

Policy Incentives Granted to Local SMEs in the Philippines

Tax

A. Direct tax (Income taxation)

Provision of fiscal incentives to all registered Barangay Micro Business Enterprises (BMBEs)

Exemption from payment of income tax for income arising from the operations of the enterprise (The LGUs are encouraged to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges.

Provision of fiscal incentives to direct and indirect exporters including export traders

- (a) Exemption from advance payment of customs duties and taxes;
- (b) Duty free importation of machinery and equipment, raw material inputs and packages;
- (c) Tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally;
- (d) A tax credit of 25 per cent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs;
- (e) A tax incentive.

Export-oriented enterprises are also eligible to apply for incentives when locating in the Philippine Economic Zone Authority (PEZA), Clark Special Economic Zone Authority (CSEZ) and the Subic Special Economic and Freeport Zone (SSEFZ).

- (a) Corporate income tax exemption from four to eight years;
- (b) Exemption from duties and taxes on imported capital equipment, spare parts, materials and supplies;
- (c) Exemption from national and local taxes;
- (d) Tax credit from import substitution;
- (e) Tax credit on domestic capital equipment;
- (f) Tax-free and duty-free importation of breeding stocks and genetic materials;
- (g) Tax credit on domestic breeding stocks and genetic materials;

Exemption from Value-Added Tax for certain exporting industries

B. Indirect tax (others)

Investors may be given certain benefits and incentives provided he invests in preferred areas of investment found in the Investment Priorities Plan (IPP)

- (a) Exemption from wharfage dues and export tax, duty import and fees

- (b) Additional deduction for labor expense (ADLE)
- (c) Additional deduction for necessary and major infrastructure works (This privilege is not granted to mining and forestry-related projects)

Excise tax on exported goods that are locally produced or manufactured may be credited or refunded upon submission of the proof of actual exportation and upon receipt of the corresponding foreign exchange payment.

Excise taxes on distilled spirits impose a lower tax on products made from materials that are indigenously available (e.g. coconut, palm, sugarcane)

Mandatory Allocation of Credit Resources to Small Enterprises
All financing institutions are required to set aside at least six percent (6%) and at least two percent (2%) for small and medium enterprises respectively, of their total loan portfolio.

Non-tax

A. Financial

Guarantee and financial facilities

Small Business Guarantee Fund Corporation (SBGFC)

- (a) SME Force - SME Financing for Organizationally competent and Excellent Franchise Businesses is a franchise development financing facility that will be implemented with the participation of the franchisors' organizations. Coupled with the "Captains of Industry", it will be used as a strategy to develop backward and forward linkages among and between leading businesses and SMEs in the domestic economy.
- (b) FIRST LIGHT - A financing program for the best business ideas that will contribute to the development of the five (5) priority industries. The best ideas shall be competitively chosen from proposals endorsed by DTI through its regional/provincial offices.
- (c) GUIDE - Guarantee Incubation for DTI Endorsed Enterprises is a P100 million direct lending facility of the Small Business Guarantee and Finance Corporation (SBGFC).
- (d) Small Enterprise Financing Facility (SEFF) - SEFF was established to supplement the financial system's resources for small and medium enterprise development financing. Under the SEFF, accredited financial institutions (AFIs) which are in need of funds for small and medium enterprise financing may approach the SBGFC and apply for accreditation as lending conduits. Prospective SME borrowers may then directly apply with any of the AFIs under the SEFF. With SEFF, the SBGFC finances up to a maximum of 90% of the project cost, with the AFIs co-financing at least the remaining 10%.
- (e) Rediscounting Facility for Small Enterprise Loans - It is a credit window where accredited financial institutions (AFIs) may negotiate their eligible SME loans/credit instruments with SBGFC. AFIs, which wish to avail of loans from the window, can rediscount their promissory notes by assigning/endorsing with recourse promissory notes in favor of the SBGFC together with its underlying securities.

- (f) Guarantee Program - This product was designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. Such a scheme is aimed at increasing the flow of funds from the formal lending institutions to the small and medium enterprise sector, especially those without collateral. The guarantee works as a collateral substitute or as a collateral supplement.
- (g) Transactional Direct Financing Facility - This is a stopgap program which immediately addresses the credit needs of SMEs, particularly in the export sector. Here, SBGFC coordinates with a network of industry associations to determine specific problem areas wherein SBGFC could directly intervene. SBGFC provides direct financing on a per transaction basis. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. A variant of this facility was later launched to assist SMEs with requirements of longer-term maturities up to a year for business expansion and other working capital/fixed asset requirements.

Wholesale Lending Facilities

Development Bank of the Philippines (DBP)

- (a) Industrial Support Services Expansion Program (ISSEP) - promotes the construction, expansion or modernization of plant and related services, including land improvements related to these. It finances the acquisition of raw materials, equipment and parts, and environment-related projects on stand alone basis or part of plant construction or expansion. Target sectors are manufacturing like food, textile, wood, industrial machinery, chemicals and non-manufacturing sector like computer software, transport services and communication.
- (b) Industrial Guarantee and Loan Fund (IGLF) - This may be availed by enterprises engaged in the manufacture or processing of products on a commercial scale as well as the delivery of services supportive of manufacturing activities. It also provides credit supplementation support through the extension of guarantee schemes to stimulate the flow of credit to SMEs. The facility may be used for the purchase of factory site for new and expansion project, construction of factory building, purchase of equipment and permanent working capital.

Retail Lending Facilities

- (a) Window III - the centerpiece of DBP's retail lending operations. It finances innovative and socially desirable projects with high developmental impact. Below are some of the programs assisted under this:
 - 1. Agricultural Production and Food Security Financing
 - 2. Damayan Pangkabuhayan Program
 - 3. Women Entrepreneurs Financing Program

Funds to Non-Government Organizations (NGOs) for relending to eligible micro enterprises

Set up of a private sector-led Export Financing Institution that will focus on the unique needs of the export sector.

Mandatory Allocation of Credit Resources to Small Enterprises
All financing institutions are required to set aside at least six percent (6%) and at least two percent (2%) for small and medium enterprises respectively, of their total loan portfolio.

B. Facilitation of exports/import

Export assistance network

a. Export Assistance Network (EXPONET) - serves as a trade facilitation office that provides real and immediate assistance to existing and potential exporters. Below are its services:

1. Export Trade Information Dissemination
2. Export Procedures and Documentation
3. Buyer-Supplier Matching
4. Export Financing and Incentives and Raw Material Sourcing
5. Tax and Duty-Free Importation of Raw Materials for Re-export
6. Institutional Linkages
7. Handling of Export Trade complaints
8. Exporters Accrediation

b. SME Centers

SME Centers are "one-stop-shops" located in various parts of the country that provide information, advisory and consulting services in the following areas: productivity, improvement, technology upgrading, market information, product and market development, trade promotion, credit, financing and entrepreneurial development.

Simplification and streamlining of administrative procedures to shorten the process of exporting.

- (a) Electronic Data Interchange (EDI) project - automate the processing of export declarations and applications for authority to load.
- (b) Faster turnaround time in the processing of export documents (from one week to a half-day) with the removal of duplicating functions/agencies.

Establishment of the Philippine trade centers which shall house the trade promotion offices and shall serve as permanent exhibit sites of the country's export products.

Development, expansion and strengthening of trade linkages among and between the local manufacturing and trade sectors.

Development of SME databases which provides easy access to buyers and suppliers.

Availability of information on basics of importing, customs and tariff rates, import liberalization program and import monitoring of sensitive and liberalized commodities.

C. Subsidies for utilities

Exhibition halls are provided by government institutions (i.e. Philippine Trade Training Center and Philippine International Convention Center).

Partial subsidy of exhibition areas in non-government owned buildings (e.g. shopping centers, parks, hotels, etc.).

Technology business incubators are established

D. Incentives for given location/region

Registered Economic Zone

Incentives in the form of export tax exemptions, income tax deductions due to operational losses, including loan and other financial credit assistance. Registered zone enterprises are likewise entitled to prior allocation of foreign currencies by the Bangko Sentral ng Pilipinas (BSP), or by any of its authorized agent banks.

Less developed Areas

Income tax holidays, tax credit for exporters with increase revenues, additional tax credits for exporters of non-traditional products, additional deduction for necessary and major infrastructure works: RA 7844, or Export Development Act, provides these incentives to exporters

Additional deduction from taxable income of 100% of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year is observed.

Local Government Units (LGUs)

Under the LGU Code LGUs may provide fiscal and non-fiscal incentives to SMEs

E. others

Preferential treatment in the procurement of raw materials

SMEs are entitled to a share of at least ten percent (10%) of total procurement value of goods and services to all government offices.

Exemption from the coverage of the minimum wage law to all registered BMBEs

Inventors

RA 7459 provides Tax/Duty Exemptions Assistance, Loan Assistance Program, Testing Analyses, Travel Assistance and accreditation of inventor's organizations.

Provides financial assistance for the preparation of pre-feasibility studies and business plans for selected technologies to establish not only the economic viability of adopting/using the technology but perhaps more importantly to guide our scientists in their R&D to further improve the technology.

R & D

Department of Science and Technology (DOST) assists SMEs in the manufacturing sector to attain higher productivity. DOST through Technology Application and Promotions Institute (TAPI) fields consultancy teams composed of industrial engineers and experts to provide productivity consultancy services to various firms throughout the country.