



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 748

Series of 2012

Subject : Amending Subsection X361.7, MORB on the Provision of Micro-Agri Loans

Pursuant to Monetary Board Resolution No. 184 dated 2 February 2012, the rules and regulations for the provision of micro-agri loans are hereby amended to read as follows:

Section 1. Statement of Policy. The Bangko Sentral Ng Pilipinas (BSP) adopts a holistic approach in addressing social and economic objectives through microfinance. Microfinance utilizes an innovative technology and methodology that has been proven successful in providing the appropriate financing for microentrepreneurs who were previously underserved by the formal financial system. Through the years, it has been evident that the microfinance technology and methodology can be appropriately utilized to deliver other types of financial services in a sound, prudent and sustainable manner, including credit for small farming activities.

Section 2. Minimum Criteria to Determine Banks' Capacity to Offer Micro-Agri Loans. The BSP will review the application based on the following basic principles:

1. To ensure that the banks have the FINANCIAL capacity, MANAGERIAL AND technical capabilities to offer micro-agri loans; THE FOLLOWING PRUDENTIAL REQUIREMENTS MUST BE COMPLIED AT ALL TIMES:
 - a) CAMELS RATING OF AT LEAST "3" AND A MANAGEMENT SCORE OF AT LEAST "3";
 - b) CAPITAL ADEQUACY RATIO OF NOT LOWER THAN 12 PERCENT;
 - c) NO MAJOR SUPERVISORY CONCERNS AS TO WARRANT INITIATION OF PROMPT CORRECTIVE ACTION UNDER EXISTING REGULATIONS; AND
 - d) NO ARREARAGES ON MICROFINANCE BORROWINGS (BILLS PAYABLE) FROM BSP OR OTHER CREDITORS.

BANKS AUTHORIZED TO OFFER A MICRO-AGRI LOAN PRODUCT SHALL CONTINUALLY COMPLY WITH THE ABOVE-MENTIONED PRUDENTIAL REQUIREMENTS. BANKS FOUND TO BE NON-COMPLIANT WITH ANY OR ALL OF THE REQUIREMENTS SHALL BE GIVEN ONE EXAMINATION-CYCLE TO CORRECT NON-COMPLIANCE WITH ANY OR ALL OF THE PRUDENTIAL REQUIREMENTS,

PROVIDED THE BANK SUBMITS A VIABLE PLAN TO RECTIFY PERTINENT NON-COMPLIANCE. IF THE BANK REMAINS NON-COMPLIANT AFTER THE LAPSE OF ONE EXAMINATION-CYCLE, ITS AUTHORITY TO OFFER MICRO-AGRI LOAN SHALL BE DEEMED SUSPENDED EFFECTIVE ON THE DAY AFTER THE CORRECTIVE PERIOD HAS EXPIRED. WHILE THE SUSPENSION IS IN EFFECT, BANK'S MICRO-AGRI LOAN TRANSACTIONS SHALL BE LIMITED TO COLLECTIONS OF OUTSTANDING RECEIVABLES.

FOR THE PURPOSE OF THIS SECTION, ONE EXAMINATION-CYCLE IS DEFINED AS THE PERIOD COMMENCING FROM THE DATE OF THE EXIT CONFERENCE OF THE LAST GENERAL EXAMINATION UP TO THE DATE OF THE EXIT CONFERENCE OF THE IMMEDIATELY SUCCEEDING GENERAL EXAMINATION.

2. To ensure that the provision of micro-agri loans uphold adequate and appropriate risk management systems and procedures as well as the microfinance best methodologies and technologies.

Based on the above principles, the BSP may consider the banks' micro-agri loans as microfinance loans upon satisfaction of the following requirements:

- a) The bank must have a track record of at least two years in implementing sustainable microfinance programs, including acceptable portfolio-at-risk (PAR) levels as evaluated against prevailing BSP standards; AND
- b) The bank must have WELL-DEFINED POLICIES COVERING THE micro-agri loan product to be included in the bank's microfinance manual as one of the types of services or products offered to prospective clients. Loan/ account officers must be trained about the micro-agri loan product and that the details of the program can be communicated clearly to the clients.

Section 3. Basic Product Characteristics. The micro-agri loan product shall have the criteria/characteristics of a microfinance loan as provided in existing regulations in addition to the following product characteristics:

Subject	Particulars
Purpose/ Term	✓ Short term purposes only (up to 12 months) whether it is for farm activities, agri-business, agri-related fixed assets, among others
Eligibility	✓ Multiple income generation activities (farm and off-farm); ✓ Farm activities at least 2 years in operation; ✓ Existing borrowers with good track record based on banks' policies

Loan Amount	✓ Up to PhP 150,000; ✓ Loans to start small and increase incrementally based on banks' policies
Loan Value	✓ Capacity to pay based on household cash flow analysis
Payment	✓ Frequent amortization (weekly, semi monthly, monthly) » Lump sum payment may be considered an option of-up to 40% of loan amount
Security	✓ Like microfinance loans, collateral substitutes may be required

Section 4. Appropriate Risk Management. Micro-agri loans shall be subject to the same risk management mechanisms required for microfinance loans including, but not limited to the following:

1. Clients' ability to repay based on cash flow analysis and affordability especially the new clients. The prospective client must have other sources of income sufficient for the periodic payment of the loan while the loan project is not yet generating income, evaluated through household cash flow analysis;
2. Adequate **MANAGEMENT INFORMATION AND LOAN TRACKING SYSTEMS**, loan monitoring, collection, control, provisioning consistent with existing BSP regulations;
3. The loan product is included in the banks' microfinance manual as one of the types of services or products offered to prospective clients; AND
4. The micro-agri loans must have a sub-control ledger.

SECTION 5. OTHER MICRO-AGRI PRODUCTS. NO PROVISION IN THE MICRO-AGRI PRODUCT INCONSISTENT WITH THIS CIRCULAR SHALL BE ALLOWED EXCEPT UPON PRIOR BSP APPROVAL. THE BSP SHALL ALLOW DEVIATION FROM THE PROVISIONS OF THIS CIRCULAR PROVIDED APPROPRIATE RISK MANAGEMENT SYSTEM COMPENSATES FOR THE ADDITIONAL RISKS INVOLVED.

Section 6. Regulatory Treatment. The approved micro-agri loan product will be considered as a microfinance loan and WILL have the same regulatory treatment as provided by existing microfinance regulations.

Section 7. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:



JUAN D. DE ZUNIGA, JR.
Officer-in-Charge

13 February 2012