

MSME Development for Inclusive Growth

Senate Bill 2046—“Promoting job generation and inclusive growth by providing additional incentives and benefits to micro, small and medium enterprises”, otherwise known as the Go Negosyo Act—was approved on third reading by the Senate last 24 February.

The bill provides for the establishment of Negosyo Centers in every city and municipality to facilitate the opening of new businesses and to assist MSMEs in availing credit and financing, and other support services. The existing Micro, Small and Medium Enterprise Development (MSMED) Council under the Department of Trade and Industry (DTI) will be strengthened to act as the coordinating and oversight body of the Negosyo Centers.

Initially, the bill provides that MSMEs will be categorized according to total assets:

- Micro – not more than P5 million
- Small – more than P5 million to P15 million
- Medium – more than P15 million to P100 million

Such classification, however, may be reviewed and adjusted by the MSMED Council, after due consideration of the consumer price index and other economic indicators and other variables, such as the business' number of employees or its capitalization.

At present, MSMEs are defined as any business activity or enterprise engaged in industry, agribusiness and/or services that may be classified according to asset size (exclusive of land) or the number of employees¹. This classification does not take into account whether an MSME is a single proprietorship, partnership, cooperative, or corporation.

Existing MSME Classification

Enterprise	Category	
	By Asset Size	By Employment Size
Micro	Not more than P3 million	1-9 employees
Small	P3,000,001 to P15 million	10-99 employees
Medium	P15,000,001 to P100 million	100-199 employees

¹ RA 9501, the Magna Carta for MSMEs; and on the category of establishments used by the National Statistics Office, respectively.

Executive Corner

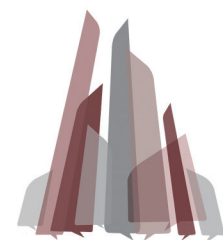
NEW APPOINTMENTS

Edwin R. Lopez – Undersecretary, Department of Transportation and Communications

Eduardo SL. Oban Jr. and Ramon Mateo U. Dizon – Undersecretary, Office of the Executive Secretary

Jose Emmanuel P. Reverente – Undersecretary, Department of Finance

Victorio Mario A. Dimagiba – Undersecretary, Department of Trade and Industry



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Economic impact of MSMEs

2011 data from the DTI state that, out of a total 820,255 business enterprises in the Philippines, 99.6% (816,759) are MSMEs. These enterprises generated over 3.87 million jobs, which accounted for 61% of the total jobs produced by all business establishments for the year.

By industry sectors, MSMEs are mostly engaged in wholesale and retail trade and repair of motor vehicles and motorcycles (383,636 enterprises), manufacturing (111,765 enterprises), and accommodation and food service activities (105,123 enterprises). These industries comprise 73.2% of all MSMEs and 53.5% of total employment in the micro, small and medium businesses. Bulk of these enterprises are located in the National Capital Region, followed by CALABARZON, and Central Luzon.

In terms of value-added, however, MSMEs account for only 35.7%.² It is also estimated that 60% of all exporters are MSMEs, but only contribute 25% to total exports revenue.³

Despite the thrust to promote and support MSME development, enterprise size distribution has remained almost unchanged in recent years. Interventions, particularly through legislation such as the Magna Carta for Micro, Small and Medium Enterprises (RA 9501), and other programs, including microfinance and capacity building, were not enough to support the upward scaling of micro and small enterprises towards being medium-sized. Presently, medium enterprises comprise a mere 0.4% of all MSMEs, with an 11.7% contribution to employment

Financing and support measures

In his sponsorship speech, Sen. Bam Aquino said that the Go Negosyo bill addresses the current gap in the government's support system. "At the heart of the Go Negosyo bill is infrastructure and support for MSMEs at the city and municipal level so that each local government is able to boost MSME growth and provide jobs and livelihood for their constituents," he said.

Thus, if enacted, the Go Negosyo bill will help achieve the objectives of the MSME Development Plan 2011-2016 of raising gross value added of MSMEs to 40%, as well as in generating two million jobs by 2016.

Among the support mechanisms envisioned by the bill is to improve access to credit to finance start-up and development costs. Through the proposed measure, a special credit window will be established by the Land Bank of the Philippines, Development Bank of the Philippines, the Small Business Corporation, the People's Credit and Finance Corporation, and other public financial institutions.

Furthermore, all public lending institutions will be mandated to set aside at least 30% of their total loan portfolio⁴ for MSMEs for a period of 10 years from effectivity of the Act. This increase in the minimum mandatory allocation is a significant boost compared to the 8% for micro enterprises and 2% for medium enterprises currently provided by RA 9501. According to the Bangko Sentral, banks have already exceeded this mandatory loan allocation; however only 33.2% of enterprises have access to financing through formal financial institutions.⁵

² MSME Development Plan 2011-2016

³ *Bridging the Gap: Philippine SMEs and Globalization*, Small Enterprises Research and Development Foundation (SERDEF), Inc., and UP-ISSI, 2001.

⁴ Based on the institution's balance sheet as of the end of the previous quarter

⁵ Senate Economic Planning Office. (2012). *The MSME Sector At A Glance*.

The above proposals will augment existing government initiatives in MSME financing. In 2004, the government launched the SME Unified Lending Opportunities for National Growth (SULONG) program to increase the amount of funds channelled to MSMEs, providing for standardized loan requirements, uniform and manageable terms, and timeliness of action to loan requests. The program was intensified into the Access of Small Enterprises to Sound Lending Opportunities (ASENSO) program in 2011 to include nine government financial institutions and three line agencies. As of 2012, the program has released a total of P272.6 billion to 325,132 small and medium enterprises.⁶

To further strengthen and develop small businesses, the Go Negosyo bill provides MSMEs with the following incentives and benefits:

- a) Micro Enterprises – (1) exemption from income tax, and (2) exemption from the coverage of the minimum wage law⁷
- b) Small and Medium Enterprises – deduction of P40,000 from gross income for each new employee hired in a given taxable year (up to P80,000) provided that the employment must be continuous for a period of at least one year subsequent to its registration. Incentive may be availed for a period of five years from the effectivity of the Act
- c) Micro, Small and Medium Enterprises – (1) exemption from VAT and other percentage tax subject to qualifications, and (2) reduced local taxes and fees

Aside from incentives and access to credit, information and education initiatives will also be implemented. The MSMED Council will also conduct research and formulate policies for women entrepreneurs. It shall further develop entrepreneurial course curricula and conduct training sessions in coordination with DepEd, TESDA and CHED.

Increased competitiveness

The enactment and effective implementation of the bill's provisions will further boost the county's competitiveness in doing business. According to the World Bank's 2014 Ease of Doing Business Report, the Philippines ranked 108th (out of 189 economies)—an improvement from 133rd (out of 185 economies) in the previous year.

However, despite the Philippines being the most improved in Southeast Asia in the overall rankings, the country continues to pale in comparison to the rest of ASEAN. In fact, amidst such improvements, the Philippines slipped four places in the "starting a business" category the latest report.

Existing MSME Classification

Enterprise	Rank		Starting a business		
	2014 Doing Business	Starting a business	Procedures (number)	Time (days)	Cost (% of GNI per capita)
Singapore	1	3	3	2.5	0.6
Malaysia	6	16	3	6	7.6
Thailand	18	91	4	27.5	6.7
Brunei	59	137	15	101	9.9
Vietnam	99	109	10	34	7.7
Philippines	108	170	15	35	18.7
Indonesia	120	175	10	48	20.5

Source: World Bank, Doing Business 2014

⁶ Small Business Corporation

⁷ Provided that all employees shall be entitled to benefits available to regular employees (i.e. social security, Pag-ibig, healthcare)

The Negosyo Centers will address this and other difficulties through a streamlined registration process via a unified business processing system. The Negosyo Centers will be the ones to accept all applications for registration and will also coordinate with the pertinent government agencies in processing the duly accomplished forms.

SB 2046 has been already transmitted to the House of Representatives, where several similar versions have been filed. HBs 3729, 3776, 4007, 4015, however, remain pending with the Committee on Small Business & Entrepreneurship Development. ■

The **CongressWatch Report** is a regular publication of the Makati Business Club. Its main mission is to promote accountability and transparency of elected government officials. For inquiries, suggestions, and additional information, please call CongressWatch at telephone nos. 751-1143 to 45 or email patrick.chua@mbc.com.ph.

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