

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

Twentieth Congress
First Regular Session



HOUSE BILL NO. 8414

Introduced by **Representative RAYMOND ADRIAN E. SALCEDA**

AN ACT
MANDATING UNIVERSAL BANKS AND COMMERCIAL BANKS TO ALLOCATE
A PORTION OF THEIR LOANABLE FUNDS FOR MANUFACTURING
ENTERPRISES, ESTABLISHING THE PHILIPPINE MANUFACTURING CREDIT
AND COMPETITIVENESS FUND, AND FOR OTHER PURPOSES

EXPLANATORY NOTE

The manufacturing sector is the engine of sustained, high-quality economic growth. It generates employment at scale, anchors supply chains, drives technology diffusion, and creates the industrial base from which export competitiveness is built. And yet, the Philippine financial system has chronically underserved manufacturing enterprises.

Data from the Bangko Sentral ng Pilipinas (BSP) reveal that only approximately eight percent (8%) of total bank loan portfolios are directed to the manufacturing sector -- a figure that has remained stubbornly low for over a decade, and that places the Philippines well behind its ASEAN peers in manufacturing credit penetration. By contrast, Vietnam, Indonesia, and Thailand maintain manufacturing loan shares exceeding twenty percent (20%) of total bank lending.

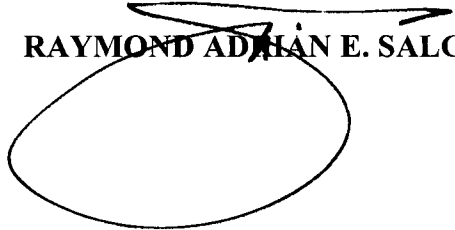
The failure of market forces alone to correct this credit gap is well-documented. Manufacturing enterprises, particularly micro, small, and medium-sized manufacturers (MSMEs), face structural barriers: longer investment horizons, higher perceived credit risk relative to consumption and real estate lending, limited collateral assets, and insufficient credit histories. Commercial lending culture in the Philippines has evolved toward short-term consumer credit, real estate financing, and large corporate lending -- all of which offer higher margins with lower perceived risk. The result is a systematic misallocation of credit away from the productive sector.

The experience of the Agri-Agra Reform Credit Act of 2009 (Republic Act No. 10000) offers instructive lessons. That law mandated banks to allocate twenty-five percent (25%) of their loanable funds to the agriculture sector. While compliance has been uneven and many banks have elected to pay penalties rather than lend, the penalty mechanism has generated billions of pesos that have been channeled into competitiveness funds -- a design feature that transformed non-compliance into productive policy capital.

This bill adopts a similar framework, tailored to the specific needs of the manufacturing sector and calibrated to the realities of universal and commercial banking. It mandates that universal banks and commercial banks allocate not less than twenty-five percent (25%) of their total loanable funds to manufacturing enterprises, to be phased in over four (4) years. It establishes a Philippine Manufacturing Credit and Competitiveness Fund (PMCCF) to receive penalty proceeds and to provide credit guarantees, interest rate subsidies, and capacity-building support. And it directs the BSP to issue clear, workable implementing guidelines to maximize genuine lending compliance over penalty substitution.

The goal is not merely to mandate allocation -- it is to reshape the incentive structure of the Philippine banking system toward the productive economy. A strong manufacturing sector is not possible without a financial system that actively funds it.

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



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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 "Philippine Manufacturing Credit Act."

SEC. 2. *Declaration of Policy.* -- It is hereby declared the policy of the State to promote industrialization as a pillar of inclusive economic development; to develop a diversified, competitive, and globally integrated manufacturing sector; and to harness the resources of the banking system in support of these national objectives. Toward this end, the State shall mandate universal banks and commercial banks to direct a substantial portion of their loanable funds to manufacturing enterprises, thereby closing the credit gap that has constrained Philippine industrial development.

SEC. 3. *Definition of Terms.* -- As used in this Act:

- (a) "Banks" shall refer to universal banks and commercial banks as defined and licensed by the Bangko Sentral ng Pilipinas under the General Banking Law of 2000 (Republic Act No. 8791), including their branches and subsidiary banks. Thrift banks, rural banks, cooperative banks, and digital banks are excluded from the coverage of this Act.
- (b) "Loanable Funds" shall mean the total loan portfolio of a covered bank as of the end of each calendar semester, determined in accordance with the regulations of the BSP, excluding non-performing loans that have been fully provided for.
- (c) "Manufacturing Enterprise" shall mean any person, sole proprietorship, partnership, corporation, cooperative, or association registered with the Department of Trade and Industry (DTI) or the Securities and Exchange Commission (SEC), and with the Bureau of Internal Revenue (BIR), that is engaged in the physical or

chemical transformation of materials, substances, or components into new products, including:

- (1) Food and beverage processing;
 - (2) Textile, garments, and footwear manufacturing;
 - (3) Fabricated metal products, machinery, and equipment;
 - (4) Electronics, semiconductors, and electrical components;
 - (5) Chemicals, pharmaceutical products, and cosmetics;
 - (6) Rubber and plastic products;
 - (7) Paper and printing products;
 - (8) Furniture and wood products;
 - (9) Transport equipment and vehicles;
 - (10) Construction materials, cement, and glass; and
 - (11) Other manufacturing activities classified under the Philippine Standard Industrial Classification (PSIC) Section C (Manufacturing) as maintained by the Philippine Statistics Authority (PSA).
- (d) "Manufacturing Loan" shall mean any credit accommodation, including direct loans, credit lines, letters of credit, trust receipts, bills discounted, accounts purchased, and other financing facilities, extended by a covered bank to a manufacturing enterprise for the purpose of:
- (1) Working capital requirements, including raw materials procurement and inventory financing;
 - (2) Capital expenditure for machinery, equipment, plant, and factory facilities;
 - (3) Research and development activities directly related to manufacturing processes or products;
 - (4) Export financing for manufactured goods; and
 - (5) Refinancing of existing manufacturing loans under terms not less favorable to the borrower.
- (e) "Philippine Manufacturing Credit and Competitiveness Fund" or "PMCCF" shall refer to the fund established under Section 9 of this Act.
- (f) "BSP" shall refer to the Bangko Sentral ng Pilipinas.
- (g) "DTI" shall refer to the Department of Trade and Industry.
- (h) "Board" shall refer to the Monetary Board of the BSP.

SEC. 4. *Coverage.* -- This Act shall apply to all universal banks and commercial banks duly licensed to operate by the BSP, including their subsidiaries engaged in lending activities. Foreign bank branches operating in the Philippines shall be covered to the extent of their Philippine peso-denominated loanable funds.

SEC. 5. *Mandatory Allocation to Manufacturing.* -- All covered banks shall set aside and lend to manufacturing enterprises a minimum percentage of their total loanable funds, as follows:

- (a) In the first year from effectivity of this Act: not less than ten percent (10%);
- (b) In the second year: not less than fifteen percent (15%);
- (c) In the third year: not less than twenty percent (20%); and

(d) In the fourth year and every year thereafter: not less than twenty-five percent (25%).

The required allocation shall be computed based on the average total loanable funds of the covered bank during the applicable semester, as determined by the BSP. At least forty percent (40%) of the required allocation shall be directed to micro, small, and medium manufacturing enterprises (MSMEs) as classified under Republic Act No. 9501, as amended.

The BSP shall issue regulations specifying eligible loan instruments, documentation requirements, and accreditation procedures for manufacturing enterprises, including a simplified accreditation track for micro and small manufacturers.

SEC. 6. Alternative Compliance Mechanisms. -- A covered bank may comply with the mandatory allocation under Section 5 through the following alternative mechanisms, subject to BSP guidelines:

- (a) Investment in manufacturing enterprise bonds, commercial papers, or debt securities issued by manufacturing enterprises and registered with the Securities and Exchange Commission (SEC);
- (b) Participation in BSP-accredited manufacturing credit facilities, including syndicated loans, credit guarantees extended to manufacturing enterprises, and rediscounting of manufacturing loans with the BSP or the Development Bank of the Philippines (DBP); and
- (c) Subscription to or investment in shares of stock of Small Business Corporation (SBCorp) or other government financial institutions dedicated to manufacturing credit, for amounts not exceeding twenty percent (20%) of the required allocation under this section.

Alternative compliance instruments shall be valued at their outstanding principal amount or, in the case of equity instruments, at cost.

SEC. 7. Penalties for Non-Compliance. -- Any covered bank that fails to meet the mandatory allocation required under Section 5, and does not qualify for exemption or does not demonstrate good faith compliance under Section 8, shall be subject to a penalty computed as follows:

- (a) The penalty shall be equivalent to one-half of one percent (0.5%) per annum of the amount of the deficiency, computed as the difference between the required mandatory allocation and the actual manufacturing loan portfolio of the bank at the end of each compliance period;
- (b) For purposes of this section, the compliance period shall be each calendar semester; and
- (c) The penalty shall be assessed and collected by the BSP within sixty (60) days from the end of each compliance period. Failure to pay the penalty within thirty (30) days from assessment shall result in a surcharge of ten percent (10%) of the penalty amount and disqualification from BSP rediscounting facilities for the succeeding quarter.

All penalties collected under this section shall be remitted in full to the Philippine Manufacturing Credit and Competitiveness Fund established under Section 9 of this Act, and shall not accrue to the general fund of the National Government.

The imposition of penalties under this section shall not preclude the BSP from taking other supervisory or enforcement actions against non-compliant banks under its existing regulatory authority.

SEC. 8. *Grounds for Exemption or Penalty Reduction.* -- The Monetary Board may grant full or partial exemption from the penalty under Section 7, or reduce the penalty assessment, in the following cases:

- (a) The covered bank demonstrates that it made genuine and documented efforts to lend to manufacturing enterprises but was unable to meet the mandatory allocation due to lack of creditworthy manufacturing loan demand in its primary service area;
- (b) The covered bank is under BSP-approved rehabilitation, conservatorship, or prompt corrective action, in which case the mandatory allocation requirement shall be proportionally reduced by the Monetary Board;
- (c) A systemic economic shock -- including a declaration of a state of national emergency, a severe banking system liquidity crisis, or extraordinary disruptions to manufacturing supply chains as determined by the National Economic and Development Authority (NEDA) -- has materially impaired the ability of covered banks to extend manufacturing credit; or
- (d) The covered bank has committed to and submitted to the BSP a concrete, time-bound manufacturing credit expansion plan acceptable to the Board, which shall not be used to secure exemptions for more than two (2) consecutive compliance periods.

The BSP shall publish annually the list of banks granted exemptions or penalty reductions under this section, together with the grounds therefor, to promote transparency and public accountability.

SEC. 9. *Philippine Manufacturing Credit and Competitiveness Fund.* -- There is hereby established a Philippine Manufacturing Credit and Competitiveness Fund (PMCCF) as a special fund under the administration of the Department of Trade and Industry, in coordination with the Development Bank of the Philippines (DBP) as Fund Manager.

The PMCCF shall be funded by:

- (a) All penalties collected under Section 7 of this Act;
- (b) An initial capitalization of not less than Two Billion Pesos (P2,000,000,000.00) to be appropriated from the National Government upon the enactment of the General Appropriations Act following the effectivity of this Act; and
- (c) Grants, donations, and contributions from domestic and foreign sources, including official development assistance (ODA) consistent with applicable law.

The PMCCF shall be used exclusively for the following purposes:

- (a) Credit guarantee coverage for manufacturing loans extended by covered banks and other financial institutions to MSMEs, to reduce credit risk and encourage genuine lending compliance;
- (b) Interest rate subsidy programs for priority manufacturing sub-sectors identified by the DTI in its Manufacturing Industry Roadmap or equivalent;
- (c) Capacity building, technical assistance, and financial literacy programs for manufacturing enterprises, particularly MSMEs, to improve their creditworthiness and bankability;
- (d) Research, data collection, and monitoring on manufacturing sector credit access and financing gaps; and
- (e) Administrative and operating expenses of the PMCCF, which shall not exceed five percent (5%) of total Fund disbursements in any given year.

A Governing Board composed of the Secretary of the DTI (as Chairperson), the BSP Governor, the Secretary of Finance, the President of the Development Bank of the Philippines, and two (2) representatives from the manufacturing industry to be appointed by the President of the Philippines, shall govern the PMCCF. The Governing Board shall adopt the PMCCF investment policy, approve annual programs and budgets, and submit an annual report to Congress.

SEC. 10. *Reporting Requirements.* -- Covered banks shall submit to the BSP a Manufacturing Loan Compliance Report on a semestral basis, within thirty (30) days from the end of each compliance period, using the format and data fields prescribed by the BSP. The report shall include a detailed breakdown of manufacturing loans by borrower classification, sector, loan purpose, loan size, interest rate, and collateral type.

The BSP shall consolidate and publish the industry-wide manufacturing loan compliance data within ninety (90) days from the end of each compliance period. The published report shall be made publicly available on the BSP website.

The DTI shall submit an annual report to Congress on the state of manufacturing credit access in the Philippines, the performance of the PMCCF, and recommendations for legislative or regulatory improvements, not later than June 30 of each year.

SEC. 11. *BSP Incentive Mechanisms.* -- The BSP is hereby authorized and directed to design and implement incentive mechanisms to encourage genuine compliance with the mandatory allocation, which may include:

- (a) Preferential rediscounting rates for manufacturing loans submitted to the BSP rediscount window;
- (b) Reduced reserve requirement ratios applicable to the portion of deposits used to fund manufacturing loans, subject to the BSP monetary policy objectives; and

- (c) Recognition programs and public commendations for banks that exceed their mandatory allocation and demonstrate best practices in manufacturing sector lending.

SEC. 12. *Priority Manufacturing Sectors.* -- The DTI, in consultation with covered banks, industry associations, NEDA, and the BSP, shall publish a Priority Manufacturing Sectors List within ninety (90) days from the effectivity of the Implementing Rules and Regulations of this Act. The list shall identify manufacturing sub-sectors with the highest strategic importance for employment generation, export competitiveness, import substitution, and technology upgrading. Banks that direct at least fifty percent (50%) of their mandatory allocation to priority sectors shall be entitled to a twenty-five percent (25%) credit multiplier in computing compliance, subject to BSP verification and anti-abuse safeguards.

SEC. 13. *Implementing Rules and Regulations.* -- The BSP, in coordination with the DTI and the Department of Finance (DOF), shall issue the Implementing Rules and Regulations (IRR) of this Act within ninety (90) days from its effectivity. The IRR shall, at minimum, prescribe:

- (a) The detailed methodology for computing loanable funds and manufacturing loan portfolios for purposes of determining compliance;
- (b) The documentation, accreditation, and eligibility standards for manufacturing enterprise borrowers;
- (c) The procedures for alternative compliance under Section 6;
- (d) The penalty assessment and collection process under Section 7;
- (e) The application and evaluation procedures for exemptions under Section 8; and
- (f) The PMCCF fund governance, disbursement, and audit procedures under Section 9.

The IRR shall take effect upon publication in a newspaper of general circulation and in the Official Gazette.

SEC. 14. *Review by Congress.* -- The relevant committees of the Senate and the House of Representatives shall jointly conduct a mandatory legislative review of the implementation of this Act not later than three (3) years from its effectivity, and every three (3) years thereafter. The review shall assess the adequacy of the mandatory allocation rate, the effectiveness of the PMCCF, the state of manufacturing credit access, and the need for legislative adjustments.

SEC 15. *Separability Clause.* -- If, for any reason, any provision of this Act is declared unconstitutional, the other section or provisions hereof which are not hereby affected shall continue to be in full force and effect.

SEC. 16. *Repealing Clause.* -- All laws, decrees, orders, rules, and regulations or portions thereof inconsistent with this Act are hereby repealed or modified accordingly.

SEC 17. *Effectivity*. -- This Act shall take effect fifteen (15) days after its complete publication in the Official Gazette or in at least two (2) newspapers of general circulation, whichever comes earlier.

Approved,