

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City
TWENTIETH CONGRESS
First Regular Session



HOUSE BILL NO. 2098

Introduced by **REP. BERNADETTE "DETTE" G. ESCUDERO**

AN ACT
REINSTITUTING MANDATORY CREDIT ALLOCATION FOR MICRO, SMALL,
AND MEDIUM ENTERPRISES, IMPOSING FINES AND PENALTIES FOR
NONCOMPLIANCE, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

The 1987 Philippine Constitution lays a solid foundation that affirms the role of the State to promote, support, strengthen, and encourage the growth and development of MSMEs in all productive sectors of the economy. Through the enactment of Republic Act No. 6977, otherwise known as the Magna Carta for Micro, Small and Medium Enterprises (MSMEs), small-scale businesses and enterprises are guaranteed access to initiatives and programs that foster sustained growth and advancement within the business sector. Furthermore, the creation of the MSME law mandates all lending institutions to set aside at least eight percent (8%) of their loan portfolio. This mandatory credit allocation benefits MSMEs by establishing channels to source financing mechanisms that will expand or jumpstart their operations, and generate funds through penalties to finance MSME interventions.

In 2023, the Bangko Sentral ng Pilipinas (BSP) revealed that financial institutions had failed to meet the mandated quota as stipulated in the law. As noted in the 2023-2028 MSME Development Plan, data from the BSP show that in 2023, banks only extended 0.6%, 1.0%, and 2.4% of their total loan portfolio to micro, small, and medium enterprises, respectively. Therefore, even with the available funding capacities of lending institutions, public financing schemes remain limited. In addition, MSMEs show hesitancy in obtaining loans due to stringent collateral requirements, high interest rates, and limited financial literacy.

Despite the government's efforts to ensure a stable recovery, especially in a post-pandemic economy, existing initiatives have shown slow efficacy and development. Therefore, there is a necessity to reinstitute a robust approach that will bolster MSMEs' access to financial support and opportunities conducive to their growth. This bill seeks to reinforce mandatory credit allocation to provide a time-bound intervention to ease MSMEs' financial burden and advocate for efficient financing schemes, which will provide better access to a wider range of financial

services and help MSMEs in realizing their full potential in generating employment and boosting economic growth.

In view of the foregoing, the passage of the measure is earnestly sought.



HON. BERNADETTE "DETTE" G. ESCUDERO

Representative
1st District, Sorsogon

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

Section 1. Reinstitution of Mandatory Credit Allocation for Micro, Small and Medium Enterprises – For the period of ten (10) years from the effectivity of this Act, all lending institutions as defined under Bangko Sentral ng Pilipinas (BSP) 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, and make it available for Micro, Small, and Medium Enterprises (MSME) credit as contemplated in this Act: Provided, that the Secretary of Finance may extend the effectivity period of the mandatory MSME credit allocation as may be warranted by prevailing financial and economic conditions as reflected in the number and growth rate of MSME-classified establishments, MSME share in the total employment, MSME share in the Gross Domestic Product (GDP), and other socioeconomic and financial indicators to be identified by the Department of Trade and Industry (DTI) and MSME Development Council.

Lending institutions may comply with the mandatory MSME credit allocation through any of the following:

- (a) Actual extension of loans to eligible MSMEs;
- (b) Actual subscription of preferred shares of stock Small Business Corporation (SBCorp);
- (c) Wholesale lending to Participating Financial Institutions for on-lending to MSMEs;
- (d) Purchase/discount of MSME Receivables;
- (e) Extension of loans to export, import, and domestic traders; or

(f) Subscription/purchase of liability instrument as may be offered by the SBCorp.

The BSP, in coordination with the Department of Finance (DOF) and the DTI shall formulate rules for the effective implementation of this provision: provided, that the purchase of government notes, securities and other negotiable instruments shall not be deemed compliance with the foregoing provisions: Provided, further, that the BSP shall establish an incentive program to encourage lending beyond the mandatory MSME credit allocation, such as possible reduction in bank's reserve requirement.

The MSME Development Council shall establish a mechanism to monitor all MSME Loan applications to account for the absorptive capacity of the MSME sector.

The BSP shall furnish the MSME Development Council on a quarterly basis comprehensive report on the bank's compliance, noncompliance and penalties of the above provisions on the mandatory credit allocation for MSMEs.

Lending institutions which are not qualified to acquire or hold lands of the public domain in the Philippines shall be permitted to bid and take part in sales of mortgaged real property in case judicial or extra-judicial foreclosure, as well as avail of receivership, enforcement and other proceedings, solely upon default of a borrower, and for a period not exceeding five (5) years from actual possession; Provided, that in no event shall ownership and title to the property be transferred to such lending institutions. If the said lending institution is the winning bidder, it may, during a five (5) year period, transfer its rights to a qualified Philippine national, without prejudice to a borrower's rights under applicable laws.

Sec. 2. Penalties for Noncompliance – The BSP shall impose administrative sanctions and other penalties on erring lending institutions for non-compliance with the provisions of this Act. In addition, the President, members of Board of Directors, and other officers of the erring lending institutions shall be individually liable for imprisonment of ranging from six (6) months to one (1) year, a fine ranging from five hundred thousand (500,000.00) to two million pesos (2,000,000.00) each, or both, at the discretion of the court.

Ninety percent (90%) of the penalties for noncompliance shall be remitted to MSME Development council fund and shall be used for the extension of low-interest, non-collateral loans for MSMEs, while the remaining ten percent (10%) shall be retained by the BSP cover for administrative expenses.

Sec. 3. Other interventions to improve MSME's access to financing – the DTI, in coordination with the DOF and the BSP, shall formulate and implement other interventions to improve MSMEs, development of credit enhancement mechanisms, and making use of domestic savings and foreign exchange reserves.

Sec. 4. Implementing Rules and Regulations (IRR). – Within thirty (30) days from the effectivity of this Act, the BSP, the DOF and the DTI shall promulgate the rules and regulations to effectively implement the provisions of this Act.

Sec. 5. Separability Clause. – If any provision or part hereof is declared unconstitutional, the remainder of this Act or any provision not affected thereby shall remain in full force and effect.

Sec. 6. Repealing Clause. – All laws, acts, decrees, executive orders, issuances, and rules and regulations or parts thereof which are contrary to and inconsistent with this Act are hereby repealed, amended, or modified accordingly.

Sec. 7. Effectivity. – This Act shall take effect fifteen (15) days following its publication in the Official Gazette or in at least two (2) newspapers of general circulation and shall remain in full force and effect for ten (10) years unless otherwise extended provided under Section 1 of this Act.

Approved,