

[REPUBLIC ACT NO. 6977, January 24, 1991]

AN ACT TO PROMOTE, DEVELOP AND ASSIST SMALL AND MEDIUM SCALE ENTERPRISES THROUGH THE CREATION OF A SMALL AND MEDIUM ENTERPRISE DEVELOPMENT (SMED) COUNCIL, AND THE RATIONALIZATION OF GOVERNMENT ASSISTANCE PROGRAMS AND AGENCIES CONCERNED WITH THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES, AND FOR OTHER PURPOSES

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

CHAPTER I

SECTION 1. *Title.* - This Act shall be known as the "Magna Carta for Small Enterprises."

SEC. 2. *Declaration of Policy.* - Recognizing that small and medium scale enterprises have the potential for more employment generation and economic growth and therefore can help provide a self-sufficient industrial foundation for the country, it is hereby declared the policy of the State to promote, support, strengthen and encourage the growth and development of small and medium enterprises in all productive sectors of the economy particularly rural/ agri-based enterprises. To this end, the State shall undertake to spur the growth and development of small and medium enterprises throughout the country and thereby attain countryside industrialization:

- a. by assuring, through the establishment of adequate support structure, and the creation and promotion of an environment conducive to the viability of these enterprises, establishment of mechanisms, the access and transfer of appropriate technology needed by small and medium enterprises;
- b. by intensifying and expanding programs for training in entrepreneurship and for skills development for labor;
- c. by facilitating their access to sources of funds;
- d. by assuring to them access to a fair share of government contracts and related incentives and preferences;
- e. by complementing and supplementing financing programs for small and medium enterprises and doing away with stringent and burdensome collateral requirements that small entrepreneurs invariably find extreme difficulty complying with;
- f. by instituting safeguards for the protection and stability of the credit delivery system;
- g. by raising government efficiency and effectiveness in providing assistance to small and medium enterprises throughout the country, at the least cost;

- h. by promoting linkages between large and small enterprises, and by encouraging the establishment of common service facilities;
- i. by making the private sector a partner in the task of building up small and medium enterprises through the promotion and participation of private voluntary organizations, viable industry associations, and cooperatives; and
- j. by assuring a balanced and sustainable development through the establishment of a feedback and evaluation mechanism that will monitor the economic contributions as well as bottlenecks and environmental effects of the development of small and medium scale enterprises.

SEC. 3. *Small and Medium Enterprises as Beneficiaries.*- "Small and medium enterprise" shall be defined as any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Micro	:	less than	P50,000
Cottage	:	P50,001	- P500,000
small	:	P500,001	- P5,000,000
medium	:	P5,000,001	- P20,000,000

In a generic sense, all enterprises with total assets of Five million pesos (P5,000,000) and below shall be called small enterprises.

The above definitions shall be subject to review and adjustment by the said Council as deemed necessary, taking into account inflation and other economic factors.

SEC. 4. *Eligibility for Government Assistance.* - To qualify for assistance, counseling, incentives and promotion under this Act, businesses falling under the above definition must be:

- a. duly registered with the appropriate agencies as presently provided by law: Provided, That, in the case of micro enterprises as defined herein, registration with the office of the municipal or city treasurer shall be deemed sufficient compliance with this requirement;
- b. one hundred percent (100%) owned and capitalized by Filipino citizens if single proprietorship or partnership. If the enterprise is a juridical entity at least 60% of its capital or outstanding stocks must be owned by Filipino citizens;
- c. primarily engaged in manufacturing, processing, and/or production excluding farm level agricultural/crop production; and
- d. 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.

However, this requirement shall not preclude a small and medium enterprise from accepting subcontracts from large enterprises or firms joining in cooperative activities with other small and medium enterprises.

Programs of the financing corporation as provided in subsequent Sections of this Act shall be exclusively targeted to small, cottage and micro-sized enterprises.

Financing from the Philippine National Bank, Development Bank of the Philippines, Land Bank of the Philippines and other financial institutions shall be made available to medium enterprises.

Medium enterprises, however, shall be entitled to avail of the other incentives, programs and services as provided for in this Act.

SEC. 5. *Guiding Principles.* - To set the pace for small and medium enterprise development, the State shall be guided by the following principles:

- a. Minimal set of rules and simplification of procedures and requirements. All government agencies having to do with small enterprises shall pursue the principles of minimum regulation to ensure stability of rules and to encourage entrepreneurial spirit among the citizenry. The agencies shall see to it that procedural rules and requirements, within their respective offices and in coordination with other agencies, are minimized in the act of registration, availment of financing and accessing other government services and assistance.
- b. Role of the private sector. In order to hasten growth and expansion of small and medium enterprises, the private sector throughout the country shall be encouraged to assist in the effective implementation of this Act by constantly policing their ranks; and by participating in government programs for small and medium enterprises strictly in accordance with law, and consistent with the attainment of the purposes hereof. The government shall encourage the organization and establishment of small and medium enterprise industry associations at the local and regional levels preferably unified under a national federation/association.
- c. Coordination of government efforts. Government efforts shall be coordinated to achieve coherence in objectives. All appropriate offices, particularly those under the Departments of Trade and Industry, Finance, Budget and Management, Agriculture, Agrarian Reform, Environment and Natural Resources, Labor and Employment, Transportation and Communication, Public Works and Highways, Science and Technology, and Local Government as well as the National Economic and Development Authority and the Central Bank of the Philippines, through their national, regional and provincial offices, shall to the best of their effort and in coordination with local government units, provide the necessary support and assistance to small and medium enterprises.
- d. Decentralization. The State shall accelerate the decentralization process by establishing regional and provincial offices in order to enhance and attain greater efficiency in the provision of services to the countryside and the implementation of this Act, in coordination with local government units. To this end, the Government Agencies shall effect a substantial delegation of authority their regional and provincial offices to make decisions, particularly in the registration of beneficiaries of this law, qualification for availment of benefits, accreditation of private voluntary organizations, industry associations and cooperatives, and to resolve complaints for violation of applicable laws.

CHAPTER II

SEC. 6. *Creation of a Small and Medium Enterprise Development Council.* - To effectively spur the growth and development of small and medium enterprises throughout the country, and to carry out the policy declared in this Act, a Small and

Medium Enterprise Development (SMED) Council is hereby created. The Council shall be attached to the Department of Trade and Industry and shall be duly constituted within sixty (60) days after the approval of this Act. The Council shall be the primary agency responsible for the promotion, growth and development of small and medium enterprises in the country by way of facilitating and closely coordinating national efforts to promote the viability and growth of small and medium enterprises, including assisting relevant agencies in the tapping of local and foreign funds for small and medium enterprise development, as well as promoting the use of existing guarantee programs.

SEC. 7. *Composition.* - The Council shall be headed by the Secretary of Trade and Industry as Chairman. The members shall be the following:

- a. Director General of the National Economic and Development Authority;
- b. Secretary of Agriculture;
- c. Secretary of Labor and Employment;
- d. Secretary of Environment and Natural Resources;
- e. Secretary of Science and Technology;
- f. Chairman of Small Business Finance and Guarantee Corporation;
- g. Chairman of the small and medium enterprises promotion body which the President shall undertake to establish under this Act; and
- h. Three (3) representatives from the private sector, all Filipino citizens, to represent Luzon, Visayas and Mindanao to be appointed by the President, one of whom shall come from the banking industry.

Cabinet-rank ex officio members of the Council shall designate an undersecretary or assistant secretary as their permanent representative in case they fail to attend meetings of the Council.

The private sector members of the Council shall initially receive per diem of One thousand pesos (P1,000.00) per meeting.

The Department of Trade and Industry shall allocate Five million pesos (P5,000,000.00) out of its savings for the initial operating expenses of the Council, after which the Council's budget shall be included in the annual appropriation of the Department of Trade and Industry.

The Council may, from time to time, call upon the participation any government agency or association of local government officials in its deliberations especially when such agency is directly or indirectly concerned with and/or affecting the growth and development of small and medium enterprises in any particular area or manner.

SEC. 8. *Powers and Functions.* - The Small and Medium Enterprise Development (SMED) Council shall have the following powers, duties and functions:

- a. to help establish the needed environment and opportunities conducive to the growth and development of the small and medium enterprise sector;
- b. to recommend to the President and the Congress all policy matters affecting small and medium scale enterprises;
- c. to formulate a comprehensive small and medium enterprise development plan to be integrated into the National Economic and Development Authority Development Plans;