

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

NINETEENTH CONGRESS
Third Regular Session

HOUSE BILL NO. 11212



Introduced by **Representative Khymer Adan T. Olaso**

EXPLANATORY NOTE

The proposed bill, **“An Act Further Strengthening Entrepreneurship by Providing Interest-Free Loans to Micro, Small, and Medium Enterprises (MSMEs), Amending RA 6977, Otherwise Known as the ‘Magna Carta for MSMEs,’ and for Other Purposes,”** is anchored on the State’s commitment to promote inclusive economic growth by empowering MSMEs.

Micro, small, and medium enterprises constitute the backbone of the Philippine economy, accounting for more than 99% of business establishments and generating a significant share of employment nationwide. Despite their vital role in driving economic development, MSMEs face persistent challenges, including limited access to affordable financing, bureaucratic hurdles, and inadequate government support mechanisms.

Access to financing remains a critical barrier, as many MSMEs are unable to secure loans from traditional banking institutions due to stringent collateral requirements and high interest rates. The COVID-19 pandemic further exacerbated these challenges, leaving many MSMEs struggling to recover and sustain their operations.

This bill seeks to address these pressing issues by institutionalizing a **zero-interest loan program** tailored for MSMEs. The program will enhance their financial capacity, promote entrepreneurial innovation, and enable them to scale operations without the burden of exorbitant borrowing costs.

The core feature of this bill is the provision of zero-interest loans for MSMEs. By eliminating interest charges, the government effectively reduces the cost of capital, making it accessible to small entrepreneurs who traditionally face financial exclusion. This mechanism also aligns with the State’s goal of fostering equitable economic development and reducing income inequality.

The proposed bill addresses the urgent need to provide affordable financing to MSMEs while institutionalizing mechanisms that promote transparency, accountability, and efficiency in program implementation. By leveraging the strengths of interagency collaboration and

prioritizing the welfare of small entrepreneurs, this bill seeks to create a robust and inclusive ecosystem for MSME growth.

It is therefore imperative for Congress to enact this measure to bolster entrepreneurship, stimulate economic recovery, and ensure long-term sustainability for the nation's most vital economic sector.

A handwritten signature in black ink, appearing to read 'Khymer Adan T. Olaso'. The signature is written in a cursive style with a large, prominent 'O' at the end.

KHYMER ADAN T. OLASO

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

NINETEENTH CONGRESS
Third Regular Session

HOUSE BILL NO. 11212

Introduced by **Representative KHYMER ADAN T. OLASO**

AN ACT FURTHER STRENGTHENING ENTREPRENEURSHIP BY PROVIDING INTEREST-FREE LOANS TO MICRO, SMALL, AND MEDIUM ENTERPRISES, AMENDING REPUBLIC ACT NO. 6977, OTHERWISE KNOWN AS THE “MAGNA CARTA FOR SMALL ENTERPRISES”, AND FOR OTHER PURPOSES

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

SECTION 1. Short Title. This Act shall be known as the **“MSME Interest-Free Loan Act.”**

SECTION 2. Declaration of Policy. It is the policy of the State to promote and support micro, small, and medium enterprises (MSMEs) as essential drivers of economic growth, employment, and innovation. To foster entrepreneurship and sustainable development, the government shall provide MSMEs with improved access to zero-interest financing, simplify loan application procedures, and strengthen inter-agency coordination to facilitate enterprise development.

SECTION 3. Amendment to RA 6977. Republic Act No. 6977, otherwise known as the “Magna Carta for MSMEs,” is hereby amended to include provisions for interest-free loans as detailed in this Act.

CHAPTER I: ELIGIBILITY FOR ASSISTANCE

SECTION 4. Eligibility Criteria. To qualify for the interest-free loan program, an MSME must satisfy the following requirements:

The business must be properly registered with the Department of Trade and Industry (DTI), the Securities and Exchange Commission (SEC), or the Cooperative Development Authority (CDA), depending on its nature. It must also fall within the definition of micro, small, or medium

enterprises as provided under RA 9501 (Magna Carta for MSMEs), ensuring that its assets do not exceed the established threshold.

Applicants should have been in operation for at least six months prior to applying for the program. Exceptions apply to startup enterprises that are registered under an accredited government incubation program. Additionally, businesses must comply with all applicable labor, tax, and regulatory requirements.

Finally, applicants must demonstrate their ability to repay the loan's principal amount. This can be shown through verifiable financial records or reliable projected revenue streams.

CHAPTER II: LOAN TERMS AND AMOUNT

SECTION 5. Amount Loanable. Eligible MSMEs may avail of zero-interest loans based on the following limits:

1. Micro enterprises: Loans up to **₱500,000.00**
2. Small enterprises: Loans up to **₱2,000,000.00**
3. Medium enterprises: Loans up to **₱5,000,000.00**

The loan amount shall be determined based on the financial requirements of the enterprise, as validated by the lending agency.

SECTION 6. Loan Terms. The repayment period for the loan shall range from one to five years, depending on the loan amount and the nature of the business. Borrowers are entitled to a grace period of up to six months before repayment begins. Collateral requirements will be minimized or waived for micro enterprises, subject to a risk assessment conducted by the lending agency.

CHAPTER III: GUIDING PRINCIPLES AND PROCEDURES

SECTION 7. Simplified Procedures and Requirements. Government lending institutions and agencies shall implement simplified and standardized loan application procedures to minimize the administrative burden on MSMEs. The required documentation will be limited to a valid government-issued identification, proof of business registration, and either financial statements or alternative proof of income.

SECTION 8. Inter-Agency Coordination. To ensure the efficient implementation of this Act, various government agencies shall coordinate their efforts under a unified framework.

The Small Business Corporation (SB Corp) shall serve as the primary implementing agency for the interest-free loan program. Its responsibilities include overseeing loan disbursement and management, developing guidelines for applicant evaluation, providing advisory services on loan utilization and financial literacy, and maintaining a comprehensive database of program beneficiaries. This database will track loan performance, repayment rates, and impact metrics for submission to the MSMED Council.

The MSME Development (MSMED) Council, acting as the policy and oversight body, shall ensure the alignment of the program with broader MSME development policies. It will regularly assess the program's effectiveness, facilitate interagency collaboration, and engage private sector stakeholders to provide additional support.

The Department of Trade and Industry (DTI), as the lead agency for enterprise development, shall conduct nationwide outreach campaigns to inform MSMEs about the program. It will assist enterprises in meeting registration and compliance requirements, provide training on business management and operational efficiency, and link MSMEs to local and international markets to enhance growth opportunities.

The Department of Budget and Management (DBM) shall act as the funding coordinator, ensuring sufficient budgetary provisions in the General Appropriations Act (GAA). It shall monitor fund disbursement and utilization, collaborate with SB Corp and the MSMED Council to evaluate cost-effectiveness, and maintain transparency in financial management.

The Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) shall serve as lending conduits, working with SB Corp to process applications and provide financial counseling. They shall manage funds, implement efficient loan recovery systems, and establish local branches to ensure regional accessibility, particularly in rural areas.

To streamline coordination among agencies, joint technical committees shall be established to monitor program implementation and resolve operational issues. A unified digital platform will facilitate loan applications, processing, and monitoring, accessible to all agencies and MSMEs. Quarterly interagency meetings will review performance and address challenges, while accountability measures will assign specific targets and deliverables to each agency, tracked by the MSMED Council.

This comprehensive framework ensures a transparent, efficient, and collaborative approach, empowering MSMEs to thrive and contribute significantly to national economic development.

SECTION 9. Transparency and Accountability. An annual report on the implementation of this Act shall be submitted to Congress by the MSMED Council, detailing the number of beneficiaries, loan repayment rates, and overall economic impact.

CHAPTER IV: FUNDING AND IMPLEMENTATION

SECTION 10. Appropriations. The amount necessary to carry out the provisions of this Act shall be charged against the appropriations released for the purpose under the General Appropriations Act for SB Corp. Thereafter, such sums as may be necessary for the continued implementation of this Act shall be included in the General Appropriations Act.

SECTION 11. Implementing Rules and Regulations (IRR). Within sixty (60) days from the effectivity of this Act, the MSMED Council, in coordination with the DTI, DBM, SB Corp, DBP, and

LBP, shall promulgate the implementing rules and regulations necessary to carry out the provisions of this Act.

SECTION 12. Separability Clause. If any provision of this Act is declared invalid or unconstitutional, the remaining provisions shall not be affected.

SECTION 13. Repealing Clause. All laws, executive orders, issuances, rules, and regulations inconsistent with this Act are hereby amended, repealed or modified accordingly.

SECTION 14. Effectivity. This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,