

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

22 SEP -6 P 4 :18

SENATE
S. No. 1284

RECEIVED BY: 

Introduced by SENATOR JOSEPH VICTOR G. EJERCITO

AN ACT
STRENGTHENING ACCESS TO CREDIT OF MICRO, SMALL, AND MEDIUM ENTERPRISES, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 6977, AS AMENDED, OTHERWISE KNOWN AS THE "MAGNA CARTA FOR MICRO, SMALL AND MEDIUM ENTERPRISES", AND FOR OTHER PURPOSES

EXPLANATORY NOTE

Micro, small and medium enterprises (MSMEs) have a very important role in developing the Philippine economy. According the 2021 Updating of the List of Establishments (ULE) of the Philippine Statistics Authority showed that more than 1.08 million establishments were in operation and generated 8.57 million total employment. Of the total list of establishments, MSMEs dominated the count of total employment in the ULE with 977,670 in Micro, 94,008 in Small, and 4,444 in Medium enterprises.¹

Despite policies that aim to provide an enabling environment for MSME development, the sector still faces various constraints that prevent it from realizing its full growth and potential. MSMEs are experiencing difficulty in obtaining bank financing that has been holding back the sector's growth. The share of MSME credit to total bank credit has been falling to less than 10% since 2013. The Asian Development Bank (ADB) said the share of MSME loans to banks' total lending portfolio fell to 6.1% or P588.8 billion in 2021 from 11.7% in 2010 as more lenders did not comply with the mandatory credit allocation to the sector, preferring to just pay the penalty rather

¹ PSA 2021 Updating of the List of Establishments: <https://psa.gov.ph/content/more-108-million-establishments-operated-2021-which-generated-total-employment-857-million>

than take on the risks associated with lending to firms.² Though funds have been made available by government financial institutions and private bank, most MSMEs still have difficulty accessing these funds because of insufficient collateral, limited credit histories and banking relationships, inadequate financial records and business plans, and high interest rates. MSME would thus tend to rely on informal non-banking channels for financial support.

During the pandemic, there were 259,707 establishments that permanently closed, 56,971 temporarily closed, with a combined total employment displaced due to the closure of 1.47 million.

Meanwhile, the mandatory credit allocation prescribed by Republic Act No. 6977, as amended, or the Magna Carta for Micro, Small and Medium Enterprises (MSMEs) already lapsed, despite the glaring need of MSMEs to access credit.

With these reasons, it is imperative to assists our MSMEs, most especially in this time of global economic and health crisis. Thus, this bill seeks to ensure the continued support and access to financing for MSMEs, and to address the lack of access to credit by extending the period of the mandatory allocation of credits for MSMEs for another 10 years. This bill will also set a minimum amount of penalty that may be imposed on non-compliant or under-compliant lending institutions.

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



JOSEPH VICTOR G. EJERCITO

²Article: Poor access to financing hampers MSME growthn: <https://www.creditinfo.gov.ph/businessworld-poor-access-financing-hampers-msme-growth>

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AMENDED, OTHERWISE KNOWN AS THE "MAGNA CARTA FOR MICRO,
SMALL AND MEDIUM ENTERPRISES", AND FOR OTHER PURPOSES**

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

1 Section 1. *Short Title.* – Section 15 of Republic Act No. 6977, as amended,
2 otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises
3 (MSMEs)" is hereby amended to read as follows:

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

12 Compliance of this provision shall be:

- 13 a) Actual extension of loans to eligible MSMEs; or
14 b) Actual subscription of preferred shares of shares of stock of the SB
15 Corporation; or

- 1 c) Wholesale lending to Participating Financial Institutions (PFIS) for
2 on-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) Subscribed/purchase of liability instruments as may be offered by the
7 SB Corporation.

8 The Bangko Sentral ng Pilipinas, IN CONSULTATION WITH MSMED COUNCIL
9 AND THE SECRETARY OF TRADE AND INDUSTRY, shall formulate rules for the
10 effective implementation of this provision: *Provided*, That the purchase of
11 government notes, securities and other negotiable instruments shall not be
12 deemed compliance with the foregoing provisions: *Provided*, further, That the
13 Bangko Sentral ng Pilipinas, IN CONSULTATION WITH ALL STAKEHOLDERS,
14 shall establish an incentive program to encourage lending to micro, small and
15 medium industries beyond the mandatory credit allocation to said enterprises,
16 such as possible reduction in bank's reserve requirement; *PROVIDED, FINALLY,*
17 *THAT THE PENALTY FOR NON-COMPLIANCE OR UNDER COMPLIANCE OF THE*
18 *PRESCRIBED PERCENTAGE OF CREDIT ALLOCATION PROVIDED UNDER THIS*
19 *SECTION SHALL NOT BE LOWER THAN FIVER HUNRED THOUSAND PESOS*
20 *(P500,000.00).*

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

24 The Bangko Sentral ng Pilipinas shall furnish to the MSMED Council on a
25 quarterly basis comprehensive report on the banks' compliance, noncompliance
26 and penalties of the above provisions on the mandatory credit allocation for
27 MSMEs.

28 Lending institutions which are not qualifies to acquire or hold lands of the public
29 domain in the Philippines shall be permitted to bid and take part in sales of
30 mortgaged real property in case of judicial or extra-judicial foreclosure, as well
31 as avail of receivership, enforcement and other proceedings, solely upon
32 default of borrower, and for a period of not exceeding five (5) years from actual

1 possession: *Provided*, That in no event shall title to the property be transferred
2 to such lending institution. If the lending institution is the winning bidder, it
3 may, during said five (5) year period, transfer its rights to a qualified Philippine
4 national, without prejudice to a borrower's right under applicable laws.

5 *Sec. 2. Implementing Rules and Regulations.* – Within sixty (60) days from the
6 effectivity of this Act, the Bangko Sentral ng Pilipinas (BSP), in consultation with the
7 Department of Trade and Industry (DTI) , the MSMED Council and other relevant
8 stakeholders, shall issue the implementing rules and regulations for the effective
9 implementation of this Act.

10 *Sec. 3. Separability Clause.* – If any provision of this Act is declared invalid or
11 unconstitutional, the provisions not affected thereby shall continue to be in full force
12 and effect.

13 *Sec. 14. Repealing Clause.* – All laws, decrees, orders, rules and regulations or
14 parts thereof which are contrary to or inconsistent with the provisions of this Act are
15 hereby amended, repealed or modified accordingly.

16 *Sec. 15. Effectivity.* – This Act shall take effect immediately after fifteen (15)
17 days from its publication in the Official Gazette or in a newspaper of general
18 circulation.

Approved,