



Joint DAR-LBP
Memorandum Circular No. 07
Series of 1998

SUBJECT: IMPLEMENTING GUIDELINES ON THE LBP-DAR JOINT FINANCING FOR RUBBER REPLANTING UNDER THE CREDIT ASSISTANCE PROGRAM FOR PROGRAM BENEFICIARIES DEVELOPMENT (CAP-PBD)

I. INTRODUCTION AND RATIONALE

These guidelines govern the availment and utilization of the CAP-PBD Rubber Replanting Fund through a joint financing scheme with the Land Bank of the Philippines.

The Presidential Agrarian Reform Council (PARC) Executive Committee, during its 66th meeting, approved the allocation of Three Hundred Fifty Five million Pesos (P355 M), which represents 50 percent of the 1995 Agrarian Reform Fund (ARF) allocation for credit, to be utilized for a comprehensive and responsive credit assistance program to provide financing for projects of ARBs which cannot be accommodated by the regular lending windows such as long gestating crops requiring longer grace period and those of ARB cooperatives considered as non-eligible per banks' accreditation criteria. To operationalize this, a memorandum of agreement between DAR and LBP was forged to implement the Credit Assistance Program for Program Beneficiaries Development (CAP-PBD).

Among others, the MOA addresses the need of the rubber-based ARC cooperatives for rubber replanting which is characterized by high development costs due to a long gestation period and uprooting of standing trees, thus requiring a longer grace period and easier terms and conditions. The MOA specifies that One Hundred Million Pesos (P100,000,000.00) of the P355 Million shall be exclusively disbursed for projects involving rubber trees and the rehabilitation of rubber farms. The MOA further specifies that separate implementing rules and regulations shall cover the availment of such fund.

In the process of preparing the guidelines herein, consultations were conducted with the rubber plantation cooperatives, DAR and LBP field offices, and other concerned stakeholders. A primary consideration raised was the insufficiency of the allocated funds to address the rubber replanting requirements of the cooperatives. While the area due for replanting is 5,000 hectares requiring P350 to 500 million, only P100 Million is available. As such, it was decided to enter into a joint financing scheme with the Land Bank of the Philippines to effect some leverage. Under this scheme, CAP-PBD Rubber Replanting funds will be used

for the first three years requirement of replanting, while ^{LBP}LPB funds will be used for the succeeding three years, with differential interest rates and grace periods. Financing shares would thus be 15% equity from the cooperative, 55% from CAP-PBD, and 30% from LBP.

The guidelines, outlining the rules and procedures to for financing the rubber replanting projects of ARC rubber plantation cooperatives, is a companion guideline of DAR Memorandum Circular No. 26, Series of 1996 entitled *Implementing Policies and Guidelines on the Availment of Credit Assistance Program for Program Beneficiaries Development* and LBP Credit Group Memo Circular 97-001.

II. BASIC POLICIES

A. Eligible Projects

Credit assistance under the LBP-DAR Joint Financing for Rubber Replanting Fund shall be exclusively for rubber replanting projects. Project components that may be funded are:

1. Production inputs;
2. Operating capital including operating costs such as insurance, and other start-up costs; and
3. Establishment and maintenance of nurseries

Only projects that are economically and technically feasible and socially acceptable will be given funding assistance. The projects must show potential to sustain and expand even after termination of financing assistance.

The Fund shall not be used to repay obligations of projects assisted or funded by the DAR, Land Bank or other financing institutions

B. Eligible Borrowers

The fund will be made available to eligible rubber-based plantation cooperatives in Agrarian Reform Communities (ARCs).

The cooperatives must be operational and duly registered with the Cooperative Development Authority (CDA) with at least 50 percent plus one ARB membership.

The accreditation process as specified in Appendix A of MC # 26, s. 1996 shall be undertaken by the Regional Support Services Division (RSSD) of the DAR and which shall in turn submit a list of accredited rubber-based plantation cooperatives to the Bureau of Agrarian Reform Beneficiaries Development

(BARBD) on a quarterly basis. The project proponent shall likewise submit their organization's profile using Annex 1 of this Memorandum Order.

Project proponents who have been blacklisted by the DAR and those which have unsettled obligations under the various financing programs administered by the DAR, the LBP and/or other financing institutions will not be allowed to avail of funding assistance.

The cooperatives accredited by the RSSD shall be further evaluated by the Provincial Project management Committee (PPMC). The PPMC will administer the guidelines for determining the readiness of borrowers to avail of the financial assistance as presented in Appendix B of MC # 26, s. 1996.

C. Project Financing

DAR-LBP Joint Financing for Rubber Replanting shall cater to rubber replanting projects. The loan amount shall be based on the actual needs/cost of the project as approved by the appropriate CAP-PBD Management Committee (for the CAP-PBD portion) and the LBP Branch Office/CLD (for the LBP portion) under the following equity sharing scheme:

1. A maximum of 85% of total project cost shall be funded by CAP-PBD and LBP with the amount of the loan to be based on the paying capacity of the project.
2. Fund source shall be based on the yearly drawdowns, to wit:
 - a. CAP-PBD - requirement / drawdown for year 1 to year 3;
 - b. LBP - requirement / drawdown for year 4 to year 6.

D. Loan Terms and Interest Rates

Differential loan terms and conditions shall apply to the CAP-PBD portion and the LBP portion. Hence, funds shall not be integrated and the mode of payment and actual collections shall follow the pertinent lending policies of each program. The general loan terms and conditions, however, shall be based on project cash flow and its economic useful life.

The CAP-PBD portion which shall be disbursed to cover the first three years replanting requirement shall have two percent (2%) interest rate and supervision cost of two percent (2%). It shall have a maximum of 16 years loan repayment period inclusive of grace period.

The LBP loan portion shall cover the requirements from year 4 to year 6 of the rubber replanting project. The loan shall bear an interest rate of 12% plus a supervision fee of 2%, with a maximum repayment period of 16 years inclusive of grace period. The interest rate, however, may be readjusted by LBP, when necessary. In addition, the pertinent LBP lending policies for medium term loans shall be followed.

The allowable grace period (on principal and interest) on the CAP-PBD portion is six (6) years, while the grace period that may be granted for the LBP portion is two (2) years.

The deferred interest during the grace period for both funds shall be non-interest bearing to be spread over the remaining amortization period. However, the borrower has the option to pay the deferred interest within a shorter period.

E. Collateral Requirements

To avail of financing under the joint DAR-LBP project, the following have to be submitted as collateral:

1. Promissory Note (with JSS Provision)
2. Deed of Assignment of Expected Produce/
PCIC Policy Guarantee
3. Chattel Mortgage on purchased equipment
4. At the discretion of the appropriate CAP-PBD committee and/or the LBP branch office, the above may be supplemented by any or a combination of the Bank's acceptable collateral, e.g. Real Estate Mortgage, etc.

F. Funds Drawdown/Repayment and Management

The CAP-PBD rubber replanting portion initially amounting to P100 million shall be taken from the P355 million CAP-PBD fund currently deposited in the LBP. The P100 million shall be managed separately by the Trust Department of LBP. The LBP Branch Office concerned shall release the CAP-PBD funds only upon the issuance of a notice of fund transfer by LBP-HO, based on the formal request made by the CAP-PBD Program Secretariat.

F. Approving Levels/Authorities

The approving authority for the CAP-PBD portion of the loan package shall follow the provisions of DAR Memorandum Circular 26, series of 1996, and LBP Credit Group Memo Circular 97-001, to wit:

<u>LOAN AMOUNT</u>	<u>APPROVING AUTHORITY</u>
P2 million & below	Provincial Project Management Committee (PPMC)
Up to P5 million	Regional Project Management Committee (RPMC)
Above P5 million	National Project Management Committee (NPMC)

The approving authority for the LBP portion shall follow the approving limits of the LBP Branch, Regional, Cluster, and National Offices.

The loan packages under this guideline shall require that both the CAP-PBD portion and the LBP portion be approved before the initial and subsequent releases are made.

G. Loan Application/Approval

1. All proposals for rubber rehabilitation projects of ARB rubber-based plantation cooperatives requiring assistance from the Joint DAR-LBP Financing for Rubber Replanting shall be submitted to the PPMC, through the concerned PARO.
2. The PPMC shall screen and review the proposal and accompanying support documents in accordance with the guidelines for screening/evaluating project proposals of ARBs' cooperatives (Appendix C). The PPMC shall likewise consider the current outstanding loans and cash flow of the proponent cooperative and the cost sharing and standards outlined herein.

The results of the screening/evaluation shall be presented using Appendix D of M.C. No. 26, series 1996.

3. For projects with CAP-PBD loan requirement of P2 million or less, the PPMC shall endorse the same to the LBP Branch Office for loan evaluation of the LBP portion and for loan documentation.
4. For projects with CAP-PBD loan requirements of more than P2 million up to P5 million, the PPMC shall undertake initial screening and evaluation of the proposal, and if found eligible and viable, shall endorse the proposal to the RPMC, which shall undertake final evaluation/validation of the project. If approved, the RPMC shall endorse the same to LBP-Branch Office for evaluation of the LBP portion and for loan documentation.

5. The PPMC shall endorse all eligible and viable loan proposals, with the accompanying support documents and results of the initial screening/evaluation to the RPMC for further evaluation and validation.
6. Upon approval of the LBP loan portion and the completion of loan documentation, the LBP-Branch Office shall notify the RPMC/PPMC, which in turn shall notify the Program Secretariat (PS) which shall officially request the LBP-HO to effect the transfer of the corresponding amount to the proponent through the concerned Branch Office.
7. For projects with CAP-PBD loan requirements of more than P5 million, the PPMC and RPMC shall evaluate and endorse the proposal to the NPMC, through the NTRC, which shall undertake final evaluation and approval of the project.
8. The NTRC shall review the proposal and prepare the appropriate recommendation to the NPMC. The NTRC may call on the services of designated technical specialists and conduct field validation/consultations in the final evaluation of the project proposal.
9. The NPMC shall approve or disapprove the project for funding and transmit the proposal documents to the RPMC and PPMC for loan approval of the LBP portion and loan documentation by the concerned LBP Branch office (if approved), or for transmittal back to the proponent (if disapproved).
10. Upon approval of the LBP portion and then completion of loan documentation, the LBP field office shall notify the PPMC/RPMC and the Program Secretariat (PS) which shall officially request the LBP Head Office (LBP-HO) to effect the transfer of corresponding funds to the proponent through the concerned LBP-FO.

H. Conditionalities for Technical Standards

A technical advisory team shall be formed with members from DAR, LBP, and an authorized partner NGO. The advisory team shall determine the standards for nursery development, rubber replanting, and rubber exploitation that shall be critical to the success of the rubber replanting program and the eventual repayment of the loan. Conditionalities may be imposed in the approval of the loans, and stipulated in the loan agreement and credit facility proposal.

The advisory team shall review and monitor the rubber replanting projects of the proponent cooperatives. The results of the periodic technical review and evaluation shall be the basis for the approval of succeeding fund disbursements. The concerned DAR and LBP staff at the provincial and regional level shall

submit these periodic reports to the NPMC through the National Technical Review Committee (NTRC).

I. Loan Release and Recovery

The process for loan release and recovery for the CAP-PBD portion shall be guided by Section VII.C of M.C. # 26, series of 1996. The existing rules and regulations of LBP shall govern the release and recovery of the LBP portion.

J. Program Fund Reporting

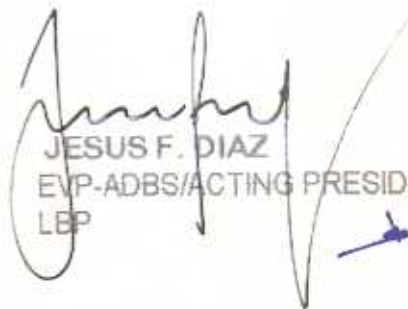
The Land Bank-HO through the CLD/TSD, in its Semestral Statement of Accounts for CAP-PBD, shall include a status report on the utilization of the Rubber Replanting Fund. Exception reports on the Fund may be requested by the Program Secretariat whenever necessary.

III. EFFECTIVITY

This Memorandum Order takes effect immediately and shall remain in force until revoked in writing. All other Orders and Memoranda inconsistent herewith are hereby revoked, superseded or modified accordingly.

MARCH 25 1998, Diliman, Quezon City.


ERNESTO D. GARILAO
Secretary
DAR


JESUS F. DIAZ
EVP-ADBS/ACTING PRESIDENT
LBP