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Joint DAR-LANDBANK
Memorandum Circular No. 01
Series of 2009

SUBJECT: Grassroots Microfinance in Agrarian Reform Areas (GMFA)

I. BACKGROUND AND RATIONALE

The Philippine government, under the leadership of President Gloria Macapagal-Arroyo, emphasized the need to eradicate poverty through equitable growth, rural development and social sector investment. In the Medium-Term Development Plan (MTDP) 2004-2010, microfinance is one of the ten-point agenda identified to reduce poverty. The plan envisions that three million entrepreneurs will have access to microfinance services leading to the creation of 10 million jobs within six years.

Congruent with this thrust and directions of the national government, particularly in recognizing the effectiveness of microfinance in poverty reduction, the Department of Agrarian Reform (DAR) issued MC No.17, series of 2003 stipulating the Microfinance Policy Framework for Agrarian Reform Areas to provide for an effective delivery of financial services to household and community-based enterprises in agrarian reform areas.

The policy framework is anchored on the following principles:

- a. Promotion of savings mobilization and/or capital build-up generation (CBU) among agrarian reform beneficiaries (ARBs) and other community members in Agrarian Reform Areas (ARAs);
- b. Adoption of market-based interest rates;
- c. Implementation of sound financial practices; and
- d. Partnership with microfinance institutions

To achieve the goals of enhancing the delivery of financial services in the rural areas under MC No. 17, the Department implements microfinance programs as part of the package of support services. Traditionally the ARBs are linked with government financial institutions such as the Land Bank of the Philippines (LANDBANK), for financing of farming activities. DAR also has several foreign-assisted projects with microfinance components covering agrarian reform communities (ARCs) in selected provinces that mainly

provide training and technical assistance to enable microfinance institutions to lend to households within their target ARCs.

Despite efforts done, there is still a big number of ARBs that are not reached by formal financial institutions. The DAR-BARBD Beneficiaries Research on Microfinance Access of ARB Households (2003) indicate that almost 550,000 or 26% of the total number of ARBs in the country who needed to borrow have no access to formal credit, and that almost two-thirds (66%) of these ARBs are located outside the ARCs.

In view of this, there is a need to continue searching for ways to reach out to this large number of ARBs still needing access to formal credit, most of whom are located in poor farming communities.

II. The GRASSROOTS MICROFINANCE IN AGRARIAN REFORM AREAS (GMFA)

A. Program Objectives

The program aims to link ARBs and members of their household to microfinance institutions (MFIs) that can provide them with financial services on a sustainable basis. In particular, GMFA seeks to achieve the following:

1. Facilitate the access of ARBs through linking with MFIs that will provide financial and other services to the ARBs and other community members in ARAs;
2. Provide capability building assistance and credit support to cooperatives to enable them to become effective and efficient microfinance service providers;
3. Provide effective learning approaches and technical assistances on grassroots microfinance, specifically on savings and credit schemes; and
4. Identify and develop mechanisms that would sustain the gains of the technical assistance given to the ARBs, cooperatives, and MFIs.

B. Target Areas

The program will cover twenty provinces as initial target areas. The selection criteria include:

1. Absence of, or minimal, foreign-assisted projects (FAPs) intervention in the province and ARC;
2. Large number of ARBs that are in need of credit;
3. Priority to be given to ARCs in predominantly coconut-producing areas; and
4. Priority to be given to ARC areas previously assisted by DAR and Punla sa Tao Foundation, Inc.

C. Program Strategies

The program shall employ two major strategies namely

1. Linking ARBs and other community members in ARAs to MFIs; and
2. Developing selected ARB cooperatives and/or other local organizations presently catering to ARBs to become effective and efficiently microfinance providers.

The first strategy will be to tap strong MFIs willing to serve ARBs in ARAs. The program will encourage adoption of best practices of MICROSOL and AGRISOL, whenever appropriate, in servicing the various microfinance needs of ARBs in ARAs. This will ensure program implementation to be done relatively quickly and at lower cost.

The second strategy of developing ARB cooperatives as microfinance providers will be pursued only if no MFI will be able to cover the target communities. The program recognizes MICOOP of NATCCO (National Confederation of Cooperatives) and BOAT of CARD Center for Agriculture and Rural Development as initial framework for capacitating ARB cooperatives to become microfinance providers. The program is open to other models for capacity building of cooperatives in the course of the five-year GMFA program duration.

In cases where an active and strong ARB cooperative exists within or near an area that is being served by a MFI, the program will support efforts to explore conduit arrangements mutually acceptable to both cooperative and the MFI.

The organization of new cooperatives under the program, however, will only be encouraged if there are no MFIs or cooperatives within or near the target communities. New cooperatives should be based on the standards of MICOOP and/or BOAT models.

The program will not prescribe particular microfinance methodologies such as those in group and individuals lending for adoption by the MFIs and cooperatives in the target areas. It shall, however, prioritize those methodologies that will facilitate full accomplishment of program targets within agreed timelines.

C.1 Linking ARB households to MFI

To enable MFIs to serve the target ARBs, the program will provide the MFIs with:

- a. institutional support fund; and
- b. performance-based incentives

Institutional Support Fund to MFIs. The program, through DAR/BARBD (Bureau of Agrarian Reform Beneficiary Development), will provide institutional grants that will help MFIs jumpstart lending operation to ARBs and other borrowers under GMFA. The amount of grant to the MFIs will be based on the agreed performance targets i.e., (a) number of active ARB clients served, (b) loans outstanding provided, and (c) savings/CBU generated.

Performance-based Incentives for MFIs. Incentives will be provided to reward MFIs that will meet their outreach and portfolio quality targets. These incentives will be given quarterly and used exclusively for:

- a. training of ARB clients on livelihood projects and skills enhancement;
- b. acquisition of equipment needed by the MFIs (e.g. computers hardware for MIS);
- c. hiring of short-term experts for enhancing the MFI's products and procedures (including human resource development system); and

Additional incentives. These will be provided to reward MFIs that will meet their targets consistently. These incentives will be given annually and used exclusively for:

- a. monetary incentives that will reduce cost of funds; and
- b. MFI staff training (including study tours).

C.2 Developing ARB cooperatives into microfinance providers

The program will also provide credit, institutional support fund, and performance-based incentives to enable cooperatives to start or expand their microfinance operation.

In areas with eligible cooperatives but which are already covered by MFIs, the program will still provide assistance to these cooperatives provided that their clients and/or financial products are different from those of the MFIs. Assistance to this type of cooperatives, however, will be limited to institutional support grants only.

Loans will be provided to the cooperatives, through LANDBANK and other wholesale lending institutions, for on-lending to the ARBs and other borrowers in the target communities. The size of the loan to be extended to a cooperative will be based on the credit needs of its clients in the target communities and by its debt-absorptive capacity.

The structure of the loans, including the term and financial charges, should be consistent with those offered by financial institutions that lend to

cooperatives. Nevertheless, the eligibility criteria for cooperatives should be less stringent to cooperatives that are newly offering microfinance products.

The program will provide institutional support grants that will similarly jumpstart lending operations of cooperatives in GMFA areas. Such grants will be based on the agreed performance targets, as well i.e., (a) number of active ARB clients served, (b) loans outstanding provided, and (c) savings/CBU generated.

In addition, the said institutional support will be provided as part of a three-year capacity building plan that will be prepared separately for each participating cooperative. Similar interventions for strengthening the governance and general management practices of the cooperatives will be considered if these are critical to the success of their microfinance operations.

The capacity building plan will be developed and implemented by the training service providers (TSPs) jointly accredited by LANDBANK and DAR/BARBD. Initially, the MICOOP model of NATCCO and BOAT approach of CARD shall be tapped as the main capacity building framework for upgrading ARB cooperatives to become viable microfinance service providers in agrarian reform areas.

Performance-based incentives for cooperatives. Incentives, based on MICOOP and BOAT framework, will be provided to reward cooperatives that will meet their outreach and portfolio quality targets. These incentives will be given quarterly for:

- a. training of the cooperative's members on livelihood projects and skills enhancements
- b. renovation of the cooperative's office building
- c. acquisition of office furniture and equipment
- d. advertising and marketing materials (e.g. billboards, posters)
- e. staff training
- f. hiring of short-term experts for enhancing the cooperative's products and procedures

LANDBANK and other wholesale lending institutions will fully absorb credit risks pertinent to lending to qualified MFIs and ARB cooperatives.

For better mitigation of credit risks, LANDBANK and other wholesale lending institutions shall administer the cooperative institutional support fund and implementation of cooperative capacity building plan.

III. PROGRAM ADMINISTRATION

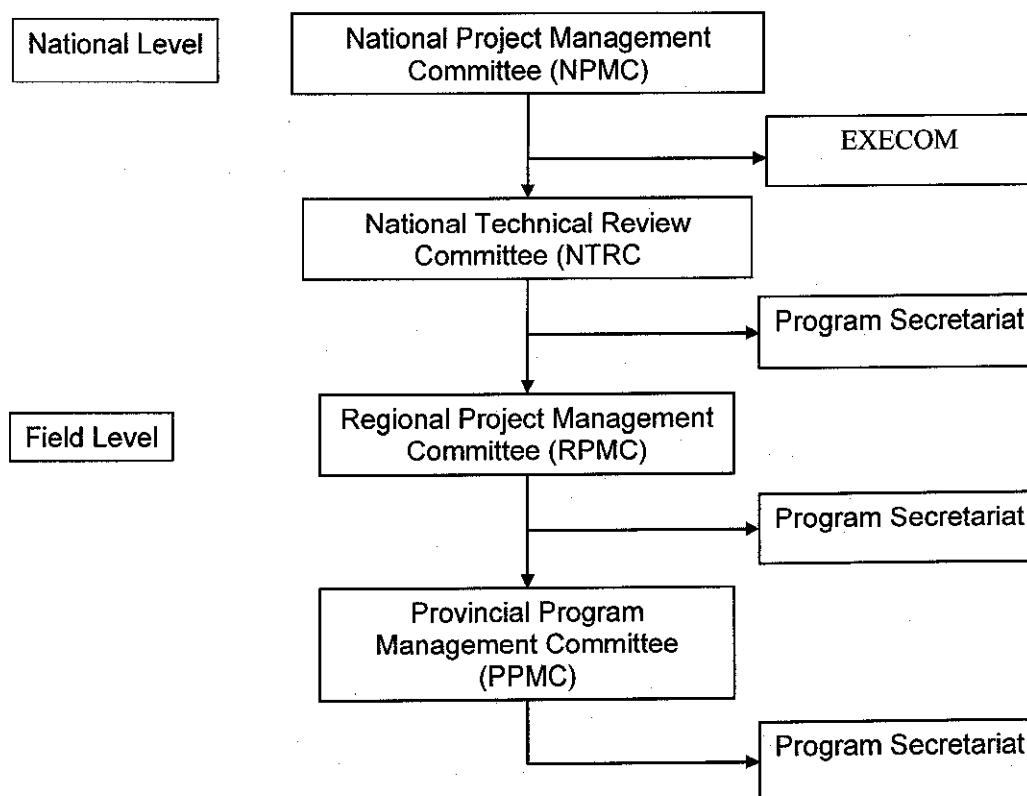
The Program will make use of existing program management structures within DAR and LANDBANK for ease implementation and to facilitate review and development of policies and operational procedures across similar programs. For this reason, the National Program Management Committee (NPMC) of the DAR-LANDBANK Credit Assistance Program (CAP) will be tasked to provide policy oversight to the GMFA Program.

The NPMC will be responsible for the proper and efficient use of resources and attainment of Program objectives. In particular, it will:

- a. Provide policy direction in the implementation and administration of the Program
- b. Review and revise the implementing guidelines for the Program, if necessary; and
- c. Determine and approve the utilization of Program resources.

The NPMC will be assisted in its functions by the Executive Committee (EXECOM), National Technical Review Committee and National Program Secretariat of DAR-LANDBANK Credit Assistance Program (CAP). Below is the organizational structure that will govern the GMFA implementation:

Organizational Structure



The RPMC and PPMC shall be responsible for the effective monitoring of GMFA implementation at the field level. In particular, these field units will:

- a. Provide the MFIs and cooperatives with updated information that will facilitate immediate identification, thorough appraisal and closed supervision of target ARBs in ARAs.
- b. Ensure that clients served by MFIs and cooperatives are the priority ARBs under GMFA.

IV. MECHANISMS TO SUPPORT PROGRAM IMPLEMENTATION

A. Capacity development for Field Implementers

DAR/BARBD through the Project Management Unit (PMU), and in tandem with LANDBANK, will promote the program, select target communities, identify and select participating MFIs and ARB cooperatives, and monitor program activities and accomplishments.

Interventions for building the capacity of the DAR staff at all levels will include trainings and coaching by microfinance experts on microfinance best practices, the different microfinance methodologies, market assessment procedures, institutional assessment procedures, product development procedures, planning and financial projections, delinquency management procedures, client satisfaction survey procedures, and program monitoring procedures. Refresher courses on appropriate cooperative governance and management practices will also be provided during the five-year program period.

These activities will equip the field personnel with the basic understanding of microfinance operations and the skills they need in helping the participating MFIs, cooperatives, and microfinance service providers identify and analyze problems related to increasing client outreach among the ARBs, controlling delinquency, increasing staff productivity, and enhancing profitability.

B. Capacity Development for the Program Management Unit (PMU)

The PMU shall be lodged in the Bureau of Agrarian Reform Beneficiaries Development (BARBD) of the DAR, which shall be consisting of designated officers and staff from DAR/BARBD and contractual staff who will be directly responsible for the implementation, monitoring and evaluation of GMFA. Specifically, the PMU shall directly be involved in the formulation/updating of the program operations manual, evaluation of applications from the MFIs and cooperatives for institutional support fund and performance-based incentives; identification and selection of microfinance service providers,

evaluation of the technical assistance plans for the participating cooperatives, and monitoring the performance of MFIs and cooperatives.

Interventions for building the capacity of the PMU personnel will include participation in the some trainings to be provided to field implementers; and hiring of short-term experts to assist the PMU in drafting/updating the program operations manual (as well as other related manuals), formulate the procedures the selection of participating MFIs, cooperatives and service providers, as well as in the evaluation of proposals for technical and financial assistance, and in designing the program's management information system.

C. Capacity Development for LANDBANK

LANDBANK, being the principal wholesale lending institution, will be responsible for the identification of MFIs (as retail institutions), appraisal of loan applications from the MFIs and cooperatives, loan collection, and loan monitoring.

The program will provide training funds for the orientation of concerned LANDBANK field personnel on the objectives and mechanics of the program, microfinance best practices, and loan delinquency management.

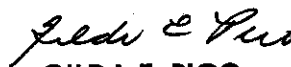
IV. EFFECTIVITY

This Memorandum Circular takes effect immediately. All issuances inconsistent hereto are hereby repealed and/or revoked accordingly.

Diliman, Quezon City. January 7, 2009 *JR*



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