



Republic of the Philippines  
**DEPARTMENT of AGRARIAN REFORM**

**MEMORANDUM CIRCULAR No:** 17  
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**SUBJECT: Microfinance Policy Framework for Agrarian Reform Areas**

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## **I. BACKGROUND AND RATIONALE**

The Comprehensive Agrarian Reform Program (CARP) was instituted in 1988 through the passage of the Comprehensive Agrarian Reform Law (CARL) or Republic Act 6657. The law mandated the Department of Agrarian Reform (DAR) to lead in the implementation of the CARP which aimed, not only to broaden the country's landownership base, but also provide the required resources and support services to increase farm productivity and improve the socio-economic status of agrarian reform beneficiaries (ARBs).

The program has two major components: land tenure improvement (LTI) and program beneficiaries development (PBD). The general strategy in implementing the PBD program is an area-focused, integrated and multi-component approach to development through the agrarian reform communities (ARCs). The key components of ARC development are: a) Land Tenure Improvement (LTI), b) Social Infrastructure and Local Capacity Building (SILCAB), c) Sustainable Area-based Rural Enterprises Development (SARED), d) Basic Social Systems Development (BSSD), with Gender and Sustainable Resource Management as crosscutting components. To date the Department has launched 1,557 ARCs located in all of the 77 provinces of the country. These ARCs are spread out in 5,882 barangays in 1,121 municipalities. They cover 1.34 million of agricultural lands, or 41% of the total distributed lands under the CARP.

The Department has recently operationalized the Agrarian Reform Zones (ARZones), a complementary strategy intended to expand its PBD reach to more ARBs in CARP-covered barangays that are outside the current scope of the ARC development program. The ARZone strategy endeavors to expand PBD by identifying municipal clusters with high concentration of CARP-covered barangays to be the loci of development interventions based on the nature, characteristics and natural resource potentials of the identified area.

Under the SARED component, credit and microfinance development are key interventions for facilitating access to funds by beneficiaries for their household- and group-based enterprises<sup>1</sup> and livelihood projects.

Memorandum Circular No. 18, series of 1999, provides that interventions will be geared towards increasing income through the provision of or facilitating access to adequate and affordable credit and microfinance assistance for ARBs and their households, individually or in groups, to enhance their farming operations and/or undertake livelihood income generating activities.

Microfinance refers to the provision of financial services such as deposits, loans, payment services and other financial products to the poor and low-income households and their micro enterprises. Small loans are usually extended without collaterals, adopting market-based interest rates, and made according to cash flow of borrowers. The evolution of various approaches on microfinance among private Microfinance Institutions (MFIs) and the successful experiences of credit-granting non-government organizations, credit cooperatives, and a number of rural banks in providing basic financial services to low-income borrowers have shown the viability of microfinance as a means to provide the basic financial services to poor households and small-scale borrowers.

The National Strategy on Microfinance, along with other policy issuances like the Agricultural and Fisheries Modernization Act (Republic Act 8435), Republic Act 8425 that designated the People's Credit and Finance Corporation (PCFC) as the lead government institution for raising financial resources for microfinance services and the Executive Order 138 mandates the phasing-out all directed credit programs (DCPs) implemented by government non-financial agencies (GNFAs), encourages the adoption of market-based financial and credit policies, and the use of government financing institutions as the vehicle for the delivery of wholesale credit to private financial institutions. The role of GNFA's in implementing credit programs is on the provision of critical support services like capability building interventions that will help ensure the profitability of rural micro-enterprises.

Given these developments and realizing the critical role of microenterprises as building blocks for the establishment of small- and medium-scale enterprises by ARBs, the Department considers microfinance an important tool to facilitate the delivery of timely and adequate financial services as a complementary to the existing support services programs/projects for ARBs. DAR shall pursue microfinance activities in the ARCs and AR Zones as an integral part of the components of the SARED and SILCAB programs for ARBs.

It is in this context that the Department is issuing this Microfinance Development Policy Framework for Agrarian Reform Areas, which will serve as the guide for all stakeholders, service providers and facilitators in designing and implementing microfinance programs in agrarian reform areas whether locally and foreign assisted.



## **II. OBJECTIVES**

The general objective of the microfinance program is to ensure sustained financial access of ARBs to credit and financial services for household and community-based enterprises.

Specifically, it aims to:

1. Define the policy framework and facilitate the conducive environment towards the promotion, development and implementation of microfinance programs/products responsive to the requirements and characteristics of ARBs;
2. Develop and implement high quality household based financial services in partnership in with government financing institutions (GFIs) and private microfinance institutions (MFIs) in designing and implementing credit/microfinance services and in developing potential cooperatives as microfinance institutions; and
3. Design and implement capacity building interventions for ARB households, farmers' organizations and cooperatives towards enterprise development and management and to perform financial intermediation and microfinance services in agrarian reform areas.
4. Develop and install microfinance support system towards effective and efficient development of microfinance program in agrarian reform areas.

## **III. MICROFINANCE DEVELOPMENT POLICY FRAMEWORK FOR AGRARIAN REFORM AREAS**

The microfinance development policy framework is anchored on the National Strategy on Microfinance of creating a viable and sustainable microfinancial market and the mandate of the Department to distribute lands and to provide the necessary support services to develop and sustain the profitability of enterprises of agrarian reform beneficiaries.

The program is viewed as a support mechanism to achieve the goals of bringing effective financial services and in providing significant income and employment to ARBs as well as in developing viable agrarian reform areas. The program will be guided by the national government's policy of rationalizing directed credit programs and promotion of greater participation of private microfinance institutions (MFIs) in the provision of microfinance services to ARB farmers.

Towards this end, DAR shall not engage in direct provision of credit to agrarian reform beneficiaries. DAR shall concentrate in creating appropriate policy environment and in the provision of technical assistance for microfinance implementation in agrarian reform areas whether locally or foreign assisted as well as in installing critical microfinance support systems.

DAR's technical assistance will include: i) the promotion of microfinance in agrarian reform areas; ii) linking ARBs to MFIs to access microfinance services; iii) developing ARB coops to become microfinance conduits; iv) promotion of microfinance practices and principles in existing cooperatives in ARCs and AR Zones; and v) tapping private microfinance intermediaries and government financial institutions to design and develop microfinance services and products that respond to the needs of the ARBs,

The design and operationalization of the Program will be guided by the following principles:

1. *Promotion of savings mobilization and/or capital build up generation (CBU) among ARBs and community members.*

Savings mobilization and/or CBU generation ensures a strong and stable asset base of the cooperative/organization/group. This facilitates the provision of credit assistance to their members and becomes the building blocks for more savings and credit products and for the expansion of their services within the community. Savings mobilization and/or capital build up generation shall be a major feature of the microfinance services and products to be developed and implemented in the agrarian reform areas.

2. *Adoption of market-based interest rates.*

The sustainability of the MFIs to continue providing financial services is dependent on their ability to cover administrative costs, including cost of funds and profit margin. A market-based interest rate structure ensures sustainability.

The subsidized interest rates of some government programs distort the financial market and discourage financial institutions to play a significant role in rural credit markets. This has limited the access of agrarian beneficiaries/households to a variety of private sector lenders. DAR's intervention in the microfinance market in ARCs and AR Zones should sustain the effectiveness of the MFIs in providing the agrarian beneficiaries/households access to financial services.



### 3. *Implementation of sound financial practices.*

To ensure the success of the microfinance interventions in agrarian reform areas, DAR and its partner institutions shall adopt the appropriate best practices of successful MFIs. These include the adoption of standardized and simplified product documentation and procedures, defined client selection, frequent and small amortization payments, incentives for clients, market-based interest rates, zero tolerance for delinquent loans, strict credit discipline and adherence to performance standards, and the adoption of innovative savings mobilization techniques.

### 4. *Partnership with microfinance institutions.*

DAR will encourage the participation of and partnership with MFIs in designing and implementing microfinance development programs and services in the agrarian reform areas. This is to promote synergy, cooperation and complementation of microfinance interventions between DAR and partner institutions in the ARCs and AR Zones.

## **IV. PROGRAM STRATEGIES**

The Department shall employ the following strategies in implementing its microfinance development programs in the agrarian reform areas:

### 1. *Linking ARB households to existing Microfinance Institutions (MFIs).*

Linking of ARB households to MFIs shall be a main strategy of the DAR microfinance program. This will entail the assessment of savings and microcredit needs of ARB households, and the identification of MFIs that are either operating in the area or are capable of expanding their service area to reach the ARB households. These MFIs may either be NGOs, rural financial institutions (RFIs) or cooperatives.

In cases where the existing MFIs do not include agrarian areas as their service coverage, these MFIs will be encouraged to put up their satellite office/s or to assign account officers to cover and expand to these areas.

As necessary, DAR shall encourage the MFIs to develop savings and credit products specifically designed to the needs of the agrarian reform beneficiaries.

DAR shall support its partner-MFIs through institutional development support, specifically in the promotion of microfinance best practices and in capacity building for end borrowers, which, among others, will facilitate loan repayment.

## *2. Developing ARB cooperatives into MFIs.*

A complementary strategy is the development of ARB cooperatives as MFIs. Developing ARB cooperatives to become microfinance service providers would require an assessment of their organizational and financial capability, current services and outreach. Potential cooperatives will be given the necessary technical assistance to become MFIs and to sustain their operations to ensure continuing access to ARB households that need the microfinance services.

At their option, the cooperatives will be linked to wholesale lenders like the National Livelihood Support Fund (NLSF), Peoples Credit Finance Corporation (PCFC), or Land Bank of the Philippines (LBP) to expand their loan portfolios. In addition, these conduit cooperatives will be provided with institutional development support.

## *3. Promotions and Resource Mobilization*

Critical to the implementation of an effective microfinance program is the readiness and competency of the program implementers. To effectively implement the proposed strategies, it is imperative that DAR's frontliners, program managers, and executives have the appreciation, understanding and the necessary competencies in microfinance development. The appropriate information dissemination and capability building interventions will be implemented for the DAR personnel and other pertinent stakeholders to facilitate mainstreaming and implementation of microfinance in agrarian reform areas.

Resource mobilization to support the requirements of DAR's microfinance programs and projects will be done to ensure that adequate funding support shall be generated. DAR shall likewise encourage its donor agencies to incorporate the microfinance strategies and components in existing ODA projects.

## **V. PROGRAM COMPONENTS**

The operationalization of the policy framework on the promotion, development and implementation of microfinance program in agrarian reform areas would take into consideration the following components:

### *1. Capacity Building for Microfinance Development and Implementation*

As part of DAR's support services to ARBs, it shall develop an appropriate capacity building interventions for target groups for; a) DAR management and field implementers; b) cooperatives; and c) ARB end-beneficiaries.



The microfinance capacity building program shall be designed and implemented with the assistance of established microfinance service providers.

Capacitating the DAR key management staff and frontliners would require the necessary needs assessment, development of IEC materials and training modules and implementation of information dissemination and capability building training. It would likewise require the installation of the necessary support system such as databases for in-progress monitoring and evaluation of program implementation, and coordinative mechanisms to ensure complementation of services between and among service providers that are implementing microfinance interventions for ARBs.

Capacity building interventions shall be provided to cooperatives that are willing to expand their savings and credit services and eventually transform into village-based microfinance institutions. The focus of interventions shall be on strengthening the financial capacity, installing appropriate microfinance systems and procedures, developing savings, credit, and other related products, interest rate determination, delinquency control, and good governance.

Capacity building for ARBs shall focus on ARBs with existing livelihood activities/enterprises and are in need of microcredit and those existing borrowers of informal moneylenders but are willing to avail of credit from MFIs. Capacity building interventions will cover the areas of enterprise development and management, appropriate technology and marketing assistance.

## *2. Research and Development*

Microfinance has largely been successful in urban-based areas for small-scale trading, vending and service provision. There has been very little documented experience in promoting and implementing microfinance in agrarian areas. Hence, the microfinance practices in urban-based areas may not be appropriate in agrarian reform areas, considering the spatial and risk characteristics associated with agriculture and the nature of cash flow within the farmers' household. As such, there is a need for research and development to address the distinct characteristics of the ARBs microcredit requirements.

Among others, the objective of the microfinance research and development component is to identify appropriate microfinance schemes for ARC coops/ARB households, through the development of pilot schemes, the adaptation or implementation of customized practices, as well as the documentation of best practices and development of operations manual of these model schemes and practices.

### 3. *Monitoring and Evaluation*

To effectively and efficiently monitor the operationalization of the policy framework for microfinance development in agrarian reform areas, appropriate output and outcome indicators shall be determined and incorporated within the existing PBD Reporting and Monitoring system.

In terms of measuring the overall contribution of microfinance development program/projects in the organizational maturity of the ARC organizations, key result areas and performance indicators shall be included in the ARC Level of Development Assessment (ALDA) management tool of the Department.

The consolidated PBD report on microfinance development shall serve as one of the inputs in tracking down the status of its operationalization on a quarterly basis.

## **VI. OPERATIONALIZATION OF THE MICROFINANCE DEVELOPMENT FRAMEWORK**

The Support Services Office will oversee the implementation, coordination of plans, programs and projects of the Department as well as the compliance to the provisions of these guidelines. It shall also initiate, coordinate with other DAR units and undertake activities leading towards promotion, development and implementation of microfinance development program in agrarian reform areas.

## **VII. EFFECTIVITY**

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

Diliman, Quezon City, DEC. 30 2003

  
**ROBERTO M. PAGDANGANAN**  
Secretary