

NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



HOUSE OF REPRESENTATIVES

H. B. No. 2179

Introduced by Representative Ralph G. Recto

AN ACT
ENHANCING CREDIT SUPPORT TO MICRO, SMALL AND MEDIUM
ENTERPRISES, AMENDING FOR THE PURPOSE SECTION 15 OF REPUBLIC
ACT NO. 6977, AS AMENDED, OTHERWISE KNOWN AS THE "MAGNA CARTA
FOR MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)"

EXPLANATORY NOTE

Republic Act (R.A.) No. 6977, otherwise known as the "Magna Carta for Small Enterprises" was enacted on January 24, 1991. Section 13 of the said law mandated that the portion to be set aside for small enterprises shall at least be, five percent (5%) by the end of the first year of its the effectivity, ten percent (10%) by the end of the second year through the end of the fifth year, and five percent (5%) by the end of sixth year and may come down to zero by the end of the seventh year.

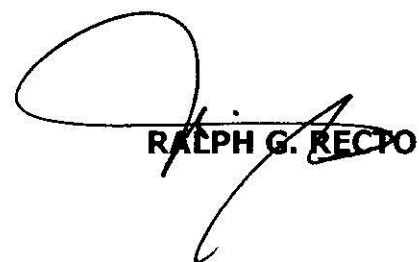
On May 23, 2008, Republic Act No. 9501 otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)" was enacted, amending Section 13 of R.A. No. 6977. The abovementioned Section 13 was renumbered as Section 15. It mandated that for the period of ten (10) years from the date of the effectivity of the amendatory Act, all lending institutions as defined under Bangko Sentral ng Pilipinas rules, whether public or private, shall set aside at least eight percent (8%) for micro and small enterprises and at least two percent (2%) for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter.

Consequently, Section 15 of R.A. 6977, as amended by R.A. 9501, expired in 2018. Despite this, lending institutions continue to report their compliance to the said provision. In a data released by the *Bangko Sentral ng Pilipinas*, the total compliance in the second quarter of 2021 for micro and small enterprises amounted to P176.5 billion or 2.1 percent of lending institutions' total loan portfolio, for medium enterprises, P278.3 billion or 3.3 percent.

It is more imperative now that our country is starting to bounce back from the COVID-19 recession to increase the mandatory allocation of credit resources to micro, small and medium enterprises (MSMEs). It will benefit the 952,969 MSMEs which are operating in the country. Of the total 957,620 business enterprises in the country, 99.51% of them are MSMEs.

It is in this light that this bill seeks to reinstate the legal mandate of continually compelling all lending institutions to allocate a certain portion of their credit resources for MSMEs. This bill intends that all lending institutions shall set aside at least ten percent (10%) for micro, small and medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter. This bill also limits compliance to the mandatory allocation of credit to MSMEs only to the actual extension of loans to eligible MSMEs. In effect, it removes all alternative compliance to this provision, thereby allowing MSMEs to fully benefit from the available credit resources. Moreover, the bill seeks to grant tax incentives to lending institutions by exempting them from the payment of gross receipts tax on interests, commissions, discounts and all other items treated as gross income from the loans granted to MSMEs.

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



RALPH G. RECTO

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

1 Section 1. Section 15 of Republic Act No. 6977, as amended, is hereby further
2 amended to read as follows:

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

12 "Compliance of this provision shall be[÷] **THE ACTUAL EXTENSION OF**
13 **LOANS TO ELIGIBLE MSMEs.**

14 [~~"a) actual extension of loans to eligible MSMEs; or~~

15 ~~"b) actual subscription of preferred shares of shares of stock of the SB~~
16 ~~Corporation; or~~

1 ~~"c) wholesale lending to Participating Financial Institutions (PFIS) for on-~~
2 ~~lending to MSMEs; or~~
3 ~~"d) purchase/discount of MSMEs receivables; or~~
4 ~~"e) loans granted to export, import, and domestic traders subject to~~
5 ~~compliance with Section 3 of this Act; or~~
6 ~~"f) subscribe/purchase of liability instruments as may be offered by the SB~~
7 ~~Corporation.]~~

8 "The *Bangko Sentral ng Pilipinas* shall formulate rules for the effective
9 implementation of this provision[:]. [~~Provided, That the purchase of~~
10 ~~government notes, securities and other negotiable instruments shall not be~~
11 ~~deemed compliance with the foregoing provisions:] *Provided, [further,]*~~
12 That the *Bangko Sentral ng Pilipinas* shall establish an incentive program to
13 encourage lending to micro, small and medium industries beyond the
14 mandatory credit allocation to said enterprises, such as possible reduction
15 in bank's reserve requirement[:]: **PROVIDED, FURTHER, THAT**
16 **LENDING INSTITUTIONS SHALL BE EXEMPT FROM THE PAYMENT**
17 **OF GROSS RECEIPTS TAX IMPOSED UNDER SECTIONS 121 AND**
18 **122 OF THE NATIONAL INTERNAL REVENUE CODE OF 1997, AS**
19 **AMENDED, ON INTERESTS, COMMISSIONS, DISCOUNTS AND ALL**
20 **OTHER ITEMS TREATED AS GROSS INCOME FROM LOANS**
21 **GRANTED TO MSMEs IN COMPLIANCE WITH THE PROVISION OF**
22 **THIS SECTION.**

23 "The MSME Council shall set up the appropriate systems to monitor all
24 loan applications of MSMEs in order to account for the absorptive capacity
25 of the MSME sector.

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

30 "Lending institutions which are not qualified to acquire or hold lands of the
31 public domain in the Philippines shall be permitted to bid and take part in
32 sales of mortgaged real property in case of judicial or extra-judicial

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

8 Sec. 2. *Implementing Rules and Regulations*. — Within ninety (90) days
9 from the effectivity of this Act, the Micro, Small and Medium Enterprises
10 Development (MSMED) Council, the *Bangko Sentral ng Pilipinas* and the
11 Department of Finance shall promulgate the necessary rules and regulations for
12 its effective implementation.

13 Sec. 3. *Separability Clause*. - The provisions of the Act are hereby declared
14 to be separable. If any provision of this Act shall be held unconstitutional, the
15 remainder of the Act not otherwise affected thereby shall remain in full force and
16 effect.

17 Sec. 4. *Repealing Clause*. - All laws, executive orders, rules and
18 regulations, or parts thereof, inconsistent herewith are hereby repealed,
19 amended or modified accordingly.

20 Sec. 5. *Effectivity Clause*. - This Act shall take effect within fifteen (15)
21 days from its publication in at least two (2) national newspaper of general
22 circulation or in the *Official Gazette*.

Approved,