

**DENR Memorandum Circular
No. 11
February 23, 1994**

SUBJECT : Operating Procedure in the Establishment of the Community Revolving Fund (CRF) by Beneficiary Associations/ Cooperatives under the ENR-SECAL Regional Resource Management Projects in Regions 9 and 10.

RATIONALE

The Regional Resources Management Project aims to organize self-reliant communities, strengthen the capabilities of community institutions to plan and implement small-scale community based projects and eventually halt and reverse the vicious cycle of natural resource degradation and rural poverty in the project areas. In line with these objectives, there is a need to install a mechanism by which these communities can participate in sustainable development activities whereby financing can be made available through the mobilization of pooled savings, and provision of revolving seed funds for on-farm development and micro-credit for non-farm livelihood projects.

Furthermore, by organizing rural communities and assisting them to develop a track record of successful funds management through training in the principles and practices of savings, credit and accounting, the RRMP intends that these fully registered community credit institutions will, after two or three years, qualify for financing under existing rural finance schemes (e.g., with Land Bank), thereby ensuring their members of continued access to further rural financing for farm development and other livelihood initiatives after the project period.

Now, therefore, in order to encourage the development of social responsibility and meaningful community participation, institutionalize community financing and savings and concretely translate the declared national policy of people empowerment in resource management activities, the operating procedure in the establishment of the Community Revolving Fund (CRF) by beneficiary associations/cooperatives under the Regional Resource Management Project is hereby promulgated.

1.0 **Objectives**

- 1.1 To support livelihood development projects and farm-based activities of the community and other income generating projects.
- 1.2 To generate capital build-up of the upland community to sustain community-based resource development activities.
- 1.3 To develop the capabilities of the beneficiaries in fund management and entrepreneurship
- 1.4 To implement a savings and credit program that will be generated, managed and accessed by the community.

2.0 **Installation of the CRF Facility**

A Community Revolving Fund facility shall be installed within the beneficiary associations and/or cooperatives participating or organized under the Regional Resource Management Project of ENR-SECAL. The CRF shall be owned and managed by the associations or coopeatives in accordance with these guidelines and those which may hereafter be promulgated by the associations or cooperatives themselves.

The CRF facility shall be installed and operated within the framework of the existing structure of the association or cooperative subject to certain conditions contained in these guidelines. As intended in the project design, the CRF shall initially be the conduit of RRMP project funds provided for community resource management. Its start-up capital and initial build-up shall be derived from the contributions of the associations/ cooperative's members, utilizing a portion of their incomes generated from their provision of contracted labor for the implementation of other project components, particularly the infrastructure and community resource management components and other sources.

3.0 **Selection of Association or Cooperative to Handle CRF**

The association or cooperative which will be assigned to manage and operate the CRF shall be the beneficiary association or cooperative organized by the contracted NGO or identified from among the existing association or cooperative to handle the CRF shall be open to all interested qualified residents of the community. To ensure that documentary and project implementation requirements can be easily complied with by the association or cooperative:

- 1) It must endeavor to possess a juridical personality by registering with the appropriate government agency;
- 2) Its members should actively attend and participate in CRM and cooperative development trainings;
- 3) The Association/Cooperative and its members should concretely demonstrate willingness to adhere to the terms and conditions of the CRF guidelines; and
- 4) Simplified administrative and financial management systems and procedures are in place and made known to all members.

4.0 Operationalization of the CRF

4.1 Creation of the CRF Committee

A CRF Committee composed of at least three (3) members of the association or cooperative shall be created. The Project Manager (Watershed Manager) of the NGO's Watershed Management site shall be the fourth member of the committee in a supervisory but non-voting capacity.

4.2 Selection of the Members of the CRF Committee

The members of the community association/cooperative shall be chosen from among the members-at-large (i.e., those who are not officers of the association or cooperative) the three (3) members who shall sit on the CRF Committee. Selection shall be by voting in

an assembly called for this purpose with at least two-thirds (2/3) of the general membership present.

The three nominated members garnering the highest votes shall compose the committee together with the NGO Project Manager. The chairman of the committee shall be chosen by the elected members from among themselves. The period within which the members will serve shall be determined by the members-at-large. The manner of selection for the subsequent set of members of the CRF Committee shall likewise be determined including the system of replacement or recall.

4.3 Functions of the Committee

- a) The CRF committee shall ensure that the CRF facility is properly installed within the association or cooperative in accordance with the agreed structure.
- b) It shall also ensure that the activities being funded out of the funds sourced and generated by the association or cooperative in connection with RRMP are in accordance with the contracted activities of the association or cooperative.
- c) The committee shall evaluate and approve or disapprove or require revision of all proposals/loan applications submitted for funding out of the CRF. For this purpose, the committee shall schedule regular meetings and agree on conditions necessary for special meetings.
- d) It shall oversee the management of the funds of the CRF facility in accordance with the guidelines and those which may subsequently be approved and adopted by the association or cooperative.
- e) It shall continuously assess and evaluate the systems and procedures used for managing the CRF, and prepare recommendations for revisions of existing guidelines or adoption

of new guidelines for presentation to the general membership including those proposals or recommendations submitted by the members-at-large.

- f) It shall regularly prepare and render a report on the status of fund management during the regular meetings of the officers of the association, the board of directors or the members assembled. It shall also prepare reports as maybe required.

5.0 **CRF Build-up and Usage**

5.1 Fund Sources

- 1) Funds for the CRF shall come from the following:
 - a) RRMP-CRM Seed Fund. Generated from the RRMP investments in community resource management including community forest management and other livelihood activities which will be contracted by the association or cooperative with the DENR.
 - b) Members Savings Generated from the individual savings of the members of the association or cooperative participating in and deriving income from the wages or contracted labor provided by the association members for the construction of infrastructures or conduct of community resource management activities and any other activities funded under the RRMP.
 - c) CRM Harvests. As stipulated in other guidelines and/or as agreed by the community association or cooperative, a percentage (not less than 10%) of the net income derived from the harvest of natural resources under community resource management (e.g., forest products from the CRM area, thinnings from the contract plantations) shall be retained to

provide funds for further operations or expansions of the CRM activity.

- d) Funds from Other Sources. Generated from interest incomes, service fees, donations and grants or contracted activities other than RRMP.

5.2 Fund Management

- 1) The CRF funds thereby generated shall be managed by the community as owners and legal holders through the CRF Committee.
- 2) A separate bank account shall be opened by the association or cooperative in the nearest bank for the deposit of the various funds generated and shall be designated as the "RRMP-CRF Special Account".
- 3) There shall be three (3) signatories to authorize the disbursements under the RRMP-CRF Special Account. These shall be the President and the Treasurer of the local association or cooperative and the Project Manager of the NGO contracted by DENR to facilitate RRMP implementation in the communities in that particular site.
- 4) Disbursements of funds shall only be authorized by the signatories based on the recommendations of the CRF committee per approved proposals/applications.

5.3 Fund Usage

- 1) On-farm Agroforestry

Assistance for on-farm will be limited to P2,500.00 per hectare. Assistance shall be in the form of agricultural inputs such as farm tools, seeds/seedlings, fertilizer or other related inputs which will be given to the beneficiary based on

certain agreed conditions.

2) Off-farm Agroforestry

Assistance will be limited to P10,000.00 per hectare to cover the cost of nursery and plantation establishments. Maintenance of the nursery and the plantations will be the Beneficiary counterparts.

3) Non-farm Livelihood

Project subsidy for the non-farm livelihood activities will be limited to P60,000.00 per barangay or P20,000.00 per set of livelihood project.

5.4 Fund Availment

1) Availment by Members of the Associations or Cooperative of RRMP-CRM Funds.

a) To fully support infrastructure development and resource management activities of the community and to provide a seed fund for the purpose, all project investments in community forest management, on-farm and off-farm agroforestry development and livelihood project activities shall be released by the DENR-PENRO to the association or cooperative.

b) A consolidated farm development plan for all on-farm activities, a forest management plan for community forest management, a consolidated site development plan for all off-farm agroforestry activities, and a consolidated plan for all livelihood activities proposed to be funded shall be submitted by the association or cooperative to the DENR to support the application for the release of DENR-CRM funds to the CRF. These plans shall be in addition to the legal documentation

requirements, which includes the association's board resolution authorizing the officers to enter into a contract with DENR and basic letter of intent of the president of the association to undertake and contract CRM activities.

- c) After evaluation and approval by the DENR-PENRO of the documents submitted, Memorandum of Agreements shall be executed by and between the DENR-PENRO and the Association or Cooperative containing therein the commitments for the undertaking, the scope and program of work involved and budget for the activities contracted.
- d) To ensure that sufficient funds are made available in the implementation of the contracted community forest management (CFM), on-farm, off-farm and livelihood activities, the scheme of fund release by DENR to the CRF shall be as follows:

First Release - 50% of the total amount contracted upon signing of the Memorandum of Agreement;

Second Release - 30% of the remaining 50% of the total amount contracted upon satisfactory completion of 80% of the scope of work per approved plan.

Third Release - the remaining 30% of the total amount contracted upon satisfactory full completion of the scope of work per approved plan.

- e) An accelerated scheme of payment for the contracted activities may be agreed upon by the DENR-PENRO and the Association or Cooperative based on the nature of the activities and as warranted by the work program submitted. However, in either case, the release of funds shall be subject to the availability of funds and full

compliance with the appropriate accounting and auditing procedures.

- 2) Availment of the CRF by Individual Members.
 - a) On-farm Agroforestry
 - i) Individual members of the association or cooperative can avail of the RRMP-CRM Seed Fund for financing on-farm agroforestry development by submitting a proposal in the prescribed form to the CRF Committee supported by a farm plan.
 - ii) The CRF Committee shall evaluate the proposal and ensure that the proposed farm development activities are based on sound resource management and upland farming systems principles and are in accordance with the contracted activities with DENR.
 - iii) After evaluation and approval, with revision or no revision, the CRF Committee shall recommend for the funding of the farm development activities.
 - iv) The individual member shall execute a simple agreement with the Association or Cooperative for the undertaking of the on-farm activities in accordance with the farm plan. The agreement shall specify the manner of repayment for the value of the inputs to be provided.
 - v) The farm inputs required for farm development shall be provided to the member who shall formally acknowledge receipt of the same.

- b) Off-farm Agroforestry
- i) Individual Sitio groups or groups of members can avail of the CRF for off-farm agroforestry development by submitting a proposal in the prescribed form to the CRF Committee and a reforestation plan for that year's target area.
 - ii) The CRF Committee shall evaluate the proposal and make sure that the activities are in accordance with the activities contracted with DENR.
 - iii) After evaluation and approval, the CRF Committee shall recommend for the funding of the off-farm agroforestry activities to be undertaken.
 - iv) The member-proponents shall execute a simple agreement with the Association or Cooperative containing among others the committed undertakings, the repayment scheme and the agreed sharing of future benefits which may be realized from the off-farm development activities.
 - v) Out of the wages/labor component of the off-farm development, an agreed percentage shall be deducted and deposited in the Member Savings Fund in the name of the members participating to the off-farm activities. The percentage of the wages/labor retained should not be less than 10% of the wages/labor as earned to ensure that the members will have at least a substantial savings out of their labor.

c. Non-Farm Livelihood

- i) Member-proponent/s can avail of the non-farm RRMP-CRM Fund upon submitting a proposal in the prescribed form for a specific livelihood development plan/ enterprise development.
- ii) The CRF Committee shall assess the feasibility of the proposal and approve, disapprove or require revision of the plan in accordance with the contracted livelihood activities with DENR.
- iii) Upon approval, the Committee shall recommend for the funding of the livelihood project.
- iv) The member-proponent/s shall execute a simple agreement with the Association or Cooperative containing the commitments for the undertaking of the livelihood project and the agreed repayment scheme. The funds shall then be released.

5.5 Fund Disbursement

- 1) A separate bank account with the nearest bank for the deposit of the CRM seed fund, savings fund and funds from other sources shall be opened by the Association or Cooperative.
- 2) There shall be three signatories of the bank account which shall be designated as RRMP-CRF Special Account. The three signatories shall be the President and the Treasurer of the Association or Cooperative and the NGO Project Manager.

- 3) Funds shall be disbursed only for the proposals projects approved by the CRF Committee and recommended for funding under these CRF guidelines.
- 4) The CRF shall have a separate set of accounting records where sources and uses of the CRF shall be distinguished by assigning specific account titles/codes for each source or use.
- 5) The CRF shall be treated as a trust fund of the community and as such, shall be used only for the specific purpose for which it is intended.
- 6) Adequate accounting control systems shall be established ensuring separation of non-compatible duties and responsibilities (book-keeping-cashering-recording).
- 7) Pre-numbered Official Receipts of the association or cooperative must be issued for all collections made.
- 8) Funds from other sources shall be separately accounted for from the project seed funds and the member savings fund. Disbursements shall be in accordance with the agreements signed with the funding agency/institution or as agreed by the members whichever is applicable.
- 9) All disbursements of members' savings shall be in accordance with the agreements, decisions, rules and regulations set forth by the members themselves and not inconsistent with this regulations.
- 10) When a checking account is available from the depository bank, the same shall be availed of. Checks shall be made payable to specific payee and not to CASH. All supporting documents relative to disbursements shall be attached to the disbursement vouchers.
- 11) All cash disbursements shall be recorded in the cash disbursement book.

- 12) On a monthly basis, the bookkeeper/accountant shall prepare the following reports:
 - a) Bank reconciliation report
 - b) Cash flow statement
 - c) Balance sheet
 - d) Income statement
 - e) List of member contributions; and.
 - f) Aging schedule of loans receivable

5.6 Fund Repayments

- 1) Repayment of loans shall be in accordance with the amortization/repayment schedule prescribed in the original agreement between the member and the association or cooperative.
- 2) All payments shall be properly recorded and pre-numbered Official Receipts of the association or cooperative shall be issued by the Cashier.
- 3) Defaults will be subject to measures agreed upon by the members and may cover penalty interest, legal recourse with respect to collateral, co-maker liability and application of member-savings to pay/partly repay defaults, etc.

5.7 Capital Built-up Members' Savings Fund

- 1) Out of the wages/labor income of the members participating in the Infrastructure, Community Resource Management and other related activities, a percentage of the individual wages/labor as agreed by the members but not less than 10% of the total wages/labor, shall be retained and deposited in the Member Savings Fund in the name of that member. Pre-numbered official receipts shall be issued in favor of the member or the amounts reflected in a passbook issued to the member.
- 2) The members savings' shall be continuously deposited in the RRMP-CRF Special Account and may not be withdrawn under

ordinary circumstances. The members shall agree on the guidelines regarding accessing by the individual members to the CRF funds against their savings for livelihood, farm enhancement or personal loan. In no case, however, may a member access funds against his savings if he has remaining outstanding obligations equivalent to 25% of the total CRM seed fund originally made available to the member, extraordinary circumstances shall be agreed upon by the members.

6.0 **Formulation/Revision of Guidelines**

- 1) The members assembled shall formulate guidelines to govern their Community Revolving Fund. However, such guidelines shall not be inconsistent with this guidelines and should enhance but never diminish the objectives of and the funds under CRF.
- 2) The CRF Committee shall prepare recommendations for revision of existing guidelines/procedures or adoption of new guidelines for presentation to the general membership including those proposals or recommendations submitted by the members at large.
- 3) All proposed guidelines shall be deliberated upon and made known to the members assembled who should comprise at least two-thirds (2/3) of all members. A two-thirds (2/3) vote by the members assembled in favor of a proposal will be required for the proposal to be adopted.
- 4) Except for the original internal guidelines which shall take effect immediately upon approval by the members, all subsequent guidelines adopted shall take effect fifteen days after approval by the members. Guidelines approved by the members shall be furnished the BRMC, C/MRMC and the DENR for their information and reference.

7.0 Technical Assistance

- 1) The NGO contracted to facilitate the implementation of the RRMP in each site shall provide the following technical assistance in support of smooth implementation:
 - a) The Project Manager shall sit as non-voting member of the CRF Committee. He shall facilitate the deliberations of the committee and ensure that the proposals/projects approved and recommended for funding are in accordance with this guidelines/procedures and the agreements/contracts entered into by the association or cooperative. He shall attest to and sign the approval and recommendation sheets of the CRF Committee.
 - b) The Project Manager shall be a co-signatory to the RRMP-CRM Special Account together with the President and the Treasurer of the association or cooperative. He shall see to it that the disbursements made are supported by the required documents.
 - c) The NGO together with the RTAT, shall provide assistance in the dissemination of information regarding the CRF concept and the operating guidelines/procedures.
 - d) The NGO together with the RTAT shall provide assistance in the installation of financial and recording systems and ensure that systems are in place and functioning.
 - e) The NGO shall provide assistance to the association and its members in designing of forms that will facilitate availment by the members of project funds already released by DENR.
 - f) Appropriate trainings in financial management and accounting/recording systems shall be undertaken by the

NGO in coordination with the RTAT, for the association/cooperative officials and staff handling the CRF. Funds for this purpose shall be sourced from the appropriated and unappropriated amounts under the NGO contract of services with DENR.

- 2) The Regional Technical Assistance Team (RTAT) shall provide the following technical assistance:
 - a) Assist the NGO in the dissemination of information regarding the concept of CRF and operating guidelines/procedures.
 - b) Assist in the installation of financial and recording systems.
 - c) Assist the NGO in the conduct of trainings in financial management and accounting/recording systems for the Association/Cooperative's official and staff.
 - d) Assist the community members, together with the NGO in the formulation of their internal guidelines on CRF.
 - e) Assist the Association or Cooperative in the perfection of their contracts/MOAs with the DENR-PENRO.

- 3) The CENRO/PENRO/RPMO shall provide the following technical assistance:
 - a) Assist the association or cooperative or individual member in the preparation of on-farm development plans and off-farm management and development plans.
 - b) Facilitate the perfection of the agreements and MOAs between the DENR and the Association or Cooperative for the accessing of the funds allocated for the CRM activities.

- c) Through the Site Officers, in coordination with the NGO and RTAT, assist in the installation of the management and accounting /recording systems to effectively operationalize the CRF.
- d) Provide direct technical assistance in plantation establishment, community forest management and forest protection.
- e) Put in place an effective contract management system for the contracted activities of the association or cooperative and disseminate information on proper documentation and reporting of contracted activities to facilitate monitoring and evaluation.

8.0 **Special Provisions**

- 1) Non-members of the RRMP Beneficiary Association or Cooperative cannot avail of the CRF Seed Funds.
- 2) All economic activities should be ecologically sound and shall have no negative impact on women and the youth.
- 3) In case of dissolution of the association or cooperative, the CRF funds and assets shall not accrue to any individual member but shall be transferred to and managed by the new beneficiary association or cooperative organized for the purpose and subject to the approval of the DENR.
- 4) No member of the CRF Committee shall gain personal benefit resulting from his functions as member of the committee except for his direct participation in the CRM activities as member of the association or cooperative.
- 5) Interest rates, penalty charges, collateral requirements and default conditions which maybe adopted by the association or

cooperative shall not be onerous nor violative of existing laws, rules and regulations.

- 6) These regulations are issued specifically for the establishment phase of the Regional Resource Management Project and maybe revoked, amended or modified as the associations or cooperatives mature and are fully empowered.
- 7) In project areas where a qualified association or cooperative still has to be organized or identified, an interim CRF facility shall be established by the NGO who shall act as custodian of the community contributions generated from the beneficiaries participation in the infrastructure projects. Appropriate administrative and financial management systems and procedures should be established. In the meantime, the CRM funds from DENR shall not be transferred until a qualified association or cooperative has been organized or identified and chosen to handle the CRF.

9.0 **General Provision**

The Regional Program Director concerned is hereby authorized to issue clarificatory, supplemental guidelines/procedures and implementing rules and regulations, as necessary.

10.0 **Effectivity**

This order takes effect immediately and remains in force unless modified or revoked.

ANGEL C. ALCALA
Secretary

Recommending Approval:

BEN S. MALAYANG III
Undersecretary for Field Operations and
Senior Official for ENR-SECAL Program