

**Memorandum Circular  
No. 03  
April 15, 1992**

**TO : All Regional Executive Directors, Provincial and Community Environment and Natural Resources Officers, and All DENR Officials Concerned**

1. For the information and guidance of all concerned, quoted hereunder are pertinent provisions of the Loan and Guarantee Agreements entered into by and between the Republic of the Philippines and the Asian Development Bank relative to the Industrial Forest Plantation (Sector) Project Loan, as far as the responsibilities of the DENR and the Land Bank of the Philippines, referred to in the project documents as the Borrower, is concerned:

"II - Pre-selection of Qualified Sub-Borrowers and Grant of IFMAs

**Selection Criteria**

1. DENR shall, through regional field offices as coordinated by FMB, solicit, select and categorize potential Qualified Sub-Borrowers in accordance with the following requirements:
  - (a) **Eligibility Criteria.** A potential Qualified Sub-Borrower must meet all the following criteria:
    - i. Be either a natural or juridical person or entity entitled to develop and exploit forest resources.
    - ii. Not be a suspended or cancelled for cause, operator or a current Timber License Agreement (TLA) operator (except an operator who is converting from TLA to an IFMA), nor be owned by or affiliated, connected or related, directly or indirectly, with any such operators.
    - iii. Have demonstrated or have access to expertise in the establishment of industrial forest or tree plantations of at least 100 hectares (ha).
    - iv. Possess or have access to satisfactory financial resources (excluding IFP credit).

- v. Has ready access to appropriate technical or manpower resources for the proposed Subproject.
- vi. Demonstrate or satisfy DENR of its ability to market expected IFP products either by itself or through processing and/or marketing contracts.
- vii. Not be logging in unlogged old-growth forest or be owned by or affiliated, connected or related, directly or indirectly, with any operators logging in unlogged old-growth forest.
- viii. Possess either an IFMA covering the proposed IFP or DENR authorization to harvest forest crops on alienable and disposable or private land or the right to log alienable and disposable land under an outgrower-scheme or nucleus estate approach covering the proposed IFP.

(b) **Categorization.** (1) A potential Qualified Sub-Borrower, after satisfying all the above eligibility criteria, shall be assigned a score for each of the following factors:

- i. distance in kilometers between the nearest boundary of the applicant's former concession/operating area (including an area converted into IFMA) and the proposed IFP site (K);
- ii. difference in the percentage of forest cover in the applicant's concession and that of the province as a whole (p);
- iii. population density in the locality of the proposed IFP site in persons per square kilometer (L); and
- iv. number of employees to be recruited externally per hectare of IFP developed in man-years per hectare (E).

(2) An overall numerical score (S) for each potential Qualified Sub-Borrower shall then be computed based on the following formula:

$$S = K + (P \times 100) + L + (E \times 100)$$

or any other formula agreed to in writing by the Bank, in consultation with the Guarantor including DENR, and the Borrower.

(3) Based on its overall numerical score (S), each potential Qualified Sub-Borrower shall be categorized according to the following groups:

- i. Group A (Eligible for IFP Credit of up to 90% of estimated total Subproject cost : For S equal to or more than 150.
- ii. Group B (Eligible for IFP Credit of up to 75% of estimated total Subproject-cost : For S equal to or more than 100, but not more than 150.
- iii. Group C (Eligible for IFP Credit of up to 60% of estimated total Subproject cost : For S equal to or more than 50, but not more than 100.
- iv. Group D (Eligible for IFP Credit of up to 40% of estimated total Subproject cost : For S less than 50:

(4) Notwithstanding any other provision of this subparagraph (b), a potential Qualified Sub-Borrower, who has ready access to expertise but no direct prior involvement in the forestry sector, shall be promoted by two (2) Groups, but in the case of such potential Qualified Sub-Borrower originally assigned to Group B, it shall be promoted to Group A.

(5) Except as the Bank may otherwise agree for the purposes of this subparagraph (b), the estimated total Subproject cost shall be based on the cost of plantation establishment in years 1 and 2 of the Subproject as submitted by the potential Qualified Sub-Borrower and reviewed and adopted by the Borrower.

(c) **Mandatory Requirements.** A potential Qualified Sub-Borrower must propose a Subproject that (i) in size is equal to or greater than 600 has.; (ii) in cost is equal to or less than the peso equivalent of eight million dollars (\$8,000,000) at the time of proposal; and (iii) is not to be established in areas of competing or conflicting land claims or use, including cultural, tribal or ancestral claims.

- (d) **Discretion.** All questions concerning interpretation of the eligibility criteria and categorization of potential Qualified Sub-Borrowers shall be decided by the DENR Secretary in consultation with the Bank.

#### **Selection of Qualified Sub-Borrowers (IFM Holder)**

- 4. The Borrower (LBP) shall select from the potential Qualified Sub-Borrowers categorized by DENR, the Qualified Sub-Borrowers to implement the respective Subprojects in accordance with the selection procedures in paragraph 5 of this schedule and on the basis of the detailed criteria, to be prepared by the borrower which shall at a minimum include the borrowers, standard commercial lending criteria as acceptable to the bank, together with the following:
  - (a) The Qualified Sub-Borrower shall be credit worthy and have adequate financial capability, including that for making adequate equity contributions or other source of loan financing for the unfunded balance of the proposed subproject.
  - (b) The qualified Sub-Borrower shall provide acceptable collateral for the IFP Credit, which collateral may include IFP product.
  - (c) The proposed subproject shall be technically sound and financially viable.
  - (d) The Qualified Sub-Borrower shall undertake to implement the proposed Subproject in accordance with the Revised DENR Regulations and other laws and regulations of the Guarantor applicable to the IFP.
- 5. Each applicant Qualified Sub-Borrower shall file with the borrower, an application consisting of (i) a full description of the applicant (including financial information), and (ii) a feasibility study of the proposed Subproject including a comprehensive plan for the operation and maintenance of the proposed Subproject pursuant to Paragraph 8 of this Schedule, prepared in form and substance satisfactory to the Bank. The Borrower shall evaluate such proposal in accordance with its loan processing procedures as acceptable to the Bank. The final approval of the Qualified Sub-Borrower shall be the sole responsibility of the

borrower on the basis of sound banking practices, subject to the provisions of Sec 3.05 of this Loan Agreement.

**Amount of IFP Credit**

6. The Borrower may finance a Subproject up to the percentage limits specified by the group category to which the Qualified Sub-Borrower was assigned in accordance with the provisions of paragraph 2(b) of the Schedule to the Guarantee Agreement. Based on its evaluation of the feasibility study, the Borrower shall have the right to (i) decline financing altogether, or (ii) finance a percentage of the total cost of the Subproject lower than that specified by the Qualified Sub-Borrower's group categorization.

2. Pursuant to the aforementioned provisions of the Loan and Guarantee Agreements the following guidelines are hereby promulgated.

2.1 A prospective sub-borrower informs the Department of Environment and Natural Resources (DENR) thru the Forest Management Bureau (FMB) or the Regional Executive Director (RED) concerned in writing, his/her their intention to apply for a loan with the Land Bank of the Philippines (LBP);

2.2 The FMB or the RED concerned checks whether the prospective borrower satisfies all the eligibility criteria presented in the preceding paragraphs and assigns them to any of the four categories A to D using the following point score making use of relevant informations in the approved comprehensive management and development plan as basis:

Distance/Km (k)

15	----- up -----	1.0
14	----- 10 -----	0.8
9	----- 5 -----	0.6
4	below	0.4

Population Density/sq. k (L)

301	----- up -----	1.0
300	----- 201 -----	0.8
200	----- 101 -----	0.6
100	below	0.4

**Difference in Percentage Forest Cover (P)**

90%	----- up -----	1.0
89%	----- 70% -----	0.8
69%	----- 40% -----	0.6
39%	below	0.4

**Number of employees to be recruited (E)  
(Manday/ha)**

above	----- 2000 -----	1.0
1999	----- 1500 -----	0.8
1499	----- 1000 -----	0.6
999	----- 500 -----	0.4
below	----- 500 -----	0.2

- 2.3 For Distance (k), the distance of the project area to the nearest access road, may be considered; Population Density/sq. km. (L) may be computed by considering the population in the municipality/ies based on the 1990 census of populations divided by the area/s of the concerned municipality/ies in square kilometers; Percentage Cover (P) by taking the difference of the area of the Province and the forest cover within the province divided by the area of the Province and the No. of employees (N) from the date indicated in the Plan.
- 2.4 FMB or RED concerned prepares endorsement to the Land Bank of the Philippines thru proper channel recommending approval of the loan application; furnishing the concerned party of the recommendation; otherwise inform party of whatever findings the office have on the case.
3. Any inquiry as to the terms and conditions of the Credit Agreements maybe referred to the Land Bank of the Philippines.
4. This Order take effect immediately.

**VICTOR O. RAMOS**  
OIC, Secretary