

SUGAR REGULATORY ADMINISTRATION

**LAND BANK OF THE PHILIPPINES
RECORDS SECTION**

**JOINT MEMORANDUM CIRCULAR No. 1
Series of 2019**

RELEASED

BY: _____
DATE: JAN 25 2019

SUBJECT: IMPLEMENTING RULES AND REGULATIONS (IRR) OF THE SOCIALIZED CREDIT PROGRAM (SCP) UNDER THE SUGARCANE INDUSTRY DEVELOPMENT ACT (SIDA)

A. RATIONALE

RA 10659 or the Sugarcane Industry Development Act (SIDA) of 2015 through its Socialized Credit Program is aimed to promote and support the productivity improvement programs to boost the production of sugarcane and increase the incomes of sugarcane farmers /planters and farm workers.

B. ACRONYMS AND DEFINITION OF TERMS

1. CSF – Credit Surety Fund
2. DA-ATI – Department of Agriculture - Agricultural Training Institute
3. LC – Lending Center (a LBP unit)
4. Management Fee – covers administrative expenses for the processing of loan application and other costs for collection excluding litigation expenses, attorney's fees and other legal fees;
5. MDO – Mill District Officer
6. MOA – Memorandum of Agreement of LBP and SRA;
7. PCIC – Philippine Crop Insurance Corporation
8. Pole Vaulting – act of selling by the borrower to a buyer other than the one with whom he/she holds a contract;
9. PVCID – Property Valuation & Credit Investigation Department (a LBP unit)
10. SCPMC – Socialized Credit Program Management Committee
11. SRA – Sugar Regulatory Administration

C. THE PROGRAM COVERAGE

The program shall be made available nationwide particularly in sugarcane producing regions and provinces for the production inputs including but not limited to labor and hauling services, farm machineries and implements necessary for the continuous production of sugarcane of the following target beneficiaries:

1. Small sugarcane farmers owning farms with areas of five (5) hectares and below and are not eligible under the Block Farm Program.
2. Block farms / farmers' groups who have not received start-up capital / grants under the Block Farm Program.
3. Agri-business Machinery and Equipment Service Centers (Common Service Centers) duly registered with SRA such as but not limited to agri-machinery service centers and farm labor service providers, which shall provide farm mechanization services to sugarcane

farms that do not have the capability to purchase or maintain their own machineries and equipment.

4. Farmers groups qualified under the Block Farm Program which have already received start-up funding/grant from the SRA may avail additional funding only for meritorious consideration subject to SCP Management Committee approval.

D. THE PROGRAM FUND

The Program Fund shall be sourced from the annual General Appropriations Act (GAA).

E. GENERAL POLICIES AND GUIDELINES

1. The following funds shall be established, maintained and disbursed by LBP according to this IRR:
 - a. Program Fund is the fund released by SRA to LBP for the SCP under the Farm Support and Farm Mechanization Programs.
 - b. Income Fund is the fund derived from the interest income on loans and penalties from which the Management Fee and other program expenses such as cost for credit/background investigation (CI/BI) and crop insurance premium and CSF service fee subsidies of small farmers shall be charged. In the event that the Income Fund is not sufficient to cover the management fee as defined and stated in Article E, paragraph 3, cost for CI/BI, crop insurance premium and CSF service fee, these shall be charged to the Program Fund except the Management Fee for Common Service Centers which are not exempt from paying the said fee and other program expenses.

The account for the income fund shall be under the account name of SRA.

2. SRA authorizes LBP to perform the following transactions:
 - a. Place the Program Fund to the LBP's pool of funds; and
 - b. Debit/Draw from the following funds:
 - Program Fund which will be used for loan releases; and
 - Income Fund to cover the expenses mentioned in section E.1.b

The approving authorities/signatories for the transactions mentioned in Section E.2.a and E.2.b shall be established by LBP.

3. LBP shall charge a Management Fee of 4.5% p.a. based on average quarterly loan balance and chargeable to Income/Program Fund.
4. Loan application fee shall be waived. The minimum deposit required for opening deposit accounts for small farmers shall also be P100.00.
5. All loan applicants shall be subjected to the standard LBP credit/background investigation (CI/BI). Any adverse findings on credit and character shall be a ground for loan denial. Small individual farmers may be exempted for CI/BI provided they meet the following criteria:

- Must be a member of and endorsed by a mill-based sugar planters' association/cooperative.
 - In good credit standing with the Bank and endorsing planters' association/cooperative. The latter shall be duly registered with the CDA, SEC, NIA, DOLE and other appropriate registry body, and in good credit standing with the Bank.
6. The LBP shall be responsible in making sure that all documentary requirements for the loan including collateral, other forms of securities and all documents necessary to collect the loans are complete and submitted before the loan release. The LBP shall also be responsible for the safekeeping of the above-referred documents until the same are turned over to SRA.
 7. The LBP shall provide SRA quarterly status report on loans (disbursements, collections/repayments, outstanding balances and financed projects of borrowers) and status of the Income and Program Funds (interest income, operating expenses and fund balances).
 8. The LBP shall not bear the credit risk in administering the loans, collecting loan repayments and performing remedial actions such as, loan restructuring, foreclosure (optional) except when LBP violates the provision on the safekeeping of all loan documentary requirements (detailed under item 6 of this section) or in cases of unpaid loans which cannot be turned over to SRA as stated under item 9 of this section.
 9. Past due loans can be restructured except when the borrower is guilty of fraud or misrepresentation including but not limited to pole vaulting. Those that remain unpaid for more than three (3) years shall be turned over to SRA including the Promissory Notes, loan security/ collaterals, and other supporting documents including ***Deed of Assignment*** authorizing SRA to institute necessary legal action to collect unpaid loans. However, unpaid loans with incomplete documentation as referred to in Article E paragraph 6, cannot be turned over to SRA.
- Moreover, LBP may provide SRA necessary assistance in collecting unpaid and turned over accounts including but not limited to providing witnesses in any legal proceedings.
10. The LBP, at its option, may foreclose the Real Estate Mortgage and/or Chattel Mortgage, if necessary, based on its standard procedures. In case of foreclosure, all related costs including litigation expenses, publication and the maintenance of the foreclosed property/equipment shall be charged against the Borrower. The said costs may be advanced by LBP from the Program/Income Fund but it shall be credited back to the said Fund once collected. The latter notwithstanding, LBP shall obtain the prior consent of SRA in incurring these costs and expenses if the same is more than twenty percent (20%) of the outstanding principal balance and/or will substantially deplete the Income Fund. The LBP shall shoulder all costs for any lost or destroyed collateral documents (i.e. Chattel Mortgage, quedan), and other loan documents in their possession.
 11. The funds transferred by the SRA shall be administered by LBP for a period of five (5) years commencing from the date of fund transfer subject to a mandatory annual evaluation by SRA. Parties can revisit the MOA and IRR from time to time as the need arises.
 12. All loan data/information received by SRA and LBP shall be treated by both parties with utmost confidentiality.

F. PROGRAM MANAGEMENT

1. Socialized Credit Program Management Committee

Socialized Credit Program Management Committee (SCPMC) shall be created to be constituted by representatives from SRA and LBP with the following functions:

- a) Provide direction and formulate policies for the SCP;
- b) Monitor the performance of the SCP;
- c) Act on issues or concerns relative to program implementation; and
- d) Conduct SCP performance evaluation.

The SCPMC shall be composed of:

CHAIRPERSON: SRA Representative

VICE CHAIRPERSON: LBP Representative

MEMBERS:

1. SRA Administrative and Finance Department Representative
2. LBP Lending Program Management Group Head/ Representative
3. SRA Legal Department Representative
4. SRA Research Development & Extension Department Representative

2. SCP TECHNICAL WORKING GROUP

SCP Technical Working Group (SCP-TWG) shall be created to be constituted by representatives from SRA and LBP with the following functions:

- a) Monitor the process of implementation and SCP performance;
- b) Review the policies, procedures and recommend changes to the SCPMC; and
- c) Monitor fund disbursements against program funds;

The SCP-TWG shall be composed of:

HEAD: SRA Representative

ALTERNATE HEAD: SRA Representative

MEMBERS: (3) SRA Representatives and (2) LBP Representatives

3. SCP-SIDA Technical Secretariat

The three (3) SCP-TWG members from SRA shall also act as SCP-SIDA Technical Secretariat who shall undertake the following functions:

- a) Review and evaluate loan applications forwarded by the MDOs (including all documentary requirements) that require Sugar Board/SCPMC endorsement to LBP;
- b) Endorse to Sugar Board/SCPMC (excluding LBP representatives) loan applications which pass its review process for approval;
- c) Submit to concerned LBP-LC loan applications approved by Sugar Board/SCPMC;
- d) Coordination with partner agencies;
- e) Preparation of minutes of meetings of the SCPMC; and
- f) Compilation of reports and preparation of materials

4. Mill District SCP-SIDA Focal Persons

The SRA shall designate focal persons for the SCP-SIDA at the Mill District Levels covered by the Program who shall have the following responsibilities:

- a) Consolidate and update the list of accredited sugarcane farmers, block farms, and planters' cooperatives/ associations / federations and service centers;
- b) For loan applications, verify the filled-out loan application form together with certified photocopy of the documentary requirements of SRA and LBP and endorse/forward the same to the following:
 - Nearest LBP Lending Center (Block Farms and Small Individual Farmers)
 - SCP-SIDA Technical Secretariat for further evaluation thru SRA Records Section (Common Service Centers);
- c) Coordinate with various regional program partners for the conduct of regional/provincial orientation seminar; and
- d) Coordinate with the SCP-SIDA Technical Secretariat regarding the reportorial and other requirements in line with the SCP-SIDA implementation.

G. BASIC LENDING POLICIES

	Block Farms	Small Individual Farmers	Common Service Centers
Eligible Borrowers	<ul style="list-style-type: none"> • Block farms/farmers' groups who have not received start-up capital/grants from SRA. • Farmers groups qualified under the Block Farm Program who has received already of start-up funding/grant from the SRA but with meritorious consideration for additional funding under SCP. 	<ul style="list-style-type: none"> • Individual sugarcane planters with farm areas of five (5) hectares & below or area that will be adopted later by the SCPMC • Not eligible under the Block Farm Program or not members of any SRA-accredited block farm program 	<ul style="list-style-type: none"> • Sole Proprietor, partnership, corporations; • Cooperatives/Associations/ NGOs with legal personality to borrow <p>Note: They must either be agri-business Machinery and Equipment Service Centers or agri-machinery service centers or farm labor service providers.</p>
Eligibility Criteria	<ul style="list-style-type: none"> • Registered with SRA • Endorsed by SRA • Must have no existing loan with LBP and other creditors covering same project area or that such loan has already been fully paid. • Not a beneficiary of any government financial farm productivity assistance for the same project applied for. 		<ul style="list-style-type: none"> • Registered with SRA • Endorsed by SRA • Must have service area of at least 30 hectares • Adopt the guidelines issued by the Block Farm Program Committee • Must pass the Bank's established risk-asset acceptance criteria (RAAC) as of the date of application.
Eligible Projects/ Loan Purpose	Sugarcane Production (block farming)	Sugarcane Production (individual)	<ul style="list-style-type: none"> • Assets Acquisition (farm machinery/equipment, tractor & implements, harvesters/ cutters, loaders, irrigation, hauling trucks, etc.) for farm mechanization and hauling services • Equipment Shed/Motor Pool/Garage Construction • Working Capital

	Block Farms	Small Individual Farmers	Common Service Centers
Credit Facility	Short Term Loan Line (sugarcane production)		<ul style="list-style-type: none"> • Term Loan • STLL (Working Capital)
Amount to be Financed	For production loan, the loanable amount shall be up to 90% of the project cost based on the farm plan and budget as reviewed and affirmed by SRA.		Up to 90% of the total project cost or financing requirement.
Interest rate	2% p.a.		6.5% p.a.
Cost for CI/BI (P1,500/ application)	Chargeable to Income / Program Fund		To be collected from borrower
Fees and Charges	Other applicable standard fees and charges for loans shall apply: <ul style="list-style-type: none"> - Pre-payment Fee: 2% of the principal to be prepaid - Commitment Fee: ½ of 1% of the unavailed portion of the loan - Property Appraisal Service Fee, if applicable 		
Term of Loan	STLL-Production Loan (individual/relending/collective farms) - maximum of 18 months from the initial release of the loan.		<ul style="list-style-type: none"> • Fixed Asset Acquisition/ Construction - based on project cash flow/payback period but not more than the economic useful life of fixed assets or remaining useful life for second-hand/refurbished machines. • Working Capital - one year line available via PNs depending on cash cycle
Principal/ Interest Repayment	STLL-Production Loan <ul style="list-style-type: none"> • Principal- payable upon maturity of the PN or disposal/sale of the quedan whichever comes earlier • Interest - payable in arrears to coincide with the principal payment 		<ul style="list-style-type: none"> • Term Loan <ul style="list-style-type: none"> - Principal – quarterly or semestral depending on the cash flow - Interest - payable in arrears to coincide with the principal payment • STLL-Working Capital <ul style="list-style-type: none"> - Principal- payable upon maturity of the PN - Interest - payable in arrears to coincide with the principal payment
Grace Period	Maybe granted, if applicable, based on the cash flow of the project.		
Collateral, Guarantee and Insurance	Any or a combination of the following: <ul style="list-style-type: none"> • Proof of ownership of properties or tenure rights on farms be submitted to LBP for safekeeping as "table collateral" • Assignment of any class of sugar quedans based on the classification/definition of the SRA; • Assignment of securities/guarantees such as PCIC, Credit Surety Fund (CSF) and other similar instruments whichever is/are applicable. The premium/service fee for the said coverage shall be charged to the Program/ Income Fund. 		Any asset acceptable to the Bank i.e. REM, CM, guarantee cover, etc.

	Block Farms	Small Individual Farmers	Common Service Centers
Additional Terms and Conditions	<ul style="list-style-type: none"> • For small individual farmers, submission of the following as pre-release requirements: <ul style="list-style-type: none"> - Certificate of Attendance on Financial Literacy Seminar issued by DA-ATI or other appropriate agency/entity. - Certificate of Attendance on Outreach Program for Sugarcane Industry (OPSI) Seminar / Farm Management Seminar conducted by SRA. • Mode of Release <ul style="list-style-type: none"> - The approved STLL shall be budgeted and released according to Farm Plan and Budget as reviewed and affirmed by SRA. - Releases for land preparation, planting, cultivation and fertilizer may be made within the 4-month cultivation period. Release for harvesting is 7 months after planting subject to field inspection by the SRA Mill District Officer. - If the block farm has availed of both the production and farm machinery loan/s, the loan proceeds from the production loan should exclude the tractor rental cost. • Burning of sugarcanes is prohibited. Violation of this condition shall be a ground for the denial of loan applications or termination of existing loan under SCP. • The lender shall have a lien on the quedan of farmers who obtained a crop loan until the crop loan is fully paid. For this purpose, the LC shall provide the sugar mill with the list of borrowers. Upon issuance of quedans, the LC is authorized to endorse the same to mill-based sugar planters' association/cooperative for bidding/marketing provided that the proceeds will be remitted to LBP LC for loan amortization and other charges, if any. In case of staggered harvesting of sugarcane field, the LC and borrower may work-out a sharing scheme on the proceeds provided that the loan can be fully paid when the financed area is 90% harvested. The Local TWG to be established per Mill District composed of LBP-LC, SRA and Sugar Mill may devise other collection mechanism appropriate to their area. • SRA Mill District Officer shall closely monitor the harvesting and delivery of cane of farmer-borrowers to the mill. Any credit bagging practice (i.e. transfer of cane ownership to other person) will be ground for blacklisting by SRA. • Individual farmers cannot be granted another loan until their loan is fully paid. • For block farms, re-availment from existing line may be allowed for farmer-members that have already paid their loan obligations, provided that the outstanding loan availments of the coop/assn. remain current. 		<ul style="list-style-type: none"> • Borrower to issue PDCs to cover loan amortizations for the entire duration of loan. • Acquire machinery/equipment only from manufacturers, fabricators, assemblers and dealers who are: <ul style="list-style-type: none"> - Registered with the Bureau of Agricultural and Fisheries Engineering (BAFE). - Member of good standing of recognized national organization (e.g. AMMDA). - Capable to provide after sales services such as repair, warranty, and spare parts are readily available when needed. • The borrower shall undergo training to operate and maintain the facility at a training center prescribed by dealer/manufacturer. • Owners must register their farm machinery and equipment with their respective LGU agriculture offices. • Labor service providers must be registered with DOLE and SRA. DOLE registered contractors shall submit list of workers to SRA as requirement for registration.

	Block Farms	Small Individual Farmers	Common Service Centers
Documentation	<p>SRA Requirements:</p> <ul style="list-style-type: none"> • Accomplished application form (available from Mill District Officer or MDO) • Certification from MDO that applicant is either an accredited Block Farm enrollee or not and applicant's sugarcane farm is less than 30 Hectares and that the farm is planted only with sugarcane. • For individual farmers, Sworn Affidavit that applicant is not a beneficiary of any government financial farm productivity assistance and has no existing loan with other creditors covering same project area. • For Block Farms, certification from MDO/SRA Extension that the block farm is not a beneficiary of start-up capital; or, SRA Board Resolution for Block Farms that already received start-up capital but due to meritorious consideration can avail of the SCP. • Proof of ownership or lease contract • Farm Plan and Budget with result of soil analysis, as reviewed and affirmed by SRA. • Barangay certificate of applicant • Tax Identification Number (TIN) of applicant <p><u>LBP Requirements: all of the above plus:</u></p> <ul style="list-style-type: none"> • For block farming, the lists of farmers enrolled under block farms with the corresponding area to be planted. • LBP standard documentation as to type of borrower (Annex "A") 		<p>Standard documentation (Guidelines of Block Farm/ Farm Mechanization Committee)</p> <p>LBP standard documentation as to type of borrower and project to be financed (Annex "A").</p>

H. AMENDMENT

This IRR may be amended upon written agreement of all parties.

I. SEPARABILITY

If any provision in this IRR or application of such provision to any circumstance is held invalid, the remainder of this IRR shall not be affected thereby.

J. EFFECTIVITY


This Joint Memorandum Circular shall take effect upon signing.

City of Manila, , 2019

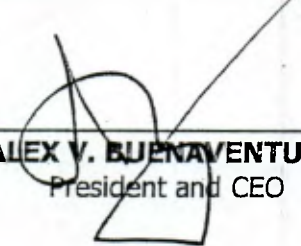
JAN 15


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