



COOPERATIVE DEVELOPMENT AUTHORITY

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MEMORANDUM CIRCULAR NO. 2025 – 01 Series of 2025

SUBJECT: GUIDELINES ON THE PROGRESSIVE INCREASE OF THE RESTRICTED CAPITAL FOR SURETY (RCS) LEVERAGE

The Credit Surety Fund (CSF) Program is a credit enhancement scheme to provide credit support to micro, small, and medium enterprises (MSMEs) in the country which have no credit history nor collateral to access finance facilities. This is achieved through the use by the CSF Cooperatives of the pooled contributions from the members and donors, known as the Restricted Capital for Surety (RCS), as surety cover for the loans to be obtained from the lending banks by cooperative-members and their MSME members.

As the program aims to widen its reach and increase the number of beneficiaries, the guidelines on the progressive increase of the RCS leverage is hereby issued.

Section 1. Title

This guidelines shall be known as the “Guidelines on the Progressive Increase of the Restricted Capital for Surety (RCS) Leverage”.

Section 2. Legal Basis

- a. Section 4a of RA 11364 provides power to the Authority to develop and formulate, in consultation with the cooperative sector and other concerned institutions, appropriate regulations, standards, rules, orders, guidelines and/or circulars to implement the Act and Republic Act No. 9520 to ensure the effective and sound operation of cooperatives; and
- b. Section 27 of Rule 20(G) of the IRR of RA No. 10744 stipulates that the aggregate outstanding balance of loans granted by all participating banks should not exceed three (3) times the CSF Cooperative's Restricted Capital for Surety, at any given time. The 3x leverage shall be subject to annual review for progressive increase as warranted by the CSF Cooperative's performance, but not to exceed five (5) times the CSF Cooperative's Restricted Capital for Surety.

Section 3. Purposes

This guidelines is issued for the following purposes:

- a. To set the conditions on the progressive increase of the RCS leverage;
- b. To set the manner, frequency and limit of the increase of RCS leverage; and
- c. To prescribe the procedures to be observed by the CSF Cooperatives intending to increase the RCS leverage



Section 4. Scope and Applicability

This guidelines shall apply to all CSF Cooperatives.

Section 5. Definition of Terms

- a. **Restricted Capital for Surety** – refers to the pooled contributions of cooperatives, Non-Government Organizations (NGOs), Local Government Units (LGUs), Government Financial Institutions (GFIs), Government Agencies (GAs), individuals and private entities which shall form part of the Credit Surety Fund managed by a trustee bank. It shall be solely used to pay contingent liabilities resulting from claims on past due loans;
- b. **Aggregate Outstanding Balance of Loans** – refers to the remaining unpaid principal balances of all loans facilitated by the CSF Cooperative; and
- c. **Leverage** – refers to the extent to which the CSF Cooperatives is utilizing pooled contributions of members to undertake the surety-granting service

Section 6. Conditions on the Increase of the RCS Leverage

The progressive increase must be warranted by the CSF Cooperative's performance as follows:

- a. The CSF Cooperative maintained a 20% Capital Adequacy Ratio and a 20% Liquid Assets Ratio as of the latest reporting period;
- b. The CSF Cooperative has a valid Certificate of Compliance (COC) at the time of issuance of the GA Resolution approving the increase of the CSF leverage; and
- c. The number of surety covers issued or amount of loans facilitated by the CSF Cooperative increased by at least ten percent (10%) in each of the two (2) years prior to the intended year of implementation of the increase:

Example:

Number of surety cover issued in Year 2021 Amount of loans facilitated in Year 2021	Eight (8) Php8,000,000
Number of surety cover issued in Year 2022 Amount of loans facilitated in Year 2022	Nine (9) Php10,000,000
% Increase of the number of surety covers issued % Increase of the amount of loans facilitated	13% 25%
Number of surety cover issued in Year 2023 Amount of loans facilitated in Year 2023	Twelve (12) Php15,000,000

% Increase of the number of surety covers issued	33%
% Increase of the amount of loans facilitated	50%
Condition b met for the increase of RCS Leverage in Year 2024?	Yes

Section 7. Manner, Frequency and Limit of Increase

The increase of the RCS leverage shall be progressive which may be done annually as determined by the results of the annual review by the Board of Directors (BOD). Given this, an abrupt increase from three (3) times to five (5) times is not allowed. The increase shall be determined by the performance of the CSF Cooperative in Section 6d, as follows:

Average % Increase of the number of surety covers issued or average increase of the amount of loans facilitated in the last two (2) years whichever is higher	Incremental Increase of the RCS Leverage	RCS to be Implemented (on first increase)
10 – 20%	Up to 0.20	Up to 3.20
21 – 40%	Up to 0.40	Up to 3.40
41 – 60%	Up to 0.60	Up to 3.60
61 – 80%	Up to 0.80	Up to 3.80
81 – 100%	Up to 1.00	Up to 4.00

The CSF Cooperatives shall cease increasing the leverage when it already reaches five (5) times the RCS.

Section 8. Procedures on Increasing the RCS Leverage

The following procedures shall be observed by the CSF Cooperatives intending to increase the RCS leverage:

- a. An annual review shall be done by the BOD to determine the need to increase the RCS leverage. The need to increase the RCS leverage shall be grounded on the performance of the CSF Cooperatives as mentioned in Section 6;
- b. The progressive increase and its effectivity date must be approved by GA in their regular meeting or special meeting called for the purpose;
- c. The GA Resolution shall be submitted to the CDA Extension Office which has jurisdiction over the CSF Cooperative.

Section 9. Newly Registered CSF Cooperatives and Existing CSF Cooperatives with No Operation

In view of the Conditions a and b prescribed in Section 8, newly registered CSF Cooperatives with less than two (2) years in operation and existing CSF Cooperatives with no operation are not allowed to implement an increase of RCS leverage.

Section 10. Monitoring of the Implementation of the Increase of the RCS Leverage

The Inspection and Examination Division of the Credit Surety Fund Service and the Credit Surety Fund Section of the Extension Offices shall monitor the implementation of the increase of the RCS leverage by the CSF Cooperatives through the submitted monthly monitoring reports, conduct of inspection and/or examination.

Section 11. Sanctions

Any violation of the provisions of this Guidelines shall be subject to the following sanctions after due notice and hearing:

- a. First Offense: Imposition of sanctions to the erring officers to be determined by the Authority;
- b. Second Offense: Non-issuance of Certificate of Compliance (COC) for the immediately succeeding year; and
- c. Third Offense: Dissolution for willful violation of the lawful order of the Authority.

Section 12. Automatic Review

This guideline shall be subject to an automatic review three (3) years after its issuance.

Section 13. Separability Clause

If any provision of this Guidelines is declared null and void or unconstitutional, the other provisions not affected thereby shall continue to be in full force and effect.

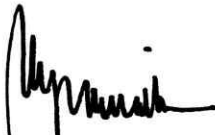
Section 14. Effectivity

This MC shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette and the Office of the National Administrative Register (ONAR).

Approved by the Board of Directors pursuant to Board Resolution No. 026, S-2025 dated January 15, 2025.

Issued this 4th day of February, 2025, Quezon City.

By the Board of Directors:


ASEC. MYRLA B. PARADILLO
Officer-in-Charge, Chairperson