

[BSP CIRCULAR NO. 147, October 24, 1997]

**RULES AND REGULATIONS TO GOVERN THE MANDATORY
ALLOCATION OF CREDIT RESOURCES TO SMALL AND MEDIUM
ENTERPRISES**

Pursuant to Republic Act No. 6977, otherwise known as the "Magna Carta for Small Enterprises", as amended by Republic Act No. 8289, An Act to Strengthen the Promotion and Development of, and Assistance to Small and Medium Scale Enterprises, the Monetary Board, in its Resolution No. 1361 dated October 15, 1997, approved the following rules and regulations to govern the mandatory allocation of credit resources to small and medium enterprises:

SECTION 1. Definition of Terms. — For purposes of this Circular, the following definitions shall apply:

a) **Lending Institution** — shall refer to and include all banks, namely, expanded commercial banks, commercial banks, local branches of foreign banks, specialized government banks, thrift banks and rural banks.

b) **Loan Portfolio** — shall include all loans and advances (net of valuation reserves) in the Consolidated Statement of Condition/Balance Sheet excluding the following: Interbank Loans Receivables; Agrarian Reform/Other Agricultural Credit Loans — P.D. No. 717; loans granted under Special Financing Programs; foreign currency denominated loans and advances; loans from multilateral and bilateral sources which are relented by a bank on a wholesale basis to conduit financial institutions;

c) **Small and Medium Enterprises** — shall refer to any business activity or enterprise engaged in industry, agri-business and/or services, whether single proprietorship, cooperative, partnership or corporation:

(1) whose total assets inclusive of those arising from loans but exclusive of the land now which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Micro	less than P1,500,001
Small	P1,500,001 - P15,000,000
Medium	P15,000,001 - P60,000,000

In a generic sense, all enterprises with total assets of P15,000,000 and below shall be called small enterprises.

(2) duly registered with the appropriate agencies as provided by law. Provided, that in the case of micro enterprises as defined herein, registration with the Office of the Municipal or City Treasurer should be deemed compliance with this requirement;

(3) one hundred percent (100%) owned and capitalized by Filipino citizens if single proprietorship or partnership. If the enterprise is a corporate entity, at least sixty percent (60%) of its capital or outstanding stocks must be owned by Filipino citizens;

(4) a business activity within the major sectors of the economy, namely: industry, services, including the practice of one's profession, the operation of tourism-related establishments, and agri-business, which for this purpose refers to any business activity involving the manufacturing, processing and/or production of agricultural produce, excluding farm level agricultural/crop production; and

(5) it must not be a branch, subsidiary or division of a large scale enterprise nor may its policies be determined by a large scale enterprise, or by persons who are not owners or employees of the enterprise.

SECTION 2. Mandatory Allocation of Credit Resources to Small and Medium Enterprises. —

a) All lending institutions, whether public or private, shall, for a period of ten years starting on August 12, 1997 and up to August 9, 2007, set aside at least six percent (6%) and at least two percent (2%) for small and medium enterprises, respectively, of their total loan portfolio based on their balance sheet as of the end of the previous quarter, and make it available for small and medium enterprise credit.

Banks may, however, be allowed to report compliance on a groupwide basis (based on consolidated financial statements of investor financial institution or parent bank and its subsidiary banks) provided that said subsidiaries are at least 75% owned/controlled by the parent bank, subject to the following conditions:

(1) The consolidated report shall be submitted by the bank in the prescribed form (Annex A) and which shall be supported by the individual reports of the bank and its subsidiaries duly signed by each bank's authorized signatory. The subsidiaries shall continue with their separate submission of the subject report to their respective SES departments within the prescribed period.

(2) Only the parent bank can exercise the right to avail/use the excess allocation of its subsidiaries for its own compliance.

(3) In the event of a deficiency in compliance of any parent bank or subsidiary or all of these banking institutions, the members of the Board of Directors and its President and other officers of the parent bank shall be responsible for the Group's compliance.

b) For purposes of determining compliance with the mandated allocation, loans to small enterprises and such instruments mentioned in Section 3.c which have been rediscounted with or funded by the Small Business Guarantee and Finance Corporation (SBGFC) or the Bangko Sentral shall be excluded.

SECTION 3. Funds Set Aside in Accordance with the Foregoing Requirement shall be made Available for any of the Following: