of mechanisms, the access and transfer of appropriate technology needed by small and medium enterprises;

b) by [intensifying and expanding programs for training in entrepreneurship and for skills development for labor;

[c] B) [by] facilitating their access to sources of funds;

[d] C) [by] assuring to them to a fair share of government contracts and related incentives and preferences;

[e] D) [by] complementing and supplementing financing programs for [small and medium enterprises] MSMEs and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;

[f] E) [by] instituting safeguards for the protection and stability of the credit delivery system;

[g] F) [by] raising government efficiency and effectiveness in providing assistance to [small and medium enterprises] **MSMEs** throughout the country, at the least cost;

[h] G) [by] promoting linkages [between large and small] **AMONG MICRO, SMALL, MEDIUM AND LARGE** enterprises, and by encouraging the establishment of common service facilities;

[i] H) [by] making the private sector a partner in the task of building up [small and medium enterprises] **MSMEs** through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and

[j] I) [by] assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of [small and medium enterprises] **MSMEs.**"

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

"SEC. 3. **MICRO, Small and Medium Enterprises as Beneficiaries.** – ['Small and medium enterprise'] **MSMEs** shall be defined as any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership or corporation whose

total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

micro : [less than P 1,500,000] **NOT MORE THAN P 3,000,000**
 small : [P 1,500,001] **P 3,000,001** - P 15,000,000
 medium : P 15,000,001 - [P 60,000,000] **P 100,000,000**

The above definitions shall be subject to review and adjustment [by the said Council] *motu proprio* by the **SMED COUNCIL CREATED UNDER SECTION 6 OF THIS LAW** or upon recommendation of the sectoral organization(s) concerned taking into account inflation and other economic indicators. The Council may use [as] **OTHER** variables [the] **SUCH AS** number of employees, equity capital and asset size.”

SEC. 4. Section 4 of the same Act , as amended, is hereby further amended to read as follows:

"SEC. 4. *Eligibility for Government Assistance.* - To qualify for assistance, counseling, incentives and promotion under this Act, business falling under the above definition must be:

a) duly registered with the appropriate agencies as presently provided by law: *Provided*, That in the case of micro enterprises, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;

b) one hundred percent (100%) owned [and], capitalized, **AND OPERATED** by Filipino citizens, [if] **WHETHER** single proprietorship [or], partnership, **CORPORATION, OR COOPERATIVE**; [If the enterprise is a juridical entity, at least sixty percent (60%) of its capital or outstanding stocks must be owned by Filipino citizens.]

c) a business activity within the major sectors of the economy, namely: industry, services, including the practice of one's profession, the operation of tourism-related establishments, and agri-business, which for purposes of this Act refers to any business activity involving the manufacturing, processing, and/or production of agricultural produce, excluding farm level agricultural/crop production; and

d) it must not be a branch, subsidiary or division of a large-scale enterprise [nor may its policies be determined by a large scale enterprise or any persons who are not owners or employees of the enterprise].

However, this requirement shall not preclude a [small and medium enterprise] **MSME** from accepting subcontracts [from large enterprises or firms] **AND ENTERING INTO FRANCHISE PARTNERSHIP WITH LARGE ENTERPRISES OR FROM** joining in cooperative activities with other [small and medium enterprises] **MSMEs**.

Programs of the [financing corporation] **SMALL BUSINESS CORPORATION** as provided in subsequent [SECTIONS] **PROVISIONS** of this Act shall be exclusively [targeted] **DELIVERED AND DIRECTED** to [medium, small, and micro-sized enterprises] **BONAFIDE MSMEs**.

Registered MICRO AND small enterprises shall be entitled to a share of at least ten percent (10%) of total procurement value of goods and services supplied to the Government, its bureaus, offices and agencies annually: *Provided*, That prices and quality of goods offered by the registered small enterprises are competitive.

THE DEPARTMENT OF BUDGET AND MANAGEMENT SHALL MONITOR THE COMPLIANCE OF GOVERNMENT AGENCIES ON THE REQUIRED PROCUREMENT FOR MSMEs AND SUBMIT ITS REPORT TO THE MSMED COUNCIL ON A SEMESTRAL BASIS."

SEC. 5. 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 [small and medium enterprise] MSME development, the State shall be guided by the following principles:

a) *Minimal set of rules and simplification of procedures and requirements.* All government agencies, having to do with small enterprises shall pursue the principles of minimum regulation to ensure stability of rules and to encourage entrepreneurial spirit among the citizenry. The agencies shall see to it that procedural rules and requirements, within their respective offices and in coordination with other agencies, are minimized in the act of

registration, availment of financing and accessing other government services and assistance.

b) *Role of the private sector.* In order to hasten growth and expansion of [small and medium enterprises] **MSMEs**, the private sector throughout the country shall be encouraged to assist in the effective implementation of this Act by participating in government programs for [small and medium enterprises] **MSMEs** strictly in accordance with the law, and consistent with the attainment of the purposes hereof. To encourage private sector participation, the Council, in consultation with the concerned sector, may recommend simplified procedure and localized incentives to [small enterprises] **MSMEs**. The Government shall encourage the organization and establishment of [small and medium enterprise] **MSME** industry associations at the local and regional levels preferably unified under a national federation/association.

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, 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 [small and medium enterprises] **MSMEs**.

d) *Decentralization.* The State shall accelerate the decentralization process by establishing regional and provincial offices in order to enhance and attain greater efficiency in the provision of services to the countryside and the implementation of this Act, in coordination with local government units. To this end, the government agencies shall effect a substantial delegation of authority to their regional and provincial offices to make decisions, particularly in the registration of beneficiaries of this law, qualification for availment of benefits, accreditation of private voluntary organizations, industry associations and cooperatives, and to resolve complaints for violation of applicable laws.

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

"SEC. 6. *Creation of [a] MICRO, Small and Medium Enterprise Development (MSMED) Council.* - To effectively spur the growth and development of [small and medium enterprises] **MSMEs** throughout the country, and to carry out the policy declared on this Act, a **MICRO, Small and Medium Enterprise Development [(SMED)] (MSMED)** Council is hereby created. The Council shall be attached to the Department of Trade and Industry and shall be constituted within sixty (60) days after the approval of this Act.

The Council shall be the primary agency responsible for the promotion, growth and development of [small and medium enterprises] **MSMEs** [in the country by way of facilitating and closely coordinating national efforts to promote the viability and growth of small and medium enterprises,] including assisting relevant agencies in tapping of local and foreign funds for small and medium enterprise development, as well as promoting the use of existing programs, [as well as] **AND** seeking ways to maximize the use of our labor resources.”

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

"SEC. 7. *Composition.* - The Council shall be headed by the Secretary of Trade and Industry as Chairman, and may elect from among themselves a Vice Chairman to preside over the meetings in the absence of the Chairman. The members shall be the following:

a) Director General of the National Economic and Development Authority;

b) Secretary of Agriculture;

c) Secretary of Labor and Employment;

d) Secretary of Environment and Natural Resources;

E) SECRETARY OF INTERIOR AND LOCAL GOVERNMENT;

[e] **F) Secretary of Science and Technology;**

[f] G) Secretary of Tourism;

[g] H) The Chairman of the Monetary Board;

[h] I) Chairman of Small Business [Guarantee and Finance] Corporation;

[i] J) Chairman of the small and medium enterprises promotion body which the President shall undertake to establish under this Act; [and]

[j] K) Three (3) representatives from the private sector at large, all Filipino citizens, to represent Luzon, Visayas and Mindanao, [and one representative from the small and medium enterprise sector] **RESPECTIVELY**, to be appointed by the President; [and]

[k] L) A representative [from the private banking sector to serve alternately among] **EACH FROM** the Chamber of Thrift Banks, Rural Bankers' Association of the Philippines (RBAP) and the Bankers Association of the Philippines (BAP); AND

M) CHAIRPERSONS OF THE SENATE COMMITTEE ON ECONOMIC AFFAIRS AND THE HOUSE OF REPRESENTATIVES COMMITTEE ON TRADE AND INDUSTRY AND SPECIAL COMMITTEE ON ENTREPRENEURSHIP DEVELOPMENT. IN THE ABSENCE OF THE CHAIRPERSONS, THE SENIOR VICE-CHAIRPERSONS OR THE NEXT MOST SENIOR MEMBER OF THE COMMITTEE MAY ATTEND THE MEETING.

ALL MEMBERS OF THE COUNCIL SO APPOINTED, EXCEPT FOR THE EX-OFFICIO MEMBERS, SHALL SERVE FOR A TERM OF THREE (3) YEARS. THE PERSON SO APPOINTED TO

REPLACE A MEMBER WHO HAS RESIGNED, DIED, OR REMOVED FOR CAUSE SHALL SERVE ONLY FOR THE UN-EXPIRED PORTION OF THE TERM.

EXCEPT FOR THE SECRETARY OF TRADE AND INDUSTRY, [C]cabinet-rank *ex officio* members of the Council shall designate an undersecretary or assistant secretary, and the chairman of the Monetary Board or his representative as their permanent representative in case they fail to attend meetings of the Council.

The private sector members of the Council shall [initially] receive *per diem* of One thousand pesos (P1,000)] per meeting, for a maximum of twenty-four (24) meetings per year, which *per diem* may be adjusted by the Council: *Provided*, That any such adjustment shall take effect upon approval of the President.

The Department of Trade and Industry shall allocate Five million pesos (P5,000,000) out of its savings for the initial operating expenses of the Council, after which the Council's budget shall be [included in the annual appropriation of the Department of Trade and Industry] **SEPARATELY PROVIDED IN THE GENERAL APPROPRIATIONS ACT BEGINNING IN THE FISCAL YEAR IMMEDIATELY FOLLOWING THE APPROVAL OF THIS ACT.**

The Council may [, from time to time,] call upon the participation of any **NATIONAL OR LOCAL** government agency or [association] **PRIVATE SECTOR ORGANIZATION** when such agency **OR PRIVATE SECTOR ORGANIZATION** is **DIRECTLY OR INDIRECTLY**

concerned with and/or affecting the growth and development of [small and medium enterprises] **MSMEs** in any particular area or manner.

The Council may create an Executive Committee of five (5) members elected by the Council from among themselves or their designated permanent representatives, with at least two (2) members representing the private sector, and with authority to act for and on behalf of the Council during intervals of council meetings, and within the specific authority granted by the Council."

SEC. 8. Section 8 of the same Act, as amended, is hereby further amended to read as follows:

"SEC. 8. *Powers and Functions.* - The [Small and Medium Enterprise Development (SMED)] **MSMED** Council shall have the following powers, duties and functions:

- a) to help establish the needed environment and opportunities conducive to the growth and development of the [small and medium enterprises] **MSMEs** sector;
- b) to recommend to the President and the Congress all policy matters affecting [small and medium enterprises] **MSMEs**;
- c) to formulate a comprehensive [small and medium enterprises] **MSMEs** development plan to be integrated into the National Economic and Development Authority (NEDA) Development Plans;
- d) to coordinate and integrate various government and private sector activities relating to [small and medium enterprises] **MSMEs**;

e) to review existing policies of government agencies that would affect the growth and development of [small and medium enterprises] MSMEs and recommend changes to the President and [/or to the] Congress **THROUGH THE SENATE COMMITTEE ON ECONOMIC AFFAIRS AND THE HOUSE OF REPRESENTATIVES COMMITTEE ON TRADE AND INDUSTRY AND SPECIAL COMMITTEE ON ENTREPRENEURSHIP DEVELOPMENT**, whenever deemed necessary. This shall include efforts to simplify rules and regulations, as well as procedural and documentary requirements in the registration, financing, and other activities relevant to [small and medium enterprises] MSMEs;

f) to monitor and determine the progress of various agencies geared towards the development of the sector. This shall include overseeing, in coordination with local government units and the Department of **THE INTERIOR AND** Local Government as well as private sector groups/associations, the developments among [small and medium enterprises] MSMEs [particularly the cottage and micro-sized firms];

g) to promulgate implementing guidelines, programs, and operating principles as may be deemed proper and necessary in the light of government policies and objectives of this Act;

h) to provide the appropriate policy and coordinative framework in assisting relevant government agencies, in coordination with the NEDA and the Coordinating Council of the Philippine Assistance Program, as may be necessary, in the tapping of local and foreign funds for [small and medium enterprises] MSMEs development;

i) to promote the productivity and viability of [small and medium enterprises] **MSMEs** by way of directing and/or assisting relevant government agencies and institutions at the national, regional and provincial levels towards the:

1) provision of business training courses, technical training for technicians and skilled laborers and continuing skills upgrading programs;

2) provision of labor-management guidance, assistance and improvement of the working conditions of employees in [small and medium enterprises] **MSMEs**;

3) provision of guidance and assistance regarding product quality/product development and product diversification;

4) provision of guidance and assistance for the adoption of improved production techniques and commercialization of appropriate technologies for the product development and for increased utilization of indigenous raw materials;

5) provision of assistance in marketing and distribution of products of [small and medium enterprises] **MSMEs** through local supply-demand information, industry and provincial profiles, overseas marketing promotion, domestic market linkaging and the establishment of common service facilities such as common and/or cooperative bonded warehouse, grains storage, agro-processing and drying facilities, ice plants refrigerated storage, cooperative trucking facilities, etc;

6) intensification of assistance and guidance to enable greater access to credit through a simplified multi-agency financing program; to encourage development of other models of financing such as leasing and venture capital activities; to provide effective credit guarantee systems, and encourage the formation of **CREDIT GUARANTEE ASSOCIATIONS, INCLUDING SETTING UP OF** credit records and information systems, and to decentralize loan approval mechanisms;

7) provision of concessional interest rates, lower financing fees, which may include incentives for prompt credit payments, arrangements tying amortizations to business cash flows, effective substitution of government guarantee cover on loans for the borrower's lack of collateral;

8) provision of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises, and the establishment of measures such as insurance against extraordinary disasters;

9) intensification of information dissemination campaigns and entrepreneurship education activities;

10) easier access to and availment of tax credits and other tax and duty incentives as provided by the Omnibus Investment Code and other laws;

11) provision of support for product experimentation and research and development activities as well as access to information on commercialized technologies; and

12) provision of more infrastructure facilities and public utilities to support operations of [small and medium enterprises] MSMEs;

j) to submit to the President and the Congress, **THROUGH THE SENATE COMMITTEE ON ECONOMIC AFFAIRS AND THE HOUSE OF REPRESENTATIVES COMMITTEE ON TRADE AND INDUSTRY AND SPECIAL COMMITTEE ON ENTREPRENEURSHIP DEVELOPMENT**, a yearly report on the status of [small and medium enterprises] MSMEs in the country, including the progress and impact of all relevant government policies, programs and legislation as well as private sector activities;

k) to assist in the establishment of modern industrial estates outside urban centers; and

L) TO SEE TO IT THAT THE PROVISIONS OF THIS ACT ARE FULLY IMPLEMENTED AND THE OBJECTIVES AND POLICIES FULLY ATTAINED."

SEC. 9. Section 9 of the same Act, as amended, is hereby further amended to read as follows:

"Sec. 9. *Designation of the Bureau of Small and Medium [Business] ENTERPRISE Development OF THE DEPARTMENT OF TRADE AND INDUSTRY as Council Secretariat.* - The Bureau of Small and Medium [Business] ENTERPRISE Development OF THE DEPARTMENT OF TRADE AND INDUSTRY is hereby designated to act as the Council Secretariat and shall have the following duties and functions:

- 1) **TO FORMULATE, IMPLEMENT, COORDINATE AND MONITOR ALL NON-FINANCING GOVERNMENT PROGRAMS, INCLUDING FEE-BASED SERVICES, TO SUPPORT AND PROMOTE MSMEs, AND [to] prepare, in coordination with NATIONAL AGENCIES, local government [officials] UNITS AND PRIVATE SECTOR ORGANIZATIONS, [and recommend] annual as well as medium-term MICRO, small and medium enterprise development plans for approval of the Council;**
- 2) to coordinate the preparation of position papers and background materials for discussion or approval during Council meetings;
- 3) to assist the Council in coordinating and monitoring [small and medium enterprises] MSMEs policies and programs and activities of all government agencies with respect to MICRO, small and medium enterprises;
- 4) to prepare [, collate] and integrate all inputs to the Council's yearly report on the status of [small and medium enterprises] MSMEs in the country;
- 5) to submit periodic reports to the Council on the progress and accomplishment of its work programs; and

- 6) to perform *ad hoc* functions as authorized by the Council."

SEC. 10. Section 10 of the same Act, as amended, is hereby further amended to read as follows:

"SEC. 10. *Rationalization of Existing MICRO, Small and Medium Enterprise Programs and Agencies.* - The MSMED Council shall conduct continuing review of government programs for [small and medium enterprises] MSMEs and submit to [Congress and] the President **AND TO CONGRESS, THROUGH THE SENATE COMMITTEE ON ECONOMIC AFFAIRS AND THE HOUSE OF REPRESENTATIVES COMMITTEE ON TRADE AND INDUSTRY AND SPECIAL COMMITTEE ON ENTREPRENEURSHIP DEVELOPMENT,** a report thereon together with its policy recommendations.

The President is hereby also empowered to establish a small and medium enterprise promotion body which shall be the principal government agency that will formulate, implement, coordinate and monitor all non-financing government programs, including fee-based services, to support and promote micro, small and medium enterprises. It shall be attached to the Department of Trade and Industry and shall be under the policy, program and administrative supervision of the [SMED] **MSMED** Council. The said office shall receive no less than fifty percent (50%) of the assets, and budgetary allocations of the agencies for promotion,

development and financing of small and medium enterprises that may be henceforth dissolved and/or abolished and absorbed, incorporated and integrated into the [SMED] **MSMED Council.**"

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

"SEC. 11. *Creation of Small Business Guarantee and Finance Corporation.* - There is hereby created a body corporate to be known as Small Business Guarantee and Finance Corporation hereinafter referred to as the [SBGFC] **SMALL BUSINESS CORPORATION**, which shall [source and adopt development initiatives for globally competitive small and medium enterprises in terms of finance, technology, production, management and business linkages, and provide, promote, develop and widen in both scope and service reach various alternative modes of financing for small and medium enterprises, including but not limited to, direct and indirect project lending venture capital, financial leasing, secondary mortgage and/or rediscounting of loan papers to small businesses, secondary/regional stock markets: *Provided,* That crop production financing shall not be serviced by the Corporation.] **HAVE THE FOLLOWING FUNCTIONS:**

A) SOURCE AND ADOPT DEVELOPMENT INITIATIVES FOR GLOBALLY COMPETITIVE MSMEs IN FINANCE AND BUSINESS TECHNOLOGIES;

B) TO EXTEND ALL FORMS OF FINANCIAL AND TECHNICAL ASSISTANCE TO QUALIFIED AND REGISTERED MSMEs.

C) GUARANTEE LOANS OBTAINED BY QUALIFIED MSMEs UNDER SUCH TERMS AND CONDITIONS ADOPTED BY THE SMALL BUSINESS CORPORATION BOARD OF DIRECTORS.

SEC. 12. There shall be incorporated after Section 11 of the same Act, as amended, new sections to read as follows:

"SEC. 12. CORPORATE POWERS. THE SMALL BUSINESS CORPORATION SHALL BE ADMINISTRATIVELY ATTACHED TO THE DEPARTMENT OF TRADE AND INDUSTRY AND SHALL BE UNDER THE POLICY AND PROGRAM SUPERVISION OF THE MSMED COUNCIL. IT SHALL HAVE ITS PRINCIPAL OFFICES IN METRO MANILA AND WHENEVER NECESSARY, ESTABLISH BRANCH OFFICES IN THE PROVINCES.

THE SMALL BUSINESS CORPORATION SHALL EXERCISE ALL THE GENERAL POWERS EXPRESSLY CONFERRED BY LAW UPON CORPORATIONS UNDER THE CORPORATION CODE, INCLUDING THOSE POWERS THAT ARE INCIDENTAL OR NECESSARY TO THE ATTAINMENT OF THE OBJECTIVES OF THIS ACT.

FOR THIS PURPOSE, THE SMALL BUSINESS CORPORATION MAY ALSO:

A) HOLD, PURCHASE, LEASE OR OTHERWISE ACQUIRE AND OWN REAL AND PERSONAL PROPERTY, INTRODUCE NECESSARY IMPROVEMENTS THEREON AND TO SELL, MORTGAGE, ENCUMBER OR OTHERWISE DISPOSE OF THE SAME AS MAY BE NECESSARY IN THE NORMAL COURSE OF BUSINESS;

B) APPLY FOR, RECEIVE AND ACCEPT GRANTS AND DONATIONS FROM SOURCES WITHIN AND OUTSIDE THE COUNTRY;

C) HOLD, OWN, PURCHASE, ACQUIRE, SELL, MORTGAGE, DISPOSE OR OTHERWISE INVEST OR RE-INVEST IN STOCKS, BONDS, TREASURY BILLS, DEBENTURES, SECURITIES AND SIMILAR FORMS OF INDEBTEDNESS OF THE GOVERNMENT, ITS AGENCIES AND INSTRUMENTALITIES OR ANY GOVERNMENT FINANCIAL INSTITUTIONS."

"SEC. 13. *COMPOSITION, POWERS AND AUTHORITY.* - THE SMALL BUSINESS CORPORATION CORPORATE POWERS SHALL BE VESTED ON A BOARD DIRECTORS COMPOSED OF ELEVEN (11) MEMBERS WHICH SHALL INCLUDE THE FOLLOWING:

A) THE SECRETARY OF TRADE AND INDUSTRY;

B) THE SECRETARY OF FINANCE;

C) A PRIVATE SECTOR REPRESENTATIVE TO BE APPOINTED BY THE PRESIDENT OF THE PHILIPPINES UPON THE RECOMMENDATION OF THE MSMED COUNCIL;

D) SEVEN (7) REPRESENTATIVES OF THE SMALL BUSINESS CORPORATION COMMON STOCKS; AND

E) THE PRESIDENT OF THE SMALL BUSINESS CORPORATION AS EX-OFFICIO MEMBER AND TO SERVE AS VICE CHAIRMAN OF THE BOARD.

THE PRESIDENT OF THE PHILIPPINES SHALL APPOINT THE CHAIRMAN OF THE BOARD FROM AMONG ITS MEMBERS.

THE BOARD OF DIRECTORS SHALL HAVE, AMONG OTHERS THE FOLLOWING SPECIFIC POWERS AND AUTHORITIES:

A) FORMULATE POLICIES NECESSARY TO CARRY OUT EFFECTIVELY THE PROVISIONS OF THIS CHARTER AND TO PRESCRIBE, AMEND AND REPEAL BY-LAWS, RULES AND REGULATIONS FOR THE EFFECTIVE OPERATIONS OF THE SMALL BUSINESS CORPORATION;

B) ESTABLISH SUCH BRANCHES, AGENCIES AND SUBSIDIARIES AS MAY BE DEEMED NECESSARY AND CONVENIENT;

C) COMPROMISE OR RELEASE, IN WHOLE OR IN PART, ANY CLAIM OR LIABILITY WHATSOEVER FOR OR AGAINST THE SMALL BUSINESS CORPORATION, INCLUDING INTEREST, PENALTIES, FEES AND/OR OTHER CHARGES IN ACCORDANCE TO ITS OWN BY-LAWS AND *BANGKO SENTRAL NG PILIPINAS* RULES;

D) FIX THE FEATURES OF NON-VOTING PREFERRED SHARES WHICH SHALL BE PRINTED ON THE STOCK CERTIFICATES EVIDENCING THE SAME; AND

E) EXERCISE ALL OTHER SUCH POWERS AS MAY BE NECESSARY OR INCIDENTAL TO CARRY OUT THE SMALL BUSINESS CORPORATION PURPOSES. “

SEC. 13. Section 12 of the same Act , as amended, is hereby renumbered as Section 14, and is further amended to read as follows:

“SEC. [12] 14. *Capitalization and Funding.* . - The [Small Business Guarantee and Finance] **SMALL BUSINESS** Corporation shall have an authorized capital stock of [Five] **TEN** billion pesos [(P 5,000,000,000.00)] **(P 10,000,000,000.00)**. 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 Philippine National Bank (PNB), the Development Bank of the Philippines (DBP) in the amount of Two

hundred million pesos (P 200,000,000.00) 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 [to be placed in preferred stocks of the SBGFC] **FOR THE SMALL BUSINESS CORPORATION. THE TEN BILLION PESOS AUTHORIZED CAPITAL STOCK OF SMALL BUSINESS CORPORATION SHALL BE DIVIDED INTO 80,000,000 COMMON SHARES AND 20,000,000 PREFERRED SHARES WITH A PAR VALUE OF ONE HUNDRED PESOS (P=100.00) 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 SMALL BUSINESS 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 PREFERRED SHARES ALREADY ISSUED UNDER REPUBLIC ACT NO. 6977, AS AMENDED, SHALL BE CONVERTED 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 investments of private financial institutions and corporations : **PROVIDED, THAT ANY INVESTMENT**

FROM THE PRIVATE SECTOR SHALL ONLY BE IN THE FORM OF PREFERRED SHARES.

TO ALLOW FOR CAPITAL BUILD-UP, THE SMALL BUSINESS CORPORATION SHALL BE GIVEN A FIVE (5) YEAR GRACE PERIOD ON DIVIDEND COMMITMENTS BEGINNING ON THE DATE OF EFFECTIVITY OF THIS AMENDMENT. THEREAFTER, IT MAY ONLY DECLARE AS DIVIDEND NOT MORE THAN THIRTY PERCENT (30%) OF ITS NET INCOME AND THE REST WITHHELD AS RETAINED EARNINGS. “

SEC. 14. There shall be incorporated new sections to read as follows:

“SEC. 15. *SOVEREIGN GUARANTEE FOR THE SMALL BUSINESS CORPORATION.* - THE PAYMENT OF GUARANTEE OBLIGATIONS INCURRED BY THE SMALL BUSINESS CORPORATION UNDER THE PROVISIONS OF THIS ACT IS FULLY GUARANTEED BY THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES. “

“SEC. 16. *ORGANIZATIONAL STRUCTURE.* - THE BOARD OF DIRECTORS SHALL HAVE THE AUTHORITY TO PROVIDE FOR AN ORGANIZATIONAL STRUCTURE AND STAFFING PATTERN FOR OFFICERS AND EMPLOYEES OF THE SMALL BUSINESS CORPORATION AND UPON RECOMMENDATION OF

ITS PRESIDENT, APPOINT AND FIX THEIR REMUNERATION, EMOLUMENTS AND FRINGE BENEFITS AND RETIREMENT BENEFITS.

ALL POSITIONS IN THE SMALL BUSINESS CORPORATION SHALL BE GOVERNED BY A COMPENSATION AND POSITION CLASSIFICATION SYSTEM AND QUALIFICATION STANDARDS APPROVED BY THE BOARD OF DIRECTORS BASED ON A COMPREHENSIVE JOB ANALYSIS AND AUDIT OF ACTUAL DUTIES AND RESPONSIBILITIES. THE COMPENSATION PLAN, WHICH SHALL INCLUDE A PROVIDENT FUND, SHALL BE COMPARABLE WITH THE PREVAILING COMPENSATION PLANS OF OTHER GOVERNMENT FINANCIAL INSTITUTIONS AND SHALL BE SUBJECT TO PERIODIC REVIEW BY THE BOARD NO MORE THAN ONCE EVERY FOUR (4) YEARS WITHOUT PREJUDICE TO YEARLY MERIT REVIEWS OR INCREASES BASED ON PRODUCTIVITY AND PROFITABILITY. THE SMALL BUSINESS CORPORATION SHALL BE EXEMPT FROM EXISTING LAWS, RULES AND REGULATIONS ON COMPENSATION, POSITION CLASSIFICATION AND QUALIFICATION STANDARDS."

"SEC. 17. *LEGAL COUNSEL.* NOTWITHSTANDING ANY LAW OR STATUTE TO THE CONTRARY, SMALL BUSINESS CORPORATION SHALL HAVE ITS OWN LEGAL DEPARTMENT

AND HIRE EXTERNAL COUNSELS FOR ALL ITS CASES PENDING BEFORE ANY COURT, TRIBUNAL, ADMINISTRATIVE BODY, OR ANY QUASI-JUDICIAL BODY."

"SEC. 18. *MICRO, SMALL AND MEDIUM ENTERPRISE WEEK.* - IN ORDER TO INSTITUTE CONTINUING AWARENESS OF THE PRIMACY OF SMALL BUSINESS IN NATION-BUILDING AND IN PEOPLE EMPOWERMENT, AND TO CELEBRATE AND ESPOUSE THE FIRM COMMITMENT OF THE STATE IN THE PROMOTION, GROWTH AND DEVELOPMENT OF SMALL BUSINESS, THE SECOND WEEK OF JULY OF EVERY YEAR SHALL BE DECLARED AS THE "MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT WEEK". THE MSMED COUNCIL, THE DEPARTMENT OF TRADE AND INDUSTRY, AND THE SMALL BUSINESS CORPORATION SHALL BE JOINTLY RESPONSIBLE IN ORGANIZING ACTIVITIES FOR THE EVENT."

"SEC.19. *PRESIDENTIAL AWARDS FOR OUTSTANDING MSMEs.* - PRESIDENTIAL AWARDS FOR OUTSTANDING MSMEs, CONSISTING OF REWARDS IN CASH OR IN KIND SHALL BE GRANTED TO ONE HUNDRED PERCENT (100%) FILIPINO-OWNED COMPANIES DURING THE MSME DEVELOPMENT WEEK. "

SEC. 15. Sections 13 and 14 of the same Act, as amended, are hereby renumbered as Sections 20 and 21, respectively, and are further amended to read as follows:

“SEC. [13] **20. Mandatory Allocation of Credit Resources to MICRO, Small AND MEDIUM Enterprises.** - For a period of ten (10) years from the date of the effectivity of this Act, all lending institutions as defined under *Bangko Sentral ng Pilipinas* rules, whether public or private, shall set aside at least [six] **EIGHT** percent ([6] **8** %) for **MICRO AND** small enterprises and at least two percent (2%) for [small and] medium enterprises, [respectively] of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for [small and medium enterprises] **MSMEs** credit as herein contemplated.

A LENDING INSTITUTION SHALL BE DEEMED IN COMPLIANCE OF THIS PROVISION BASED ON:

A) ACTUAL EXTENSION OF LOANS TO QUALIFIED AND REGISTERED MICRO, SMALL AND MEDIUM ENTERPRISES; OR

B) ACTUAL SUBSCRIPTION OF PREFERRED SHARES OF STOCK OF THE SMALL BUSINESS CORPORATION.

The *Bangko Sentral ng Pilipinas* [, in consultation with the Council,] **MAY PRESCRIBE ALTERNATIVE FORMS OF COMPLIANCE SUBJECT TO THE APPROVAL OF THE MSMED COUNCIL. THE BANGKO SENTRAL NG PILIPINAS** shall formulate rules for the effective implementation of this provision: *Provided* , That the

purchase of government notes, securities and other negotiable instruments [,with the exception of such instruments as may be offered by the SBGFC which do not pay market rates,] shall not be deemed compliance with the foregoing provisions: *Provided, further,* That the *Bangko Sentral ng Pilipinas* shall establish an incentive program to encourage lending to [small and medium] **MSMEs** industries beyond the mandatory credit allocation to said enterprises, such as possible reduction in bank's reserve requirement.

The [SMED] **MSMED** Council shall set up the appropriate systems to monitor all loan applications of [small and medium enterprises] **MSMEs** in order to account for the absorptive capacity of the small and medium enterprise sector.

The *Bangko Sentral Ng Pilipinas* shall [require lending institutions covered by this Act to] furnish to the [Small and Medium Development] **MSMED** Council on a quarterly basis [regular] **COMPREHENSIVE** reports [on their compliance with the above provisions on the mandatory credit allocation for small and medium enterprises and expeditiously act on the Council's reports of non-compliance therewith.] **ON THE BANKS' COMPLIANCE, NON-COMPLIANCE AND PENALTIES OF THE ABOVE PROVISIONS ON THE MANDATORY CREDIT ALLOCATION FOR MSMEs."**

"SEC. [14] **21 . Penalty Clause.** - The *Bangko Sentral ng Pilipinas* shall impose administrative sanctions and other penalties on the lending institutions for non-compliance with [provisions of] **PROVISION ON Mandatory Allocation of Credit Resources** [of not less than Five hundred thousand pesos (P 500,000)] **WHICH MAY BE IMPOSED BY THE MONETARY BOARD BUT IN NO CASE EXCEED THIRTY**

THOUSAND PESOS (P 30,000.00) PER DAY FOR EACH VIOLATION."

SEC. 16. Sections 15, 16 and 17 of Republic Act No. 6977, as amended, are hereby renumbered as Sections 22 , 23 and 24, respectively.

SEC. 17. *Separability Clause.* - The provisions of the Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

SEC. 18. *Repealing Clause.* - All laws, executive orders, rules and regulations, or parts thereof, inconsistent herewith are hereby repealed or modified accordingly.

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

Approved,