IMPLEMENTING GUIDELINES OF ADMINISTRATIVE ORDER NO. 225-A

DA ADMINISTRATIVE ORDER NO. 23, S. 2008, July 07, 2008

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WHEREAS, on the 26th of May 2008, President Gloria Macapagal-Arroyo issued Administrative Order No. 225-A, amending Administrative Order No. 225, mandating government-owned and controlled corporations and government financial institutions to allocate five percent (5%) of their 2007 surplus for projects in rice and food production and as contribution to an Agricultural Guarantee Fund Pool;

WHEREAS, under the said Administrative Order, the Department of Agriculture, in coordination with the Land Bank of the Philippines, was directed to issue the implementing guidelines as well as draw up the mechanics and administrative arrangements for the Agricultural Guarantee Fund Pool;

NOW, THEREFORE, the Department of Agriculture, upon coordination with the Land Bank of the Philippines, hereby issues the following implementing guidelines, mechanics and administrative arrangements of the Agricultural Guarantee Fund Pool;

SECTION 1. Purpose of the Agricultural Guarantee Fund Pool - The Agricultural Guarantee Fund Pool (hereinafter referred to as the AGFP") shall be used to provide guarantee coverage to unsecured loans/financing extended by financial institutions and other parties to new small farmers engaged in rice and/or food production projects/activities.

SECTION 2. Source of Agricultural Guarantee Fund Pool and Remittance of Fund Contribution -

Section 2.1 The source of the AGFP shall be the fund contributions of government owned and controlled corporations and government financial institutions out of their 2007 surplus.

Section 2.2 Each contributing corporation/institution shall enter into a Memorandum of Agreement (MOA) with the Department of Agriculture (DA) specifying therein the amount of contribution, as supporting document to the fund remittance to the AGFP.

Section 2.3 The fund contribution shall be remitted directly by the contributing insti tution to the Land Bank of the Philippines Trust Banking Group at the Account Name: T.A. No. 05-206, Savings Account No. 3401-0722-75 which shall serve as the trust account of the AGFP.

Section 2.4 The DA shall enter into a trust agreement with the Land Bank Trust Banking Group that will prescribe fund administration arrangements of the AGFP trust account including the authority to Land bank Trust Banking Group to invest unencumbered funds in government securities and bonds. All earnings of the Fund shall accrue to the AGFP. The Land Bank Trust Banking Group shall prepare and submit to DA quarterly reports of the status of the trust fund. Such report shall be furnished by the DA to the contributing corporations/institutions.

SECTION 3. Supervision of the Agricultural Guarantee Fund Pool

Section 3.1 The DA shall exercise supervision over the AGFP including its utilization provided however that the principal of the AGFP shall be utilized for the purposes it was established as indicated in Section 1 and provided further that earnings of the AGFP may be utilized to cover operating expenses of the Guarantee Fund Governing

Board Committee(s), and Program Management Unit herein established that are incidental in the administration and management of the AGFP.

Section 3.2 Guarantee Fund Governing Board

Direction and supervision over the AGFP shall be exercised by the DA through a governing board of the fund composed of: (a) DA Undersecretary duly designated by the Secretary of Agriculture as the Chairperson of the Guarantee Fund Governing Board (Fund Board); (b) a representative from the National Anti-Poverty Commission (NAPC) with a rank of at least an Assistant Secretary; (c) Land Bank Executive Vice President for Agrarian and Domestic Banking Sector; (d) representative of the Agricultural Credit Policy Council (ACPC) with a rank of at least Deputy Executive Director and (e) a representative of the Government Corporation/Institution that has the highest fund contribution to the AGFP, with a rank of at least Vice-President.

The Fund Board is authorized to approve AGFP coverages, guarantee claims, leveraging ratio and operating budgets. Initially, the leveraging ratio shall be set at 1:1 (AGFP balance vis-a-vis Guarantee Coverage). For the succeeding period, the Fund Board shall set the leveraging ratio based on the performance of theAGFP. The Fund Board shall also be responsible for overseeing the effective utilization of the AGFP and shall render quarterly reports of the status of the AGFP to the DA Secretary. The Fund Board may create committee(s) and working group(s) as it may deem necessary to effectively carry out its functions including the delegation of authority in the approval of guarantee coverage and guarantee claims. Such committee(s) may be composed of representatives of agencies attached to the DA such as the ACPC and such other agencies with experience in implementing or supervising guarantee programs.

Section 3.3 Program Management Unit

A Program Management Unit (PMU) shall be established which shall provide the technical and administrative support to the Governing Board and its Committee(s) in carrying out their functions. The PMU shall report to the Fund Governing Board and shall be composed of the following:

(a) Program Management Committee (PMC) - to be composed of two representatives each from the ACPC and Land Bank. The PMC shall execute the Fund Board's Policy decisions and render supervision to the PMU staff.

(b) PMU staff To be headed by a Program Manager, the PMU staff shall provide the secretariat support to the Board and the Program Committees. The operating budget of the PMU as approved by the Fund Governing Board, shall be sourced from the interest earnings of the AGFP. Nevertheless, while interest earnings have not yet accrued to the AGFP P5 million of the AGFP may be utilized to cover the operating budget until the AGFP has earned interest. Once sufficient interest earnings from the AGFP covering the operating budget have been realized, the aforementioned P5 million shall be remitted back to the AGFP.

The institutional program managers defined in Section 3.4 below may hire, engage sevices of and/or pay fees to persons/ institutions that will comprise the PMU chargeable against the approved operating budgets of Fund.

Section 3.4 Institutional Program Manager

The Land Bank shall act as the institutional program manager of the AGFP for all guarantees extended to institutions other than Land Bank. As institutional program manager, Land Bank shall house the PMU staff and provide the facilities required in performing their tasks; enter into agreement with concerned parties: engage services of parties and perform such acts necessary in carrying out the purpose of the AGFP and as directed by the Fund Board; provided however that in case where Land Bank itself is the institution being guaranteed by the AGFP, the ACPC shall act as the Program Manager of the AGFP. Thus, in case of guarantees provided to Land

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Bank, the ACPC shall enter into agreement with the Land Bank and monitor compliance of Land Bank to agreed terms and conditions of the guarantee coverage.

Land Bank and ACPC, acting through their duly designated representatives, shall have the authority to issue instructions to the Land Bank Trust Banking Group to effect withdrawals from the AGFP. Such instructions for withdrawals shall have the corresponding prior approvals of the Fund Board or its designated approving authorities. Land Bank shall disburse the operating budget of the Fund Board, Committee(s) and PMU. ACPC, as Program Manager of Land Bank guaranteed accounts, shall be granted operating budget as may be necessary in carrying out its tasks.

SECTION 4. Guarantee Policies and Guidelines

Section 4.1 Eligible Institutions - Institutions eligible for guarantee coverage are: (a) Government financial institutions and corporations engaged in and with mandate on ex tending credit and/or financing to small farmers; and (b) private financial institutions and credit suppliers such as cooperative and rural banks, cooperatives, financing and lending Companies, non-government organizations and other credit suppliers that have good track records in lending/financing. The Fund Board shall establish the eligibility criteria for quali- fled institutions.

Section 4.2 Guarantee Coverage

The AGFP shall extend guarantee cover to eligible loan/financing exposure of the eligible institution of up to 85% of the loan/financing principal. The guarantee shall cover all risk as defined by the Fund Board. Such risks shall include weather related risks, risks due to pests and diseases, and other risks except risk arising from willful default.

Section 4.3 Guarantee Fee

The Guarantee fee shall be three percent (3%) per annum of the amount covered h the guarantee. Guarantee fees shall accrue to the AGFP.

Section 4.4 Eligible Loans/Notes for Guarantee Coverage

Eligible loans/notes for guarantee cover are: (a) unsecured individual loans/payab|es of small farmers engaged in rice production or other activities/food crops/commodities as may be identified by the Fund Board; (b) loans of farmer organizations (such as litigators' Associations) engaged in rice production or other activities/food crops/commodities as may be identified by the Fund Board. Small farmers are defined as those owning ortillinq not more than 5 hectares and/or those engaged in backyard poultry or livestock raising The Fund Board shall set the criteria and other qualifying conditions such as existence of market contracts, use of hybrid seeds, availability of irrigation, etc. for the ioans/notes eligible for guarantee coverage. Application for guarantee coverage shall be on a first come-first served basis.

Section 4.5 Priority Commodities/Activities and Areas

The guarantee shall prioritize activities that support rice production and that are in areas as identified by the DA. The Fund Board shall be appraised by the DA, through its GMA Rice Program Unit/Operations Unit, of the rice priority areas.

Section 4.6 Guarantee Claims Approval and Payment

The Fund Board shall establish the approving authorities and procedures for the approval and payment of guarantee claims against the AGFP, Guarantee claims shall be processed not more than thirty (30) days from date of submission of complete documents.

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Section 4.7 Recovery of Guaranteed Accounts.

Upon payment of guarantee claims, the guaranteed institution shall execute a Deed of Subrogation of the guaranteed accounts that are subject of the claims in favor of the ACPC. The Fund Board shall designate the collecting agent(s) for the recovery of the subject guaranteed accounts. ACPC shall enter into collection agreements with such designated collecting agent(s). Any recoveries shall be remitted back to the AGFP trust account. Such collecting agents may be paid appropriate fees as may be approved by the Fund Board chargeable against the AGFP

SECTION 5. Duration of Agricultural Guarantee Fund Pool

The AGFP shall be maintained and administered for a period of at least five (5) years subject to an extension to another five (5) years as may be agreed by both DA and Land Bank. In such case, the DA shall issue an Administrative for the extension of the Guarantee Fund Pool. After which, all lands and receivables shall be consolidated into the Agriculture and Fisheries Modernization Credit and Financing Program (AMCFP) Fund pursuant to Republic Act No. 8435.

SECTION 6. Effectivity and Amendments of the Guidelines

This Guidelines shall be effective upon issuance hereof and shall remain in effect for five years unless earlier revoked by the DA Secretary in coordination with the Land Bank.

The Guidelines may be revised or amended by the DA Secretary upon recommended of the Fund Governing Board.

This Administrative Order shall take effect immediately.

Adopted: 7 July 2008.

(SGD.) ARTHUR C. YAP
Secretary

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