

## **PAYMENT IN KIND (PIK) PALAY/RICE PROGRAM**

### **IMPLEMENTING GUIDELINES**

#### **I. RATIONALE**

In support of the government's thrust on countryside development, LANDBANK is providing technical and financial assistance to cooperatives to ensure the growth of their individual farmer members.

On the other hand, MSI is mandated to provide vital agri-related services to LANDBANK's priority clients, the cooperatives.

With the end-in-view of providing options for the borrowing cooperatives to sustain their operations, LANDBANK and MSI agreed to pursue a joint undertaking to implement the Payment-In-Kind Program thru a Memorandum of Agreement (MOA).

For an efficient implementation of the PIK Program, these guidelines are hereby crafted to establish the standard process and detailed requirements in attaining the objectives of the partnership.

#### **II. PROGRAM OBJECTIVES**

The program aims to:

1. Develop an alternative and effective loan collection system for LANDBANK,
2. Provide LACs a ready market outlet for their produce, and
3. Provide a revenue-generating activity to MSI.

#### **III. DEFINITION OF TERMS**

AC – Accounting Center

ADLS – Agricultural & Development Lending Sector

BOD- Board of Directors

DACR – Daily Abstract Collection Report

DR – Delivery Receipt

DV – Disbursement Voucher

FAU – Finance & Admin. Unit

HO – Head Office

LAC – LANDBANK Assisted Cooperative and/or organizations/associations

LBP – Land Bank of the Philippines

LBP LC – LBP Lending Center

MC – Moisture Content

MSI – Masaganang Sakahan, Inc

MSI-LU – MSI Logistics Unit

MSI-MSU – MSI Marketing & Sales Unit  
MOA – Memorandum of Agreement  
OR – Official Receipt  
PAO – Payment Acceptance Order  
PR – Purchase Receipt  
PIK – Payment-in-Kind  
SI – Sales Invoice  
MSI-ADC – MSI Agri Development Center  
VP – Voucher Payable

#### **IV. GENERAL POLICIES**

1. The PIK Palay/Rice Program shall be implemented in palay producing areas.
2. Only LACs with existing loan/credit line with LANDBANK shall participate in the program. Subject to the actual satisfactory performance of the LACs, MSI shall not be constrained under the program to satisfy its requirements (palay or rice), balance of deliveries of LAC, sourcing from other private traders/suppliers.
3. All palay/milled rice deliveries, unless otherwise specified by the LACs shall be applied by MSI to the former's account with LANDBANK.
4. LANDBANK Agricultural and Development Lending Sector (ADLS) through its Lending Centers stationed proximate to MSI's operations shall issue Official Receipt (O.R.), indicating therein the value and date as indicated in the Purchase Receipt issued by MSI, to the LACs as an acknowledgement of the payment made by the cooperative.
5. The O.R. shall mirror all data indicated in the Purchase Receipts and other documents as attachment which are necessary for the issuance of the O.R.
6. Acceptance of palay/milled rice offered from LACs by MSI shall depend on the availability of its facilities or requirement of its client to absorb the palay/milled rice based on the quality and price specified by the MSI.
7. All activities attendant to the program implementation, from procurement to collection of receivables and payment remittances, shall be undertaken by the MSI Head Office (H.O.).
8. MSI H.O. shall remit to the concerned LANDBANK Branches all collections relative to PIK Program within or during the date of maturity of LACs' loan. The date of payment of the LAC per OR shall be the cut-off of the computation of interest and other charges. The days float of MSI to remit the collection (PIK) to LBP shall be determined and agreed upon by LBP & MSI.
9. The Lending Center shall provide concerned servicing branch with payment acceptance order (PAO) as basis in accepting the payment from MSI.

10. For milled rice, MSI shall procure only under the back to back arrangement with its client/s, hence, no delivery shall be accepted for inventory.
11. MSI palay and milled rice pricing shall be based on the weekly monitored prevailing market price.

## **V. IMPLEMENTING GUIDELINES**

### **A. PIK Rice**

#### **1. Accreditation of LBP Endorsed LACs**

Accreditation of rice suppliers shall be in accordance to the MSI BOD approved Accreditation System of MSI Rice Suppliers.

#### **2. Rice Sourcing**

2.1 MSI shall source the milled rice requirements from LBP endorsed LACs, indicating herein the:

2.1.1 Volume,

2.1.2 Price per cavan (50 kg. net),

2.1.3 Rice specifications (variety, grade, milling degree, color, age), and

2.1.4 Validity period of offer

2.1.4.1.1 Validity of offer shall be a minimum of fifteen-(15) days.

#### **3. Rejection and Re-deliveries**

3.1 Milled rice deliveries made by MSI to the client designated delivery point shall be subject to acceptance by the MSI client. To avoid/minimize rejection and re-deliveries, rice deliveries by LAC should conform with the rice sample sent to MSI.

3.2 Random sampling shall be done by MSI prior to loading to hauling truck/vehicle.

3.3 Rejection may be the whole delivery or partial, at the option of the MSI's client .

3.4 In case of rejection, LACs shall re-deliver the concerned portion within three(3) working days from the date of rejection.

3.5 LACs shall be allowed only two (2) successive delivery replacements of rejected volume per transaction. After which, the order shall be treated as delivery default of the concerned LAC.

3.6 MSI shall not be responsible to the LACs for the incidental expenses incurred on rejected deliveries and the subsequent re-delivery.

#### **4. Short Weight and Filers**

4.1 LACs shall deliver within three (3) working days, the weight shortage of their deliveries, the same or better quality, as determined during the actual delivery at the MSI's clients.

#### **5. Accounting Guidelines**

5.1 The program shall be treated as one of MSI Head Office regular programs, hence, no separate books of accounts shall be set-up or maintained by MSI,

5.2 Collection of receivables as well as the payment of due PIK Palay/Rice accounts shall be the responsibility of MSI H.O.

5.3 Only duly accomplished/signed documents shall be accepted by MSI HO Accounting for booking/payment purposes.

5.4 For reconciliation purposes, a separate subsidiary ledger shall be set-up/maintained for rice inventory under the program.

5.5 Subsidiary ledgers for PIK Payables shall be on a per LANDBANK Lending Center / Accounting Center/Unit.

5.6 MSI-Accounting Division shall be responsible for the following:

5.6.1 Preparation/distribution of the Quarterly Statement of Account, and

5.6.2 Preparation/submission of the Monthly Schedules/Aging of the company's payables, receivables and inventory under the program.

#### **B. PIK Palay**

1.0 Palay to be procured shall primarily be for the Payment-in-Kind (PIK) stock and/or excess palay produce of LACs

1.1 Procurement shall be through the cooperatives/federation or farmers organization/associations;

1.2 Procurement from individual farmers and/or non-BACs may be resorted to only as an alternative for purposes of augmenting stocks to meet market demand or MSI's commitment to its client.

2.0 MSI-ADC shall only procure palay of Class A quality, free from objectionable odor and foreign matters, live insect pests and other contaminants. The Moisture Content (MC) shall be at 14%.

- 2.1 Procurement of palay other than Class A may be done subject to approval of the MSI President & CEO.
- 2.2 Random sampling (at least 10% of deliveries) of palay will be conducted based on the total volume per delivery. Likewise, portion of the sample will be subjected to moisture content testing. The sampling shall be witnessed by the LAC representative.
- 3.0 Palay classification shall be the primary responsibility of the MSI's Classifier.
  - 3.1 The Classifier shall conduct random sampling on the stocks to be delivered. Sampling be done before loading to the truck/vehicle.

The Classifier shall properly fill up the palay specification portion in the Purchase Receipt (**Annex A**) and sign in the "Classified by and weighed" portion.
- 4.0 The buying price of palay shall be based on the latest canvass of prevailing market price prior to the time of delivery as indicated on the Palay Buying Price.

The prevailing price shall be set within the range of price canvassed from at least two (2) major millers in the area of operation.

This price canvassing shall be done weekly or more frequent as needed, by the Warehouse Accounting Assistant and entered into a logbook signed and noted by the Warehouse Supervisor.

  - 4.1 The logbook shall contain the date, name of miller/coops, contact person, address, contact numbers and the canvass price.
  - 4.2 As a control measure, the Internal Auditor shall counter check the prices indicated in the logbook through on the spot price canvass or thru telephone calls.
- 5.0 In order to entice the LACs to participate in the PIK Program, all Class A palay delivered by the LACs will be accorded with an appropriate incentive as approved by MSI.

## VI. DETAILED PROCEDURAL GUIDELINES

### A. PIK Rice

Activity	Responsible Person/Unit
A. Sourcing	
1. Canvass/negotiate for price quotations from LAC/s.	MSI-Institutional Sales Specialist
2. Request rice sample from LAC's to be provided to prospective MSI clients as their reference.	MSI-Institutional Sales Specialist
3. Confirm sample availability and offer validity period.	LAC Authorized Rep.
B. Placement of Order	
4. Source client to absorb rice offer	MSI-Institutional Sales Specialist
5. Issue P.O. ( <b>Annex B</b> ) to LAC and coordinate rice delivery to MSI clients.	MSI-Institutional Sales Specialist
6. Explains to LAC that rice delivery should conform with the rice sample previously sent by MSI to its client.	MSI-Institutional Sales Specialist
C. Rice delivery & Sales Servicing	
7. Deliver rice as per MSI P.O.	LAC
8. Inspect/rejects and/or accept rice delivery and sign LACs D.R. & S.I.	MSI/Client
D. Application of Payment	
9. Submit to MSI the following documents:	LAC
a. LAC's D.R. duly signed by MSI client	
b. LACs sales Invoice for the total value delivered as per MSI P.O., and	
c. Certificate of rice acceptance	
10. Prepare Voucher Payable for PIK ( <b>Annex C</b> )	MSI-MSI-ADC

11. Issue MSI Purchase Receipt (PR)	MSI-MSI-ADC
12. Prepare Request for Payment (RFP) and booking of transaction and submit to the Corporate Services Dept. with the following documents:	MSI-Institutional Sales Specialist
<ul style="list-style-type: none"> <li>a. MSI.P.O.,</li> <li>b. MSI P.R.,</li> <li>c. MSI V.P.,</li> <li>d. MSI S.I.,</li> <li>e. MSI D.R.,</li> <li>f. LANDBANK O.R.,</li> <li>g. LAC D.R.'s</li> <li>h. LAC S.I., and</li> <li>i. Certificate of rice acceptance</li> </ul>	
E. Booking of Procurement Transactions	
13. Booking shall be in accordance to MSI's BOD approved Accounting policy.	
F. Sales Collection	MSI-Corporate Services Dept.
14. Collect payment from MSI clients on due date and issue MSI O.R.	
15. Deposit Check	MSI-Corporate Services Dept.
16. Credit A/R upon clearing of check.	MSI-Corporate Services Dept.
G. PIK Remittance	MSI-Corporate Services Dept.
17. Prepares schedule of maturing PIKs on a per Lending Center .	
18. Prepare D.V. (Annex D) for PIK remittance and submit for check preparation.	MSI-Corporate Services Dept.
19. Audit D.V. and check	MSI-Corporate Services Dept.
20. Approve D.V. and check for PIK remittance	MSI-Internal Auditor
21. Forward check for PIK remittance to concerned LANDBANK Branch.	MSI-President/CEO & Corporate Services Dept.
22. Issue LANDBANK O.R. and debit A/R to MSI. The	MSI-Corporate Services Dept.

<p>figures in the OR shall corresponds to the amount indicated in the PAO</p> <p>23. Credit A/P - LANDBANK</p>	<p>LBP</p> <p>MSI-Corporate Services Dept.</p>
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## **B. PIK Palay**

### **A.1. Payment-In-Kind (PIK)**

#### **A.1.1 Pre-Delivery Phase**

- |                                       |   |
|---------------------------------------|---|
| <b>Warehouse Supervisor</b>           | 1. Secure complete listing of LACs from concerned LANDBANK Offices/Branches   |
| <b>Warehouse Supervisor</b>           | 2. Conduct information campaign, canvass PIKs/excess palay of BACs  |
| <b>Warehouse Supervisor</b>           | 3. Coordinate with LACs on schedule of palay deliveries.  |
| <b>Accounting Assistant – MSI-ADC</b> | 4. Monitor prevailing prices in the procurement area and enters the same in the logbook.                                |
| <b>Warehouse Supervisor</b>           | 5. Negotiate price with LACs and recommend the same to President for approval   |
| <b>Classifier/Designated Staff</b>    | 6. Conduct random sampling prior to loading to the delivery trucks/vehicle. Accompany the delivery truck to truck scale |

#### **A.1.2 Delivery Phase**

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|-------------------|---|
| <b>LAC Rep</b>    | 1. Deliver palay to MSI-ADC/designated receiving/pick-up points.              |
| <b>Classifier</b> | 2. Classifies delivered stocks according to variety, moisture content, purity |



	and other condition. Classification be done before loading to the truck.
<b>Classifier</b>	3. Recommend acceptance/rejection of palay, as classified and approved by the Warehouse Representative.
<b>Classifier</b>	4. Enters classification of stocks and signs at the "classified by" portion of the Purchase Receipt (PR)  4.1 If procurement is made at the MSI-ADC, enter same stock classification and sign at the "classified by" portion of the Warehouse Stock Receipt (WSR)  4.2 If procurement is made at receiving/pick-up points other than at the SRGC, classification and weighing shall be conducted before issuance of WSR.
<b>Classifier</b>	5. Accept/Reject the palay classified. Fills up and signs PR.
<b>LAC</b>	6. Signs at "conforme" portion of PR.
<b>Warehouse Supervisor</b>	7 Signs at PR & Voucher Payable for PIK (VP)
<b>LBP Lending Center</b>	8 Prepares and issues LBP-OR to LAC; prior to preparation of O.R., P.R., and other documents shall be submitted by MSI.
<b>Documentation Assistant</b>	9 Prepares Daily Abstract Collection Report (DACR) for PIK. <b>(Annex E)</b>
<b>Warehouse Supervisor</b>	10 Forwards copies of DACR, PR, VP, & WSR <b>(Annex F)</b> to LBP Office (LC)
<b>Head, LBP LC</b>	Acknowledge/record of documents received. The LC designated issuer of OR shall be the one to acknowledge/record the documents received.

Notify and/or copy furnished the concerned AC, of the records received for proper reflection (recording) on the accounts/record of the LACs.

**Head, LBP AC**

Reflects the same to concerned LACs records as loan repayment.