



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 1090
Series of 2020

Subject: Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 10878 (An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk, Further Amending R.A. No. 3844, Otherwise Known as the "Agricultural Land Reform Code, as Amended")

The Monetary Board, in its Resolution No. 802 dated 25 June 2020, approved the adoption of the IRR of R.A. No. 10878 and the corresponding amendments to the relevant provisions of the Manual of Regulations for Banks (MORB).

Section 1. Section 334 of the MORB is hereby created to read, as follows:

334 SOCIALIZED CREDIT TO QUALIFIED AGRARIAN REFORM BENEFICIARIES, SMALL FARMERS AND FISHERFOLK

Pursuant to R.A. No. 10878¹, the Land Bank of the Philippines (LBP) shall allocate at least five percent (5%) of its regular loan portfolio for socialized credit to qualified small farmers, small fisherfolk and agrarian reform beneficiaries through qualified conduits.

Further, the LBP may offer and issue common and preferred shares of stocks to agrarian reform beneficiaries, small farmers and fisherfolk through their organizations, cooperatives; federations and cooperative banks; development partners and strategic investors such as multilateral and bilateral institutions; and rural banks and their associations.

The pertinent guidelines are shown in *Appendix 144*.

Section 2. Transitory Provision. LBP shall have a period of six (6) months from the effectivity of the IRR to monitor its compliance with the provisions provided in the Act. Thereafter, LBP is expected to fully comply with the requirements of the Act.

This transitory provision shall be included as footnote to Sec. 334.

¹ An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk, Further Amending R.A. No. 3844, Otherwise Known as the "Agricultural Land Reform Code, as Amended"

Section 3. This Circular shall take effect fifteen (15) calendar days following its publication in either the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO
Governor

20 July 2020

**IMPLEMENTING RULES AND REGULATIONS (IRR) ON SOCIALIZED CREDIT TO QUALIFIED
AGRARIAN REFORM BENEFICIARIES, SMALL FARMERS AND FISHERFOLK**

Republic Act (R.A.) No. 10878, otherwise known as "An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk, Further Amending R.A. No. 3844, Otherwise Known as the "Agricultural Land Reform Code, as Amended" was issued to strengthen and institutionalize direct credit support of the Land Bank of the Philippines (LBP) to qualified agrarian reform beneficiaries (ARBs), small farmers and fisherfolk. Thus, the Bangko Sentral ng Pilipinas (Bangko Sentral), in consultation with LBP, formulated and hereby promulgates the following IRR to guide LBP and all other departments, agencies and sectors concerned in the implementation of the provisions of R.A. No. 10878.

Section 1. Definition of Terms. As used in this IRR, the term:

- a. **Act** shall refer to R.A. No. 10878, otherwise known as "An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk, Further Amending R.A. No. 3844, Otherwise Known as the "Agricultural Land Reform Code, as Amended".
- b. **Agrarian Reform Beneficiaries (ARBs)**, as defined under item (b), Definition of Terms, Section 331 of the MORB, shall refer to farmers who were granted lands under P.D. No. 27 or the "Emancipation of Tenants from the Bondage of the Soil, Transferring to Them the Ownership of the Land They Till and Providing the Instruments and Mechanism Therefor", R.A. No. 6657 or the "Comprehensive Agrarian Reform Law", as amended, and regular farmworkers who are landless, irrespective of tenurial arrangement, who benefited from the redistribution of lands, regardless of crops or fruits produced, to include the totality of factors and support services designed to lift the economic status of the beneficiaries and all other alternative arrangements to the physical distribution of lands, such as production or profit-sharing, labor administration, and the distribution of shares of stock under the stock distribution option scheme, which will allow beneficiaries to receive a just share of the fruits of the lands they work, which farmers and farmworkers shall be endorsed by the nearest office of the Department of Agrarian Reform (DAR).

The term shall, likewise, include ARBs under other existing agrarian laws, and registered ARB's cooperatives/associations/other farm groups respectively endorsed as comprising of ARBs by the nearest office of the DAR.

- c. **Agricultural Projects** shall refer to the following undertakings or activities listed under Item (f), Definition of Terms, Section 331 of the MORB:
 - i. Agricultural production;
 - ii. Promotion of agri-business and exports;

- iii. Acquisition of work animals, farm and fishery equipment and machinery;
- iv. Acquisition of seeds, fertilizers, poultry, livestock, feeds and other similar items;
- v. Acquisition of lands authorized under the Agrarian Reform Code of the Philippines and its amendments;
- vi. Construction, acquisition and repair of facilities for production, processing, storage, and marketing and such other facilities in support of agriculture and fisheries; and
- vii. Efficient and effective merchandising of agricultural and fishery commodities stored and/or processed by the facilities aforesaid in domestic and foreign commerce;

It shall also include agro-industrial projects that promote the provision and delivery of the abovementioned agricultural activities.

- d. **Credit Cooperative** shall refer to a cooperative that promotes and undertakes savings and lending services among its members. It generates a common pool of funds in order to provide financial assistance to its members for productive and provident purposes.
- e. **Crop insurance premiums** shall refer to the amount paid by the small farmers to the Philippine Crop Insurance Corporation (PCIC) or other insurance companies for crop insurance coverage.
- f. **Guarantee fees** shall refer to the amount paid by the Participating Financial Institutions (PFI) to the Guarantee Fund (such as the Philippine Guarantee Corporation), to enroll the unsecured agricultural loans granted by the PFI to its sub-borrower/farmers for guarantee coverage.
- g. **Multipurpose Cooperative** is a cooperative duly registered with the Cooperative Development Authority (CDA) which combines two (2) or more of the business activities of agricultural and non-agricultural cooperatives.
- h. **Non-agricultural Cooperatives (credit and multi-purpose)** shall refer to organizations duly registered with the CDA composed of members who voluntarily join together to form business enterprises or non-business organizations which they themselves own, control and patronize.
- i. **Regular loan Portfolio** shall refer to the sum of all loan accounts outstanding, net of loans to the Bangko Sentral, interbank loans, availments from domestic bills purchase line but gross of allowance for credit losses.

- j. **Risk-Asset Acceptance Criteria (RAAC)** shall refer to the minimum set of parameters which the borrowers should comply with for LBP to process their loan application. It serves as initial measurement in assessing the credit worthiness of the borrowers.
- k. **Small Farmers and Fisherfolk**, as defined under Section 4, Definition of Terms of R.A. No. 8435, otherwise known as the "Agriculture and Fisheries Modernization Act of 1997", shall refer to natural persons dependent on small-scale subsistence farming and fishing activities as their primary source of income.
- l. **Small Farmers' and Small Fisherfolks' Cooperatives** shall refer to cooperatives duly registered with the CDA which are composed primarily of small agricultural producers, farmers, farmworkers, agrarian reform beneficiaries or fisherfolk who voluntarily join together to form business enterprises or non-business organizations which they themselves own, control and patronize.
- m. **Farmers' and Fisherfolks' Organizations or Associations**, as defined under Item (o), Definition of Terms, Section 331 of MORB, shall refer to farmer's and fisherfolk's associations or corporations duly registered with appropriate government agencies and which are composed primarily of small agricultural producers, farmers, farmworkers, ARBs or fisherfolk who voluntarily join together to form business enterprises or non-business organizations which they themselves own, control and patronize.

Section 2. Socialized Credit Facility. LBP shall allocate at least five percent (5%) of its regular loan portfolio for socialized credit to qualified small farmers, small fisherfolk and ARBs. This facility shall solely finance agricultural projects pursuant to the provisions of Section 4 of R.A. No. 10000, otherwise known as "The Agri-Agra Reform Credit Act of 2009".

Credits extended to the beneficiaries named under this socialized credit facility shall be based on the feasibility of the project and their paying capacity, their estimated production, and/or securities they can provide, as well as assets as may be acquired by them from the proceeds of the loans.

This facility will be funded through the operations of LBP itself and will not require additional government funding.

All loans extended through this special socialized credit facility shall qualify as part of LBP's direct compliance with the mandatory agricultural and agrarian reform credit pursuant to R.A. No. 10000.

The base amount for purposes of determining compliance with the five percent (5%) allocation is the regular loan portfolio reported as of the end of the previous quarter.

Section 3. Eligible Borrowers and Sub-Borrowers. Credits under this special socialized credit facility shall be extended through the following conduits:

- a. Cooperatives (i.e., Small Farmers' and Small Fisherfolk's Cooperatives & Non-Agricultural Cooperatives);
- b. Farmers' and Fisherfolk's Organizations or Associations;
- c. Countryside Financial Institutions (CFIs) (i.e., Rural Banks, Cooperative Banks, Thrift Banks);
- d. Agri-business firms or anchor firms providing credit support to ARBs, and small farmers and small fisherfolk; and
- e. Duly accredited microfinance non-government organizations (NGOs) by the Microfinance NGO Regulatory Council.

The proceeds of the credit facility shall be used by these conduits for on-lending to finance the agricultural projects of Small Farmers, Small Fisherfolks and ARBs.

Section 4. Eligibility Criteria and Basic Lending Terms and Conditions

a. Eligibility Criteria

The approval/renewal of loans to the conduits under the program shall be subject to LBP's established RAAC for each type of borrower in accordance with LBP's existing policies and procedures.

b. Basic Lending Terms and Conditions

Purpose	To finance the working capital requirement of the conduits to Small Farmers and Small Fisherfolks, and ARBs to finance the latter's agricultural projects pursuant to the provisions of Section 4 of R.A. No. 10000, otherwise known as "The Agri-Agra Reform Credit Act of 2009".
Credit Facility	<ul style="list-style-type: none"> ● Short Term Loan Lines - Loans with maturity of up to one (1) year; ● Term Loans - Loans with maturity of more than one (1) year or up to ten (10) years; and permanent working capital for a maximum of three (3) years; and ● Rediscounting Line – Loans to supplement or augment working capital requirements of borrowers (conduits). Availments on rediscounting line are made based on the promissory notes (PNs) of sub-borrowers.
Maximum Loanable Amount	Based on LBP's existing lending policy
Nominal Interest Rate (from LBP to conduit borrower)	<p>Loans under this special socialized credit facility shall have an interest rate equivalent to not more than seventy-five percent (75%) of LBP's prevailing rates for loans to cooperative borrowers of similar or comparable loan terms.</p> <p>The interest rate shall be exclusive of other charges (i.e., cost of documentary tax, gross receipt tax, insurance, if any, etc.).</p>
Repayment Term	<ul style="list-style-type: none"> ● Short term Loan Line – based on the project's cashflows, may be payable up to 180 or 360 days PN;

	<ul style="list-style-type: none"> • Term Loan – based on the crop cycle/project’s cashflows, may be payable monthly, quarterly, semi-annually, annually; and • Rediscounting Line – based on the maturity date of the sub-PNs for rediscounting with LBP.
Collateral/ Security	Real and personal securities as may be acceptable to LBP.
Minimum Loan Covenants	<p>i. The conduit borrower shall not charge sub-borrowers an interest spread exceeding five percent (5%) over the interest rate charged by the LBP for the loan under the special social credit facility. Said interest spread shall exclude reasonable fees and charges such as, but not limited to, crop insurance premiums and guarantee fees that may be imposed; and</p> <p>ii. The conduit borrower shall not lend proceeds from the socialized credit facility to another conduit.</p>
Documentary Requirements	Standard documentary requirements of LBP shall apply.
Fees and Charges	Standard fees and charges shall apply as may be deemed necessary by LBP.
Penalties	The LBP will charge penalties at a rate not exceeding twenty-four percent (24%) per annum.

Except for the purpose of the loan and the nominal interest rate, LBP may amend the foregoing terms and conditions without prior approval from the Bangko Sentral: *Provided*, That said amendment shall be consistent with the provisions of R.A. No. 10878: *Provided further*, That LBP shall notify the appropriate supervising department of the Bangko Sentral of such amendments within 30 banking days from approval of the Board of Directors.

Section 5. Issuance of LBP’s Common and Preferred Stocks. LBP may offer and issue common and preferred shares of stocks to ARBs, small farmers and small fisherfolk through their organizations, cooperatives, federations and cooperative banks; development partners and strategic investors such as multilateral and bilateral institutions; rural banks and their associations, either through private placement, public offering or otherwise, in quantities to be determined by the Board of Directors of LBP and in accordance with applicable laws, rules and regulations; *Provided*, however, that the National Government shall maintain, at all times, at least two-thirds (2/3) ownership of the total outstanding common shares of LBP.

Preferred shares of stock shall be non-voting. Other features of preferred shares shall be determined by the Board of Directors of LBP in accordance with applicable laws and regulations.

Section 6. Documentation and Disclosure. LBP shall assess, on a quarterly basis, its compliance with the provisions of this IRR and the Report thereon shall be made available upon request of the authorized representative of the Bangko Sentral. Further, compliance with this IRR shall be disclosed in LBP’s Annual Report.

Section 7. Transitory Provision. LBP shall have a period of six (6) months from the effectivity of the IRR to monitor its compliance with the provisions provided in the Act. Thereafter, LBP is expected to fully comply with the requirements of the Act.