

cc: all divisions

Administrative Order No. 11
Series of 2015

**REVISED IMPLEMENTING RULES AND REGULATIONS (IRR) OF THE
AGRICULTURAL GUARANTEE FUND POOL (AGFP)**

Pursuant to Administrative Order (A.O.) No. 225-A issued by the President on May 26, 2008 as further articulated by the Department of Agriculture Administrative Order (DA-AO) No. 23, series of 2008, the following Revised Implementing Rules and Regulations (IRR) are hereby issued to govern the implementation of the Agricultural Guarantee Fund Pool (AGFP).

This guideline considers the expanded coverage of the AGFP to include livestock, fisheries and other food crops.

1.0 PROGRAM DESCRIPTION AND PURPOSE

The Administrative Order No. 225-A stipulates, among others, that Government Financial Institutions (GFIs) and Government Owned and Controlled Corporations (GOCCs) shall allocate and contribute five percent (5%) of their 2007 surplus for projects in palay and food production, and as contribution to the AGFP. The AGFP shall be used to mitigate the risks involved in agricultural lending thereby facilitating the provision of credit to the agriculture sector.

The AGFP shall encourage partner lending institutions (PLIs) to lend to small farmers and fisherfolk (SFF) by providing guarantee coverage to unsecured loans for agricultural food commodity production.

2.0 DEFINITION OF TERMS:

- 2.1 **Agricultural Food Commodity Production** - refers to crop, fishery, poultry and livestock production.
- 2.2 **Amount to be guaranteed** - amount of principal loan disbursed to the borrowers by the PLI as indicated in the promissory note (PN).
- 2.3 **Collection Agreement** - an agreement that binds the PLI or other collecting agents to collect from the borrowers in behalf of the AGFP.
- 2.4 **Deed of Subrogation** - an agreement signed by the PLI transferring its right of claims from the principal debtor to the AGFP.



- 2.5 **Guarantee** - is an agreement under which one party (AGFP) agrees to pay the loan obligation of the borrower if the borrower fails to pay the loan after its maturity.
- 2.6 **Guarantee Fee** - amount paid by the PLI to AGFP to enroll loan to SFF for guarantee coverage.
- 2.7 **Partner Lending Institutions (PLIs)** - are Banks, Cooperatives, Corporations, Non-Government Organizations (NGOs) or Farmers Organizations (FOs) with juridical personality, which provide financial assistance to farmers and fisherfolk.
- 2.8 **Past Due Ratio** - total uncollected principal loan amount after the loan maturity net of valuation reserve against the total loan portfolio of the PLI.
- 2.9 **Program Institutional Manager** - refers to Land Bank of the Philippines.
- 2.10 **Small Farmers** - refer to small crop growers and small livestock and poultry raisers as defined below:
- 2.10.1 **Small Crop Growers** - refer to owner-cultivator, tenants, leaseholders, etc. who are tilling not more than five (5) hectares of agricultural lands (RA 6657).
- 2.10.2 **Small Poultry and Livestock Raisers** - refer to those having the following maximum hog, poultry and livestock inventory at the time of accreditation by the PLI:
- a. **Poultry** - 2,000 layers or 5,000 broilers;
 - b. **Swine** - 10 sows or 50 fatteners;
 - c. **Goat/Sheep** - up to 50 heads for meat and/or dairy
 - d. **Cattle** - 10 fatteners or 5 breeders;
 - e. **Dairy** - 10 milking cows/carabaos
- 2.11 **Small Fisherfolk** - refers to the following:
- 2.11.1 **Coastal Fisherman** - owns or operates a fishing boat, including paraphernalia with total weight of not more than three (3) gross tons and conducts fishing activities within fifteen (15) kilometers from the shoreline.
- 2.11.2 **Fishpond Operator** - owner/operator of fishpond(s) of not more than five (5) hectares including those under fishpond lease agreement (FLA).



2.11.3 **Fishcage Operator** – owner/operator of fish cage(s) with total area of not more than 400 square meters.

2.11.4 Those engaged in aquaculture, which covers all forms of raising and culturing fish, shellfish, seaweed production, and other fishery species in brackish and marine areas of not more than five (5) hectares.

2.12 **Unsecured Loan** - refers to the amount of loan not covered by Real Estate Mortgage (REM) and/or chattel mortgage, or any other form of acceptable collateral.

3.0 ORGANIZATION AND MANAGEMENT

The Department of Agriculture (DA), through a Governing Board, shall exercise direction and supervision, oversee implementation, and adapt strategies to ensure sustainability of the AGFP.

3.1 Guarantee Fund Governing Board (Governing Board)

3.1.1 The Governing Board shall be composed of the following:

- | | | |
|---------|---|--|
| Chair | - | DA Undersecretary |
| Members | - | Representative, DAR
(at least Assistant Secretary) |
| | | Representative, DOF
(at least Assistant Secretary) |
| | | Representative, NAPC
(at least Assistant Secretary) |
| | | Representative, LANDBANK
(at least Vice President) |
| | | Representative, ACPC
(at least Deputy Executive Director) |
| | | Representative, Academe |
| | | Representative, Partner Lending
Institution (PLI) |
| | | Program Executive Director (Ex-Officio, Non-
voting) |

The members of the AGFP Governing Board coming from government agencies shall be officially designated by the heads of their respective offices. Representatives from the Academe and PLI shall be appointed by the Secretary of Agriculture. GB Members shall appoint their respective technical assistants.

3.1.2 The GB shall set policy directions and oversee the implementation of AGFP. Specifically, the GB shall:



- Exercise Authority and Supervision over the PMO through the Program Executive Director;
- Approve the Organizational Structure and staffing complement of the PMO;
- Approve policies, programs, and procedural guidelines that will govern the program implementation;
- Approve the AGFP Annual Work and Financial Plan;
- Set guarantee line limits and credit ceilings per hectare/commodity;
- Approve the leveraging ratio in coordination with the Bangko Sentral ng Pilipinas (BSP);
- Oversee the utilization and investment of the AGFP Fund;
- Submit annual reports of the status of the Fund to the DA Secretary;
- Authorize the Institutional Manager or the Program Executive Director to enter into contracts as it may deem necessary;
- Create Committee(s) and working group(s) as it may deem necessary;
- Delegate authority to the PMO as it may deem necessary.

3.2 Internal Audit Committee of the GB

- 3.2.1 Internal Audit Committee (IAC) of the GB shall be created by the GB. The IAC Chair and two (2) other members of the committee shall be appointed by the GB Chair from among members of the GB.
- 3.2.2 The IAC shall review the reports of the Internal Audit Division (IAD) of the PMO and shall report the results of the review to the GB on a regular basis.

3.3 Program Institutional Manager

- 3.3.1 Pursuant to Section 3.4 of the DA Administrative Order No. 23, series of 2008, LANDBANK shall act as the Program Institutional Manager (PIM) for all guarantees extended by AGFP. The PIM shall:
- Act as administrator of the PMO



- Provide office space to the PMO
- Provide the PMO with the facilities required for its operations
- Book and disburse operational expenses based on the GB approved work and financial plan/resolutions
- Enter into agreement with concerned parties as approved by the Governing Board;
- Issue instructions to the LANDBANK Trust Banking Group and Cash Department to effect withdrawals from the AGFP Accounts, as approved by the Governing Board or its designated approving authorities.

3.3.2 In case where LANDBANK itself is the institution being guaranteed by the AGFP, approvals shall be made by the GB. The LANDBANK Representative in the GB shall inhibit himself/herself during the discussion and/or deliberation to avoid conflict of interest.

3.4 Program Management Committee (PMC)

The Program Management Committee (PMC) shall assist the GB in the execution of its functions.

3.4.1 The PMC shall be composed of the following:

- | | |
|------------|--|
| Chair | - LANDBANK Representative (1) |
| Vice-Chair | - DA-ACPC Representative (1) |
| Members | - LANDBANK Representative (1)
- DA Representative (1)
- DAR Representative (1) |

3.4.2 The Chair of the PMC shall come from the Program Institutional Manager and shall be designated by the President of Land Bank of the Philippines. The Vice - Chair and members of the PMC shall be designated by the heads of their respective offices.

3.4.3 The functions of the PMC are as follows:

- Confirm guarantee line and guarantee claims payment approvals made by the PMO;
- Approve/disapprove guarantee lines and guarantee claims payment within its delegated authority;
- Recommend for GB approval requests for guarantee lines and guarantee claims payment beyond its authority;
- Perform other tasks/acts as may be assigned by the GB.



3.5 Program Management Office (PMO)

3.5.1 The PMO shall provide technical and administrative support to the Governing Board in carrying out its functions.

Specifically, the PMO shall:

- Execute policy decisions of the Governing Board (GB);
- Prepare annual work plan and operating budget of the AGFP for review by the PMC and endorsement to the GB for approval;
- Recommend policies and procedures for GB approval;
- Prepare monthly financial statements, and other reports to the GB;
- Conduct activities to promote awareness and interest among targeted partners of the AGFP;
- Facilitate and conduct meetings, conferences, workshops, and training activities;
- Process, evaluate, approve/disapprove guarantee lines/claims and elevate those that are beyond its approving authority to the PMC/GB;
- Validate guarantee claims;
- Process request for claims payment within the prescribed period;
- Manage the guarantee portfolio of the AGFP and make recommendations to the GB for the utilization/ investment of the Fund;
- Perform other tasks as may be assigned by the GB.

3.5.2 The PMO shall be headed by a Program Executive Director (PED) appointed by the GB. The PMO shall have four (4) Divisions:

- Marketing and Accounts Management Division (MAMD)
- Claims and Recovery Division (CRD)
- Finance and Administration Division (FAD)
- Internal Audit Division

The GB shall exercise supervision over the Internal Audit Division.



- 3.5.3 The staffing complement of the PMO shall be subject to approval by the GB.

4.0 POLICIES ON GUARANTEE COVERAGE AND CLAIMS

4.1 Guarantee Coverage

The guarantee cover shall be up to 85% of the principal balance at the time of claim but not to exceed the amount of credit ceiling per commodity.

Ceilings per commodity/activity type shall be based on the average cost of production per commodity used by Land Bank of the Philippines in its credit evaluation or as may be set by the Governing Board.

4.2 Eligible Borrowers and Loans for Guarantee Cover

4.2.1. Eligible Borrowers for Guarantee Cover

Eligible borrowers for guarantee cover are small farmers and fisherfolk (SFF) or group of farmers/fisherfolk borrowers who are engaged in agricultural food production.

4.2.2. Eligible Accounts for Guarantee Cover

Accounts eligible for guarantee coverage must meet the following conditions:

- a. Unsecured loans/accounts of eligible borrowers not covered by real estate mortgage (REM) and/or chattel mortgage (CM), or any other form of acceptable collateral. If partially secured, only the unsecured portion shall be eligible for guarantee coverage;
- b. Loan purpose is to finance palay and other food crops/commodities production; and
- c. Accounts which were released to the borrowers by the PLIs not more than sixty (60) days prior to enrolment for guarantee coverage, provided there is no damage to the crop at the time of enrolment for guarantee cover.



4.3 Guarantee Fee

The PLI shall pay the guarantee fee based on the amount of the loan as indicated in the PN and the guarantee period of the crop/commodity as defined in Section 4.8.2.

The guarantee fee shall be reviewed and approved by the Governing Board on an annual basis.

4.4 Eligible PLIs

The following are the eligible PLIs:

4.4.1 Banks (e.g. Universal Banks, Commercial Banks, Rural Banks, Cooperative Banks, Thrift Banks)

4.4.2 Cooperatives

4.4.3 Corporations that lend to SFF

4.4.4 Non-Government Organizations and Farmers' Organizations

4.5 Eligibility Requirements for PLIs

The PLI must pass the following:

4.5.1 Banks

- a. Satisfactory credit standing with creditors, if any;
- b. CAMELS Rating of at least 3;
- c. Past due ratio net of valuation reserve, of not more than 15%;
- d. At least two-year track record in lending to farmers;
- e. Capital adequacy ratio of at least 10%;
- f. Adequate reserve requirement;
- g. Profitable on the year preceding the application and as of the time of application for guarantee line;

4.5.2 Cooperatives

- a. Registered with Cooperative Development Authority (CDA)
- b. Satisfactory credit standing with creditors, if any;
- c. Past due ratio net of valuation reserve, of not more than 25%;
- d. At least two-year track record in lending to farmers;
- e. Risk asset ratio (for credit cooperative) of not less than 10%;



- f. Complete part-time or full-time core management team;
- g. Profitable on the year preceding the application and as of the time of application for guarantee line;

4.5.3 Corporations that lend to SFF

- a. No ownership and/or labor dispute for the past three (3) years;
- b. Past due ratio net of valuation reserve, of not more than 15%;
- c. Satisfactory credit standing with creditors, if any;
- d. Profitable on the year preceding the application and as of the time of application for guarantee line;
- e. At least 60% Filipino-owned;
- f. Debt-equity ratio of not more than 80:20;
- g. At least two-year track record in lending to farmers.

4.5.4 Non-Government Organizations

- a. Registered with Securities and Exchange Commission (SEC);
- b. Past due ratio net of valuation reserve, of not more than 25%;
- c. Satisfactory credit standing with creditors, if any;
- d. Complete part-time or full-time core management team;
- e. Net Surplus on the year preceding the application and as of the time of application for guarantee line, *if applicable*;
- f. At least two-year track record in lending to farmers.

4.5.5 Farmers'/ People's Organizations other than Cooperatives

- a. Registered with a registering entity (e.g. SEC, NIA, etc.);
- b. Operational and with satisfactory credit standing with its creditors, if any or with supervising government agencies/entities such as NIA, DOLE, DAR, etc;
- c. With functioning Board of Directors or its equivalent, and presence of core management team (e.g. manager, bookkeeper and treasurer or officially designated officers to manage the lending program);
- d. Positive net worth on the year preceding the application and as of the time of application for guarantee line;
- e. With lending policies and guidelines and with basic recording system (e.g. loan disbursement and collection systems, etc.);
- f. At least two-year track record in lending to farmers;
- g. Past due ratio net of valuation reserve, of not more than 25%.



4.6 Guarantee Line Approval and Renewal

4.6.1 A guarantee line shall be established for an eligible PLI, subject to the approval of the AGFP approving authorities.

The approved guarantee line shall be the maximum amount of guarantee cover that can be extended to the PLI at any given time.

A guarantee line shall be valid for a period of one year.

4.6.2 Renewal shall be subject to the satisfactory performance of the PLI based on the criteria set by the GB.

4.6.3 All PLIs with approved guarantee line shall execute a guarantee agreement with the AGFP.

4.6.4 The AGFP may terminate the guarantee line for breach or violation by the PLI of any of the terms and conditions in the guarantee agreement and of the provisions of this IRR.

4.6.5 The PLI may terminate the same for any justifiable cause upon serving notice to the AGFP at least 15 days prior written notice to such effect notwithstanding any provision herein or in the pertinent AGFP Governing Board Order.

4.7 Request for Guarantee Coverage

All PLIs with approved and unexpired guarantee lines may request for guarantee coverage per batch of promissory notes.

Acknowledgment receipt will be issued by the PMO upon receipt of notice of payment of guarantee fee by the PLI and masterlist of eligible accounts for guarantee cover. Guarantee fees paid for borrowers whose notes were found invalid for claims will no longer be refunded.

AGFP may, for any justifiable cause, refuse any and all applications for guarantee coverage under the approved guarantee line.

4.8 Effectivity/Validity of Guarantee Cover

4.8.1 The guarantee cover shall be deemed effective if:

- a. The guarantee fee is paid within the sixty (60) day period;



- b. There is no damage to the crop/commodity at the time of enrolment for guarantee cover; and
- c. Masterlist of eligible accounts for guarantee are submitted within fifteen (15) calendar days from the date of payment of guarantee fee.

Non-submission of the masterlist of eligible accounts for guarantee within the prescribed period shall make the coverage null and void.

4.8.2 The guarantee fee shall be based on the production cycle of the crop/commodity, as follows:

Activity		Guarantee Period	Guarantee Fee			
			Regular		ARB	
			Not PCIC Insured	PCIC Insured	Not PCIC Insured	PCIC Insured
Palay Production		5 months	0.85%	0.45%	0.45%	0.25%
Pineapple (Plant)		23 months	3.85%	1.95%	1.95%	1.00%
(Ratoon)		20 months	3.35%	1.70%	1.70%	0.85%
Sugarcane (Plant)		14 months	2.35%	1.20%	1.20%	0.60%
(Ratoon)		12 months	2.00%	1.00%	1.00%	0.50%
Corn		6 months	1.00%	0.50%	0.50%	0.25%
Cassava		14 months	2.35%	1.20%	1.20%	0.60%
Other short term crops/commodities		7 months	1.20%	0.60%	0.60%	0.30%
Fishpond / fishcage operations	Bangus	8 months	1.35%	0.70%	0.70%	0.35%
	Tilapia	7 months	1.20%	0.60%	0.60%	0.30%
	Prawn	8 months	1.35%	0.70%	0.70%	0.35%
	Crab	8 months	1.35%	0.70%	0.70%	0.35%
	Catfish	8 months	1.35%	0.70%	0.70%	0.35%
Poultry/ Livestock	Layer	20 months	3.35%	1.70%	1.70%	0.85%
	Broiler	3 months	0.50%	0.25%	0.25%	0.15%
	Goat (breeding)	7 months	1.20%	0.60%	0.60%	0.30%
	Goat (fattening)	7 months	1.20%	0.60%	0.60%	0.30%
Poultry/ Livestock	Hog (breeding)	14 months	2.35%	1.20%	1.20%	0.60%
	Hog (fattening)	7 months	1.20%	0.60%	0.60%	0.30%
	Cattle (fattening)	8 months	1.35%	0.70%	0.70%	0.35%
	Cattle (breeding)	11 months	1.85%	0.95%	0.95%	0.50%
	Carabao (breeding)	15 months	2.50%	1.25%	1.25%	0.65%
Note: * Milk Production	Carabao (dairy)*	11 months	1.85%	0.95%	0.95%	0.50%
	Goat (dairy)*	6 months	1.00%	0.50%	0.50%	0.25%
	Cattle (dairy)*	11 months	1.85%	0.95%	0.95%	0.50%



For the PLI's long term exposures that are related to agricultural food commodity production, guarantee coverage shall be subject to the guidelines to be set by the Governing Board.

- 4.8.3 AGFP at any time may cancel guarantee coverage of accounts/loans enrolled due to non-compliance with the AGFP eligibility requirements.

4.9 Risks and Events of Default Covered by Guarantee

4.9.1 The guarantee shall cover all risks, from losses due to non-payment of loans including those that are caused by the following, but not limited to:

- natural calamities (such as typhoons, floods, etc.)
- pests and diseases
- market aberrations

4.9.2 Fraud or wilful misrepresentation on the guarantee coverage and guarantee claims on the part of the PLI shall not be covered and which may be used as basis for termination or revocation of guarantee line.

4.10 Guarantee Claim Payments

4.10.1 A guarantee claim shall be filed by the PLI to the AGFP PMO within sixty (60) calendar days after the last maturity date in the batch, supported by the following:

- a. List of accounts being claimed for guarantee payment;
- b. Copy of duly accomplished promissory notes (PNs);
- c. Copy of Disclosure Statement (for banks);
- d. PLI's affidavit of non-payment;
- e. Duly received demand/collection letter issued by the PLI to the borrower;
- f. Statement of account of the borrower as of date of filing of claims;
- g. Reason for and proof of occurrence of calamity/ pest and/or disease occurrence, if applicable.



4.10.2 Claims shall be paid as follows:

- a. Initial payment of 80% of the guarantee shall be made as follows:
 1. 50% after validation of enrolment of accounts requested for claims payment; and
 2. 30% net of invalid accounts after review of complete supporting documents.
- b. Field validation shall be conducted prior to final payment which shall be net of recoveries and/or claims found invalid for payment.
- c. The PMO shall validate at least 20% of the total guarantee claims of the (CLAIM) batch. Should the invalid guarantee claims exceed 10% of the claims being validated, all claims in the batch shall be considered invalid.
- d. Payment of the AGFP shall be applied to the principal of the loan of the SFF.
- e. Guarantee claims payment found invalid for claims payment shall be treated as accounts receivable of the AGFP from the PLI.
- f. PLIs shall remit to the AGFP the amount corresponding to the invalid claims within thirty (30) working days from the date of notice.
- g. Settlement of the amount shall become a pre-approval requirement for renewal of guarantee line.

5.0 COLLECTION OF ACCOUNTS

- 5.1 The PLI shall execute a Deed of Subrogation with Collection Arrangement of the subject account(s) in favor of the AGFP prior to payment of the guarantee claims.
- 5.2 After payment of the guarantee claim, the PLI/ Collecting Agent shall collect from the borrowers for and in behalf of the AGFP.
- 5.3 Eighty five percent (85%) of any collection made from individual subrogated account shall be remitted by the PLI to the AGFP until the total obligation of such borrower with the AGFP has been fully settled.



Remittance of such collections for the month shall be made not later than the fifteenth (15th) day of the succeeding month.

- 5.4 AGFP shall have the option to enter into an agreement with Collecting Agent(s) for subrogated receivables of more than two (2) years.

6.0 MISCELLANEOUS PROVISIONS

6.1 Risk Weight

All loans extended by partner-banks that are guaranteed by AGFP shall have a risk weight pursuant to the guidelines to be issued by the BSP.

6.2 Fund Allocation

The Governing Board shall determine the allocation of the Fund between banks and non-banks, provided that the allocation for banks shall conform to the BSP guidelines on risk-weighting of bank loans.

The claims made on the guarantee fund will be charged against the allocation for the respective PLI types. Losses incurred from guaranteed loans granted by each type of PLI will only affect the allocation of that particular type of PLI.

The amount corresponding to the allocation intended to cover loans granted by partner-banks shall be invested only in assets that are zero percent risk weighted under the BSP risk-based capital adequacy framework.

6.3 Leveraging Ratio

Allowable leveraging ratio of the fund is set at three (3) times the amount of the seed fund. Leveraging may be reviewed by the GB as deemed necessary.

6.4 Incorporation by Reference

Except as otherwise provided in this Rules, Administrative Order No. 225-A issued by the Office of the President and Administrative Order No. 23, as amended by Administrative Order No. 23-A, issued by the Department of Agriculture is hereby incorporated herein by reference in answer or partial answer to any other item not herein provided.

6.5 Separability Clause

In the event any provision of this Rules or the application of such provision to any person or circumstance is declared invalid, the



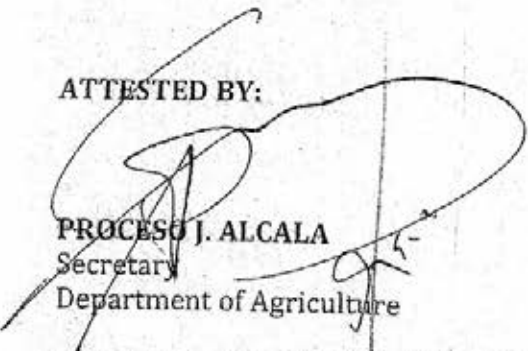
remainder of this Rules or the application of said provisions to other persons or circumstances shall not be affected by such declaration.

All previous issuances not consistent with this guideline shall be deemed revoked and superseded.

7.0 EFFECTIVITY

These guidelines shall take effect upon approval.

ATTESTED BY:


PROCESO J. ALCALA
Secretary
Department of Agriculture

Date Approved: Sept. 30, 2015

DEPARTMENT OF AGRICULTURE
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