



JOINT DAR- LANDBANK MEMORANDUM CIRCULAR No: 07  
Series of 2006

**SUBJECT: GUIDELINES IN THE IMPLEMENTATION OF CREDIT ASSISTANCE PROGRAM  
FOR PROGRAM BENEFICIARIES DEVELOPMENT WINDOW III  
(CAP-PBD WINDOW III)**

## I. RATIONALE

The Comprehensive Agrarian Reform Law mandates the Department of Agrarian Reform to pursue a comprehensive agrarian reform program which primarily focuses on the distribution of lands as well as on the provision of appropriate program interventions in support to the development and productivity of the lands awarded to the agrarian reform beneficiaries (ARBs). Along with the support services program, DAR facilitates the provision of credit and financial services to cooperatives, farmers' associations and ARBs through the implementation of credit programs in agrarian reform communities (ARCs).

The clamor and the need for credit by the ARBs in 1996 paved the way for the conceptualization of the Credit Assistance Program for Program Beneficiaries (CAP-PBD). The CAP-PBD was designed to provide the necessary credit to farmers' associations and cooperatives to support the farming activities of the ARBs. The program has two credit windows for two types of clients: Window I is a credit window for traditional crops and Window II finances long gestating crop, specifically rubber replanting.

Window I is envisioned to be a transitory program which assists non-bank eligible agrarian cooperatives to become eligible borrowers to the Land Bank of the Philippines' (LBP) regular window and other financing institutions. Since its implementation in 1997, the program has provided credit to 156 cooperatives, 71 of which are managing viable and sustainable enterprises. There were 208 projects funded in these ARB cooperatives comprising of production loans for rice, corn, sugarcane, and banana, trading capital and fixed assets comprising of pre and post harvest facilities. For Window II, six (6) rubber replanting projects covering 1,945 hectares were funded for five (5) cooperatives and benefiting some 1,664 ARBs in five ARCs.

To rationalize the credit assistance programs for ARBs in the Department, the PARC Executive Committee has approved the unification and merging of the Countryside Partnership Scheme or 5:25:70 and CAP-PBD Window I in March 2004. Correspondingly, the available fund of 5:25:70 amounting to Php 56 million was integrated to CAP-PBD Window III and had increased the credit funds to Php 233,140,698.00.

As the CAP-PBD Window I program moves to its completion in September 9, 2006, the CAP-PBD National Project Management Committee (NPMC) in its 10th meeting

in December 2004 has approved the conduct of an external evaluation of the program to determine if the program is worthwhile extending.

In January 12, 2006, the program evaluation result was presented to the NPMC with an analysis of the strengths and weaknesses of the program, strategies to strengthen its implementation and recommendations in the re-designing of the credit program for ARBs. In the same meeting, the NPMC also approved the extension of the program for another 10 years.

The evaluation revealed that CAP-PBD has a clear program focus which caters to the agricultural needs of the ARBs but is still wanting to reach a bigger number of ARBs that have unmet credit needs. This is the primordial and compelling reason for the decision of the NPMC to extend the project. Among the strategies recommended for the re-designing of CAP-PBD are:

- i) shift program framework from ARB as beneficiary to ARB as globally competitive agri-entrepreneur maximizing the rationalization thrust of the DAR which can usher major alignment of field personnel consistent with program requirements, create a coalition to champion the change, develop clear vision and strategy, communicate the vision through empowered broad-based action, generate short-term wins, consolidate gains and produce more change and anchor new approaches in the system and culture of the ARBs;
- ii) give start-up cooperatives small loan, small risks products for institutional strengthening to allow the intra-organizational institutions and systems to mature without exposing the officers to moral hazard problems and financial risks that go along with large loans;
- iii) create a new window and provide a clean slate for CAP-PBD extension in order to isolate the new accounts of the program extension from the "mix-up" of accounts of Window I, where there are inadequacies that must be addressed; and
- iv) establish realistic program implementation structure from central office to municipal level and strengthen synergy between DAR and LBP.

In the light of the extension of CAP-PBD Window I for another ten years, it shall continue to collect loan payments from 156 cooperatives, especially from the 90 cooperatives with past due accounts. Technical assistance shall also be provided to these cooperatives to ensure timely payment of loans and eventually be eligible to access credit from the regular window of LBP and other financial institutions as bank worthy creditors.

On the other hand, CAP-PBD Window II shall continuously provide technical assistance in terms of institution building and enterprise development to the rubber-based plantation cooperatives that have availed of credit assistance for rubber replanting. CAP-PBD Window II shall pursue its operations using the existing guidelines (Joint DAR-LBP MC No. 07 series of 1998 re: "Implementing Guidelines on the DAR-LBP Joint Financing for Rubber Replanting under the Credit Assistance Program for Program Beneficiaries Development (CAP-PBD)". Interventions shall also focus on effective crop maintenance of replanted areas and proper ways of tapping latex to

generate quality products that can command better price and ultimately lead to prompt payments of CAP-PBD loans of the five (5) plantation cooperatives.

In view of the need to assist non-bankable cooperatives and farmers' associations to jumpstart their credit access to formal financial service providers, CAP-PBD Window I extension shall be known as CAP-PBD Window III. The CAP-PBD Window III shall continue to be an alternative credit window to non-bankable cooperatives and farmers' associations of ARBs in agrarian reform areas, comprising of ARCs and non-ARCs.

## II. GENERAL POLICIES OF THE PROGRAM

CAP-PBD Window III shall be guided by the following general policies in its implementation:

- 1. CAP-PBD Window III is a three-pronged program covering ARCs and non-ARC areas.** This is designed to cater to the credit needs of ARB cooperatives and Farmers' Associations not only in ARCs but as well as in Non-ARC areas. In the ARCs, there are about one (1) million ARBs, which represent 35% of the total ARB population covered by CARP in need of credit. However, in the non-ARCs, there are almost 2 million ARBs in need of credit and other support services.

Along with the provision of credit, is the establishment of enterprises coupled with institutional development activities to ensure that the enterprises are viably managed by the cooperatives, farmers' association and ARBs. These ARBs shall be assisted by the DAR Development Facilitators and LBP Account Officers.

These projects/enterprises are envisioned to contribute to the asset base of the organizations and the ARB households in the form of member's savings, paid-up share capital, incomes from the business and statutory reserves. The said cooperatives and organizations shall eventually graduate from non-bankable to bankable cooperatives/associations accessing credit from different financial institutions.

The program components (credit provision, institutional development, enterprise development and capacity development for program implementers) are inter-related and inter-dependent to each other. It is inter-related because the institutional development and enterprise development interventions shall be anchored on the type of project/enterprise which the cooperatives/organizations and ARBs will be engaged in. Likewise, credit requirements shall be determined based on the type of project to be funded and organizational and entrepreneurial capability of the cooperatives. It is inter-dependent because each element shall have distinct processes and activities which are instrumental in attaining the desired results of every component and the overall program goals.

- 2. CAP-PBD Window III is a transitory credit window and utilizes a graduated scheme in the provision of credit.** The program shall provide small loan products for newly organized and existing ARB Cooperatives/Farmers Associations to allow its organizational growth and development and installation of systems and procedures. The provision of loan shall be based on the absorptive capacity of

the ARB cooperatives/farmers associations, where they shall be provided with loans on a calibrated or graduated manner. It shall provide small loans which require low risks credit assistance for the non-bank eligible ARB cooperatives/farmer associations. To a certain extent, a multi-component program shall only be approved in instances where fixed assets and working capital are an integral part of the enterprise and in instances where the cooperative/association exhibits a strong organizational maturity to handle such project. Multi component proposals shall be discouraged to first time availers.

The graduated scheme in loan availment shall be dependent on the organizational maturity and enterprise viability of the ARB cooperative/farmer association. The DAR's ARC Level of Development Assessment (ALDA), specifically the Organizational Maturity key result area, the LBP Cooperative Assessment Classification (CAC) and Operations Review (OR) are tools to be used in ascertaining the ARB cooperative/farmers' association readiness to avail of higher credit line or are ready to graduate from CAP-PBD.

Correspondingly, appropriate institutional development and enterprise development interventions shall be provided in accordance with the organizational maturity and enterprise operations of the cooperatives/farmers' association. A graduated capacity development interventions shall be developed to respond to the needs of the cooperatives/farmers' associations.

Credit lines and loans cycle shall be considered in graduating the cooperatives/associations from CAP-PBD Window III.

The graduation from CAP-PBD assistance indicates the preparedness of the cooperatives and farmers' associations to access credit from the regular window of LBP and other financial institutions. However, farmers' associations that will access loan from regular window of LBP will require its transformation to a cooperative organization.

- 3. CAP-PBD Window III shall continue its assistance to existing rubber cooperatives and the 5:25:70 cooperatives.** The program shall provide institutional development, enterprise development and technical guidance to rubber-based and 5:25:70 cooperatives who are borrowers from CAP-Window II and 5:25:70 credit programs, respectively. The interventions shall focus on strengthening the organizational, managerial and entrepreneurial capability of the cooperatives in order for their enterprises to be viable to generate greater income and be able to pay their loan amortization in accordance with the schedule.

### III. PROGRAM OBJECTIVES

The general objective of CAP-PBD Window III is to make available credit assistance to non-bank eligible ARB cooperatives and farmers association and graduate to bank-eligible organizations.

Specifically, it aims to:

1. Make credit available to support agriculture-based livelihood/enterprises and other projects to improve the productivity of land provided covered under CARP

to ARB cooperatives and farmers' associations in the agrarian reform areas (ARCs and non-ARCs) which are considered as non-eligible per banks' accreditation criteria and cannot be accommodated under the regular lending windows of financing institutions;

2. Provide technical assistance for ARB cooperatives and farmers' associations in the area of institutional development and strengthening for the effective operations and management of livelihood projects and enterprises;
3. Provide technical guidance in enterprise development to ARB cooperatives and farmers' association to ensure adoption of appropriate technology, establishment of enterprise and market linkages, and enterprise effectiveness, efficiency, viability and sustainability; and
4. Develop and Implement capacity development/handholding activities for program implementors and other stakeholders, to facilitate their provision of technical support to ARB cooperatives and farmers' associations.

#### **IV. PROGRAM COMPONENTS**

##### **1. Provision of credit**

The program shall provide for small loans for agricultural based livelihood/enterprise and projects to first time ARB borrowers, ARB cooperatives and farmers' association in ARCs and non-ARCs.

The cooperatives/associations shall function as conduits for retail lending to its ARB members. Small credit packages is the main feature of this program which gives the availing cooperatives/associations an opportunity to finance the projects of individual members and at the same time develop their management skills in handling credit funds. It shall likewise provide credit for the establishment of community-based enterprises (CBEs) to finance the construction of production facilities, tools/equipments and provide start-up capital for the operations of the enterprise.

As the cooperative begins to exhibit credit discipline by being able to manage the credit funds that were provided for, credit line is gradually increased until they are able to establish the credibility of handling bigger loans and exhibit improvement in organizational maturity level.

##### **2. Institutional strengthening of cooperatives and associations for proper operations and management of enterprises**

CAP-PBD Window III shall focus in strengthening the cooperatives to ensure proper management of the enterprise. The associations that are involved in the program shall be assisted to reach a level of maturity for them to become credit worthy organizations. Institutional strengthening activities for both cooperatives and associations shall focus in strengthening the operations of the ARB cooperatives/associations to set-up and put in place, a good organizational vision, operational policies, systems and procedures, good governance and setting-up a system for accountability. The abovementioned activities will

ultimately result to good repayment, re-availment of credit funds and the development of the organization to become disciplined fund handlers and eventually, to become credit worthy and bank eligible cooperatives/associations.

### **3. Enterprise development for enterprise effectiveness, efficiency, viability and sustainability**

To fully maximize the utilization of the credit availed by the ARB cooperatives/farmers' associations, yield enterprise revenues and increase household incomes of the ARBs, technical assistances and guidance shall be provided in the identification of projects, establishment and management of community-based or household level enterprises. This component shall likewise continue to extend assistance to the existing enterprises under CAP-PBD Window 1 and 5:25:70.

This component shall provide appropriate technical know-how on the technology adoption and management from production, processing and marketing of commercial products. It shall assist the ARBs through their cooperatives/associations in enhancing and developing commercial products for downstream and upstream industries needed for local economy or global market. Among those that will be initiated in this component are: identification of feasible projects/ enterprises; developing and enhancing the product to satisfy market standards; setting up business systems; installation of basic production and processing facilities; and determining the appropriate market to ensure a steady supply in the market.

### **4. Capability development for program implementers**

This component shall ensure the enhancement of the capacities of program implementers utilizing various learning packages and inputs that are congruent with the demands of the program. It shall facilitate learning sessions with program implementors, to effectively implement a harmonized and synchronized credit program.

The capacity development programs are specifically for field implementors and members of the National Technical Review Committee (NTRC), Regional Program Management Committee (RPMC) and the Provincial Program Management Committee (PPMC).

Capability development activities shall include but not limited to the conduct of technical assistances, hand holding activities, trainings, coaching and mentoring and development and dissemination of materials, knowledge generation and diffusion.

## **V. CERTIFICATION OF CAP-PBD BORROWERS**

As an initial step to avail of financial assistance from the Program, certification of ARB cooperatives/farmers associations shall be undertaken. This is to establish the credibility of the ARB cooperatives/farmers association as credit conduit and partner in the implementation of the program.

The DAR-Regional Support Services Office will undertake the certification of ARB cooperatives/farmers associations based on following set criteria:

1. Registered either with Cooperative Development Authority (CDA), Securities and Exchange Commission (SEC) or Bureau of Rural Workers (BRW) with a membership of at least 30 small farmers of which majority (50%+1) are actual ARBs
2. All members have attended PMES and similar training;
3. With a minimum paid up share capital of Php15,000;
4. With core management team composed of manager, cashier/treasurer and Bookkeeper;
5. With updated Book of accounts and financial statement; and
6. Must be holding regular meetings based on the Constitution and By-Laws

The following supporting documents together with the application for certification shall be submitted to determine the ARB cooperatives/farmers association's legal personality and operations:

1. Certificate of Registration from CDA, SEC or BRW
2. Profile of the cooperative/association
3. List of members and officers and their attendance to PMES, MES and similar trainings; and
4. Audited and duly certified financial statement or interim financial statement at least one year.

If all requirements are satisfied, the DAR-Regional Director, being the head of the RPMC shall issue a DAR Certification of cooperatives/associations.

## **VI. BASIC LENDING POLICIES**

### **1. Eligible Borrowers:**

The following are considered eligible borrowers under the CAP-PBD Window III in the agrarian reform communities (ARCs) and non -ARCs:

- a. Agrarian reform beneficiaries (ARBs) cooperative duly registered with the Cooperative Development Authority (CDA), and farmers organizations duly registered with the Bureau of Rural Workers – Department of Labor and Employment (BRW-DOLE), or Securities and Exchange Commission (SEC), with ARB members comprising at least 50% + 1 of the total membership.
- b. ARB cooperatives and farmers' organizations which are considered non-eligible under the regular banks lending window but meet accreditation criteria of CAP-PBD Window III.
- c. ARB cooperatives and farmers' organizations with no existing loans from LBP and other financing institutions.

### **2. Eligible Projects**

CAP-PBD Window III credit component shall cover, small loans for agriculture-

based livelihood/ enterprises of the ARBs. Specifically, the fund shall be made available for the following projects:

- a. Agricultural crop/livestock production;
- b. Purchase cost of farm tools, machines, processing equipment, and construction cost of mini-processing facilities (30-40 square meters) which are necessary in the operations of the enterprise; and
- c. Working capital for the livelihood/enterprise including operating costs such as insurance, and other start-up costs.

### **3. Loanable Amount**

Maximum loan amount shall not exceed PhP 1 million for the eligible borrowers in ARCs and PhP 500,000 for the non-ARC cooperatives/farmers association.

### **4. Loan Maturities**

The term of the loan shall be based on the projected cash flows, economic useful life, and on the production cycle. Since these are small loans, loan maturities shall be short and medium-term only.

### **5. Interest Rates**

The loans to be extended under the Program shall be charged based on the LBP existing lending interest rates (market rates):

- a. Agricultural Production/Working Capital Loan - 10%
- b. Fixed Asset/Medium term loans - 12%
- c. Supervision Cost - 2%

A rebate of 3% shall be granted upon prompt full payment of the loan. The proponent cooperative/association is encouraged to use the rebate as additional paid-up capital share of the cooperative.

### **6. Approving Authorities/Levels**

The loan approval shall be lodged at the Provincial Project Management Committee (PPMC) since these are small loans. The approved loan shall be submitted to Regional Program Management Committee (RPMC) for determining the completeness of the loan proposal and documentary requirements. The RPMC shall submit necessary documents to the National Technical Review Committee (NTRC) for the request of fund transfer. The NTRC upon review of the completeness of the credit documents shall request the LBP-Head Office to effect the fund transfer to concerned LBP-Branch Lending Office.

### **7. Lending Procedures, Loan Release and Recovery**

The existing LBP procedures on lending, loan release and fund recovery shall be followed for all CAP-PBD Window III borrowers.



The details on the operationalization of the four program components (i.e. credit, enterprise development, institutional development and capacity development for program implementers) shall be contained in the CAP-PBD Operations Manual which shall be prepared by the DAR- Bureau of Agrarian Reform Beneficiaries Development (BARBD) and LBP-Program Management Department (PMB).

## **VII. IMPLEMENTING STRUCTURES**

To ensure smooth program implementation, organizational structures at the national, regional and provincial levels shall be established and or strengthened. These structures shall be composed of representatives from DAR and LBP at different levels and are tasked to coordinate and facilitate the CAP-PBD implementation activities.

### **1. National Level**

At the national level, the following bodies have been established since the implementation of CAP-PBD and shall continue to exist to perform its corresponding functions:

The National Project Management Committee (NPMC) at the national level shall serve as a policy-making body of the program. It shall formulate and issue policies and guidelines on the operationalization of the Program.

The National Technical Review Committee (NTRC) shall implement the policies, operational systems, procedures and guidelines approved by the NPMC.

The Program Secretariat which shall be lodged at the Bureau of Agrarian Reform Beneficiaries Development (BARBD) of DAR shall provide the necessary staff support and secretariat services to the NPMC and NTRC.

### **2. Field level**

At the field level, the Regional Project Management Committee (RPMC) shall be established to act as oversight in the implementation of the Program. The RPMC shall review and prepare request for funding of the approved credit facility proposal, develop and lead in the implementation of the institutional development (ID), enterprise development (ED) and capacity development (CAP-DEV) components of the program.

The Regional RSSD shall act as the Program Secretariat for the RPMC and shall work closely with the DAC and Lending Center of LBP.

At the provincial Level, the Provincial Program Management Committee (PPMC) shall provide technical guidance in the preparation of the ARB cooperatives/farmer associations' project proposals and ensure that said documents are reviewed according to its technical, market and financial viability. The approval of credit facility proposals shall be lodged at the PPMC and shall be guided by the approving guidelines set forth under the project. It

shall likewise be responsible in the designing and implementation of provincial ID/ED and CAP-DEV.

The DAR Provincial Beneficiaries Development Coordination Division (BDCD) shall act as the Program Secretariat that shall closely coordinate and work with the Account Officer of LBP Lending Center and DAS of the LBP-DAC.

### **VIII. MONITORING AND EVALUATION**

The monitoring and evaluation systems shall be enhanced to track down and capture the progress of program implementation based on set targets as well as accomplishments under CAP-PBD WI, Window II and Window III.

Monitoring shall include the following:

#### **1. Program monitoring and reporting**

This refers to the quarterly reports on the status of program implementation which shall include the list of prioritized ARB cooperatives/FAs covered under the program, approved projects and borrowers, dates of fund releases and loan maturities, status of loan repayments and program fund balance that shall be submitted by Land Bank – PMD to the NMPC, through the Program Secretariat.

Field validation shall be conducted on a periodic basis and shall be undertaken to ascertain the qualitative accomplishments in accordance with the quantitative performance.

#### **2. Conduct of Program Management Meetings**

Quarterly and special meetings of the NTRC, RPMC and PPMC shall be conducted. Meetings are avenues not only for project proposal approval but also for discussing the program status and resolve issues on program implementation per level.

#### **3. Conduct of Program Assessments**

Regular assessments shall be conducted to determine the status of program implementation for credit, ID, ED and CAP-DEV components at all levels:

a. National Assessment shall be conducted annually. The status of Regional loan portfolio, ID, ED and CAP-DEV implementation status shall be presented per region. The national assessment shall also serve as venue for presenting program directions and policies, and inputs on recent and new practices on credit facilitation and management.

b. Regional assessments shall be conducted on a semi-annual basis to discuss the status of the provincial loan portfolio, ID, ED and CAP-DEV implementation. The assessment shall also be an avenue to share experiences in implementing best practices/successful implementation of the program where everybody may learn from the experience.

c. Provincial Assessments and planning workshops shall be conducted on a quarterly basis. The status of the cooperative/association's loan portfolio, ID,

ED and CAP-DEV shall be presented per MARO. An intervention and/or re-calibrated plan shall be prepared based on the status and need of the ARB cooperatives/farmer associations.

A mid-term assessment (5<sup>th</sup> year of project implementation) shall be conducted to provide the program an opportunity to identify evolving credit models, to determine the status and gaps at the middle of program implementation and define appropriate policy and operational interventions.

An impact assessment shall be conducted to determine the program's impact in the lives of the ARBs, Cooperatives/Associations and CARP. This shall be conducted after two years of program closure.

#### 4. Knowledge Management

Knowledge management systems shall be installed at all levels where program data shall be converted into strategic inputs for decision-making. Documentation of processes and best practices on program implementation shall be generated to build the knowledge capital of the program, which will be disseminated to various program partners and stakeholders.

### IX. FUND SOURCE AND ALLOCATION

CAP-PBD Window III shall be financed out of the remaining funds and receivables under the unified CAP-PBD Window I, II and 5:25:70 Countryside Partnership Scheme.

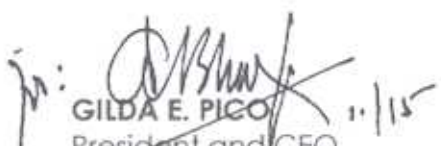
Out of the total fund, fifty-percent (50%) shall be allocated for credit and the remaining fifty percent (50%) shall be utilized for the institutional development, enterprise development capacity development for the field implementers, and program management. The 50:50 allocations has been made considering that the target ARB cooperatives/farmers associations have low level of maturity and are considered non-bank eligible. Intensive and non-traditional institutional and enterprise development interventions have to be provided to ensure that ARBs and their organizations would be able to profitably managed their enterprises and become bank eligible. Investing in institutional and enterprise development is a requirement to transform mundane farmers to become entrepreneurs.

### X. EFFECTIVITY

This Memorandum Circular shall take effect immediately and supersedes all previous issuances inconsistent herewith.

Diliman, Quezon City, November 15, 2006

  
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