



APRACA FinPower Programme

Case Study of the Land Bank of the Philippines: Institutional Level Approaches on Financial Services Delivery and Institutional Linkages



Ramon C. Yedra
and

Noel Clarence M. Ducusin

With Special Sponsorship of the
International Fund for Agricultural Development (IFAD)

APRACA FinPower Publication 2007/5

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This study is published during the incumbency of Mr. Thiraphong Tangthirasunan (APRACA Chairman), Dr. Do Tat Ngoc (APRACA Vice-Chairman), Mr. Benedicto S. Bayaua (Secretary General).

MESSAGE from the APRACA CHAIRMAN and VICE-CHAIRMAN

Greetings! This case study, focusing on the Land Bank of the Philippines, is a testimony of APRACA's strong commitment to pursue the promotion of efficient and effective rural financial systems and broadened access to rural financial services in order to help reduce rural poverty among countries in Asia and the Pacific. APRACA has successfully established among its members, machinery for systematic interchange of information on sustainable rural and agricultural financial services, encouraged inter-country studies and provided training, consultancy, research and publication services on matters of common interest in the field of rural finance.

In all these aspirations, the International Fund for Agricultural Development or IFAD has played the role of APRACA's strategic partner under the FinPower Program. APRACA and IFAD share that mutual desire to pursue and create conducive rural finance policy environment and regulatory framework in Asian countries, including the development of sustainable financial services in rural areas, pilot testing of innovative approaches, delivery mechanisms and linkage programs, promoting finance reforms aimed at poverty alleviation, and disseminating best rural finance practices to more countries.

May we therefore thank Dr. Thomas Elhaut, IFAD Asia Division Director, and Dr. Ganesh B. Thapa, Regional Economist, for the trust and confidence they have continuously bestowed on APRACA and for their commitment to help alleviate poverty and accelerate rural growth and development among countries in Asia and the Pacific.

We wish to congratulate Mr. Benedicto S. Bayaua, APRACA Secretary General and FinPower Regional Program Manager, for initiating the program and supervising the FinPower activities.

We also convey our thanks to APRACA's research and training arm, the Center for Training and Research in Agricultural Banking (CENTRAB), particularly to Ms. Jovita M. Corpuz, President and Atty. Eduardo Garcia, Managing Director, for their support and commitment to the FinPower Program. We sincerely wish that this publication will continuously inspire policymakers, practitioners and other stakeholders in the different countries in Asia and the Pacific to work towards poverty reduction and rural development.



MR. THIRAPHONG TANGTHIRASUNAN

President, Bank for Agriculture and
Agricultural Cooperatives and
Chairman, Asia-Pacific Rural and
Agricultural Credit Association
2007



DR. DO TAT NGOC

Chairman, Vietnam Bank for Agriculture
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Vice-Chairman, Asia-Pacific Rural and
Agricultural Credit Association
2007

MESSAGE from the APRACA-CENTRAB PRESIDENT

Greetings to all! It is my ardent wish for all the readers of this case study focusing on the Land Bank of the Philippines to share in our quest to help uplift the lives of the rural poor through a conducive rural finance policy environment that will allow the delivery of adequate, timely and appropriate financial products and services in the rural areas.

The Center for Training and Research in Agricultural Banking (CENTRAB), the research and training arm of APRACA, takes pride in providing research expertise under the APRACA FinPower Program. Together, we promote the interchange of information among member countries through inter-country studies, training, consultancy, research and publication services in order to help these countries address critical issues and formulate strategies towards sustainable and effective rural financial markets.

This publication is one of the major outputs of the FinPower Program. I would like to congratulate Dr. Thomas Elhaut, IFAD Asia Division Director; Dr. Ganesh B. Thapa, IFAD Asia Division Regional Economist, Mr. Thiraphong Tangthirasunan, APRACA Chairman, Dr. Do Tat Ngoc, APRACA Vice-Chairman; and Mr. Benedicto S. Bayaua, Secretary General and FinPower Regional Program Manager; for their strong commitment to the program.

I wish also to thank Atty. Eduardo Garcia, CENTRAB Managing Director and the Agricultural Credit Policy Council of the Philippines' officers and staff for their full support and commitment to implement the FinPower Program, without which the conduct of this study and the publication of this book would not have been possible. I also want to thank Mr. Ramon C. Yedra, ACPC Deputy Executive Director, and Mr. Noel Clarence M. Ducusin as well as other ACPC research officers for incessantly sharing their talents and expertise to help APRACA achieve its objectives.

May we all continuously be inspired to be generous in sharing our resources to help reduce poverty in this world.

MS. JOVITA M. CORPUZ
President, APRACA CENTRAB and
Executive Director, Agricultural
Credit Policy Council of the Philippines
2007

FOREWORD

A number of rural financial innovations evolved from Asia in the 1990s. Amongst these are the microfinance methodologies that have been recognized worldwide as having been successful in reaching to large number of the rural poor as well as in providing sustainable financial services. IFAD supported projects such as those in the Philippines and Indonesia have considerable experience in rural microfinance and can provide instructive lessons for other countries similarly situated. APRACA likewise – which comprises the major Agricultural Development Banks in the Asia-Pacific region – has had significant experience in initiating innovative rural microfinance such as the GTZ supported Self-Help Groups (SHG) Linkage Banking which has been scaled up with considerable success by APRACA members, particularly by the Land Bank of the Philippines, Bank Rakyat Indonesia, the Bank for agriculture and Agricultural Cooperatives, and NABARD and several other APRACA member institutions. Within APRACA members and projects in the represented countries, a number of practices and approaches on agricultural finance as well as other new financial services, products or instruments on rural finance have evolved.

This case study looked into the institutional approach of the Land Bank of the Philippines in financial services delivery to its mandated rural clients. The study described the macroeconomic context, financial policy and rural poverty situation; made an institutional analysis of the LandBank in terms of governance, structure, human resources management, delivery program strategy and mechanics and made an assessment of its performance. The study made conclusions as to the key success factors of and the remaining challenges for LandBank.

This case study forms part of the outputs of the International Fund for Agricultural Development (IFAD)-supported APRACA Regional Program for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations (FinPower Program). The FinPower Program seeks to facilitate the diffusion and adoption of the successful approaches among APRACA members and represented countries. It is hoped that the findings and recommendations of this study would help not only in having identified the particular innovations and best practices but also in guiding future actions of APRACA and other interested rural finance players to facilitate adoption of successful approaches in their respective countries.

Benedicto S. Bayaua
APRACA Secretary General and
FinPower Regional Program Manager

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The writers likewise wish to extend his gratitude to Mr. Benedicto S. Bayaua, APRACA Secretary General and FinPower Regional Program Manager, for approving the consulting project and Atty. Eduardo Garcia, CENTRAB Managing Director, for facilitative support and guidance in preparing the review.

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I. INTRODUCTION

In most Asian countries, governments established specialized State-owned banks to address specific development concerns. A common rationale is the need to allocate credit to underserved sectors such as agriculture, or special priority sectors such as an infant export industry. In the case of the Philippines, the Government established three Government banks in the 1960s: the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LandBank). The PNB was eventually privatized while the two other development banks remained Government-owned – the DBP that takes care of priority non-agricultural sectors (e.g. small and medium enterprises, export industry, environment projects) and the LandBank that takes care of agriculture and other countryside (rural development) priorities.

Over the years, while the Philippine economy has changed considerably, the rural landscape has remained essentially the same. Agricultural productivity has not changed much and despite a decreased share in the value of total output of the economy, agriculture remains an important sector in providing jobs and income to the rural populace. Poverty persists in the Philippines and is more severe in rural areas. Access to finance by rural folks remains constrained.

It is alongside this backdrop that LandBank – an APRACA member institution – is now operating. This case study takes a look at how LandBank coped with fulfilling its mandate to reach out to its rural clients. This case study hopes to elucidate innovative approaches in financial services delivery that other agricultural development banks from Asia-Pacific region similarly situated may learn from.

II. CONTEXT

A. MACROECONOMIC CONTEXT

The Philippines is a lower middle-income country with a per capita Gross National Income (GNI) of US\$ 1,490 and US\$ 5,980 using purchasing power parity (PPP). It is ranked 139th by World Bank in 2006 among 209 economies in the world in terms of nominal per capita GNI and ranked 122nd using PPP. In terms of Gross Domestic Product (GDP), the Philippines is ranked 46th in nominal terms and 24th using PPP (World Bank, 2007). The Philippine GDP in 2006 is US\$ 117 billion in nominal terms and US\$ 463 billion using PPP. In the region, the Philippine nominal GDP ranks 16th among 43 Asian countries and 5th among Southeast Asian countries.

Recent years showed respectable modest growth of the economy. From 2001 to 2006, the GDP adjusted for price changes grew from 3.3 percent in 2002, 6.2 percent in 2004 (the highest in 15 years) and 5.4 percent in 2006. (PIDS, 2007). This boosted hopes that the Philippines can achieve sustained growth and poverty reduction. Structural reforms dating to the 1980s have integrated significant sectors of the economy into global markets and investment flows fostering competition in the private economy and transforming the export base from agricultural and mineral based commodities to semi-conductors and electronics components. In 2006, 89 percent of the total value of exports came from electronics and semi-conductors while agricultural and mining products constituted only 6 percent. Poverty declined from 33 percent to 30 percent of the population between 2000 and 2003.

The services sector dominates the Philippine economy, accounting for 54 percent of gross domestic product (GDP) followed by industrial sector accounting for 32 percent. The agricultural sector contributed 14 percent—down from 23 percent in 1982 (NSCB, 2007). Agricultural GDP has varied somewhat in recent years because agriculture in the Philippines is highly susceptible to the effects of El Niño-related drought and typhoons. But while agriculture's share of the GDP has declined over the years, it remains an important sector as it provides employment to 36 percent of the active labor force (NSCB, 2007). Roughly three-quarters of the rural poor depend on agriculture for employment and income.

Arable farmland comprises roughly a quarter of the archipelago's total land area. Philippine farmers produce food crops for domestic consumption and cash crops for export. Rice and maize are the Philippines' principal

food crops, with rice being the staple food. Rice is produced extensively on the islands of Luzon and Mindanao and in the Western Visayas, while maize is primarily produced in Mindanao. Coconuts are the country's major export crop. The Philippines is the world's second-largest producer of coconut products after Indonesia. Other major export crops include sugar, bananas, pineapples, mangoes, and coffee. Total agricultural exports declined rapidly in the years immediately following the Asian financial crisis but have subsequently returned to pre-crisis levels. The country's poultry and livestock industry accounted for 13 percent of value-added in the agricultural sector in 2005, similar to the level recorded in 1980 (NSCB, 2006).

With its 7,107 islands (roughly 2,000 of which are inhabited), the Philippines has a diverse range of fishing areas. Until recently, the country benefited from highly productive marine habitats and coastal waters, but aggressive coastal and marine development led to excessive fishing pressure, overfishing, stock depletion, and the destruction of freshwater and marine habitats. In 2003, the fisheries sector accounted for 15 percent of agricultural GDP, down from 21 percent in 1986.

Table 1 below shows the Key Economic Indicators of the Philippines in 2006.

Table 1. Key Economic Indicators of the Philippines (2006)

Population (estimated)	87 million
Rural population, in percent (2003)	52
Number of Families	16 million
GDP	US\$ 117 billion
GNI	US\$ 128 billion
Per capita GNI	US\$ 1,490
Per capita GNI using PPP	US\$ 5,980
GDP structure (in percent)	
Agriculture	14.2
Industry	31.6
Services	54.2
Employed (economically active population)	33 million
Unemployment rate, in percent	7.8
Labor force by sector, in percent	
Agriculture	36
Industry and manufacturing	15
Services	49
Inflation rate (percent)	6.2
Poverty Incidence, in percent of population (2003)	30
Annual per capita poverty threshold	US\$ 290
Exchange rate (Php: US\$)	51.30

Sources: NEDA, NSCB, NSO and World Bank for per capita GNI.

B. THE PHILIPPINE FINANCIAL SYSTEM

The Philippine formal financial system is composed of the following categories: (1) banking institutions, (2) non-bank financial intermediaries, and (3) non-thrift institutions listed in **Table 2**. The banking institutions are classified into the following, pursuant to the General Banking Act of 2000: (a) universal banks and commercial banks; (b) thrift banks, composed of (i) savings and mortgage banks, (ii) stock savings and loan associations, and (iii) private development banks; (c) rural banks; (d) cooperative banks; (e) Islamic banks and (f) specialized government banks. Cooperative banks were previously under the category of rural banks prior to 2000. Non-bank financial intermediaries include finance companies and non-stock savings and loan associations.

The Central Bank is responsible for implementing monetary policy and the prudential supervision and regulation of the banking system. The Securities and Exchange Commission (SEC) oversees the conduct of the stock and bond markets, and, to the extent that banks and non-bank financial intermediaries (NBFIs) participate in these markets, the SEC works with the Central Bank in supervising and regulating the activities of the latter institutions. Increasing financial sophistication has led to greater diversification in the conduct of business in the financial services sector.

Total resources of banks (Table 3) in 2006 amounted to US\$ 94.8 billion with universal and commercial banks having the largest share (88 percent).

Non-formal financial institutions consist of co-operatives and non-government organizations. These institutions are required to register with the Cooperative Development Authority (for cooperatives) and Securities and Exchange Commission (SEC) for non-stock non-profit NGOs but are not regulated with regard their savings and lending operations. As of 2005, there were 21,134 operating cooperatives in the Philippines, of which 1,912 are credit cooperatives and the rest are multi-purpose cooperatives (source: CDA).

Rural Finance

Universal and commercial banks are generally urban-based, e.g. an estimated 50 percent of the 4,288 bank offices of universal and commercial banks are all in Metro-Manila while the rest are mostly in other major urban cities. Bank density (population per bank office) in rural areas is 15,233 compared to 4,146 in urban areas. In 2006, total amount of banks' agricultural loans was US\$ 4.3 billion (Table 3). While universal and commercial banks' loans to agriculture constitute 80 percent of the total agricultural loans, these are normally corporate accounts. The rural and cooperative banks with 13,406 bank offices remain as the major retail-suppliers of agricultural loans for small farmers allotting 38 percent of their portfolio to agricultural loans. Apart from rural and cooperative banks, cooperatives are important sources. LandBank is the principal wholesaler of agricultural loans to these financial institutions.

Microfinance

There are three major providers of microfinance in the Philippines: non-government organizations (NGOs), rural and cooperative banks, and cooperatives. In 2004, there were an estimated 500 NGOs, 187 rural and cooperative banks, 4 thrift banks and 4,579 savings and credit cooperatives engaged in microfinance. On the average, a Philippine microfinance financial institution (MFI) has assets of US\$ 2.8 million, loan portfolio of US\$ 1.9 million and 12,000 borrowers. (Source: Mixmarket, 2004). Microfinance loan portfolio of MFIs in the Philippines as of 2004 is estimated to be US\$ 100 million to US\$ 120 million (Llanto, 2004). In 2006, total microfinance loans from banks amounted to US\$ 86 million (Table 3) with total loan clients of 630,730. Rural and cooperative banks accounted for 89 percent of this total. The principal wholesaler of microfinance loans is the People's Credit and Finance Corporation (PCFC) – a subsidiary of the LandBank.

Table 2. The Philippine Financial System

Type of Institution	Components
Banking Institutions	Universal banks Commercial banks Thrift banks Rural banks Specialized government banks
Non-bank Financial Intermediaries	Investment houses Financing companies Securities dealers Investment companies Fund managers Lending investors Pawnshops Government NBFIs Venture capital corporations
Non-bank Thrift Institutions	Mutual building and loan associations Non-stock savings and loans Associations
<i>Non-bank financial institutions. These include the Social Security System (SSS), the Government Service Insurance System (GSIS), and the Home Development Mutual Fund (HDMF).</i>	

Table 3. Agricultural and Microfinance Loans of Philippine Banks (2006)

	Universal and commercial banks	Thrift Banks	Rural and cooperative banks	Total
Number of bank offices	4,278	1,338	13,146	20,888
Resources (US\$ billion)	83.6	8.6	2.6	94.8
Gross Loan Portfolio (US\$ billion)	40.8	4.9	1.6	47.3
Agricultural loans (US\$ billion)	3.1	0.183	0.996	4.279
Agricultural loans (in percent of gross loans)	7.6	3.7	38	8.2
Microfinance loans (US\$ million)	0.58	9.24	76.6	85.9
Microfinance loans (in percent of gross loans)	0.0	0.2	4.7	0.2

Source: *Bangko Sentral (Central Bank)*. Conversion rate: *Php 51.30: US\$ 1.00*.

C. RURAL FINANCE POLICY

Financial Reforms in the 1980's. In 1981, the Philippine Government initiated a set of financial reforms that put greater reliance on the market mechanism in the pricing and allocation of credit funds. Interest rates were deregulated and subsidies gradually removed. Also part of the reform package was the termination of below market priced loans from the Central Bank rediscount window. Specialization among the various types of banks was reduced while universal banking or expanded commercial banking was encouraged and the required minimum capitalization for banks was increased. The mid-1980s also saw the restrictions imposed on bank branching but was liberalized by 1989 leading to an increased number of new banks and branches.

Coupled with these measures, the Government also launched the Rural Bank Rehabilitation Program in 1987 to help ailing rural banks recover through a combination of fresh capital infusion and rescheduling of past due obligations with the Central Bank. To further rehabilitate weak rural banks in 1991, LandBank provided capital infusion to match private capital infusion, common stockholders exempted from the 20 percent ownership ceiling, and penalties and other charges on arrears covered by the program were waived. Subsequently, the Rural Banks Act (RA 7353) was passed in 1992 which allowed conversion of rural banks' arrears with the Central Bank into Government preferred stocks while owners were required to infuse an equal amount of capital over 15 years. The rehabilitation schemes paved the way for the full recovery of the rural banking system.

While the mandated loan quota for agriculture and agrarian sectors (i.e., set at 25 percent of loan portfolio) imposed on banks remained, the Government allowed alternative compliance of buying government bonds and securities which most banks did.

Policies in the 1990s. The market oriented finance policies were continued in the 1990s till the present. In 1997, a law was passed rationalizing Government agricultural credit programs that mandated the phase-out of directed credit programs implemented by Government non-financial institutions and the subsequent transfer of the management of such programs to Government financial institutions. Under the current policy, only Government banks and Government finance corporations are allowed among government institutions to lend.

Also in 1997, a national strategy on microfinance was crafted by an inter-agency council with a vision of having a viable and sustainable microfinance market. In 2000, the General Banking Law mandated the Central Bank to recognize microfinance as a legitimate banking activity. The following year, the Central Bank issued the rules and regulations to banks governing treatment of microfinance loans as well as corresponding reserve requirements for such accounts. It likewise opened the entry of "microfinance-oriented" banks or those banks that extend primarily microfinance services. This has allowed the conversion of NGO MFIs into regulated banks. As of 2006, there are 9 microfinance oriented banks, 10 thrift banks, 158 rural banks and 28 cooperative banks with microfinance operations.

D. RURAL POVERTY IN THE PHILIPPINES

The Philippines ranks 84 out of 175 countries in terms of human development index with an HDI value of 0.763 (UNDP, 2006). Poverty persists in the country despite a significant progress in addressing poverty in the 1990s. Poverty incidence was reduced from 49.3 percent of total population in 1985 to 40.6 percent in 1994 and 36.8 percent in 1997. Afterwards, the country made minimal gains such that by 2003, poverty incidence stood at 30.4 percent. Poverty incidence as percentage of number of families stood at 24.4 percent or an estimated 3.9 million poor households. Poverty threshold is about 19 percent of the average per capita GNI.

Poverty is more severe and widespread in the rural areas. Most of the rural poor depend on subsistence farming and fishing for their livelihood. While the farming sector constitutes about 62 percent of the total rural poverty, the fishing industry is also high but is only 11 percent of the total. Meanwhile, 37 percent of the rural poor who are considered less poor are those that are engaged in other occupations. Landless farm workers in sugar cane, rice, corn, coconut and forestry including corn and coconut farmers and fishermen are among the poorest in the agricultural sector compared to rice farmers who are less poor but constitute almost 25 percent of the overall poverty in agriculture because of their large numbers. Poverty incidence per sector is shown in Table 4.

Table 4. Poverty Incidence by Sector (2003)

	Urban Poor	Migrant and formal sector workers	Farmers	Fisherfolk
Population	39.9 million	15.6 million	4.78 million	1 million
Incidence of poverty	15.9%	18.4%	42.4%	43.6%

Source: NSCB

III. INSTITUTIONAL ANALYSIS

A. HISTORY AND MANDATE

LandBank was created when Republic Act 3844 also known as the Agricultural Land Reform Code was passed on August 8, 1963 to finance the acquisition and distribution of agricultural estates for division and resale to small landholders as well as the purchase of the landholding by the agricultural lessee. In 1965, LandBank's by-laws were approved and its first board of directors was formed with the Secretary of Finance as chairman.

In 1973, by virtue of Presidential Decree 251, the Bank was granted with a universal banking license (the first bank in the Philippines to be issued such a license) with a social mission to spur countryside development. This charter granted the Bank to expand lending to non-agricultural activities such as industrial, real estate development and other commercial activities. Expanded commercial banking powers were granted to support the Bank's land reform function and credit assistance to small farmers. The Bank's authorized capitalization was also increased to Php 3 billion and was exempted from national and local government taxes and assessments.

When the government embarked on the Comprehensive Agrarian Reform Program with the passage of the CARP Law in 1988 (RA 6657), LandBank had a clearer understanding of its social mission. CARP underscored the government's resolve to strengthen the basis for a more equitable form of land ownership in the country. LandBank thus championed the cooperative movement and extended support services aimed at leading agrarian communities in the countryside on the road to self-reliance.

In 1995, by virtue of Republic Act 7907, LandBank's charter was again amended, increasing its authorized capital to Php 9 billion and granted it authority as the official government depository with full authority to maintain deposits of the government and all its instrumentalities. Such deposits, however, are subject to the Monetary Board's regulations on liquidity floors and reserve requirements imposed on all commercial banks.

The Bank's Board of Trustees was also increased to nine. In 1998, LandBank's authorized capital was again increased to Php 25 billion.

B. VISION AND MISSION

LandBank's mission has changed over the years. Forty-four years ago, it was created primarily to serve as the financing arm of the government's agrarian reform program. At present, however, LandBank has taken broader and more dynamic role in supporting the government's initiatives geared towards nation building and poverty alleviation.

LandBank's vision is to be the premier countryside development financial institution of the country. It commits itself to highest standards of ethics and excellence in service. LandBank's development goal is centered on promoting sustainable growth and development in the countryside.

In pursuit of this goal, it commits to the following mission:

- Provide timely financial and technical support to farmers, fisherfolk and other priority sectors;
- Deliver innovative products and services that are in consonant with ecological enhancement and effectively address clients' needs;
- Embody professionalism and integrity and providing its employees a work environment that encourages growth and rewards excellence; and
- Improve the lives of its stakeholders in leading the country towards development and prosperity.

The priority client sectors have been defined by LandBank as composing of: small farmers and fisherfolk; micro, small and medium enterprises; local government units; and other agricultural based industries.

Through the years, LandBank has risen to the challenge of catalyzing countryside development. Presently, LandBank is recognized as one of the top five universal banks in the country – offering complete range of commercial banking products and services – with solid financial resources to back its operations. With over 380 branches and field offices nationwide, LandBank remains as the only bank present in each of the country's 81 provinces. Its credit delivery system enables it to penetrate almost 90 percent of the country's total number of municipalities.

It has also established remittance companies and representative offices in Italy, Japan, Singapore, Taiwan, United Arab Emirates and the United States of America to service the growing Overseas Filipino Workers market.

C. GOVERNANCE

Board of Directors

The LandBank is being run under the guidance and leadership of its Board of Directors (BOD) and its President. By virtue of RA 7907 of 1995, the membership of the BOD was increased to nine (9) which is composed of the Secretary of Finance as Chair, the President of the Bank as Vice-Chair, and the Secretaries of Agrarian Reform, of Labor, and of Agriculture as ex-officio members. By virtue of the law, the Secretary of Finance as Chairperson cannot delegate this authority thus, he/she has to attend personally all matters pertaining to his responsibilities as Chair. For the other ex-officio members, the Secretaries normally delegate the authority and responsibility as Board members to other officers of their departments, with rank of Undersecretary or Assistant Secretary. Appointed by the President of the Philippines are two (2) members representing the Agrarian Reform Beneficiaries (ARBs). The two remaining members who represent the private sector are supposed to be elected from the shareholders coming from the public sector in proportion to their stock. This number and board composition remain today. The terms of office of appointed directors of the Bank are co-terminous with the appointing President of the Philippines.

The Chief Executive Officer (CEO) of the Bank is the President. The Bank President is also the Vice-Chairperson and acts as presiding officer of the Board in cases when the Chairperson (Secretary of Finance) is unable to personally attend the meeting. The President/CEO exercises authority to execute policy decisions

of the Board, oversee Bank operations and exercise supervision and control over all Bank personnel. The hiring and promotion, however, of senior executive officers have to pass concurrence of the Board upon recommendation of the President/CEO.

The President of LandBank as per Charter (Republic Act 9707) is “chosen by the Board of directors but with consent of” – thus essentially appointed also by the President of the Philippines. The law requires that to be appointed as President of the Bank, the nominee must have sufficient experience or competence in banking or finance. All President/CEOs so far had excellent backgrounds in banking and/or finance. The current President/CEO – a first in LandBank’s recent history – came from the ranks of LandBank. Previous to this, the appointed Presidents came from outside of LandBank mostly from the private sector. The immediate previous Bank President is now the Secretary of Finance – which is also rare in the history of LandBank.

Board Committees

LandBank is fully committed to support the management of risks at all levels. Understanding and managing risks and its potential pitfalls are the responsibility of the Board and the Bank’s top management. The Board acts as the oversight body for managing risk-related functions and activities of the Bank. For this purpose, the Board constituted various committees that would perform this role. The important committees are: Risk Management Committee, Audit Committee, Treasury Management Committee and the Investment and Loan Executive Committee.

The Risk Management Committee oversees the management of credit, market, liquidity and operational risks. This Board-level committee has the following responsibilities in line with Central Bank’s new regulations in 2005 on corporate governance: (a) identification and evaluation of risk exposures; (b) implementation, review and revision of the risk management plan, and (c) development of risk management strategies. This committee supervises the Risk Management Group – an independent unit of the Bank – whose functional responsibilities cover credit, treasury, market, operations and systems risks. This Group is comprised of four independent units: credit policy and risk management department, treasury risk department, business risk management department, and the customer information system management team.

The Audit Committee is tasked to assist the Board in carrying out the operational and financial reporting, internal control and regulatory compliance, corporate governance and reporting of regulatory examination results. The Internal Audit Group of the Bank reports to the committee. The group’s main responsibility is to ensure compliance of operating units to policies and regulations of the Bank and prudence in the conduct of business operations.

The Treasury Management Committee oversees the liquidity risk management function through the Asset and Liability Committee (ALCO). ALCO is backstopped by the Treasury Risk Management Department. Monthly liquidity gap reports are provided to the Committee/Board and the top management to keep them abreast of likely scenarios based on movements of interest rates. The ALCO sets limits on maximum exposure on trading positions of the Bank upon recommendation of the business units.

The Investment and Loan Executive Committee is responsible for overseeing investments and loans. It is the second highest approving body next to the Board for loans and investments. LandBank has a codified approving/signing authority (CASA) containing the levels of approving authorities. The Bank has six levels with approving authority for loans with the Board as the highest and the head of branch and lending center as the lowest level.

Political Autonomy

For the Bank’s well being, the governance structure ensures that LandBank is insulated from political influences. The Board is chaired by the Secretary of Finance whose Department’s primary concern is to generate revenues for the government. With this interest in mind, there is appreciation on the attainment of good bottom-line figures of the Bank as these translate additional revenues for the government. On the other hand, the other Board directors see their participation in the Bank as one way of supporting their respective agency concerns – e.g. agrarian sector for the Department of Agrarian Reform and agriculture sector development for the Department of Agriculture. The sectoral representatives from the private sector on the other hand ensures that their own constituencies’ interest (e.g. that of the cooperative and farmers sectors) are addressed by the Bank’s programs. This composition of the Board thus creates a balance in setting business

policy of the Bank such that financial viability objectives are not jeopardized in pursuit of social mission objectives.

Under the banking law, the Board members of all banks (including Government banks) are held personally liable for any act committed as member of the Board that is in violation of banking laws, rules and regulations. LandBank, as any other bank in the Philippines is supervised by the Bangko Sentral (Central Bank), a politically independent institution that subjects the LandBank to periodic examination to ensure adherence of the Bank to prudent banking practices and to all rules and regulations governing universal banks. The Bank's transactions are also subject to audit by the Commission on Audit – a constitutional body. Further, all executive officers of the Bank, except for the CEO, are all career officials and have security of tenure protected by civil service laws.

Given the above factors, it is thus, not easy for the appointing power (the President of the Philippines) or other political powers to use the LandBank for purely political reasons or for such extremes as granting of behest loans. There is a natural tendency for Board members and executive officers to be vigilant over their own behavior and that of the LandBank.

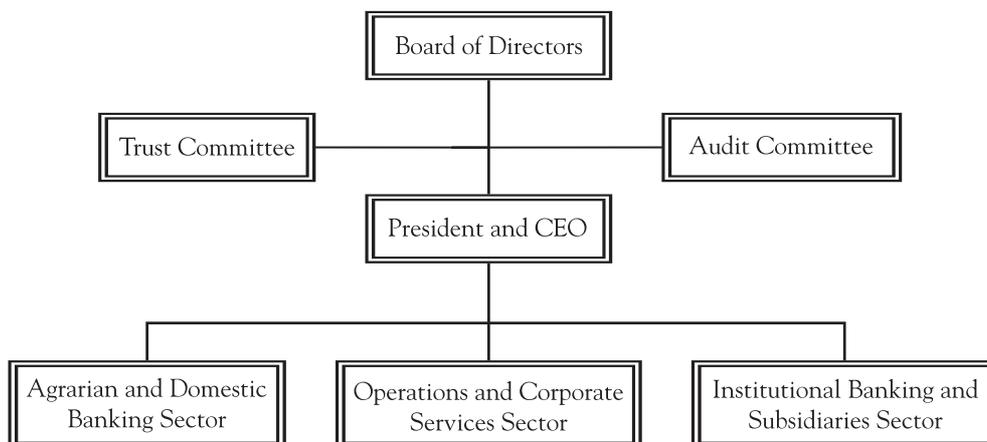
LandBank has had examples of not succumbing to political pressures for transactions that would be detrimental to the Bank. This, however, does not mean that LandBank does not coordinate bank's programs with elected officials. It is a standing practice of LandBank operating units to coordinate programs and projects with local government units and offices of both houses of Congress.

D. ORGANIZATIONAL STRUCTURE

The LandBank has designed an organizational structure and staff complement that will enable it to function as a Government bank with a social mandate in a financial market that has grown more competitive because of deregulation and liberalization. Streamlining of the staff and simplification of the organizational structure in recent years have resulted in a clearer reporting and accountability lines as well as better productivity. The Board has been supportive of these changes while ensuring that the rights and benefits of retired or resigned staff are met.

The LandBank is organized into three major sectors (*Figure 1*) which the Office of the President and CEO directly oversees. Directly under the Office of the President are five (5) offices providing support in terms of legal and physical security matters, strategic planning, technology management and corporate affairs. (*Refer to Annex A for LandBank's Organizational Structure*)

Figure 1. LandBank's Major Operating Units



The three (3) major LandBank Sectors are defined as follows:

a. Agrarian and Domestic Banking Sector (ADBS).

The first of the 3 major sectors is the ADBS which is the largest group. Comprehensive Agrarian Reform Program (CARP) and field operating units of the Bank are located here to provide banking and extension services to Agrarian Reform Beneficiaries (ARBs) and other small farmers and fisherfolk. ADBS is organized into seven sub-units: (1) branches, (2) landowners compensation and assistance, (3) consumer and e-banking group, (4) development assistance, (5) program management, (6) field unit support, and (7) systems implementation. (See Figure 2)

The ADBS Field Offices are organized into regional and area offices with a Group Head overseeing this geographical grouping. Five basic units operate under each of the regional/area offices namely: Accounting Centers; Lending Centers; Branches and Extension offices; Development Assistance Centers; and Agrarian Operations Centers.

The main LandBank field commercial banking units are the Branch/Extension Offices. These units are responsible in handle cash processing and deposit mobilization. On the other hand, the Lending Centers are in charge of all types of loans – to farmers, cooperatives, small and medium enterprises, Local Government Units, rural banks, and local corporations without offices in Metro-Manila. The Agrarian Operations Centers focus on CARP activities involving land valuation, payment to landowners, and collecting land amortizations of farmer-ARBs. Meanwhile, the Development Assistance Centers are the LandBank field units that are in charge of marketing programs and providing technical assistance, mainly to cooperatives.

Commercial banking is performed by branches and extension offices while lending operations are done by lending centers that take charge of all types of loans, that is, loans to farmers, cooperatives, small and medium enterprises, local government units, and rural financial institutions.

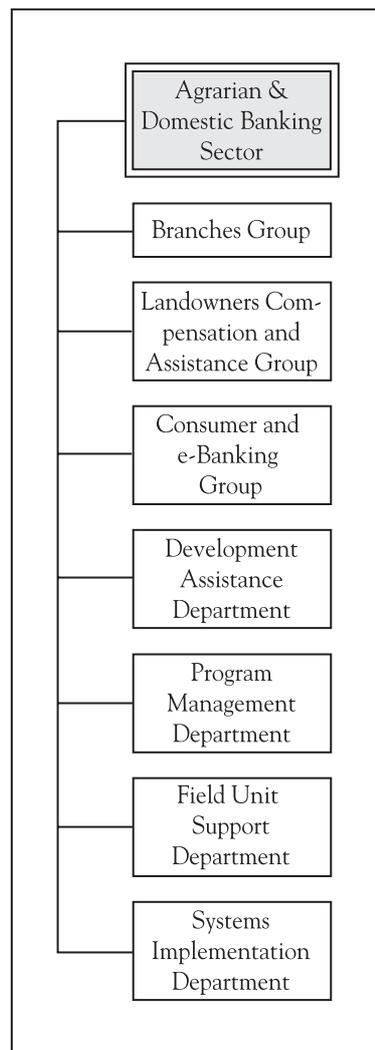
b. Institutional Banking and Subsidiaries Sector.

The commercial banking functions covering trust and accounts management to lending and branch banking are undertaken by the Institutional Banking and Subsidiaries Sector (IBSS). It consists of less sub-groups than that of the Agrarian and Domestic Banking Sector (ADBS) with 6 namely: (1) the Program Lending Group; (2) the Accounts Management Group; (3) the Treasury and Investment Banking Group; (4) the Asset Recovery Group; (5) the Global Banking Department; and, (6) the Subsidiaries and Foundation. These are all housed at the LandBank Head Office.

c. Operations and Corporate Services Support Sector.

This sector provides administrative support to LandBank operating groups. It is composed of five sub-groups: the Banking Operations Group, Human Resource Management Group, Controllership Group, Banking Services Group, and Facilities Management and General Services Group.

Figure 2. Agrarian and Domestic Banking Units



E. HUMAN RESOURCES MANAGEMENT

Hiring and promotion

The Bank hires personnel based on merit and qualifications. The Bank uses a qualification standard for officer level positions which it periodically updates to correspond to the nature of responsibilities of officer level positions.

The Bank maintains a pre-planned number of personnel to ensure stability while injecting warm bodies in the organization. In 2005, the Bank hired 572 new personnel while maintaining headcount of 7,270.

The Bank has a career advancement program for its personnel that gives room for promotion to higher rank or level of position. The promotion is based on merit, that is, performance based. All staff and officers are evaluated based on established key result areas that are linked with the operational targets and objectives of the particular unit they belong. Thus for lending centers, much weight are on loans while for the cooperative specialists, the development of assisted cooperatives have more weight. In 2005, 611 officers and employees were promoted to higher rank. This number is about 8 percent of total officers and employees of the Bank. A rule of thumb is for each unit or same level of position (for officers) not having more than 10 percent getting outstanding rating in their performance evaluation. This ensures that not more 10 percent of the total employees and officers get promoted to higher rank or position level.

Reward and incentives

A key factor in LandBank's flexibility in extending compensation and incentives to personnel is the exemption of the LandBank, by virtue of Republic Act 9707, from the standardized salary rates and compensation system of the civil bureaucracy. This enabled the Bank to offer attractive compensation package comparable with other top private universal and commercial banks. By comparison, an officer of the LandBank earns a salary that is about 4 times higher than an officer of equivalent rank in a Government agency subjected to the standardized salary. This compensation package boosted the morale of existing officers and personnel.

Apart from this, the Bank also grants periodic increases in salaries and allowances. The merit increases are based on individual performance. It also grants merit and productivity incentives to reward over-all or collective performance while productivity achievement awards are extended to reward unit or individual-level performance. To promote innovative ideas on improving operations or business processes of the Bank, it also has a periodic search for "Bright Ideas Award".

Staff development

The Bank invests in staff development to ensure a built-in capacity enhancement in meeting the growing demands of dynamic and highly competitive banking sector. The Bank implements the staff development program through: (a) in-house training and development programs; (b) external local and international training programs; and (c) development of a "succession planning program". In-house and external local training programs are geared towards in meeting skills, knowledge and attitudinal requirements of present jobs of the staff to enhance competencies or to prepare staff to handle future jobs in the Bank. Management trainings are periodically undertaken to keep the line managers and supervisors abreast of latest management techniques and practices. International trainings give exposures to the personnel or officers of the Bank on ideas and developments from other countries to keep them abreast of international or global developments. The succession planning program allows the bank to be pro-active in preparing second line leaders of the Bank.

In 2005, 347 were trained in in-house training and development programs while 223 were sent for external local and international training programs. This number represents about 7 percent of the workforce.

Work-Life Balance Support

Working with a high performing financial organization under a lean structure at times creates a stressful working environment. This in mind, the Bank's Human Resources Management Group (HRMG) implemented programs that support work-life balance in the organization. A few of these work-life balance support are the opening up of a Day Care Center, a fitness Gym facility/Recreation Center and an Automated Library. The campaign for health in the workplace was intensified through the issuance of medical bulletins and conduct of various briefings on health-related issues.

IV. SERVICE DELIVERY ANALYSIS

A. LANDBANK'S CAPACITY BUILDING AND ENTERPRISE DEVELOPMENT PROGRAMS

As major development partner in the countryside, LandBank's development assistance has been extended to support cooperatives. This is essentially aimed at improving the absorptive capacity of these co-ops. Development assistance consists of two key interrelated components, namely, capacity and institution building (IB) and business or enterprise development (ED). IB interventions are meant to enhance the operations and economic viability, while ED support aims at increasing productivity and improving market efficiency of cooperatives.

The significant technical or development assistance being provided by the Bank to these cooperatives includes the following:

Cooperative Accreditation. This activity was started in 1994 and has undergone fine-tuning in succeeding years. The process involves evaluating the qualifications of potential/newly accessing coops using the Cooperative Accreditation Criteria (CAC). CAC is a prescribed set of performance standards and credit availability requirements that co-ops must meet so they can be provided with appropriate technical financing and technical assistance by LandBank. CAC is meant to enable the Bank's development assistance and lending units to assess and calibrate credit assistance to BACs, as well as to plan and implement timely, adequate and necessary measures to graduate BACs to higher levels of maturity.

The accreditation criteria contains two major parts, namely, requirements that co-ops must attain to access or continuously receive financing assistance, and system for categorizing assisted co-ops based on their maturity level. When co-ops fail to meet the requirements, they are required to submit a written undertaking to comply with the same within a timeframe mutually agreed upon by the co-op and the lending unit.

LandBank's CAC as performance yardstick has been institutionalized by the Bank, especially for co-op operations review.

Key Cooperative Strategy. The Key Cooperative Strategy (KCS) aims to identify, strengthen, and accredit at least one key co-op per municipality nationwide, which can act as LandBank's valued development partner. The premise is that one strong cooperative is better than many weak ones.

A distinct feature of a key co-op is its willingness to accommodate and absorb good paying members of dis-enfranchised cooperatives in an area. As an incentive, accredited and eligible co-ops are entitled to the waiver of the service fee (2 percent of the loan) being charged by the Bank.

Integrated Rural Financing Program (IRF). The program is a tie-up with the Agricultural Credit Policy Council (ACPC) – also an APRACA member institution. Under the program, cooperative development technicians (referred to as "Institution-building Specialists or IBS) provide on-site, hands-on technical support – business/enterprise project identification, planning, and packaging, marketing assistance, technology transfer, project monitoring and documentation, operations management training and the like to some 574 cooperatives in 12 regions and 29 provinces nationwide. On the average, one IBS staff is assigned to 15 cooperatives. Credit assistance is provided by LandBank, with P 230 million seed fund from ACPC.

LandBank-Local Government Unit (LGU) Cooperative Strengthening Partnership Program. This Program is a partnership with the LGUs in co-op strengthening through identification, planning, and implementation of needed interventions and projects to hasten co-op development under the 'resource-sharing arrangement.' The provincial or municipal government provides the necessary funds, on an annual basis, as its equity contribution to the Program to defray costs of co-op strengthening activities, such as training, workshops, business development forums, etc. LGUs also provide seed or guarantee funds for those co-ops that fall short of certain eligibility requirements for LandBank financing. An example of this scheme is an LGU putting up a guarantee fund to absorb possible loan loss by LandBank in the course of lending to the LGU endorsed cooperatives that cannot meet yet LandBank's qualification requirements.

Gawad sa Pinakatanging Kooperatiba (Gawad Pitak). Over the years, Landbank has given recognition to model cooperatives that have exhibited exemplary performance as countryside developers. The *Gawad Pitak* Program targets the thousands of active cooperatives operating in all parts of the country that have pooled their resources and expertise to uplift the lives of their member and their communities.

Technology Promotion Centers (TPCs). The TPC Program is a partnership among LandBank, state universities and colleges (SUCs), local Government units, and other agencies having common and related concern on technology promotion and transfer. Technology transfer under the Program adopts a two-pronged approach of technology showcasing and credit support. The basic strategy is to tie-up with SUCs with an inventory of updated technology (research being one of their primary functions). Private entities, called Private Technology Providers, are also allowed to validate and promote their developed technologies thru the TPC. LGUs provide counterpart fund and technical support while LandBank provides the financing assistance to technology adopters. Technology focus of TPCs includes agriculture (lowland, upland), livestock and feed grains, root crops and fiber crops, aquatic and fishery products.

B. PROGRAM ACCOMPLISHMENTS

Among its cooperative assistance programs, the IRF program has the most integrated package of assistance that incorporated the major intervention strategies of LandBank on cooperatives' development. It is also under this program that various interventions converge – from the cooperative rating, to membership savings operation to the current thrust on business enterprise development. To get a glimpse of annual accomplishments of LandBank on cooperative development, Table 5 highlights the performance results of the IRF Program in 2006.

The key result areas (KRAs) reflected in Table 5 are used by LandBank in assessing the performance of their interventions to the cooperatives. Targets on these KRAs are set annually. These targets are first prepared by the staff and units concerned and then have to be negotiated with their supervisors and top management. Once approved by top management, the targets then become the KRAs in evaluating individual as well as unit performance of the staff and unit concerned.

Table 5. LandBank's Accomplishments on Cooperative Development (IRF Program, 2006)

Key Result Areas	Accomplishments
Small Farmers/Fisherfolk access to credit facilities of LandBank through cooperatives	Php 1.4 billion loan extended to 270 coops: <ul style="list-style-type: none"> ▪ Average of Php 5.3 million per coop ▪ 49 percent of targeted coops availed credit
Implementation of diversified or expanded business of coops	50 out of 553 coops (10 percent of coops) expanded/diversified business
Coop maturity upgrading	Upgraded 74 out of 96 coops (76 percent) targeted for upgrading: <ul style="list-style-type: none"> ▪ 14 coops from B to A ▪ 36 coops from C to B ▪ 23 coops from D to C ▪ 1 coop from F to D Upgraded coops represent 13 percent of the total assisted coops
Capital Build-up and Savings Mobilization	Generated new capital of Php 203 million (9.5 percent growth in capital) Generated new savings of Php 190 million (10.5 percent growth in savings)
Rehabilitation of weak coops	54 coops out of 553 coops approved of loan restructuring plans (9.8 percent of assisted coops)
Past Due Ratio	Past due ratio of 13 percent

C. SERVICE DELIVERY SYSTEMS AND PROCESSES

LandBank's Cooperative Rating System

In 1994, the Cooperative Accreditation Criteria (CAC) was launched as a LandBank prescribed set of performance standards and credit requirements that cooperatives must attain so they can be provided with appropriate financial and technical assistance.

The CAC was revised in 1997 to promote the growth of quality cooperatives. It seeks to rationalize and systematize the delivery of financial and technical assistance to bank assisted cooperatives (BACs). The CAC enables LandBank units to assess and calibrate credit assistance to bank assisted cooperatives and plan and implement timely, adequate and necessary measure to graduate BACs to higher level of "maturity".

To ensure an objective examination and rating of cooperatives, a special unit – separate from the staff of the lending unit (Lending Center) and institution-capacity building unit (Development Assistance Centers) undertakes the performance audit of the cooperatives. A performance audit is normally taken once a year for each cooperative.

Implementation. The Branch is responsible in monitoring BAC compliance with the requirements embodied in the CAC Guidelines, particularly in instances where BACs are not able to meet the requirements but are allowed to access loans.

The Branches are required to submit annual reports on cooperative categorization to their respective Regional Heads who shall, in turn, submit consolidated reports to the Technical Services Department (TSD).

The categorization of BACs shall be done annually using cooperative data as of December 31. To monitor the BAC's compliance of the requirements, summary reports are required from the field level to the regional level, from the regional level to the national LandBank management. The Head Office through the Cooperative Development Assistance Group (CDAG) is furnished with duplicate copies of the Regional and National Summary Reports.

Cooperative Accreditation Criteria (CAC)

The CAC contains two (2) major parts. These are the requirements cooperatives must attain to access or continuously receive financial assistance from LandBank and the system for categorizing **Bank-assisted Cooperatives (BACs)** based on their "maturity level". The requirements are further subdivided into pre-qualification requirements which all prospective cooperatives wishing to access credit assistance from LandBank for the first time must pass, minimum requirements which **Newly-Accessing Cooperatives (NACs)** and existing BACs must attain before they can avail of assistance and standard requirements which existing BACs shall endeavor to attain. In all cases, the compliance of cooperatives with the requirements is subject to validation. Furthermore, the accreditation does not look solely on the performance of the cooperatives. The Board of Directors (BODs) and management staff must pass the credit and background investigation as well.

The system for BACs classifies them into four (4) classes, viz Class A, B, C and D. Cooperatives failing to attain Class D level shall be rated as F or Fail and cannot avail of credit facility. The activity shall also identify specific BAC strengths and weaknesses which serve as guide to LandBank in directing delivery of appropriate credit and technical assistance. By doing this, LandBank is able to plan proactively and implement timely and adequate strengthening interventions or assistance to help BACs attain higher growth levels. The categorization of BACs involves quantitative and qualitative appraisal of its level of growth taking into account indicators included in the accreditation criteria which are critical to a co-op's level of maturity or growth.

CAC Indicators for BACs

The CAC uses a combination of indicators that measure financial and organizational management capacities. These indicators are given corresponding points based on the standards set by LandBank. These CAC indicators are membership, capital build-up (CBU) and savings mobilization (SM), leadership and management, books of accounts, business operations, financial performance and the concerned cooperative's affiliation in federations/clusters/chambers or organization. Table 6 describes the factors that are being considered when evaluating cooperatives.

Table 6. Key Measures in Rating Cooperatives

Key Result Areas	Measures
Membership	Size and Members' Patronage of the Cooperative Business/es
Capital Build-up and Savings Mobilization	Average CBU per member per year and average savings per member per year
Leadership and Management	<ul style="list-style-type: none"> ■ Core Management Team ■ Cooperative policies, systems and procedures ■ Plans and programs ■ Internal performance review
Books of Accounts	<ul style="list-style-type: none"> ■ Updated and installed Books of Accounts
Business Operations	<ul style="list-style-type: none"> ■ Degree of diversification and scale of operations
Financial Performance	<ul style="list-style-type: none"> ■ Repayment to LandBank, profitability, debt-equity ratio and liquidity
Affiliation in federation/cluster/chamber/Organization	<ul style="list-style-type: none"> ■ With demonstrable efforts to be a member of a cooperative organization or an active member

NAC Pre-qualification Requirements

Before undergoing the evaluation using the discussed indicators, the CAC requires that NACs pass the pre-qualification requirements for cooperatives accessing assistance for the first time. The pre-qualification requirements focus on the cooperative's legal/juridical personality, membership, paid-up share capital, member education, accounting system and its core management team.

LandBank, as a matter of policy, transacts business only with organizations having juridical personality. Thus, NACs are required to submit as proof their Certificate of Registration and Certificate of Good Standing including their Articles of Cooperation and By-Laws and the list of all the cooperative officers, i.e. Board of Directors, Audit Committee, Credit Committee, Election Committee and Education and Training Committee.

On membership and paid-up share capital, RA No. 6938 or the Cooperative Code requires 15 members and Php 2,000 (\$ 39) paid-up share capital for the purpose of registering a cooperative. Such registration will enable the newly formed cooperative to acquire juridical personality, engage in the initial business of firming up the organization and mobilizing savings among its members. These registration requirements, however, cannot be taken to mean as an indication of the ability of the cooperative to access loans from financing institutions. LandBank's cooperative model showed a threshold level of less than 60 members and a paid-up share capital Php 300,000 (US\$ 5,850) to initially give a new cooperative some leverage to carry-out bank-assisted projects, e.g. crop/livestock production. For purposes of initial loan availment with LandBank, a minimum of 60 members is considered acceptable.

In addition to the above requirements, it is compulsory that all cooperative members have attended a pre-membership seminar prior to their official acceptance as cooperative members. Pre-membership seminars are conducted to educate/make members aware of their duties and responsibilities, as well as the benefits that can be derived from the cooperative.

The accounting system of NACs is also reviewed during the processing of accreditation. Updated and audited financial statements are required to instill proper accountability and provide information on the financial condition of accessing cooperatives and help determine loan absorptive capacity.

Last on the NAC pre-qualification requirements, it is required that the Core Management Team of NACs are composed of qualified manager, duly bonded treasurer/cashier and a qualified full-time bookkeeper. The members of management team are required to have at least two (2) years of college education, at least one (1) year experience in similar business operations, of good moral character and unquestionable integrity and that in no case shall the members of the management team be related to each other or to any member of the BOD up to the third degree of consanguinity or affinity.

Minimum Requirements for NACs and BACs

In addition to the NAC pre-qualification requirements, NACs together with existing BACs are required to pass the minimum accreditation requirements before financial assistance can be provided. The NAC and BAC minimum accreditation requirements are more detailed, more strict and broader in scope than the NAC prequalification requirements and require more from the cooperatives. The minimum requirements look into the patronage of cooperative business by the Board of Directors (BOD) and members, BOD performance (i.e. meetings, cooperative operation internal performance review, etc.), paid-up share capital and savings mobilization (average per member), cooperative plans and programs, cooperative financial performance (i.e. debt-equity, liquidity, return on equity, etc.), policies, systems and procedures, cooperative books of accounts and cooperative production and providential services.

Members and BOD's patronage is evidenced by at least one (1) purchase/availment of co-op service or sale/provision of individual products during the year preceding the accreditation. For this purpose, the cooperative must submit a certification indicating the percentage of members and BODs patronizing the co-op which shall be validated by LandBank's Lending Center. Aside from the BOD's patronage, the number of their monthly meeting is considered as evidenced by their minutes of meeting. They also should have conducted at least monthly internal performance review during the year preceding of the accreditation. The result/report of monthly reviews must be included in the agenda of regular BOD meetings or discussed in other co-op fora. The conduct of these reviews should be verified by the Lending Unit from the minutes of BOD meetings/other co-op documents.

On capital build-up and savings mobilization, there are required standards for NACs and for existing BACs. In the case of existing BACs, average increase shall be calculated using data from the co-op's current financial statements (at the time of accreditation) vis-à-vis that of the preceding year. The preceding year is the year before the assessment for accreditation while the current year is the time of the conduct of assessment for the accreditation.

Cooperative policies, systems and procedures (PSP) on records-keeping, credit and savings generation/mobilization must be written and installed including cooperative plans and programs, business plan/s for project or projects for which financial assistance from LandBank is being accessed. As part of cooperative PSP, books of accounts (i.e. general ledger and journals, cash receipts and disbursement journals, sales and purchase journals) should have been installed. The cooperatives should have also been involved in production activities like crop and livestock production. In the case of existing BACs, LandBank financial assistance may be used for relending to finance production activities of members. For NACs, they are required to have at least one (1) providential service to members such as emergency loan for hospitalization, medicine, tuition fee, subsistence, mutual aids benefit, etc. On the other hand, existing BACs shall show efforts or initiatives to start extending providential services to members.

Just like any other business enterprises, the cooperatives must be at least breakeven in its over-all operations. This shall be measured using the return-on-equity (ROE) which is computed based on the net income and the average members' equity. NACs and BACs are also required to maintain a certain ratio on debt-equity even after the release of loan. The ratio shall be calculated based on co-op's total loans to its total capital, donations and deposits (non-withdrawable) as reflected in its financial statement. Likewise, the CAC requires minimum liquidity ratio for the type of core business the coop is engaged in.

Additional Requirements for Existing BACs

Aside from the minimum requirements for NACs and existing BACs, there are additional minimum and standard requirements that must be applied to existing BACs. The additional minimum requirements for existing BACs necessitate a higher number of BAC members, high repayment rate on LandBank obligations at the time of accreditation and looks into the membership of BACs to cooperative apex organizations.

The standard requirements are the "gold standards" which all existing BACs must endeavor to attain. These are the highest set of standards for existing BACs in the cooperative accreditation. These requirements when passed by an existing BAC would render that BAC in the Class A maturity level.

Written Undertaking and Sanctions

In cases when existing BACs fail to meet the requirements, they shall be required to submit a written undertaking to comply with the same within a time frame mutually agreed upon by the former and the concerned LandBank Lending Unit. This shall enjoin BACs to improve on their weak areas. The written undertaking shall become part of the documentary requirements for loan availment or re-availment, increase in credit line, approval of financing for new projects, etc.

The written undertaking shall target the attainment of the minimum requirements if these are not yet attained and the standard requirements if the minimum requirements are already attained. In the written undertaking, BACs rated as “fail” are targeted for upgrading to Class D within one (1) year, Class D to Class C with one (1) year, Class C to Class B within two (2) years and Class B to Class A within three (3) years.

The written undertaking shall also be required for NACs failing to attain the minimum requirements but at the discretion of Lending Units were still granted loan assistance. This discretion, however, shall not include installed books of accounts, profitability, debt-equity and liquidity which cannot be waived.

At the discretion of LandBank Lending Units, BACs failing to comply with the terms and conditions as stipulated in the written undertaking may be sanctioned by decreasing its loan limit if it shows limited efforts to improve its weak areas, not allowed to re-avail nor granted with additional loans until visible efforts is shown to improve its weak areas and assistance may be withdrawn for total absence of efforts to improve. Lending Units, strictly implementing specifically determined conditions, may decide to continue credit assistance despite non-full compliance with the terms and conditions embodied in the undertaking.

Cooperative Categorization by Maturity Level

As earlier stated, the cooperatives are rated into four classes: Class A, B, C, and D with Class A as the highest. BACs failing to attain Class D level are given a rating of F or Fail making them ineligible at that time for loan availment. This rating system involves quantitative and qualitative appraisal of its level of growth taking into account indicators included in the accreditation criteria which are critical to a cooperative’s level of maturity or growth. The over-all BAC class shall be determined based on its total score. Twenty five (25) points is used as the lower limit since a BAC attaining exactly the minimum requirements for each indicator shall receive this score. On the other hand, a BAC attaining all standard requirements shall receive a maximum of 100 points. BACs with features falling in between the standard and minimum requirements shall be rated using ratio and proportion.

In categorizing, information needed are sourced from BAC’s loan folder, existing LandBank BAC database, records from the Cooperative Development Authority, BAC records, reports like financial statements, minutes of meeting, etc. and BAC certification, among others.

The Scoring Worksheet (SW) and Annexes serve as guide in determining BAC maturity levels, as well as, the specific areas where strengthening assistance is needed. The Scoring Worksheet includes the list of all indicators, maximum points BACs may earn for attaining the standard requirements for each indicator, the minimum points a BAC may earn for attaining exactly the minimum requirements per indicator, columns for actual feature and points earned and a column to guide the rater on how to calculate or assign the points. The other annexes serve as guide in the allocation of designated scores for indicators where ratio and proportion is not applicable and also indicate equivalent scores for BAC features on indicators where ratio and proportion can be applied. These annexes will facilitate the scoring by Branches as raters need not calculate the scores anymore, but simply refer to these annexes.

Table 7. Financial Standards for BACs per Class Category

	Class A	Class B	Class C	Class D
No. of members	>300	>200 to 300	>100 to 200	100
Total Earning Assets (Php)	>5 million	>2.5 to 5 million	>1 to 2.5 million	1 million
Profitability ratio	>10%	>=10%	>=5%	Break-even
Debt to Equity ratio	2:1	2:1	6:1	6:1
Liquidity ratio	2.5:1 or better	2.5:1	1:1	1:1

Wholesale Lending Program for Cooperatives

This program is LandBank's primary vehicle for providing small farmers and fisherfolk with credit assistance. The financing facilities for qualified cooperatives are as follows:

- Credit line for relending to finance members' agricultural production activities (in case of agricultural loans) and for relending to poor members (in case of microfinance and agri-microfinance loans);
- Operating capital/or fixed asset acquisition loans for cooperative managed businesses such as marketing, manufacturing or processing. The loan can be used for operating capital requirements such as purchase of raw materials, and/or purchase of equipment and other fixed assets;
- Rediscounting of members' promissory notes.

The borrowers of these financing facilities are the eligible cooperatives that pass the CAC. Cooperatives can be (a) agriculture-based – or those with 50 percent or more of membership as small farmers and/or fisherfolk; or (b) non-agricultural cooperatives – or those whose membership are multi-sectoral, i.e., composed of vendors, micro-entrepreneurs, low income workers and farmers/fisherfolk. For working capital and fixed asset acquisition loans, the target borrowers are agricultural cooperatives. Agri-based coops can avail any or combination of the three facilities. Non-agricultural cooperatives on the other hand can avail of credit line for relending or rediscounting facilities.

For agricultural financing facilities, the target priority end clients are small farmers and fisherfolk. For microfinance facilities, the targeted clients are the rural poor (e.g. rural women, micro-entrepreneurs, etc.). Cooperatives asking for a loan are evaluated based on a set of lending criteria that includes the cooperative's level of maturity as per LandBank's CAC rating.

Loan amount can be up to 80 percent of the cost of the project to be financed and in the case of rediscounting, up to 85 percent of face value of promissory notes of member-borrowers. For major crops and livestock, the Bank has some standard production cost requirements per hectare (or per head for livestock) which serves as reference guide in evaluating agricultural relending projects submitted by the cooperatives.

Collateral requirements depend on the type of loan:

- For an agricultural production loan, collateral can be the deed of assignment of crop insurance of produce and assignment of the promissory notes of sub-borrowers;
- For a working capital or fixed asset acquisition loan, collateral can be real estate mortgage, chattel mortgage, mortgage on objects of financing, and/or continuing mortgage on stocks; and
- For a rediscounting line, collateral can be the deed of assignment of sub-borrowers' promissory notes, including underlying collateral.

Deed of assignment of crop insurance means that the Bank will have prior claim on any proceeds arising from crop insurance upon filing of indemnification because of a calamity. However, starting in the 1990s, there has been a sharp decline in insurance coverage from the Philippine Crop Insurance Corporation (PCIC) – the Government corporation mandated to insure crops. In 2005, the amount of PCIC insurance coverage is only roughly 4 percent of the total agricultural loans of LandBank for farmers.

Thus, LandBank has to look for other acceptable collateral or loan security arrangements that includes holdout on deposits, guarantee coverage (from local government units and other government agencies such as the ACPC for special lending programs), and joint and several signatures (JSS) of the Board and officers of borrowing cooperatives (acting as co-signors or guarantors). The JSS is the most common security arrangement among cooperatives.

LandBank applies fixed and standard interest charges to cooperatives regardless of risk level of the cooperative or of the particular project financed. The interest rates is currently set at 10 percent per annum on loans with maturity of up to 1 year and 12 percent per annum on term loans. Both types are charged 2 percent service fee. This interest rate has been fixed for almost two decades now. Currently, this rate is positive in real terms (inflation is currently 6.2 percent) and well above the benchmark cost of funds (90-day Treasury Bill rate).

Interest rate pricing has recently become an issue among borrowing cooperatives since LandBank also offers rediscounting facilities to rural banks (for financing agricultural loans and microfinance loans of rural borrowers) but at a lower rate of 9 percent. Pricing of LandBank for rediscounting of rural bank notes is based on the benchmark T-bill rate plus 1 percent (for secured sub loans) and plus 2 percent (for unsecured sub loans) but not less than 9 percent. Since T-bill rates declined in the recent years compared to the rates in the 1990s, the cooperatives are now paying higher interest than rural banks (a reverse situation of the 1990s).

Delivery Network

Agrarian and Domestic Banking Sector (ADBS).

This is the largest group. Comprehensive Agrarian Reform Program (CARP) and field operating units of the Bank are located here to provide banking and extension services to Agrarian Reform Beneficiaries (ARBs) and other small farmers and fisherfolk. ADBS is organized into six sub-units: Branches, Landowners' Compensation and Assistance, Development Assistance, Program Management, Field Unit Support, and Systems Implementation.

The ADBS Field Offices are organized into five geographical groupings each with a Group Head with 12 regional and 9 area offices. Five basic units operate under each of the regional/area offices (the total number nationwide in parenthesis): Accounting Centers (54); Lending Centers (33); Branches (283) and Extension Offices (40); Development Assistance Centers (17); and Agrarian Operations Centers (14). (Please refer to Annex 1 LandBank Field Structure).

The Branch/Extension Offices nationwide are the main LandBank field commercial banking units and handle cash processing and deposit mobilization. The Lending Centers are in charge of all types of loans—to farmers, cooperatives, small and medium scale entrepreneurs, Local Government Units, rural banks, and local corporations that do not have offices in Metro-Manila. The Agrarian Operations Centers focus on CARP activities involving land valuation, payment to landowners, and collecting land amortizations of farmer-ARBs. Meanwhile, the Development Assistance Centers are the LandBank field units that are in charge of marketing programs and providing technical assistance, mainly to cooperatives.

Aside from its Head Office located in Metro-Manila, LandBank has 323 branches and extension offices covering all regions nationwide. Seventy-six percent of these branches are outside Metro-Manila. LandBank also has 594 ATMs throughout the country, of which 70 percent are outside the National Capital Region (NCR). This is in direct contrast to the private universal banks that have branches and ATMs concentrated in the NCR. The distribution of the branches and ATMs outside NCR is shown in Table 6 and notably the greatest number of branches and ATMs are in Luzon due to its wider area of coverage.

Table 8. LandBank Delivery Network (2006)

Location	Branches		ATMs	
	No.	% of Total	No.	% of Total
National Capital Region (NCR)	76	23.5	178	30
Outside NCR	247	76.5	416	70
Luzon	129	39.9	196	33
Visayas	50	15.5	106	17.8
Mindanao	68	21.1	114	19.2
Total (LandBank)	323	100	594	100

The delineation of roles of staff and units contributes to greater accountability and efficiency because of the specialization of roles and functions. Commercial banking is performed by branches and extension offices while lending operations are done by lending centers that take charge of all types of loans, that is, loans to farmers, cooperatives, small and medium enterprises, Local Government Units, and rural financial institutions.

At the end of December 2005, LandBank employed a total of 7,270 personnel to man the Bank's wide network of offices and delivery channels.

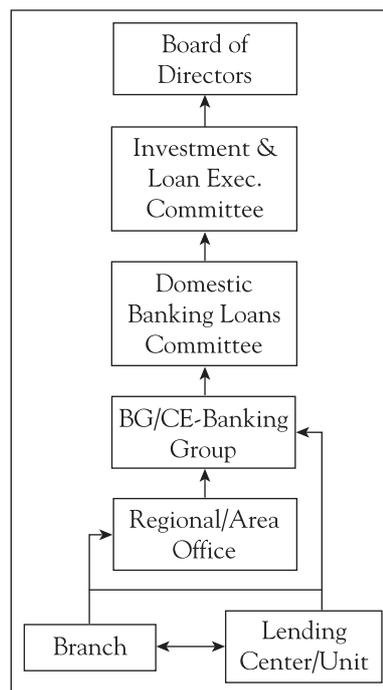
Loan Approval Process

The broad delivery network of LandBank is supported by an adequate number of personnel under a lean but responsive organizational structure. It enables the Bank to efficiently respond to the service demands of its clientele. But the extensive presence of LandBank in 323 branch and extension offices nationwide poses immediate concerns on control and consistency in application of policies and operational processes. Especially in its lending operations, the LandBank adopts a system for decision making that ensures and maintains prudence in the way the Bank manages its loan portfolio.

The Loan Approving Group (LAG) is the approving body for all loans/lines extended by the Bank. There are two LAGs of the Bank, one each for the Agrarian and Domestic Banking Sector and the Institutional Banking and Subsidiaries Sector. The LAG adopts a delineation of the level of authorities within the group depending on the loan amount and nature of transactions. The following order of approving levels of the ADBS is as follows:

- The first level is a joint approval by Heads of the Branch and the Lending Center/Unit where the subject loan was initiated;
- The next level of the LAG is the approval by the Head of the Region/Area Office that has jurisdiction over the area where the loan was initiated. In some instances, loans initiated by the units not within their approving authority are elevated directly to the level higher than the Region (*next level*);
- The LAG higher than the Head of the Region/Area office is the Head of the Banking Grp./ Consumer E-Banking;
- Loans not covered by the authority of the Head of the BG/CE are elevated for approval by the Development Banking and Loans Committee (DBLC) or a higher LAG appropriate;
- The next LAG is the Investment and Loan Executive Committee (ILEC). This LAG is common to both ADBS and IBSS.
- Finally, for all loans beyond the approving authority of the aforementioned approving levels, are approved by the LandBank Board of Directors.

Figure 3. Loan Approval Flow



Credit Support Units

Various units in the bank provide credit support functions and other related services to the Lending Units to ensure loan portfolio quality from the identification of market, initiation, documentation and management. The following are some critical support units for the ADBS:

The Credit Investigation and Appraisal Department, for instance, handles the credit investigation of borrowers as well conducts appraisal of properties used as collateral and those offered as *dacion*.

Another major support unit is the *Administrative Legal and Litigation Department (ALLD)*. The Department addresses legal issues and queries on litigation and investigation matters. It is also responsible in filing and prosecuting cases for the bank's wide array of legal concerns such as collection cases, foreclosures, consolidation of titles and other cases relating to delinquent loans. There are other legal units of the Bank that provide support specifically on matters pertaining to CARP, to concerns relating to documentation or those concerning the banking legal requirements of the Head Office and Metro-Manila Units.

Another critical support unit for LandBank's cooperative development thrust is the *Development Assistance Department (DAD)*. DAD provides technical assistance to cooperatives as well as to other countryside

financial institutions (CFIs) and small and medium enterprises (SMEs) in the area of institution building, enterprise development assistance and operations review.

The Program Management Department (PMD) packages program proposals and other related projects for possible funding by both foreign and international.

V. PERFORMANCE ANALYSIS

A. OVER-ALL FINANCIAL PERFORMANCE

As of end 2005, LandBank is the third largest commercial bank in terms of deposit base at Php 243 billion and the fourth largest in terms of total assets which stood at Php 323 billion. It is also fourth largest in terms of loans which in 2005 stood at P 111 billion and in capitalization (P 26.7 billion). Deposits also followed an uptrend posting a 13 percent increase over the previous year's deposit level of Php 214 billion. Government deposits accounted for 67 percent of total deposits. Deposits represent about 75 percent of total financial resources, indicating the importance of deposits as source of funds in lending operations. Deposit to loan ratio over the past years (2003 to 2005) has been considerably high by industry standards, i.e. at 1.5 to 2.17. Without the government deposits however, the ratio would be 0.72.

In terms of profitability, LandBank posted a net return on assets ratio (e.g. 1 percent in 2004 and 2005) which is lower than industry average. But in terms of nominal amount, the net income at P 3.02 billion in 2005 is the highest so far and 12 percent higher than the amount in previous year. The decline in ratio is attributed to higher interest cost of funds (increase of 20 percent) while interest income on investment is on a decline while loans only grew 3 percent. 2005 is the 8th year of continued increase in income levels of the Bank.

The non-performing loan ratio, which was high at 14.7 percent in 2003 as with the rest of universal and commercial banking sector as aftermath of the 1997 crisis, showed a marked improvement in 2005 at 6.6 percent which is better than the industry average of 8.8 percent. This signaled that the aftermath of the 1997 crisis has been addressed. Table 9 shows the highlights of financial performance of LandBank for the past four years (2002 to 2005).

In preparation for the implementation of the BASEL II accord, the bank applied the risk based capital adequacy computation in its financial reporting in 2004 and 2005. The risk-based capital ratio of LandBank stood at 14.38 percent which is much higher than the Central Bank's standard of 10 percent. However, this ratio is lower compared to the industry average during that year which was 16.6 percent due to; (a) absorption of some Php 800 million annually of operating expenses for the agrarian reform program; (b) requirement by law to remit cash dividends to the government amounting to 26 percent of the net income from 2001-2005; and (c) options of LandBank to raise capital is limited by law.

Table 9. Financial Performance Highlights of LandBank (2002-2005)

	2002	2003	2004	2005
Total resources (Php billion)	251	268	308	323
Total deposits(Php billion)	179	185	215	243
Private deposits (Php billion)	n.d.	68	n.d.	79.5
Loan Portfolio (Php billion)	105	120	139	111
Non-performing loan ratio (%)	18.5	14.7	12.8	6.6
Deposit to loan ratio (%)	1.72	1.54	1.54	2.17
Return to Average Assets ratio (%)	0.69	0.77	0.9	1.0
Capital Adequacy Ratio (%)	14.56	14.65	14.2	14.38

Source: LandBank Financial Reports.

Over-all, LandBank has performed generally above industry averages (among private universal banks) in terms of asset quality and within industry average in terms of capital adequacy. This has been achieved at the same time that it has aggressively pursued its mandate to deliver financial services to its mandated priority sectors.

B. SOCIAL PERFORMANCE

Service Delivery to Mandated Priority Clients

In recent years, LandBank's strategic thrust has been to shift its financing services in favor of the priority sector clients. From only 38.1 percent share in 2001, loans to the priority sectors reached 66.5 percent or P 80.8 billion of the Bank's total loan portfolio of P 121.5 billion in 2005 (Table 10). The 66.5 percent share exceeded the Bank's 2005 target of 65 percent, reflecting the Bank's strong support to key sectors that spur countryside economic growth. Of the priority sector loans, 14 percent or P 17.1 billion was extended to 298,469 small farmers and fisherfolk through 1,075 cooperatives.

Table 10. LandBank's Loan Portfolio to Priority Sectors, in Percent of Total Loan Portfolio (2003-2005)

Sector	2003	2004	2005
Farmers, fisherfolk	13	13	14
MSMEs	17	13	16
Agribusiness	15	14	14
Agri-infrastructures (LGUs)	9	9	10
Agri-related Projects (GOCCs)	5	7	8
Other priority projects/sectors	5	4	4
Total share of priority sectors	64	60	66
Total Loan Portfolio (Php billion)	115	128	122

Note: MSMEs = micro, small and medium scale enterprises; LGUs = Local Government Units; GOCC = Government-Owned and Controlled Corporations.

Service Delivery to Small Farmer and Cooperative Clients

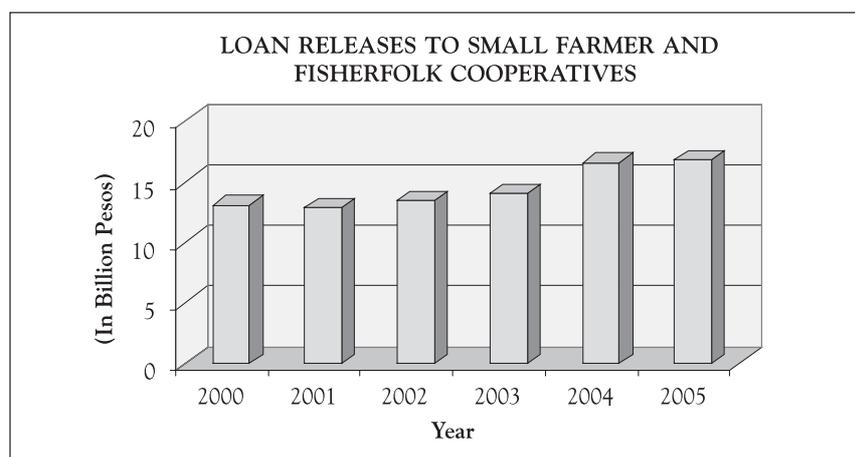
The highlights of the Bank's performance on the support programs to cooperatives are discussed below.

- *Support to the Agriculture and Fisheries Modernization Act (AFMA) Program* – Landbank provides credit support and technical assistance to the agriculture and fisheries sector in support to the Agricultural Fisheries Modernization Act (AFMA) program. Enacted through Republic Act No. 8435, the AFMA program is aimed at modernizing the agriculture and fisheries sectors and preparing them for the challenges of globalization. In 2005, LandBank released P 21 billion in credit support and technical assistance benefiting 298,469 small farmers and fisherfolk and generated a total of 192,000 new jobs in the agricultural sector. More 360,000 farmer-beneficiaries were also assisted through various capability building activities.
- *Integrated Rural Financing (IRF) Program* – As of end 2005, the IRF has covered 574 bank-assisted cooperatives (BACs) in 12 Regions and 29 provinces nationwide. Of the total, 404 were agricultural cooperatives. These BACs have a total membership of 267,776. For the same period, the program released a total of P 1.2 billion to 199 of these cooperatives with a total membership of 37,482. On capital build-up, savings and membership expansion, the program also exceeded its targets with a total of 22,420 new members recruited. On training, about 55 various capability and enterprise based training for 330 cooperatives with an estimated 3,602 member-beneficiaries.
- *Cooperative Financial Intermediation Development Program (CFIDP)* – The CFIDP was adopted from the German technology of institutionalizing a bank-like operation among cooperatives. The program aims to enhance savings mobilization among cooperatives by instilling the habit of voluntary savings among members that would eventually provide the coops the capacity to create

and sustain credit and financial services to all their members. As of December 31, 2005, the program was able to mobilize savings amounting to P 7.4 billion from member-depositors.

- *LBP-Local Government Units (LGUs) Cooperative Strengthening Partnership Program* – The LBP-LGU Cooperative Strengthening Partnership Program seeks to forge partnerships with LGUs in providing technical assistance to cooperatives in the localities of the partner LGUs. In 2005, LBP forged a total of 92 partnerships with various LGUs nationwide and assisted 876 cooperatives. These LGUs committed a total of P 120.8 million for various institution building activities.
- *Key Cooperative Strategy (KCS)* – The Key Cooperative Strategy aims to identify, strengthen and accredit at least one key cooperative per municipality nationwide. This banks on the premise that one strong cooperative is better than many weak ones. Loan releases under this program amounted to P 1.4 billion while outstanding loans reached P 1.1 billion as of end 2005. There were 148 key coops accredited by LBP, of which, 21 have been issued certificates of good standing.
- *Gawad sa Pinakatanging Kooperatiba (Gawad Pitak)* – Over the years, LBP has given recognition to model cooperatives that exhibited exemplary performance as countryside developers. The Gawad Pitak Program targets thousands of active cooperatives operating in all parts of the country and who are pooling their talents and resources to uplift the lives of their communities. On its 15th year in 2005, the Gawad Pitak is recognized as the country’s most prestigious award for cooperatives. At year end, a total of 46 cooperatives initially qualified for the program, of which 19 cooperatives and 3 cooperative rural banks qualified as national contenders. Contenders competed in two main categories namely: agri-based and non-agri-based categories and were judged according to the following criteria:
 - Impact to the community;
 - Over-all operations;
 - Sustainability; and
 - Business relationship with LandBank.

Figure 4. Loan Releases to Small Farmers and Fisherfolk (2000-2005)



Over-all Social Performance Assessment

Over-all, small farmers outreach of LandBank, measured in terms of number of members of assisted cooperatives is about 518,400 in 2005 or 11 percent of the total farmers. Similarly, in terms of LandBank’s share to the total Bank loans to the small farming sector, LandBank’s Php 21 billion loans in 2005 to small farmers is about 10.5 percent of the total bank loans to the agri-agra sector. This share has remained unchanged since ten years ago. In 1995, LandBank accounted for 11 percent of all agricultural production loans granted by banks. Average loan of farmer-members of cooperatives under LandBank wholesale lending program is Php 37,482 (\$ 730) which is about 49 percent of the per capita GNI. In terms of cooperative outreach, LandBank lent to 1,075 cooperatives in 2005 which is about 5 percent of total operating cooperatives in the country.

The extent of small farmer loan outreach is low compared to other Asian agricultural development banks (e.g. BAAC reported more than 93 percent small farmer outreach). It may be noted though that there were cooperatives that ‘graduated’, or preferred not to borrow from LandBank as their internally generated funds are sufficient for their needs. The number, however of these cooperatives nor the average period of ‘nurturing’ cooperatives is not available. Secondly, the LandBank imposed strict policies in loan re-availments beginning 1994, in the process “dis-enfranchising” the cooperatives and small farmers with past due loans. At its peak (1993), LandBank lent to more than 5,000 cooperatives with client outreach of 954,461 farmers which is about 20 percent of total small farmers. Since then the assisted cooperatives and correspondingly the farmers’ outreach declined.

LandBank’s impact on the improved quality of the assisted cooperatives, however, is worth noting. While there has not been a comprehensive evaluation yet on LandBank’s direct impact on the institutional development of the assisted cooperatives, there are clear indications of positive outcomes based on the comparative profiles of the assisted cooperatives of the Bank in 1995 and in 2005. Cooperatives in 2005 appeared to be significantly better on the following key indicators: savings mobilization, capital build up, debt to equity ratio and repayment rate to LandBank (Table 11).

Table 11. Comparative Profiles of Assisted Cooperatives, 1995 and 2005

Key Result Areas	1995*	2005**
Capital	Php 496,000	Php 3,847,300
Savings	Php 126,000	Php 3,525,500
Loan with LandBank	Php 3,000,000	Php 4,054,000
Savings to asset ratio	0.03:1	0.31:1
Internal funds to asset ratio	17%	64%
Debt to equity ratio	6:1	1.5:1
Past Due Rate	40%	13%

Source: *ACPC Impact Evaluation of LandBank Coop Lending (1995).

**Profiles of IRF Assisted Cooperatives (2005).

There was significant improvement in generating internal funds from members’ share capital and deposits, thus the increasing use of own funds by the cooperative to finance their operations (less reliance on LandBank loans). While this translates to a decreased loans extended (and thus also a decreased loan client outreach) this is – on the other hand – a positive development in attaining the objective of enabling the assisted cooperatives become viable and self-reliant financial intermediaries.

VI. CONCLUSIONS

1. LandBank has been successful in attaining financial viability as a universal banking institution while pursuing its social mandate. The Bank attained better than industry averages on key financial performance indicators (asset quality and risk-based capital adequacy) while maintaining over 60 percent of its loan portfolio to priority mandated clients attest to this. This has been achieved without any operating subsidy support from the government. In fact, the Bank has generated revenues and advanced the cost of agrarian (landowners’ compensation) operations for the government. The key internal factors that facilitated this success are the following:
 - a. *Good corporate governance.* The structure and composition of the Board permits a well balanced business policy formulation that takes into account both the developmental concerns (agricultural and countryside development) as well as financial profitability and stability. The governance structure and risk management systems instituted by the Bank ensures that the Bank is not vulnerable to risks (credit, market and operational risks) detrimental to the Bank.
 - b. *Political autonomy.* The Bank is insulated from political interference in business policy formulation as well as in lending operations. This has been possible since LandBank does not enjoy special

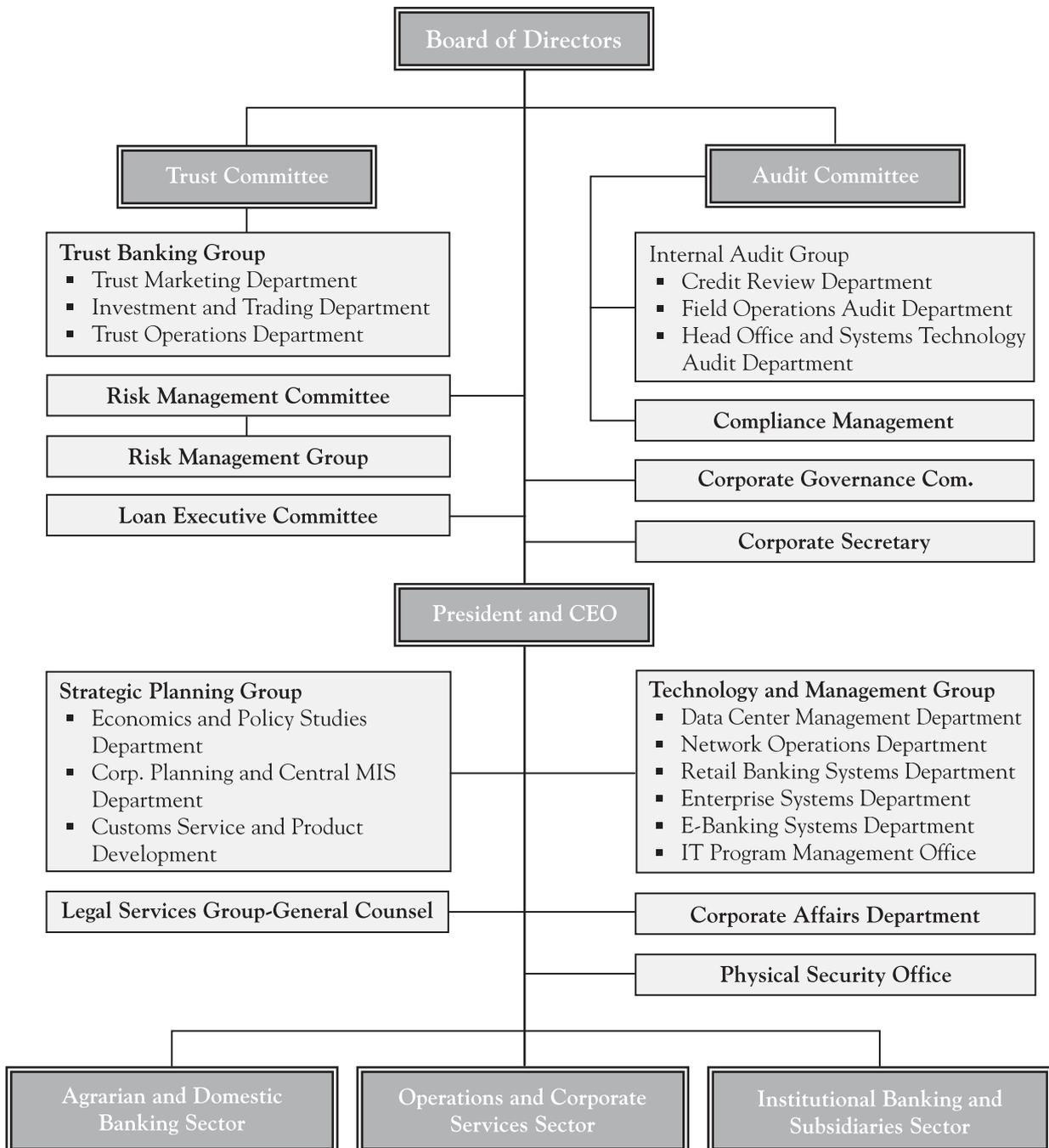
privileges as a banking institution and is subjected to the same stringent regulations applied to private banks by a strong and politically independent Central Bank. Second is that banking laws make the Board and officers of banks personally liable for any act violative of laws, rules and regulations – thus making the Board members and officers prudent in their actions and decisions.

- c. *Flexibility of social mandate.* The Bank's mandate as a development financial institution for countryside development has been broad enough to encompass a large spectrum of clientele. This enabled the Bank to have a diversified mixture of mandated clientele sectors and thus also made it possible for the Bank to have diversified loan programs and portfolio in reaching out to these priority sectors.
 - d. *Human Resource Management.* The Bank is professionally run by competent and highly committed officers and staff. Key factors that facilitated this are: (a) attractive compensation package that is at par with the private sector; (b) investment in continuous human resource training and development; (c) merit and promotion that is strongly linked with performance; and (d) career development and succession plan for staff and officers.
2. On the other hand, the external factors that facilitated the improved performance of LandBank in its wholesale lending program to the cooperatives are the following:
- a. *Relatively active cooperative movement.* LandBank thus has the advantage of selecting among already organized cooperatives that can be tapped to participate in their programs. This relieves the Bank of the tedious process of organizing new cooperatives.
 - b. *A wide network of potential partners in cooperative development.* The cooperative development in the Philippines is supported by a number of government agencies and instrumentalities such as the local government units, national agencies such as the Department of Agrarian Reform and the Agricultural Credit Policy Council of the Department of Agriculture. In addition, there are private networks or federations of cooperatives that can be partners of the Bank in pursuing cooperative development projects.
 - c. *The changing paradigm of cooperatives.* In the past decade, the cooperative movement has been strong in pushing for the principle of subsidiarity and has changed its mindset from being patron dependent institutions to being self-reliant and relevant institutions in their respective communities. In the past decade, the cooperative movement has been largely private sector-led in sharp contrast to the late 1970s to the 1980s where the government played a dominant role in the organization and operation of cooperatives.
3. The cooperative development approach of LandBank appeared to have brought significant improvements in enabling the cooperatives become viable financial institutions owned and operated by low income sectors in the rural areas. The change in strategy in its wholesale lending program from treating cooperatives as mere conduits of loans in the early 1990s to the adopted institutional development approach has contributed to this positive outcome. The key features of this approach are the following:
- a. *'Balanced' Rating System.* The cooperative accreditation criteria served as a unique rating system that takes a look not only on the financial aspects but likewise on the organizational development aspects of the cooperative. The system makes the assessment of the cooperative more balanced, that is, it is not only concerned with financial results but equally concerned with the organizational processes and systems critical to the achievement of such financial results.
 - b. *Performance-Based Lending.* The credit availments of the cooperatives are based on the achievement of key performance indicators. These include capital build-up, diversification of business, savings mobilization, loan portfolio (volume and quality), profitability and loan repayment to LandBank. The cooperative rating on the other hand sets the credit limits per class or category. The better the cooperative as per rating the higher credit line limits are made available.
 - c. *Institutional Development Support.* The Bank has set up an operating unit (down to the field/area offices) that takes care of institutional capacity building assistance to the cooperatives. Aside from

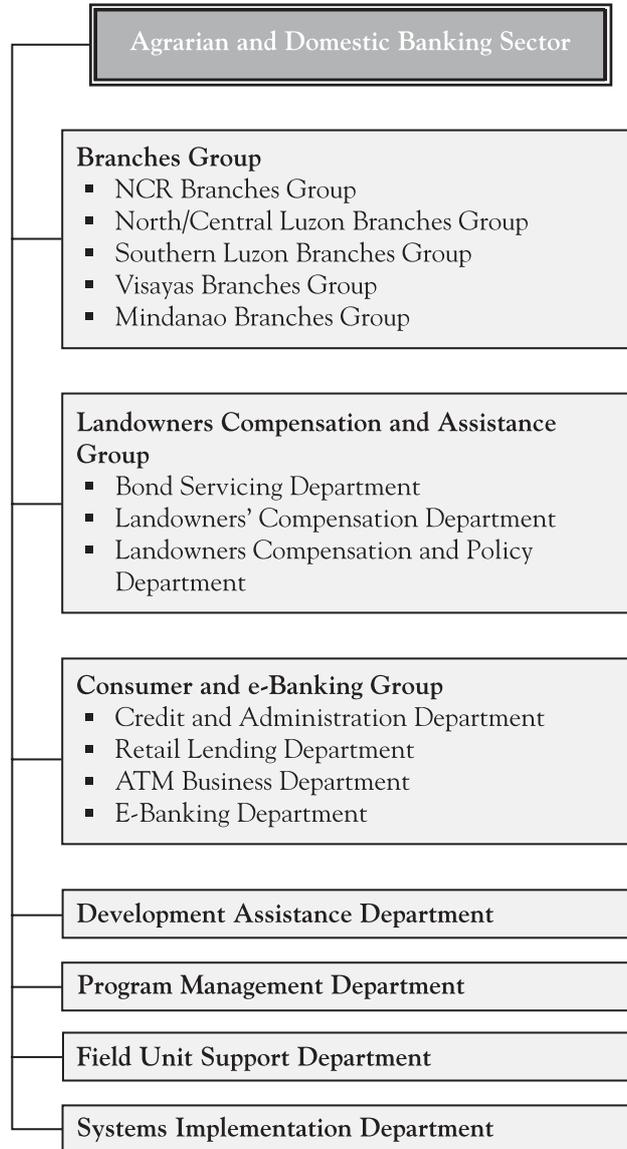
funding the training programs, the Bank has full time field personnel for institutional capacity building. Each staff takes care of 15 cooperatives.

4. A remaining challenge is how to expand small farmer outreach. The Bank's loan portfolio to this sector has largely remained unchanged in recent years. On the other hand, there is still a very large and significant number of the farmer and fisherfolk population and cooperatives that are not currently reached by the Bank's programs. While a third party may point this out to LandBank, internally, the Bank may have already been satisfied with their current outreach performance. For instance, internally it rates itself on social mandate achievement with high marks. One factor in this differing assessment is that there has not been so far a systematic social performance evaluation system that has been developed and installed. A social performance evaluation system can guide the Bank on how to objectively monitor and measure itself in terms of fulfilling its developmental mandate.
5. Over-all, LandBank elucidates good practices in financial services delivery in the rural areas that other APRACA member – agricultural development banks in the region can learn from. These practices (governance, risk management, organizational management, and development lending) have proven that Government banks can also be good institutional models on rural development banking.

LAND BANK OF THE PHILIPPINES
Organizational Structure



LAND BANK OF THE PHILIPPINES
Organizational Structure



ABOUT APRACA

The Asia-Pacific Rural and Agricultural Credit Association (APRACA) is an organization of institutions dealing with rural and agricultural finance in the Asia-Pacific region that facilitates cooperation and mutual exchange of information and expertise. From an idea born out of a regional seminar on agricultural credit for small farmers in October 1974, APRACA was launched three years later in the first APRACA General Assembly Meeting in New Delhi, India on October 14, 1977.

Since then, APRACA has grown to its current membership of 58 institutions from 24 countries. Through the years, APRACA has pursued its mission of promoting efficiency and effectiveness of rural financial systems by fostering cooperation in information exchange, research and publications, inter-country studies, training and personnel exchange. It facilitated rural finance projects between members and donors. It has developed strong working relationships with international organizations such as the IFAD, UN-FAO, World Bank, UN-ESCAP, GTZ, UN-ILO, Swiss Agency for Development Cooperation, German Foundation for International Development and the Association of Asian Confederation of Credit Unions.

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