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SUCCESSFUL EXPERIENCE OF GOVERNMENT-OWNED BANKS IN RURAL AND MICROFINANCE

THE CASE OF THE LAND BANK OF THE PHILIPPINES

microREPORT #56

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

ACA	Agricultural Credit Administration
ADB	Asian Development Bank
ADBS	Agrarian and Domestic Banking Sector
AFMA	Agriculture and Fisheries Modernization Act
ALCO	Asset and Liability Committee
ALF	Agricultural Loan Fund
ARB	agrarian reform beneficiary
ARMCOM	Audit and Risk Management Committee
ATM	automated teller machine
B2B	business-to-business
B	billion
BCP	Business Continuity Plan
BRMD	Business Risk Management Department
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CARL	Comprehensive Agrarian Reform Law
CARP	Comprehensive Agrarian Reform Program
CEO	Chief Executive Officer
CIS	Customer Information System
CFI	countryside financial institution
CLF	Countryside Loan Fund
CLS	Central Liability System
CMC	Crisis Management Committee
CPIP	Credit Policy Improvement Project
CPRMD	Credit Policy and Risk Management Department
DAC	Development Assistance Center
DBP	Development Bank of the Philippines
E.O.	Executive Order
GDP	gross domestic product
GOCC	government-owned and controlled corporation

HO	head office
IB	institution building
IFAD	International Fund for Agricultural Development
IMCC	International Management and Communications Corp.
JBIC	Japan Bank for International Cooperation
KfW	<i>Kreditanstalt für Wiederaufbau</i> (German Development Bank)
LGU	local government unit
LVOs	Landowners Compensation Offices
M	million
MFI	microfinance institution
MINBG	Mindanao Branches Group
NCC	National Credit Council
NCLBG	North and Central Luzon Branches Group
NCR	National Capital Region
NCRBG	National Capital Region Branches Group
NGO	non-governmental organization
NPA	non-performing assets
NPL	non-performing loans
PCFC	People Credit and Finance Corporation
P.D.	Presidential Decree
PHP	Philippine peso
PMT	Project Management Team
PNB	Philippine National Bank
R.A.	Republic Act
RMC	Risk Management Committee
RMG	Risk Management Group
ROA	return on assets
ROE	return on equity
ROPOA	real and other properties owned or acquired
SLBG	South Luzon Branches Group
SME	small and medium-sized enterprise

TRMD	Treasury Risk Management Department
USAID	United States Agency for International Development
VISBG	Visayas Branches Group
WB	World Bank

EXECUTIVE SUMMARY

BACKGROUND

The Land Bank is a universal bank owned by the Philippine government. The government established the Land Bank to provide financial services to a wide array of rural clients and to give special attention to promoting rural development, assisting small farmers, supporting rural infrastructure, and providing a variety of services to agrarian reform beneficiaries (ARBs). The Bank does this not only directly at the retail level but also at the wholesale level through a variety of financial intermediaries, including rural banks, credit cooperatives, and a few thrift banks.

The Bank's performance is remarkable considering it has survived for 40 years without requiring bailouts to avoid bankruptcy, and it continues to serve a large and diverse rural clientele. In contrast, most other government-owned agricultural/rural development banks around the world have experienced episodes of bankruptcy that have required massive government and donor bailouts. In the Philippines itself, moreover, the two other major government-owned banks both experienced costly bankruptcies during the past 15 years despite the fact that their missions are much less demanding.¹ It is useful to understand how a government-owned bank such as Land Bank managed to maintain its viability, despite its politically driven mandate, in order to draw lessons for policy makers.

This study looks closely into the Land Bank and endeavors to determine the factors that have driven its successful performance.

STRATEGIC THRUSTS AND PROGRAMS

Expansion and Diversification of Loan Portfolio. In the last five years, Land Bank focused its efforts on diversifying and expanding its loan portfolio within identified priority sectors, including farmers and fisherfolk, micro and small and medium-sized enterprises (SMEs), income-generating projects commonly known as livelihood projects, agribusiness, agri-infrastructure, and other agri-related and environmental conservation projects. Thus, from a narrowly defined loan portfolio consisting of small farmers and fisherfolk, including ARBs, Land Bank has increased the share of these other sectors from 36 percent of its total portfolio in 2000 to 62 percent, amounting to 77 billion pesos (\$1.4 billion)², by the end of 2005. The intensified

Land Bank Operational Highlights (2004)

- *Loan portfolio* – Philippine pesos (PHP) 124.9B (\$2.2B)
- *Loans to farmers* – P16.6B (\$296M)
- *No. of small farmer clients* – 352,333
- *No. of partner cooperatives* – 1,442
- *No. of partner countryside financial institutions (CFIs)* – 458
- *Deposits* – P214.9B (\$3.8B)
- *No. of deposit accounts* – 2,008,756*
- *Resources* – P287.6B (\$5.1B)
- *Liabilities* – P266.7B (\$4.8B)
- *Capital* – P20.9B (\$373M)
- *Net income* – P2.3B (\$41M)
- *Income to loans ratio* – 8 percent
- *Return on equity* – 11 percent
- *Return on assets* – 0.8 percent
- *Capital adequacy ratio* – 14 percent

Note: Peso-dollar rate used is 56.0866, the monthly average rate for year 2004 (Bangko Sentral ng Pilipinas [BSP, Central Bank of the Philippines])

*As of February 2005

¹ These are the Philippine National Bank (PNB), a full-service commercial bank that has since been partially privatized, and the Development Bank of the Philippines (DBP), which was downsized as a condition of its rehabilitation and has been tasked to focus primarily on larger enterprises involved in international trade and domestic industry and manufacturing.

² Throughout this paper, the U.S. dollar equivalents of the peso amounts presented were computed using the monthly average peso-dollar rate for the given year/period. Monthly average dollar rates from 2000–2005 sourced from BSP are presented in Annex 1.

implementation of varied lending facilities and arrangements over the past five years transformed Land Bank's loan portfolio to a diversified mix that caters to a wide array of clients.

Lending to Small Farmers and Fisherfolk. The amount of loans Land Bank released to small farmers and fisherfolk through cooperatives and CFIs increased at a modest rate from 13 billion pesos (\$294 million) in 2000 to about 17 billion (\$296 million) in 2004. Outstanding loans to this sector comprised 23 percent of loans to priority sectors and about 12 percent of Land Bank's gross loan portfolio. On an annual basis, Land Bank provided these loans to an average of more than 352,000 small farmers and fisherfolk indirectly through about 1,400 partner-cooperatives and 458 CFIs.

Capability-Building Assistance Programs. To strengthen priority clients and thereby expand its credit program to them, Land Bank grants development assistance to farmers and fisherfolk cooperatives. The Bank provides various forms of technical assistance to promote technology transfer and to improve productivity, product quality, and value-adding operations. The Bank also provides marketing capability-building assistance to enhance the competence of bank-assisted cooperatives in preparing and implementing a marketing plan.

Deposit Mobilization. Land Bank is a major provider of deposit services, including for many small-scale depositors in rural areas. As of February 2005, Land Bank had almost 180 billion pesos (\$3.2 billion) on deposit in just more than 2 million accounts (with foreign currency deposits adding another 10 percent). Because of Land Bank's role as a government depository, government entities—mainly, local government units (LGUs)—account for about two-thirds of the Bank's peso deposits distributed over 63,000 peso deposit accounts. The private sector holds the remaining one third of deposits that comprise 95 percent of the 2 million peso deposit accounts. The importance of small accounts for Land Bank is striking—62 percent of individual passbook accounts and 92 percent of automated teller machine (ATM) accounts had balances below 10,000 pesos (\$181) leaving little doubt of the crucial importance of Land Bank in providing deposit services for small-scale clients.

FINANCIAL PERFORMANCE

Revenues and Profits. Over the last five years, Land Bank had modest growth in gross revenue of 9 percent per annum: it generated 15 billion pesos in 2000 (\$355 million) up to more than 21 billion pesos (\$382 million) in 2004. About 42 percent of revenue was from lending and 36 percent was from investments. The significance of investments and fee-based income indicates that Land Bank is treading the path typically taken by commercial banks.

Meanwhile, net income has grown at an average rate of 51 percent per annum since Land Bank's expenses during the same period increased at a slightly lower rate than gross revenue. Land Bank's operations over the last five years have thus been profitable, with net incomes ranging from more than 500 million pesos (\$15 million) to more than 2 billion pesos (\$41 million). Relative to its loan portfolio, Land Bank obtained gross and net profits averaging 16 percent and 1 percent, respectively, over the five-year period, while the expense ratio was 15 percent and the income to loan ratio averaged 7 percent.

Resources, Capital, and Liabilities. Total resources of Land Bank have been increasing quite steadily at an average yearly rate of 8 percent, from 211 billion pesos (\$4.7 billion) in 2000 to about 288 billion pesos (\$5.1 billion) as of end 2004. About half (46 percent) of Land Bank's assets were loans and discounts while investments comprised one-third. Meanwhile, deposits comprised the bulk (72 percent) of its total liabilities. Capital funds of Land Bank stood at roughly 21 billion pesos (\$374 million).

Financial Ratios. Return on equity (ROE) posted in 2004 by Land Bank was close to 11 percent, better than the banking industry average. In addition, net interest margin in 2004, reported at roughly

5 percent, was slightly higher than the industry average. Meanwhile, the bank's registered capital adequacy ratio has been at par with the industry standard of not less than 10 percent but still fell short of the industry average.

LESSONS AND CONCLUSIONS

Good policy environment. A good policy environment underpins Land Bank's achievements over the years. Financial reforms pursued by the government since the early 1980s when interest rates were deregulated and economic policies that dismantled monopolies in sugar and other sectors provided the foundation for low inflation and economic growth. A critical component of the package of reforms was the adoption of banking standards recommended under the Basle Accord wherein the BSP required Philippine banks to put up adequate capital, improve board governance, and adhere to various prudential regulations. Moreover, the market orientation of financial and credit policies, as mandated under the Agriculture and Fisheries Modernization Act and Executive Order No. 138, reduced political pressure on Land Bank to provide subsidized lending itself.

Outreach and portfolio diversification. Changing its focus from ARBs to becoming a universal bank also has promoted Land Bank's survival and viability. To achieve this, Land Bank actively engaged policy makers in a continuing dialogue on the implications, costs, and risks of operating as a bank with a single portfolio: ARBs. Learning from the experience of the costly bailouts of PNB and DBP, the Congress of the Philippines recognized the need for sustainable banking and revised the charter of Land Bank to make it more capable of meeting the challenging demands of its mandate. Land Bank's capitalization was increased, and it was given free rein to diversify its loan portfolio. Thus, Land Bank has seized opportunities to create new loan products and to develop lending programs for LGUs, local housing, and rural infrastructure.

Avoiding behest loans. A combination of strong leadership, board structure that balances competing interests, and its orientation as an agricultural reform bank with a constituency of restive farmers helped shield the Land Bank from corrupt politicians using the public bank to make behest loans. This is in contrast with the experience of PNB and DBP that were required to make behest loans.

Developing own financial muscle through good performance, client support, and deposit mobilization. Land Bank ingeniously has used its good performance and the support of clients based in the countryside as an advantage in persuading Congress to increase its capitalization. Land Bank also has drawn financial muscle from its huge deposit base to fund lending, substantially reducing its dependency on multilateral and bilateral sources and the government for providing its loan funds. The partial privatization of PNB and the downsizing of DBP have left the Land Bank as the only government depository bank with an extensive branch network. It currently enjoys a monopoly of LGU's deposits, but it has in turn responded with attempts to provide a full range of financial services to LGUs and other local depositors, including rural banks. Its extensive branch network, which serves poorer regions, provinces, and municipalities, gives it the necessary presence in those areas and is rewarded by sizeable local government and private deposits.

Good risk management and internal audit and control. Land Bank has adopted good risk management practices and internal audit and controls as required by the BSP in the wake of the 1997 Asian financial crisis. To its credit, Land Bank was especially serious about these aspects of effective bank management even before the Asian financial crisis. Its long association with the donor community has strengthened this crucial aspect of Land Bank's management and operations because loan covenants with multilateral and bilateral lenders require the presence of effective risk management and internal audit and controls as a condition for financial assistance.

Future challenges. In addition to maintaining the good practices that have sustained Land Bank over the past decades—in particular the diversification and risk management strategies of recent years—tension between wholesale and retail lending remains. International development agencies have urged Land Bank to curtail retail lending and to focus on wholesaling to avoid crowding private initiatives lending to end-borrowers. Land Bank argues that it needs to continue providing retail services, in addition to wholesale finance, because other commercial lenders would not ordinarily cater to its retail clients, in particular the LGUs in the poorer areas of the country that apply for rural infrastructure loans.

In facing the challenge of focusing on its wholesale lending function, it is important for Land Bank to give specific attention to threats and opportunities. First, it is important that wholesale lenders do not provide funding to retailers that involves below market interest rates or other subsidy elements. The reason for this should be clear: such subsidies discourage deposit mobilization, and financial institutions that do not rely primarily on deposits for their funding are less likely to be sustainable. Similarly, wholesale lenders should be cautious about providing long-term funds to support retailers' long-term lending. This will reduce incentives for retailers to develop their own private sources of long-term funds and, perhaps more importantly, to fail to understand that a stable pool of large numbers of small savings deposits can provide excellent support for long-term lending. Land Bank, like any wholesale lender, faces the risk of adverse selection, especially if loan officers view as best clients those that draw most heavily and most frequently on its offers of funding, as these may well be among the weakest, despite Land Bank efforts to maintain stringent diligence.

In attempting to optimize its balance between wholesale and retail lending, Land Bank might consider a variety of innovative products and services at the wholesale level that would avoid problems of adverse selection and/or weakening its clients by creating incentives that lessen their deposit mobilization efforts. An example includes liquidity services for rural banks whose local economies are potentially subject to major shocks (for example, adverse weather, insect pests, or substantial falls in prices for some major agricultural products). This seemingly would be a significant departure from Land Bank's current focus on rediscounting rural bank loans to final borrowers selected primarily because they correspond to Land Bank's target clientele. It would also require careful development among Land Bank staff of the ability to differentiate quickly and accurately between rural banks experiencing sudden onsets of liquidity problems due to adverse, short-term, external shocks and those with liquidity problems that are symptomatic of deeper institutional problems and a possible indication of potential insolvency. Additional potential opportunities lie with providing financing to increasingly transparent nongovernmental organization (NGO) microfinance institutions (MFIs) and credit unions.

I. BACKGROUND

The Land Bank of the Philippines has been in operation for the last 42 years. It is a specialized government-owned bank with a universal banking license providing a wide range of financial services. Land Bank is mandated to finance the acquisition of agricultural lands for redistribution to targeted beneficiaries under the country's Comprehensive Agrarian Reform Program (CARP) and to provide credit assistance to small farmers and fisherfolk including ARBs. Land Bank extends these services by wholesaling and/or retailing: it wholesales loans to small farmers and fisherfolk through rural financial intermediaries such as rural banks, thrift banks, and cooperatives, while it retails loans to other priority sectors, which include, among others, SMEs, agribusiness, housing, infrastructure, and LGUs.

Land Bank operations for 2004 resulted in net income of more than 2 billion pesos (\$41 million)³ on total revenue of more than 21 billion pesos (\$382 million) with a return on assets (ROA) of less than 1 percent and ROE of about 11 percent. Deposits mobilized by Land Bank by the end of 2004 amounted to almost 215 billion pesos (\$3.8 billion) comprising close to 75 percent of its capital plus liabilities, which amounted to 288 billion pesos (\$5.1 billion). Of a total loan portfolio of 113 billion pesos (\$2 billion) at the end of 2004, 13 percent went to SMEs and microfinance; 1 percent to farming and fishing; 14 percent to agribusiness, agri-infrastructure, and other agri-related projects; 9 percent to housing; and 8 percent to other infrastructure projects. The microfinance loans were wholesaled to a select group of MFIs, while the bulk of Land Bank lending went to retail clients.

Land Bank has maintained viable operations while catering to a wide-ranging rural clientele including those difficult to reach. Even more remarkable is that it has survived and continues to fulfill its mandate without requiring government and donor bailouts to avoid bankruptcy unlike most other government-owned agricultural/rural development banks around the world. In the Philippines itself, the two other government banks both experienced costly bankruptcies during the past 15 years despite less demanding mandates. The government absorbed the liabilities of those bankrupt government banks as a pre-condition to their rehabilitation.

This study endeavors to determine the factors that have driven Land Bank's successful performance. It therefore analyzes the extent to which the variety of financial services, often with different funding sources and requirements, have been provided in an integrated or compartmentalized way in order to draw lessons about the advantages and disadvantages of diverse organizational structures. Key challenges and lessons from the case study are identified with a particular focus on what has made Land Bank sustainable and to what extent this sustainability has been achieved without abandoning its mandate to serve, in large part, a rural low-income clientele.

This paper is organized as follows. Section II presents the Philippine economic and political environment in which Land Bank has operated. Section III then discusses the institutional performance of Land Bank and identifies the internal and structural factors that have driven it. Lessons, conclusions, and future challenges are presented in the final section.

³ The 2004 average monthly peso dollar rate used was 56.0866 pesos per dollar. See Annex 1 for peso-dollar conversion rates.

II. THE ENVIRONMENT

FROM LAND REFORM TO FINANCIAL SECTOR REFORM AMID POLITICAL AND ECONOMIC CRISES

Established in 1963 as the financing agency for the government's land reform program, under the regime of President Ferdinand Marcos Land Bank was converted into a bank to carry out an expanded role.⁴ Land Bank acquired farmland with cash payment and the issuance of Land Bank bonds. The government redistributed those lands to targeted beneficiaries who were required to make amortizations to Land Bank over a 15-year period receiving the title to the land upon full payment. In its initial years, the government also used Land Bank to provide credit assistance to ARBs at below-market interest rates. The obligation to acquire farmland with cash and bonds and to provide subsidized credit was meant to help the government to address the inequitable distribution of wealth in the country, particularly the centuries-old concentration of land ownership in a few families that had created severe political tension and unrest among tenant farmers.

By the 1980s, the Philippines was at the threshold of financial liberalization and deregulation. Interest rates were deregulated and the Central Bank terminated its involvement in the government's subsidized credit programs and transferred its agricultural lending portfolio, primarily the World Bank-financed Agricultural Loan Fund, to Land Bank. There was pressure from the World Bank for the Central Bank to concentrate on monetary policy and to leave development finance in the hands of government-owned banks. This contributed to Land Bank's evolution from being a mere financing arm of land reform to its present role as a universal bank oriented toward the countryside, as explained in Section III of this study.

The downfall of Mr. Marcos through a peaceful "people power" revolution in 1986 led to market-oriented economic policy reforms that provided the platform for an economic recovery in the 1990s. President Corazon Aquino, who succeeded Marcos, restored the democratic framework and allowed greater participation of the private sector in the economy. Land Bank rose to the challenge of helping to revive the economy by providing substantial funding to thousands of cooperatives (agriculture, marketing, producers, credit cooperatives) in an attempt to encourage more production and higher incomes in the countryside. Lending to cooperatives, however, was not sustained because of low loan recovery rates and, thus, thousands of cooperatives were shut down in the 1990s. Because Land Bank had already started to diversify its loan portfolio, the cooperative crisis did not seriously hurt its financial position. While the number of its partner cooperatives declined, Land Bank's loan exposure to cooperatives remained at 11 percent of its total loan portfolio from 2000–2003. By the end of December 2004, Land Bank reported 16.3 billion pesos (\$291 million)⁵ of loans outstanding to 1,138 partner cooperatives, a 13 percent share of its total loan portfolio.

The mid-1990s in the Philippines was a period of decisive reform, recovery, and growth peaking at 6 percent. However, the growth trajectory was waylaid by the Asian financial crisis in 1997, a severe drought that reduced agricultural output, and another political crisis at the executive level.

⁴ Mr. Marcos was elected president in 1969 and imposed martial rule on September 21, 1972. His regime lasted until the peaceful revolution of 1986 that brought to power Ms. Corazon Aquino.

⁵ The conversion rate used was 56.1826 pesos per dollar, the average rate for December 2004.

THE AGRICULTURAL SECTOR, RURAL POOR, AND LAND BANK TODAY

The current environment provides challenges for Land Bank. The government has not finished the implementation of agrarian reform due to budgetary constraints brought about by chronic fiscal deficits. Land Bank continues to face major expectations of providing credit to millions of ARBs and of financing agricultural and rural development. Almost 70 percent of the poor are based in the rural sector, deriving livelihood and sustenance mostly from agriculture-related activities. Land Bank continues to administer land acquisition although the bond payment is now a government obligation as Land Bank convinced policy makers to transfer the land acquisition bond payment to the government since agrarian reform is a government program undertaken to meet a social policy objective and had a negative impact on the Bank's viability.

Meanwhile, the structure of the economy has changed from a dependency on agriculture-based exports to a growing reliance on the service sector, primarily telecommunications, financial services, and overseas labor. Overseas remittances have overtaken exports as main source of foreign exchange and have become a lifeline for an often-faltering domestic economy.

On the other hand, local and international private investors have generally retreated from making substantial investments in the traditional sectors such as agriculture and manufacturing because of the general lack of competitiveness in these areas due to falling labor productivity, weak legal and regulatory frameworks, and a severe lack of infrastructure. The irony is that sustainable economic growth requires a robust agriculture and rural sector. While agriculture has dropped in relative importance as a growth driver, it continues to be a major source of employment for 37 percent of the labor force. It contributes 15 percent to the country's gross domestic product (see Annex 2). The great majority of the poor are in the rural areas, most of which rely on agriculture and agriculture-based activities for income and employment. This has motivated Land Bank to persist in its effort to be a principal source of financing for countryside development.

Despite the government's years of neglect of the agricultural sector, private agri-business tries to exploit the growth potential for both export and domestic markets. Trade liberalization and an open economy regime have unlocked new trading and export opportunities for a Philippine economy dominated by import-substitution and inward-looking policies since the end of World War II. Despite ongoing policy, infrastructure, and other rural sector challenges, Land Bank has refused to abandon its countryside focus and has started to diversify its loan portfolio to include other priority sectors that are based in and on the rural economy such as SMEs, rural infrastructure, LGUs, and agri-businesses.

III. THE INSTITUTION AND ITS PERFORMANCE

MILESTONES IN CORPORATE EXISTENCE AND KEY MANDATES

From an institution established to implement land reform by buying land from large landholders and financing small farmers to acquire this land, Land Bank has evolved into a universal bank that has become a primary financier of countryside development. The decades long change process, including a series of decrees and laws issued to make it more responsive to the emerging challenges the country faced, is summarized in Box 1 and continues today as Land Bank continues to reinvent itself to meet those challenges.

Box 1: Milestones in Land Bank's Corporate Existence

- R.A. 3844, the Agricultural Land Reform Code, created Land Bank of the Philippines on August 8, 1963, to finance the acquisition and distribution of agricultural lands. Its initial capital amounted to 200 million pesos (\$50 million) out of its authorized capitalization of 1.5 billion pesos (\$375 million)⁶. Credit assistance to farmers remained under the Agricultural Credit Administration (ACA). The law also allowed Land Bank to issue preferred shares of stock to finance the acquisition of estates that subjected to land reform. The landowner can opt to receive the preferred shares of stock as payment.
- Presidential Decree (P.D.) 27, the Tenant Emancipation Act of 1972, mandated Land Bank to collect 15-year land amortizations from rice and corn farmer beneficiaries of the Act.
- P.D. 251 (Revitalizing Land Bank) issued on July 21, 1973, granted universal/expanded commercial banking powers to Land Bank, increased its authorized capitalization to 3 billion pesos (\$429 million⁷), and empowered the Bank to grant loans to farmer cooperatives/associations to facilitate production, market crops, and acquire essential commodities such as inputs and farm machinery. The Bank was mandated to provide timely and adequate support in the execution of agrarian reform.
- Land Bank was reorganized in 1977 and formed three major sectors—Agrarian, Banking, and Operations—to strengthen operations and ensure long-term viability.
- Executive Order (E.O.) 816 dated July 8, 1982, abolished the ACA and transferred to Land Bank its function of lending to farmers' cooperatives and small farmers.
- E.O. 229 issued on July 22, 1987, mandated Land Bank to provide assistance to landowners through investment information and counseling assistance; conversion and/or exchange of Land Bank agrarian reform bonds to/from government stocks with government assets; and marketing Land Bank agrarian reform bonds.
- R.A. 6657, the Comprehensive Agrarian Reform Law (CARL) of 1988, which broadened the coverage of agrarian reform, established Land Bank as the financial intermediary of CARP. It stipulated Land Bank pay landowners 25-35 percent in cash and the balance with 10-year bonds yielding 91-day Treasury Bills, and authorized Land Bank to collect payment from farmer beneficiaries of land reform with 30-year amortization and annual interest of 6 percent.
- E.O. 405 (CARP Land Valuation) dated June 14, 1990, transferred from the Department of Agrarian Reform to Land Bank the determination of land valuation and compensation of CARP lands, increasing the Bank's land reform responsibilities.
- On February 23, 1995, R.A. 7907 amended Land Bank's charter to increase capitalization to 9 billion pesos (US\$345 million); establish Land Bank as an official government depository; and increase the number of members of the Board of Directors.
- E.O. 267 issued on July 25, 1995, mandated the segregation of the accounts of CARP-related transactions from the books of Land Bank, which clarified its real financial position.
- On August 25, 1998, Land Bank's authorized capitalization was increased to 25 billion pesos (US\$611 million) comprised of 20 billion pesos (\$489 million) in common shares and 5 billion pesos (\$122 million) in preferred shares.

From these legal issuances, the mandates and major roles of Land Bank are clear. Land Bank is “*a government bank with a social mandate to spur countryside development.*” This is a delicate task considering that as a bank it has to adhere strictly to prudent standards set by the bank regulatory agency while its social mission impels it to remain sensitive to the demands of a broad-based constituency composed mostly of small farmers and fisherfolk. Today, it must carry out the following functions for CARP: undertake land valuation, compensate owners of private agricultural lands, and collect amortizations from CARP farmer-beneficiaries. It also must provide credit assistance to small farmers, fisherfolk, and ARBs. As a universal bank, Land Bank caters to a variety of clients in the countryside, providing competition to private commercial banks, and it is the official depository bank for national and local government funds.

GOVERNANCE AND ORGANIZATIONAL STRUCTURE

VISION AND MISSION

Land Bank envisions itself to be the lead financial institution in developing the country’s rural sectors. Its key mission is to provide timely financial and technical assistance to farmers, fisherfolk, and other priority sectors and projects such as SMEs and microenterprises, agribusiness, agri-infrastructure, environment, and other related projects. Another of its main tasks is to deliver innovative products and services that effectively address clients’ needs and are ecologically enhancing. It further commits itself to professionalism and integrity and in improving the lives of all its stakeholders (Box 2).

Box 2: The Land Bank Vision and Mission (2004)

Vision

- Land Bank shall be the dominant financial institution in countryside development, committed to the highest standards of ethics and excellence in the service of the Filipino people.

Mission

- We shall continue to provide timely financial and technical support for our farmers, fisherfolk, and other priority sectors.
- We shall deliver innovative products and services that are consonant with ecological enhancement and effectively address our clients’ needs.
- We shall embody professionalism and integrity, providing our employees with a work environment that encourages growth and rewards excellence.
- Land Bank is committed to improving the lives of all its stakeholders and working with them to lead the country to economic prosperity.

GOVERNING BOARD

Land Bank endeavors to pursue its vision and mission under the guidance and leadership of a Board of Directors and President and Chief Executive Officer (CEO). During its first three years, the Board of Directors of Land Bank (then called Board of Trustees) was composed of the Land Bank President and CEO as Chair and four members including the Head of Land Authority (now the Department of Agrarian Reform), the Secretary of Finance and the Secretary of Labor and Employment, and a representative from among the holders of preferred shares⁸. In 1966, the Secretary of

⁶ PHP 4.00 to US\$1.00 based on the average U.S. dollar exchange rate in the 1960s.

⁷ The average exchange rate was 6.9930 pesos per U.S. dollar during the year.

⁸ Republic Act 3844 (Section 77) mandated that the Land Bank issue, from time to time, preferred shares of stock, as necessary to pay the owners of landed estates. The owners of preferred shares are the landowners who expressed willingness to receive as payment the preferred shares of stock of the Land Bank.

Finance became the Chair of its Board while the Land Bank President and CEO became the Vice-Chair. Membership of the Board increased from five to seven members in 1973 by virtue of P.D. 251 and two representatives from the private sector were added.

In 1995, R.A. 7907 increased the number of members of Land Bank's Board to nine. That number and board composition remain today. At present, the Land Bank Board is composed of the Secretary of Finance as Chair, the President of the Bank as Vice-Chair, and the Secretary of Agrarian Reform, the Secretary of Labor, and the Secretary of Agriculture as ex-officio members. Another two members represent the ARBs. The two remaining members represent the private sector in general.⁹ The President of the Philippines appoints all Board members and their terms in office are co-terminus with the appointing President.

BOARD-LEVEL COMMITTEES

The Board also is organized into three committees: trust, audit, and risk management (see Annex 5, Land Bank Organizational Structure). Board Members form these committees to recommend policies to the Board and to guide/advise the President and CEO. Although the corresponding Land Bank group/staff support these committees, these committees report directly to the Board and act vigilantly to monitor the Bank's risk management and operations.

The composition of the Board has helped to shield Land Bank from political machination or intervention unlike the other government-owned banks that the Government used to provide behest loans. The grant of behest loans under the martial law regime led to the bankruptcy of those banks as earlier mentioned. Land Bank has as Board Chair the Secretary of Finance who has invariably emphasized stability and prudence in lending operations. This is understandable considering that in the Philippine governmental structure, it is the Department of Finance that is the chief revenue raiser. Failing to raise needed revenues, that Department also has the responsibility of borrowing from multilateral sources and private capital markets. The ex-officio Board members, all political appointees, have their respective constituencies to represent in the Land Bank Board. The President also has to please those political constituencies. It is, thus, not easy for the appointing power (the President of the Philippines) to use the Land Bank for purely political or selfish reasons, such as directing Land Bank to grant behest loans to friends, relatives, or political allies. By design there is a natural tendency for Board members to be vigilant over the behavior of the Land Bank in order to safeguard the interest of their respective constituencies.

ORGANIZATIONAL STRUCTURE

The present organizational structure of Land Bank is designed to shape an institution responsive to market changes and new clients while fulfilling its social mandate. The overall thrust in recent years is simplification of the organizational structure, with clear reporting and accountability lines and a drive to more productivity by trimming staff.¹⁰ The Board has been supportive of these changes while

⁹ Currently, these are Mr. Albert Balingit and Mr. George Regalado. Mr Balingit held various positions before Land Bank, such as President of the Pangasinan Realty Corporation and Director of Dagupan Water District. Meanwhile, Mr. Regalado served as director at the Office of the Majority Floor Leader at the House of Representatives and at the Mindanao Peace and Development Fund. Currently, Mr. Regalado is a consultant of the First Congressional District Office in Davao City and Head of the Management Team for South Luzon Culinary Cuisine, Inc.

¹⁰ The number of Land Bank employees was 7,527 as of May 31, 2005. As a result of automation and a drive to improve labor productivity, Land Bank has been reducing the number of its personnel through attrition and the offer of a generous retirement package to officers targeted for retirement at an average rate of 3.1 percent per annum since 1999 or a total reduction of about 1,300 up to the end of 2004 from 8,945 employees in 1999. Twenty-seven percent (2,032) of personnel are assigned in the Head Office while 73 percent (about 5,500) staff the Land Bank branches, extension offices, and

ensuring that the rights and benefits of retired or resigned staff are met. Land Bank 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. Annexes 5, 6, and 7 provide a summary of the actual organizational, operational, and risk management structures of the Land Bank.

Land Bank is organized into three major sectors. Overseeing these sectors is the Office of the President and CEO. Directly under this office are five offices lending support in terms of legal and physical security matters, strategic planning, technology management and corporate affairs. (Please refer to Annex 5 for a graphic presentation of the organizational structure for more details).

Agrarian and Domestic Banking Sector (ADBS). This is the largest group. CARP and field operating units of the bank are located here to provide banking and extension services to 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 (40) offices; Development Assistance Centers (17); and Agrarian Operations Centers (14). (Please refer to Annex 6 Land Bank Field Structure).

The Branch/Extension Offices nationwide are the main Land Bank 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, SMEs, LGUs, 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 Land Bank 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, Land Bank has 323 branches and extension offices covering all regions nationwide. Seventy-six percent of these branches are outside Metro Manila. Land Bank also has 594 ATMs throughout the country, of which 70 percent are outside the National Capital Region (NCR). The distribution of the branches and ATMs outside NCR is shown in Table 1 and notably the greatest number of branches and ATMs are in Luzon due to its wider area of coverage.

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, SMEs, LGUs, and CFIs.

centers nationwide. The reduction in number of employees occurred mainly at the head office where redundant jobs were identified and eliminated.

	Branches		ATMs	
	No.	% of Total	No.	% of Total
NCR	76	23.5	178	30.0
Outside NCR	247	76.5	416	70.0
Luzon	129	39.9	196	33.0
Visayas	50	15.5	106	17.8
Mindanao	68	21.1	114	19.2
TOTAL	323	100.0	594	100.0

Institutional Banking and Subsidiaries Sector. This sector handles Land Bank’s commercial banking functions ranging from trust and accounts management to lending and branch banking. It consists of six subgroups: the Program Lending Group, which runs bilateral and multilateral programs; the Accounts Management Group, which deals with corporate clients and those in Metro Manila or NCR; the Treasury and Investment Banking Group; the Asset Recovery Group; the Global Banking Department that, among others, takes care of the remittances of overseas Filipino workers; and the Subsidiaries and Foundation. All of these subgroups are based in the Land Bank Head Office.

Operations and Corporate Services Support Sector. This sector provides administrative support to Land Bank operating groups. It is composed of five subgroups: the Banking Operations Group, Human Resource Management Group, Controllership Group, Banking Services Group, and Facilities Management and General Services Group.

STRATEGIC THRUST AND PROGRAMS

STRATEGIC THRUST FOR 2000–2005

As part of its vision to be the principal financial institution for rural development, for the past five years Land Bank has focused its efforts on diversifying and expanding its loan portfolio with identified priority sectors, namely: small farmers and fisherfolk; microenterprises and SMEs; income-generating projects, commonly known as livelihood projects; agribusiness; agri-infrastructure; and other agri-related and environmental conservation projects. Thus, from a narrowly defined loan portfolio consisting of small farmers and fisherfolk, including ARBs, the Land Bank has increased the share of these other sectors from 36 percent of its total portfolio in 2000 to 65 percent by the end of 2004.

By the end of 2004, Land Bank was able to expand the share of each priority sector loan by at least 20 percent, and more than doubled the share of agri-related loans to government-owned and controlled corporations (GOCCs), agri-business, SMEs, and microenterprises (see Table 2). Collectively, the share of Land Bank priority sector loans has risen to 62 percent of total, amounting to 77 billion pesos (\$1.4 billion), or only 3 percent short of Land Bank’s target by the end of 2005 (see Figure 1).

TABLE 2: LAND BANK'S LOAN PORTFOLIO, BY TYPE OF LOAN (IN BILLION PESOS)

Type of Loan	2000		2001		2002		2003		2004	
	Amt	% share								
PRIORITY SECTOR LOANS										
Farmers and fisherfolk	12.0	11	11.9	11	12.2	11	12.9	11	16.3	13
SMEs and microenterprises	12.3	11	13.3	13	14.9	13	16.6	14	17.2	14
Agribusiness	7.0	6	8.3	8	12.5	11	14.9	13	18.2	15
Agri-infrastructure (LGUs)	4.2	4	4.2	4	7.1	6	9.0	8	11.5	9
Agri-related (GOCCs)	1.1	1	2.7	3	4.0	4	5.4	5	9.5	8
Livelihood loans	2.0	2	2.1	2	2.4	2	2.5	2	2.4	2
Environment-related	0.5	*	2.1	2	3.0	3	3.1	3	2.3	2
TOTAL PRIORITY LOANS	39.1	36	44.6	42	56.1	50	64.4	56	77.4	62
OTHER LOANS										
Other LGU loans	7.7	7	10.2	10	9.0	8	8.2	7	8.4	7
Other GOCC loans	14.7	14	7.8	7	8.7	8	7.1	6	8.3	7
Infrastructure development	8.2	8	8.0	8	6.1	5	5.6	5	5.4	4
Housing	8.3	8	6.4	6	6.5	6	6.3	5	5.7	5
Schools and hospitals	0.7	1	1.1	1	1.1	1	1.4	1	1.4	1
Others**	30.1	28	27.9	26	25.1	22	21.9	19	18.3	15
TOTAL OTHER LOANS	69.7	64	61.4	58	56.5	50	50.5	44	47.5	38
GROSS LOAN PORTFOLIO	108.8	100	106.0	100	112.6	100	114.9	100	124.9	100
Annual head inflation rate (CPI), average % change	4.4		6.1		3.0		3.0		5.5	

*less than 1%

**mostly commercial loans: manufacturing, real estate, telecommunication, and so on

Meanwhile, outstanding loans to non-priority sectors, which include loans for non-agricultural infrastructure, housing, schools and hospitals, and non-agricultural projects of LGUs and GOCCs, amounted to 47.5 billion pesos (\$845 million)¹¹ by the end of 2004, a 30 percent reduction from 2000.

Aside from the transformation in its loan portfolio, other priority agenda of the bank are:

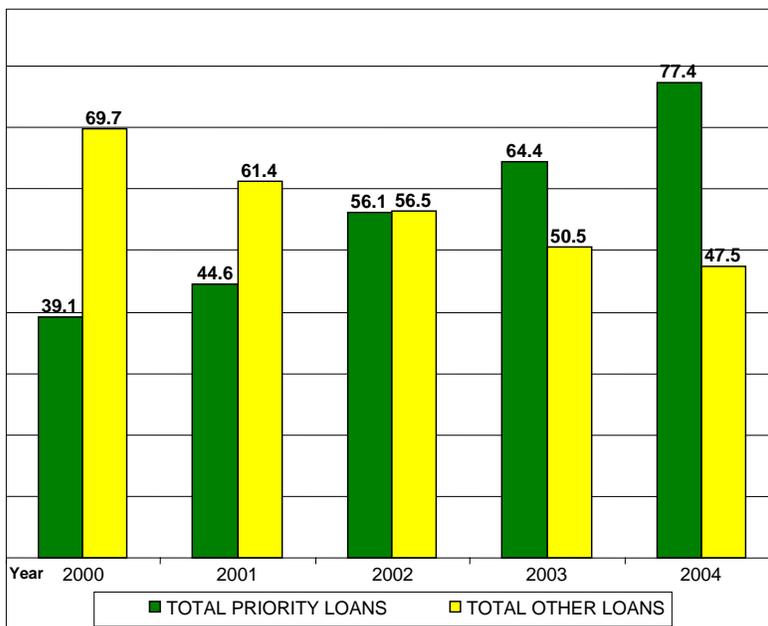
- Strengthening technical assistance for farmers and fisherfolk cooperatives¹²;

¹¹ Conversion rate used was 56.1826 pesos per dollar, the average rate for December 2004.

¹² The assistance is provided by the Land Bank through technology promotion centers that have been established through tie-ups with agricultural state colleges and universities and local government units.

- Ensuring effective corporate governance and risk management systems (credit, market, corporate, legal, systems, operations, and reputational risks);

FIGURE 1: LAND BANK'S LOAN PORTFOLIO
(In Billion Pesos)



- Improving customer service and operating efficiencies by automating core processes and transforming information technology systems;
- Enhancing the human capital and managing the headcount;
- Rationalizing the distribution network (branches, lending centers, agrarian operation centers, ATM system, phone banking) and bank products, services, and programs;
- Reducing nonperforming loans and real and other properties owned or acquired (ROPOA);

- Ensuring the long-term financial viability and institutional sustainability; and
- Generating low-cost and long-term funds.

LENDING PROGRAMS

The diversification of Land Bank's loan portfolio catering to a wide array of clients has been made possible through the intensified implementation of varied lending facilities and arrangements. The Bank's credit facilities vary depending on the type of projects, clients, delivery (wholesale or retail), and source of funds. Despite the diversity, these programs are nonetheless deemed consistent with its key mandate of stimulating countryside development and targeted to priority sectors with economic activities converging in rural areas.

Wholesale and Retail Lending Programs

Land Bank has both retail and wholesale lending programs, depending on type of clientele. It provides loans indirectly to individual small farmers, fisherfolk, and microenterprises through wholesale loans to cooperatives and CFIs. On the other hand, Land Bank provides retail loans directly to individual SMEs and institutional borrowers that include LGUs and GOCCs through its branches/field offices strategically located all over the country.

It can be noted from Table 3 that the bulk of Land Bank's loan portfolio over the last five years was composed of retail loans, albeit its share of the pie was almost constantly if not slowly on the decline. Wholesale loans, meanwhile, which comprised 21 percent of the gross loan portfolio of the bank, had steadily increased since 2000 at an average rate of about 13 percent per annum. In 2004, wholesale loans composed of loans to farmers and fisherfolk and agribusiness, reached 30.8 billion pesos (about 550 million dollars) and shared roughly 25 percent of Land Bank's total loans (see Figure 2).

TABLE 3: LAND BANK LOAN PORTFOLIO, BY TYPE OF LOANS AND MODE OF DELIVERY, 2000–2004 (IN BILLION PESOS)

DELIVERY MODE/Type of Loans	2000		2001		2002		2003		2004		Annual Growth, in %
	Amt	% share									
WHOLESALE (through CFIs or cooperatives)											
Farmers and fisherfolk	12.0	11.0	11.9	11.2	12.2	10.8	12.9	11.2	16.3	13.1	8.4
Agribusiness a/	3.5	3.2	4.2	3.9	6.3	5.6	7.5	6.5	9.1	7.3	27.6
SMEs and microenterprises b/	3.6	3.3	4.1	3.9	3.9	3.5	5.0	4.4	5.4	4.3	11.0
Total WHOLESALE Loans	19.1	17.6	20.2	19.0	22.4	19.8	25.4	22.1	30.8	24.7	12.8
RETAIL (direct to end-borrowers)											
SMEs and microenterprises b/	8.7	8.0	9.2	8.7	11.0	9.8	11.6	10.1	11.8	9.4	8.2
Agribusiness a/	3.5	3.2	4.2	3.9	6.3	5.6	7.5	6.5	9.1	7.3	27.6
Agri-infrastructure (LGUs)	4.2	3.9	4.2	4.0	7.1	6.3	9.0	7.8	11.5	9.2	30.9
Agri-related (GOCCs)	1.1	1.0	2.7	2.5	4.0	3.6	5.4	4.7	9.5	7.6	76.1
Livelihood loans	2.0	1.8	2.1	2.0	2.4	2.1	2.5	2.2	2.4	1.9	4.9
Environment-related	0.5	0.5	2.1	2.0	3.0	2.7	3.1	2.7	2.3	1.8	85.1
Other LGU Loans	7.7	7.1	10.2	9.6	9.0	8.0	8.2	7.1	8.4	6.7	3.6
Other GOCC Loans	14.7	13.5	7.8	7.4	8.7	7.7	7.1	6.2	8.3	6.6	-9.2
Infrastructure development	8.2	7.5	8.0	7.5	6.1	5.4	5.6	4.9	5.4	4.3	-9.5
Housing	8.3	7.6	6.4	6.0	6.5	5.8	6.3	5.5	5.7	4.6	-8.5
Schools and hospitals	0.7	0.6	1.1	1.0	1.1	1.0	1.4	1.2	1.4	1.1	21.1
Others	30.1	27.7	27.9	26.3	25.1	22.3	21.9	19.1	18.3	14.7	-11.6
Total RETAIL Loans	89.7	82.4	85.9	81.0	90.3	80.2	89.6	77.9	94.1	75.3	1.3
GROSS LOAN PORTFOLIO	108.8	100.0	106.0	100.0	112.6	100.0	114.9	100.0	124.9	100.0	3.6
Annual head inflation rate (CPI), average % change	4.4		6.1		3.0		3.0		5.5		

a/ Estimated by Land Bank resource person/s as 50 percent wholesale and 50 percent retail.

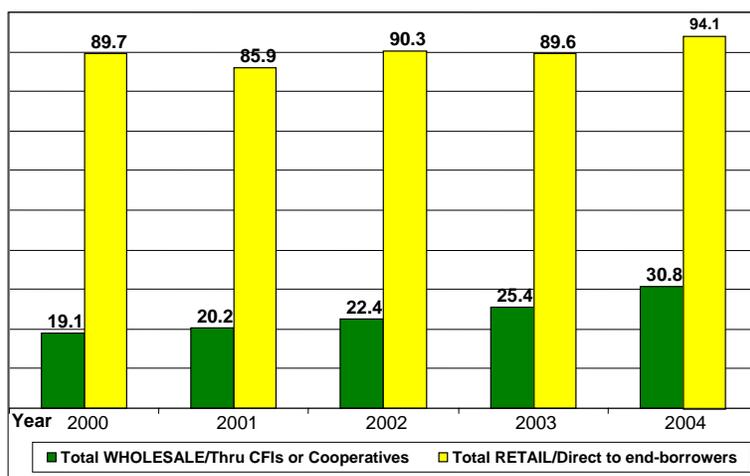
b/ No breakdown available but according to Land Bank resource person/s, these are more retail loans.

Land Bank's wholesale credit facilities include the CFI Rediscounting Program and the Cooperative Credit Delivery Program. Its retail credit facilities are classified under Special Financing Programs. The basic terms and features of these programs are discussed below:

CFI Rediscounting Program

To assist in the timely and adequate delivery of credit to the countryside this program provides a rediscounting facility to CFIs such as rural banks, cooperative banks, private development banks,

FIGURE 2: LOAN PORTFOLIO, BY TYPE OF LOANS AND MODE OF DELIVERY
(In Billion Pesos)



savings and loan associations, and savings and mortgage banks. Any CFI can use this facility provided it satisfies the Land Bank's accreditation criteria: satisfactory financial performance, no reported irregularities, compliant with BSP's minimum capitalization requirement, adequate legal reserve for deposit liabilities, and profitable operations for the past three years. Accredited CFIs rediscount up to 85 percent of the loans they provide to individual households or sub-borrowers—whether for farm or non-farm

activities, businesses, and microenterprises; but not to exceed Land Bank loan ceiling. Promissory notes of CFI sub-borrowers inclusive of all underlying collateral serve as security for the rediscounted loans. The interest that the rural financial institution has to pay on the rediscounts is Land Bank's rediscount rate of 12 percent per annum plus a 1 percent (one-time) service charge.

As of end-September 2004, total credit lines made available by Land Bank to some 420 CFIs amounted to 8.4 billion pesos (\$150 million). Of this, Land Bank's partner CFIs availed themselves of almost half or 4.1 billion pesos (\$73 million) to fund their countryside banking operations. CFIs in Mindanao (102) obtained 1.1 billion pesos (almost \$20 million).

Cooperative Credit Delivery Program

This program is Land Bank's primary vehicle for providing small farmers and fisherfolk credit assistance. Qualified cooperatives are given loans to finance members' agricultural production activities; group economic activities of the cooperative requiring working/operating capital (such as for the purchase of raw materials, processing and trading of inputs, and/or finished products and the operation of fixed assets); rediscounting cooperative members' promissory notes; and fixed asset acquisition for the cooperative's operations.

The target clients of this program are: agricultural cooperatives and members' wives and children of age (see Box 3 for the definitions); and non-farmers/credit cooperatives composed of market vendors, rural workers, employees, vendors, teachers, women, and others.

Cooperatives asking for a loan are evaluated based on a set of lending criteria that includes the cooperative's level

Box 3: Definition of Cooperative Credit Delivery Program Target Agricultural Co-op Members

- Small farmers. Actual tillers of not more than five hectares of agricultural land.
- Small fisherfolk. Those who either own or operate not more than three gross tons of fishing boat and paraphernalia and/or whose fishing activities or operations are within 25 km radius from the shoreline, or owners/operators of not more than five hectares of fishpond including workers of fishponds and fishing boats.
- Small hog/poultry/livestock raisers. Those with initial inventory of not more than 1,000 poultry layers or broilers; 10 sow or 20 fatteners (swine); 10 fatteners or 5 breeders (cattle); 10 milking cows; or 50 goats.

of maturity—a composite criterion devised by Land Bank—number of members, amount of paid-up capital, core management team, and financial ratios, including profitability, debt to equity, liquidity, past due, and risk asset.

Loan amount can be up to 80 percent of the cost of the project to be finance and in the case of rediscounting, up to 85 percent of face value of promissory notes of member-borrowers.

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 or the promissory notes of sub-borrowers;¹³
- 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.

Other acceptable collateral includes holdout on deposits, guarantee coverage, and joint and several signatures of the officers of retailing cooperatives (acting as co-signors or guarantors).

Interest charges are currently at 10 percent per annum on loans with maturity of up to 1 year and 12 percent per annum on term loans. Both types include a 2 percent service fee. This rate is at par with the bank lending rate for all maturities averaging at 10 percent, while it is about 3.5 percent more than the 91-day T-bill reference rate and 2 percent higher than the inflation rate.

Special Financing Programs

These programs fall outside the bank's regular cooperative lending and rediscounting programs. They are categorized into 1) donor-funded programs and 2) national government agency-funded programs. The latter have been designed and implemented by Land Bank jointly with other agencies—such as the Department of Agrarian Reform and Department of Agriculture—that provide funding for specific target clients and/or projects such as CARP beneficiaries, small farmers and fisherfolk, SMEs, small, micro, and cottage enterprises, MFIs, LGUs, and environment-related projects.

Most of the donor-funded lending programs of Land Bank are funded by multilateral institutions such as the Asian Development Bank (ADB), World Bank (WB), and bilateral sources such as Japan Bank for International Cooperation (JBIC), Germany's *Kreditanstalt für Wiederaufbau* (KfW, German Development Bank), and the International Fund for Agricultural Development (IFAD) (see Annex 4).

Capability-Building Assistance Programs

To strengthen priority clients and thereby expand its credit program to them, Land Bank grants technical assistance to farmers and fisherfolk cooperatives to promote technology transfer and to improve productivity, product quality, and cooperatives' value-adding operation. Land Bank provides funding subsidies for the technical training of cooperatives. The assistance is provided by Land Bank through Technology Promotion Centers created through ties with agricultural state colleges and universities and LGUs. Land Bank also conducts management and financial audits of bank-assisted

¹³ Promissory notes are used as security for loans of cooperative members or sub-borrowers of agricultural production loans provided by Land Bank to farmers and fisherfolk through their cooperatives. Deeds 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.

cooperatives to identify weaknesses and other areas that require attention. This information helps Land Bank to supervise the loans and to decide whom to lend to in the first place.

Marketing capability-building assistance is provided to enhance the competence of bank-assisted cooperatives in preparing and implementing a marketing plan. This program aims to enhance skills of cooperatives in formulating a formal marketing plan and promotes direct market linkages among cooperatives and institutional markets. Activities include strategic marketing training, market matching such as forums forging market ties at the national level, and the development and dissemination of informative materials. As in the provision of technical assistance, Land Bank provides funding subsidies for the technical training of cooperatives.

Part of this marketing assistance program is the LBP-B2Bpricenow.com, an on-line trading scheme between the cooperatives and institutional buyers developed in 2003. The first business-to-business (B2B) center in the country, owned and managed by a cooperative, became fully operational in the first quarter of 2005. The cooperative, Gata Daku MPC Clarin in Misamis Occidental, allocated 500,000 pesos (\$9,000) for the initial purchase of computer units and other equipment. Land Bank and the B2Bpricenow.com, Inc. provided assistance in preparing the site for the center and in all the administrative and technical requirements.

FINANCIAL RESOURCE MOBILIZATION

DEPOSIT MOBILIZATION

In addition to its lending activities and various other client services, Land Bank is a major provider of deposit services, including for many small-scale depositors in rural areas. As of February 2005, Land Bank had around 180 billion pesos (3.3 billion dollars)¹⁴ on deposit in more than 2 million accounts (with foreign currency deposits adding slightly more than another 10 percent). The number of peso accounts is evenly distributed over the Philippine's five major regions, ranging from over 300,000 accounts to under 500,000 accounts, and with Mindanao rather than the NCR having the most accounts (as shown in Table 4). In amounts, however, the NCR clearly predominates with slightly more than half, while the other regions each account for around 20 billion pesos (\$363 million) (see Table 5).

TABLE 4: NUMBER OF LAND BANK PESO DEPOSIT ACCOUNTS, AS OF FEBRUARY 2005

Branches Group	Demand	Savings	Time	Total
NCLBG – North and Central Luzon	25,871	344,172	1,718	371,761
NCRBG – National Capital Region	60,735	400,369	705	461,809
SLBG – South Luzon	43,601	281,095	550	325,246
VISBG – Visayas	26,276	345,277	694	372,247
MINBG – Mindanao	29,163	445,400	3,130	477,693
Total	185,646	1,816,313	6,797	2,008,756

¹⁴ Peso-dollar rate used was 54.1828 pesos per dollar, the average rate for the month of February 2005.

TABLE 5: OUTSTANDING PESO DEPOSITS, AS OF FEBRUARY 2005 (IN MILLION PESOS)

Branches Group	Demand	Savings	Time	Total
NCLBG – North and Central Luzon	10,119.8	13,995.5	161.2	24,276.5
NCRBG – National Capital Region	37,927.1	54,576.9	100.8	92,604.9
SLBG – South Luzon	9,710.3	10,121.0	60.3	19,891.6
VISBG – Visayas	10,721.0	9,986.7	71.3	20,779.0
MINBG – Mindanao	10,742.9	11,023.9	250.1	22,017.0
Total	79,221.2	99,704.0	643.7	179,569.0

Because of Land Bank's role as a government depository, government entities account for about two-thirds of the amount of Land Bank peso deposits, with the private sector accounting for the remaining third (see Table 6 and Figure 3). However, the private sector accounts for by far the majority of accounts, almost 2 million, as compared with under 63,000 peso deposit accounts of government units (see Table 7). Moreover, LGUs account for about two-thirds of these government deposit accounts. With respect to types of account, demand deposit accounts are by far the most popular with government units, accounting for about 85 percent (see Table 8). Nonetheless, savings accounts, especially high yield, account for more than 40 percent of the amounts deposited, indicating the sensitivity of at least some governmental units to potential interest earnings (see Table 9). Time deposits are inconsequential for government units.

TABLE 6: DEPOSITS, BY SOURCE (IN BILLION PESOS)

Source of deposits	2000	2001	2002	2003	2004	Avg % share of total	Annual inc/(dec), in %
Government	87.7 (1.98)	103.0 (2.02)	118.7 (2.30)	117.5 (2.17)	140.1 (2.50)	62.5	10.6
Private	61.7 (1.40)	65.5 (1.28)	60.9 (1.18)	68.0 (1.26)	74.8 (1.34)	37.5	3.6
Total Deposits	149.4 (3.38)	168.5 (3.30)	179.6 (3.48)	185.5 (3.42)	214.9 (3.84)	100.0	7.6

(Note: Figures in parentheses are the dollar equivalents. See Annex 1 for the peso-dollar conversion rates used.)

Of the private sector peso accounts at Land Bank, "others"—individuals and legal entities—account for more than 1.9 million and cooperatives almost another 30,000, with formal financial institutions, mainly rural banks, accounting for the rest. As to types of accounts, there are about 1.8 million private-sector peso savings accounts, compared to about 130,000 demand deposit accounts and a mere 6,000 time deposits. In amounts (see Table 10), peso savings deposits also predominate for Land Bank private clients, accounting for about 80 percent, with trivial amounts held in time deposits.

FIGURE 3: DEPOSIT, BY SOURCE (IN BILLION PESOS)

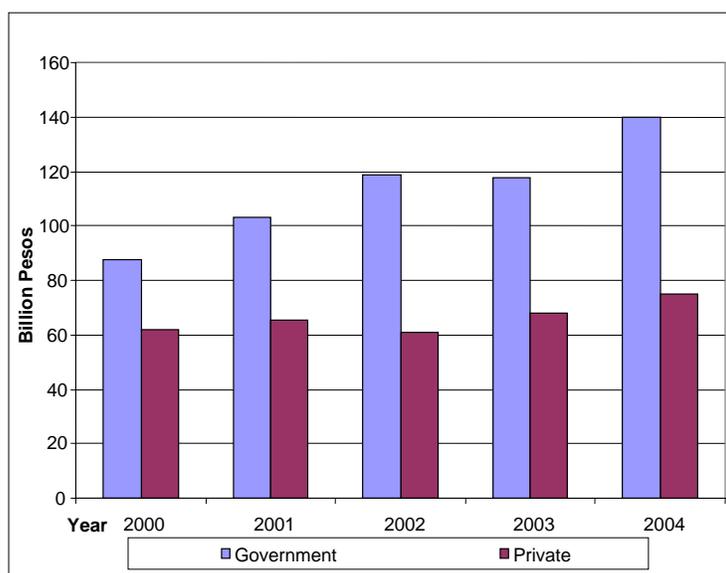


TABLE 7: NUMBER OF PESO DEPOSIT ACCOUNTS, BY DEPOSITOR TYPE, AS OF FEBRUARY 2005

Type of Client	No. of Accounts
<i>Private</i>	
Commercial banks	332
Rural banks	3,105
Cooperatives	28,715
Others	1,913,811
Subtotal	1,945,963
<i>Government</i>	
LGUs	41,822
Line agencies	14,695
GOCCs	6,276
Subtotal	62,793
Total	2,008,756

TABLE 8: NUMBER OF GOVERNMENT PESO DEPOSIT ACCOUNTS, BY DEPOSIT TYPE, AS OF FEBRUARY 2005

Branches Group	Demand	Savings			Time	Total
		Regular	HYSA	Total		
NCLBG – North & Central Luzon	13,282	1,247	385	1,632	134	15,048
NCRBG – NCR	3,982	759	722	1,481	153	5,616
SLBG – South Luzon	9,792	847	482	1,329	88	11,209
VISBG – Visayas	12,479	1,284	448	1,732	74	14,285
MINBG – Mindanao	14,899	1,022	471	1,493	243	16,635
Total	54,434	5,159	2,508	7,667	692	62,793

TABLE 9: BREAKDOWN OF OUTSTANDING GOVERNMENT DEPOSIT, BY DEPOSIT TYPE, AS OF FEBRUARY 2005

Branches Group	Demand	Savings (million pesos)			Time (P'M)	Total (P'M)
		Regular	HYSA	Total		
NCLBG – North & Central Luzon	8,204.3	704.7	2,366.8	3,071.5	60.2	11,336.0
NCRBG – NCR	33,611.0	11,216.2	25,528.3	36,744.5	22.4	70,378.0
SLBBG – South Luzon	8,359.1	612.4	2,332.4	2,958.8	22.7	11,335.6
VISBG – Visayas	8,918.0	500.5	2,872.3	3,372.9	41.2	12,332.0
MINBG – Mindanao	8,445.8	480.5	3,333.5	3,814.0	123.5	12,383.3
Total	67,538.2	13,523.3	36,433.4	49,956.7	270.1	117,764.9

TABLE 10: NUMBER OF PRIVATE PESO DEPOSIT ACCOUNTS, BY DEPOSIT TYPE, AS OF FEBRUARY 2005

Branches Group	Demand	Savings				Time	Total
		Regular	HYSA	ESP/PSP	TOTAL		
NCLBG – North & Central Luzon	1,915.5	5,695.9	377.1	4,850.9	101.0	12,940.5	
NCRBG – NCR	4,316.1	9,649.7	5,100.5	3,082.2	78.4	22,227.0	
SLBG – South Luzon	1,351.2	4,603.3	317.6	2,246.3	37.6	8,556.0	
VISBG – Visayas	1,803.0	4,765.2	131.2	1,717.4	30.1	8,446.9	
MINBG – Mindanao	2,297.1	5,704.2	267.6	1,238.1	126.6	9,633.6	
Total	11,683.0	30,418.3	6,193.9	13,134.9	49,747.3	373.7	61,804.0

The importance of small accounts for Land Bank is striking (see Tables 11 and 12). Sixty-two percent of the 500,000 regular passbook savings accounts and 92 percent of the 1.3 million ATM accounts of individuals had balances of less than 10,000 pesos (\$181 dollars), leaving little doubt of the crucial importance of Land Bank in providing deposit services for small-scale clients.

TABLE 11: NUMBER OF ATM ACCOUNTS, BY AVERAGE DAILY BALANCE SIZE, AS OF MARCH 2005

Average Daily Balance Size	No. of Accounts	% Share
< 100.00 pesos (1.81 dollars)	480,843	37
100 – 499 pesos (1.81 - 9.06 dollars)	187,685	14
500 – 599 pesos (9.07 - 10.87 dollars)	191,867	15
1,000 – 4,999 pesos (18.14 -90.69 dollars)	268,362	21
5,000 – 9,999 pesos (90.70 – 181.40 dollars)	69,146	5
10,000 - 14,999 pesos (181.41- 272.10 dollars)	31,026	2
15,000 – 19,999 pesos (272.11- 362.80 dollars)	15,832	1
20,000 – 24,999 pesos (362.81 – 453.51 dollars)	11,931	1
25,000 – 49,999 pesos (453.52- 907.04 dollars)	23,748	2
50,000 – 99,999 pesos (907.05 – 1,814.08 dollars)	11,693	1
100,000 – 999,999 pesos (1,814.09 – 18,140 dollars)	7,339	1
> 1,000,000 pesos (18,141 dollars)	97	0
<i>Total</i>	1,299,569	100%

TABLE 12: REGULAR PASSBOOK ACCOUNTS BY AVERAGE DAILY BALANCE SIZE, AS OF MARCH 2005

Average Daily Balance Size	No. of Accounts	% Share
< 100.00 pesos (1.81 dollars)	40,268	8
100 – 499 pesos (1.81 - 9.06 dollars)	48,322	10
500 – 599 pesos (9.07 – 10.87 dollars)	31,973	6
1,000 – 1,999 pesos (18.14 -36.26 dollars)	36,742	7
2,000 – 4,999 pesos (36.27 - 90.69 dollars)	42,534	9
5,000 – 9,999 pesos (90.70 – 181.40 dollars)	106,787	22
10,000 – 14,999 pesos (181.41- 272.10 dollars)	42,971	9
15,000 – 19,999 pesos (272.11- 362.80 dollars)	22,684	5
20,000 – 24,999 pesos (362.81 – 453.51 dollars)	18,430	4
25,000 – 49,999 pesos (453.52- 907.04 dollars)	43,145	9
50,000 – 99,999 pesos (907.05 – 1,814.08 dollars)	31,569	6
100,000 – 999,999 pesos (1,814.09 – 18,140 dollars)	29,587	6
> 1,000,000 pesos (18,141 dollars)	734	0
<i>Total</i>	49,5746	100%

RISK MANAGEMENT

RISK MANAGEMENT STRUCTURE

Risk management is taken seriously at the Land Bank. The increased volatility in the international financial markets brought about by a weakened global economy necessitated Land Bank to strengthen risk management systems and develop new risk measures. As an initial step toward the formulation of a bank-wide risk management program, Land Bank organized the Risk Management Task Force on February 9, 2001. Thereafter, on June 15, 2001, Land Bank created the Board-level Risk Management Committee (RMC) to develop policies for an integrated risk management structure that can effectively measure, monitor, and control risks. In February 2003, the RMC was merged with the Audit Committee creating the Audit and Risk Management Committee (ARMCOM) and the risk management structure was further strengthened in March 2003 with the creation of the Risk Management Group (RMG), an independent unit within Land Bank headed by the Chief Risk Officer who oversees the Bank's adoption and maintenance of adequate risk management policies. RMG is comprised of four independent units:¹⁵

- Credit Policy and Risk Management Department (CPRMD)—created in 2000 to formulate standardized credit policies covering various types of loan transactions and review the bank's loan portfolio quality vis-à-vis industry benchmarks;
- Treasury Risk Management Department (TRMD)—plays the key role in liquidity and market risks management;
- Business Risk Management Department (BRMD)—formed in 2003 to handle risks associated with banking operations and systems, as well as corporate, reputational, and legal risks; and
- Business Continuity Unit/Central Liability System (CLS)/Customer Information System (CIS)/Project Management Team (PMT)—also established in 2003 to implement Land Bank's Business Continuity Plan and foster greater efficiency in monitoring and disseminating accurate and timely institutional data and borrower information.

OPERATIONAL AND FINANCIAL PERFORMANCE

LENDING TO SMALL FARMERS AND FISHERFOLK THROUGH COOPERATIVES AND RURAL BANKS

The amount of loans Land Bank released to small farmers and fisherfolk—through 1,400 partner cooperatives and 459 CFIs—increased modestly from 13 billion pesos (\$294 million) in 2000 to about 17 billion pesos (\$296 million) in 2004 reaching annually an average of 352,000 small farmers and fisherfolk (see Figures 4, 5, and 6). Outstanding loans to the sector comprised 23 percent of loans to priority sectors and about 12 percent of Land Bank's gross loan portfolio (see Table 13).

¹⁵ For more details on each unit, please refer to Annex 7.

FIGURE 4: NUMBER OF PARTNER COOPERATIVES

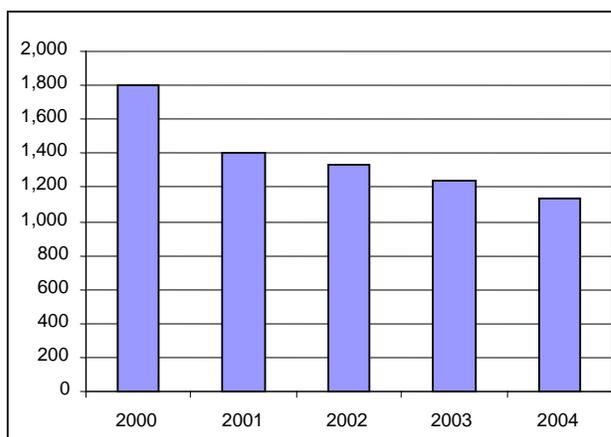


FIGURE 5: NUMBER OF PARTNER CFIS

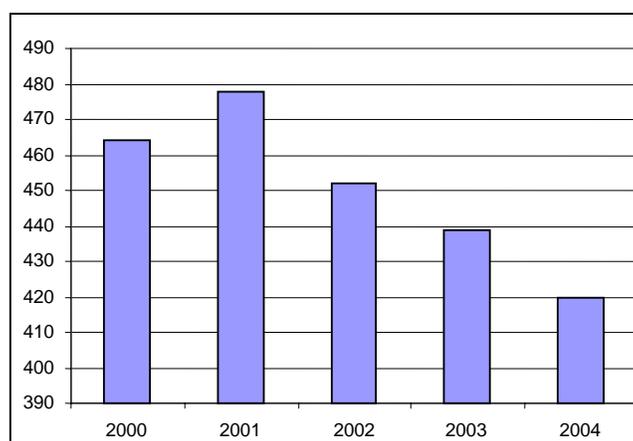


FIGURE 6: NUMBER OF FARMER/FISHERFOLK BORROWERS

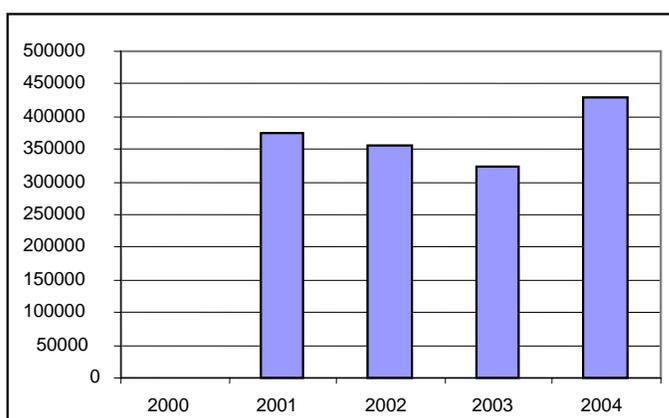


TABLE 13: CREDIT ASSISTANCE TO SMALL FARMERS AND FISHERFOLK

	2000	2001	2002	2003	2004	Annual Average	
						Value	% Growth
Loans granted (pesos in billions)	13.1	12.9	13.4	14.0	16.6	14.0	6.3
Loans outstanding (pesos in billions)	12.0	11.9	12.2	12.9	16.3	13.1	8.4
% of total priority sector loans	30.7	26.7	21.7	20.0	21.1	23.2	(8.6)
% of gross loan portfolio	11.0	11.2	10.8	11.2	13.1	11.5	4.5
No. of partner cooperatives	1,797	1,403	1,328	1,239	1,138	1,442	(11.3)
No. of partner CFIs	464	478	452	439	420	458	(1.8)
No. of farmer/fisherfolk borrowers	nd	376,000	357,000	324,000	430,000	352,333	6.1

LENDING IN SUPPORT OF THE AGRICULTURE AND FISHERIES MODERNIZATION ACT (AFMA)¹⁶

Land Bank's direct lending to small farmers and fisherfolk forms part of its commitment and support in modernizing the sector as envisioned under AFMA. Land Bank reported increased support to AFMA by way of credit and technical assistance, from almost 14 billion pesos (\$271 million) in 2001 to about 20 billion pesos (\$350 million) in 2004, or a growth of roughly 13 percent per annum. By the end of 2004, Land Bank granted a cumulative total of 68 billion pesos (\$1.3 billion) in loans and technical assistance, which constitute 28 percent of its total priority sector loans (Table 14). On a yearly basis, Land Bank assistance in support of AFMA amounted to 17 billion pesos (\$318 million), which benefited 350,919 farmers and fishers and was estimated to have generated 125,387 jobs.

TABLE 14: AFMA ACCOMPLISHMENTS

	2001	2002	2003	2004	Total	Ave inc/ (dec), in %
Loans granted (million pesos)	13,818.22	16,652.74	17,803.97	19,629.11	67,904.04	12.6
% of total priority sector loans	31%	30%	28%	25%	28%	(6.4)
Technical assistance (million pesos)	120	165	164	114.38 ^{a/}	563.44	2.2
Total credit and technical assistance	13,938.2	16,817.9	17,967.9	19,743.5	68,467.48	12.5
Number of Beneficiaries	323,940	362,810	308,450	408,475	1,403,675	9.8
Number of Jobs Generated	132,175	78,064	105,978	185,330	501,547	23.2

a/ as of Oct 2004.

By commodity and economic activity financed, over 41 billion pesos (roughly 61 percent) of Land Bank's assistance to AFMA clients went to the production, processing and/or manufacturing of various agricultural commodities led by rice and livestock (see Table 15). Marketing activities of farmers and fisherfolk cooperatives received credit assistance amounting to 23 billion pesos, or roughly 35 percent of total AFMA-related loans granted by Land Bank. Post-harvest facilities and other infrastructure projects were lent close to 3 billion pesos.

REVENUES AND PROFITS

Over the last five years, Land Bank generated annual gross revenues of at least 15 billion pesos (\$355 million), up to more than 21 billion pesos (\$382 million) in 2004, posting a modest growth of 9 percent per annum. About 42 percent of these revenues were from loans and income from investments constituted an increasingly significant share of gross revenues, 36 percent (see Table 16). The significance of investments and fee-based incomes indicates Land Bank is treading the path typically taken by ordinary commercial banks.

¹⁶ This draws from Gilberto M. Llanto. 2005. "An Assessment of the Accomplishments of AFMA-Agriculture Modernization Credit and Financing Program." Unpublished paper.

TABLE 15: AMOUNT OF LAND BANK AFMA LOANS, BY COMPONENT, 2001- 2004 (IN MILLION PESOS)

	2001	2002	2003	2004	Total	% share	Ave inc/ (dec), %
I. Production, processing, manufacturing	9,031	9,731	10,163	12,279	41,204	60.7	19
Crops	5,095	5,147	5,508	4,942	20,692	30.5	5
a. Rice	2,039	1,991	2,280	2,063	8,373	12.3	9
b. Corn	274	259	248	234	1,015	1.5	(12)
c. HVCC	1,001	1,067	1,126	1,198	4,392	6.5	14
d. Other crops a/	1,780	1,829	1,855	1,447	6,911	10.2	(3)
Livestock	2,049	2,020	2,069	1,654	7,792	11.5	(6)
Poultry	417	602	569	552	2,140	3.2	38
Fisheries	701	863	779	609	2,953	4.3	6
Agri commodities comb.				3,000	3,000	4.4	
Others b/	770	1,099	1,238	1,522	4,628	6.8	63
II. Irrigation	57	21	130	26	233	0.3	436
III. Post-harvest facilities	62	500	602	448	1,613	2.4	716
IV. Other infrastructure	395	156	489	327	1,366	2.0	143
V. Marketing assistance	4,273	6,245	6,420	6,549	23,487	34.6	50
TOTAL	13,818	16,653	17,804	19,629	67,904	100.0	13

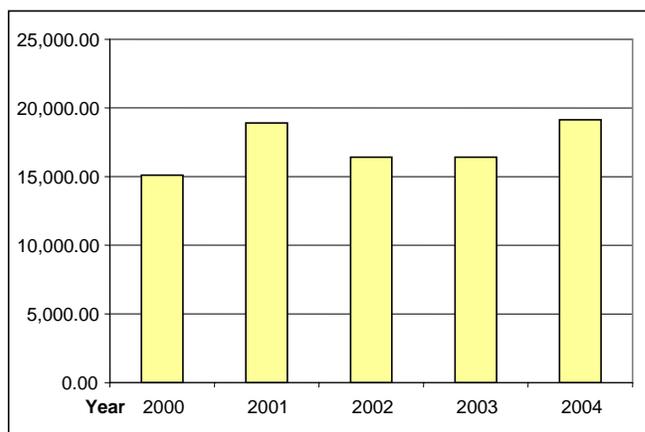
a/Sorghum, soybeans and feed grains, abaca and other fibers, coconut, coffee and cacao, cotton, sugarcane, tobacco, and other crops.

b/ Land Bank - Agricultural services, pre-harvest facilities, manufacturing/processing, other activity.

TABLE 16: REVENUES, 2000 TO 2004 (IN MILLION PESOS)

Source of Revenues	2000	2001	2002	2003	2004	Ave % share	Annual inc/(dec), in %
Loans	10,265.3	10,836.3	8,134.1	8,493.0	10,229.0	41.8	1.4
Investments	4,281.2	6,728.2	7,421.0	7,594.7	8,181.0	36.5	19.4
FX Profit/(Loss)	(179.0)	652.4	529.4	699.4	565.0	2.4	(117.6)
Others	1,436.2	1,782.5	1,786.6	1,742.7	2,423.5	9.8	15.2
Gross Revenues	15,803.7	19,999.4	17,871.1	18,529.8	21,398.5	100.0	8.8

FIGURE 7: TOTAL EXPENSES, IN MILLION PESOS



Meanwhile, total expenses of Land Bank during the same period increased at a slightly lower rate than gross revenues (see Figure 7). Interest on deposits constitutes 28 percent of total costs, while interest on borrowed funds, although increasing comprises only 8 percent. Labor cost, 21 percent of Land Bank's total expenses, steadily increased. Moreover, 18 percent of total expenses are provisions for probable losses, which peaked in 2001 but significantly decreased in 2004 (Table 17). Allowance for probable losses in loans comprised 80 percent of total, while that for

real and other ROPOA constituted 12 percent (Table 18).

TABLE 17: EXPENSES, 2000 TO 2004 (IN MILLION PESOS)

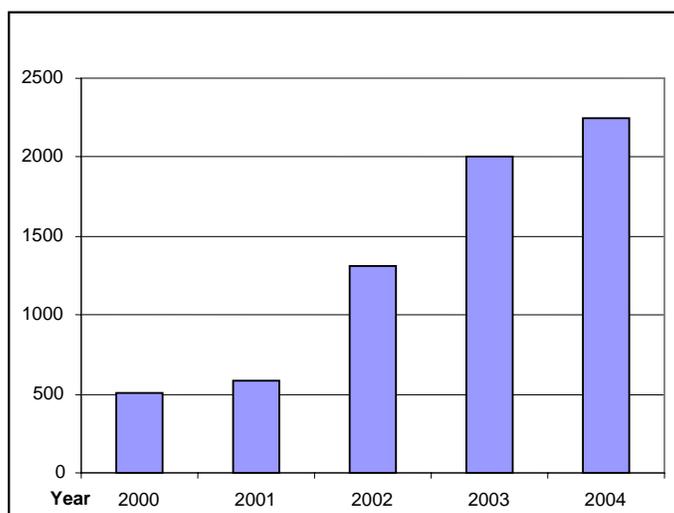
Expenses	2000	2001	2002	2003	2004	Ave % share	Annual inc/(dec), in %
Interest on deposits	5,900.2	5,201.2	3,713.1	3,757.3	5,291.3	27.8	0.4
Interest on borrowed funds	958.1	1,442.4	1,454.4	1,445.9	1,717.0	8.2	17.4
Labor cost	2,312.2	3,247.7	3,844.7	4,016.6	4,866.0	21.3	21.1
Other expenses	3,199.9	4,042.3	4,284.3	4,286.2	5,475.4	24.8	15.0
Provision for probable losses	2,754.3	5,018.5	3,088.0	2,869.4	1,739.7	18.0	(0.7)
Total Expenses	15,124.7	18,952.1	16,384.5	16,375.4	19,089.4	100.0	7.1

TABLE 18: ALLOWANCE FOR PROBABLE LOSSES (IN MILLION PESOS)

	2000	2001	2002	2003	2004	Average % share
Loans	2,046.3	4,177.0	2,475.6	2,283.0	1,288.7	80.4
Investments	137.0	6.0	3.2	175.1	130.0	2.3
ROPOA	532.0	435.0	375.5	384.9	275.7	12.3
Other receivables	39.0	400.5	233.8	26.5	45.2	5.0
Total	2,754.3	5,018.5	3,088.1	2,869.4	1,739.7	100.0

FIGURE 8: NET INCOME AFTER INCOME TAX

In Million Pesos



Land Bank's operations in the last five years have been profitable, with net income after tax ranging from more than 500 million pesos (\$15 million) to more than 2 billion pesos (\$41 million) and growing at the average rate of 51 percent per annum (Table 19 and Figure 8). Relative to its loan portfolio, Land Bank obtained gross and net profits averaging 16 percent and 1 percent, respectively, over the five-year period, while the full expense ratio (to gross loan portfolio) was placed at 15 percent. Considering the bank's revenue from loans, income to loan ratio was at an average of 7 percent (Figure 9 and Table 20).

TABLE 19: NET INCOME, 2000 TO 2004 (IN MILLION PESOS)

	2000	2001	2002	2003	2004	Annual inc/(dec), %
Total earnings	15,803.7	19,999.4	17,871.1	18,529.8	21,398.5	8.8
Total expenses	15,124.7	18,952.1	16,384.5	16,375.4	19,089.4	7.1
Net income	679.0	1,047.3	1,486.6	2,154.4	2,309.1	37.1
Net income after income tax	508.8	586.9	1,314.6	2,001.2	2,250.6	51.0

FIGURE 9: NET INCOME/LOAN

In Million Pesos

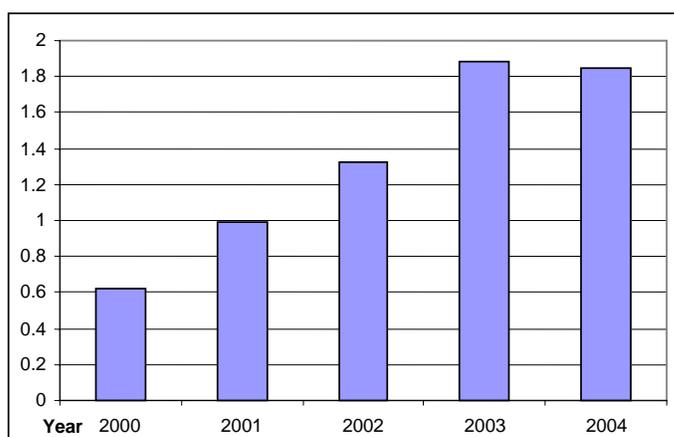


TABLE 20: INCOME AND EXPENSE PER PESO LOAN, IN PERCENT

	2000	2001	2002	2003	2004	All years
Total earnings/loan	14.53	18.87	15.87	16.13	17.13	16.50
Revenue from loans/loan	1.32	10.22	7.22	7.39	8.19	6.90
Total expenses/loan	13.90	17.88	14.55	14.25	15.28	15.15
Net income/loan	0.62	0.99	1.32	1.88	1.85	1.35

RESOURCES AND LIABILITIES

The total resources of Land Bank had been increasing steadily at an average yearly rate of 8 percent, from 211 billion pesos (\$4.8 billion) in 2000 and reaching about 288 billion pesos (\$5.1 billion) as of the end of 2004. About half (46 percent) of Land Bank's assets were loans and discounts while investments comprised one-third (see Table 21).

TABLE 21: RESOURCES, 2000 TO 2004 (IN MILLION PESOS)

Resources	2000	2001	2002	2003	2004	Ave % share of total	Ave annual inc/(dec), in %
Cash and due from banks	23,500.3	27,954.5	25,094.6	19,070.3	21,101.5	9.4	(1.2)
Investments (net)	57,260.4	69,577.9	90,311.4	95,341.5	100,837.2	33.1	15.7
Loans and discounts (net)	106,418.4	107,647.3	105,406.7	119,821.4	134,582.4	46.0	6.3
Fixed assets	3,908.4	4,164.8	4,652.1	4,824.3	5,052.5	1.8	6.7
ROPOA (net)	9,996.5	11,260.9	13,828.1	15,500.0	15,000.0	5.3	11.1
Other assets	9,962.4	8,806.2	11,514.8	13,322.7	11,125.1	4.4	4.6
Total Resources	211,046.5	229,411.7	250,807.6	267,880.2	287,698.7	100.0	8.1

While the Bank's nonperforming loans (NPL) ratio declined in 2003 and 2004 it remained worse than the industry average of 12 percent.. By March 2005, however, its NPL ratio improved to 7.2 percent, which was healthier than the industry average. Both NPL and nonperforming assets (NPA) coverage ratios also improved and by March 2005 were higher than their corresponding industry averages (Table 22).

TABLE 22: ASSET QUALITY RATIOS, (IN PERCENT)

	2003	2004	March 2005	Industry Average- Feb 2005
NPL ratio	14.7	12.8	7.2	12.5
NPL coverage ratio	72.8	80.6	160.0	64.1
NPA ratio	15.0	13.6	nd	nd
NPA coverage ratio	46.9	52.2	76.5	35.9

The Bank's deposits comprised the bulk (72 percent) of its total liabilities over the last 5 years (as shown in Table 23) while total liabilities increased 8 percent per annum. As of end of 2004, capital funds of Land Bank stood at roughly 21 billion pesos (\$73 million dollars) up from 16 billion pesos (\$372 million) in 2000.¹⁷

TABLE 23: LIABILITIES AND CAPITAL, 2000 TO 2004 (IN MILLION PESOS)

Liabilities and Capital	2000	2001	2002	2003	2004	Ave % share of total	Ave annual inc/(dec), in %
Deposits	149,190.0	168,533.1	179,450.6	184,921.6	214,905.3	71.9	9.7
Bills payable	23,651.1	27,163.1	35,249.7	37,625.0	32,055.0	12.5	9.1
Other liabilities	21,654.5	14,847.5	15,341.2	23,261.6	19,787.2	7.6	2.1
Total Liabilities	194,495.6	210,543.7	230,041.5	245,808.2	266,747.5	92.0	8.2
Total Capital	16,550.9	18,868.0	20,766.1	22,072.0	20,951.2	8.0	6.3
Total Liabilities and Capital	211,046.5	229,411.7	250,807.6	267,880.2	287,698.7	100.0	8.1

FINANCIAL PERFORMANCE RATIOS

ROE posted in 2004 by Land Bank was close to 11 percent, better than the industry average and a substantial improvement from the 3 percent posted in 2000. Net interest margin in 2004, reported at roughly 5 percent, was slightly better than industry average. Meanwhile, the bank's registered capital adequacy ratio has improved and been at par with the industry standard of not less than 10 percent but still falls short of the industry average (August 2004) (see Table 24). Being higher than the industry average, the Bank's leverage ratio has helped it achieve higher than average profitability indicators.

TABLE 24: SELECTED PROFITABILITY AND SOLVENCY RATIOS (IN PERCENT)

	2000	2001	2002	2003	2004	Industry Average-August 2004
ROE	3.19	9.24	8.25	9.34	10.46	7.6
ROA	0.25	0.69	0.69	0.77	0.81	0.9
Net interest margin	4.69	5.80	4.74	4.63	4.60	4.10
Risk-based capital adequacy ratio	10.57	10.60	14.56	14.65	13.70	17.0*

*as of June 2004

¹⁷ See Annex 1 for the peso-dollar exchange rate during the period of the study.

IV. LESSONS AND CONCLUSIONS

The Land Bank is a universal bank owned by the Philippine government. It has been mandated to provide financial services to a wide array of rural clients but at the same time, to give special attention to promoting rural development, assisting small farmers, supporting rural infrastructure, and providing a variety of services to ARBs. This is done not only directly at the retail level but also at the wholesale level through a variety of financial intermediaries, including rural banks, credit cooperatives, and a few thrift banks.

Its performance is remarkable considering that it has survived for 40 years without requiring bailouts to avoid bankruptcy, and it continues to serve a large and diverse rural clientele. In contrast, most other government-owned agricultural/rural development banks around the world have experienced episodes of bankruptcy that have required massive government and donor bailouts. In the Philippines itself, moreover, the two other major government-owned banks both experienced costly bankruptcies during the past 15 years despite the fact that their missions are much less demanding.

THE IMPORTANCE OF A GOOD POLICY ENVIRONMENT

A good policy environment underpins Land Bank's achievements over the years. Financial reforms pursued by the government since the early 1980s, when interest rates were deregulated and liberalized and the reforms introduced by Presidents Aquino and Ramos led to the dismantling of monopolies and further trade liberalization, provided the foundations for low inflation and economic growth. Congress enacted a law allowing entry of a limited number of foreign banks, thereby introducing greater competition in the financial markets.

A critical component of the package of reforms is the adoption of banking standards required by the Basle Accord. The BSP required Philippine banks to put up adequate capital and improve board governance and various prudent regulations. The 1997 Asian financial crisis drove home the point that weak bank governance and antiquated regulatory frameworks were significant contributory factors to the weakening of the financial system among Association of South East Asian Nations countries.

In compliance with the Agriculture and Fisheries Modernization Act of 1997 and Executive Order No. 138 (1999), the government finally terminated all the money-losing, subsidized agricultural credit programs because of their failure to solve the problem of lack of access to credit by small-scale borrowers and the huge fiscal cost of subsidizing those credit programs. The remaining cash balances from the terminated subsidized credit programs were transferred by the government to Land Bank with a directive to the latter to provide wholesale loans to private financial institutions that in turn would on-lend to end-borrowers. The market orientation of financial and credit policies mandated under the Agriculture and Fisheries Modernization Act and Executive Order No. 138 reduced political pressure on Land Bank to perform subsidized lending.

CHANGING FOCUS FROM AGRARIAN REFORM TO RURAL PORTFOLIO DIVERSIFICATION

As a universal bank, Land Bank today has a diversified loan portfolio, which has enabled better management of risks and a delicate balancing of the mandate to finance target clientele with sustainable banking. The current situation has come about through a gradual change of focus from ARBs to client and service diversification that has promoted institutional survival and viability.

Initially, the law required Land Bank to advance the payment of agricultural lands that are distributed to ARBs and to collect repayments from those beneficiaries over an extended period. Fulfilling the

socio-political mandate of financing agrarian reform had potentially serious repercussions on its balance sheet, implying a future bailout from the government in case Land Bank became insolvent. The gradual change in focus from ARBs to becoming a universal bank was achieved as Land Bank actively engaged policy makers in a continuing dialogue on the implications and corresponding costs of operating as a bank with a single portfolio of ARBs. Learning from the experience of the costly bailouts of PNB and DBP, the Congress of the Philippines recognized the need for sustainable banking and revised the charter of Land Bank to make it more capable of meeting the challenging demands of its mandate. Land Bank's capitalization was increased and it was given free rein to diversify its loan portfolio.

During its evolution from an organization designed purely as a financing arm of the government's agrarian reform program to a universal bank that caters to a wide variety of countryside-based clientele, Land Bank has seized opportunities to develop lending programs for LGUs, local housing, and rural infrastructure. The 1990 Local Government Code provided LGUs autonomy and the means to raise revenues and spearhead local development. Land Bank positioned itself as a universal bank that understands local development needs and is willing to provide both the public- and private-sector financing they require.

AVOIDING BEHEST LOANS

The Philippine political experience shows the rent-seeking behavior of politicians who are not averse to using government financial institutions to achieve political and self-interested objectives. The other two state-owned banks, the PNB and DBP, both collapsed under the heavy burden of unpaid behest loans made at the direction of a martial law government. However, that Land Bank has managed to avoid the plague of behest loans has become some sort of a puzzle, given Philippine politicians' unscrupulous use of government institutions to further personal objectives.

Land Bank enjoyed good leadership during those difficult times when PNB and DBP were required to make behest loans. It helped that Land Bank was cast as an agrarian reform bank with a constituency composed of restive farmers. It would have been political risky for the government to use the Land Bank for self-interested rent seeking. During the martial law regime, the Secretary of Finance and the President of the Land Bank combined forces to thwart any attempt to use Land Bank as a personal cash register.

Nonetheless, a scrutiny of the Land Bank experience indicates that it is not only just about having good leadership in those difficult times but also having different board members representing specific constituencies that thwarted behest loans. The composition of the board of directors acts as a natural barrier against politically motivated behest loans. The Secretary of Agriculture represents the farmers, many of whom are ARBs. He found a natural ally in the Secretary of Agrarian Reform who is protective of the interest of the agrarian reform bloc¹⁸. The Secretary of Labor represents the politically powerful labor sector, which is well organized and media savvy. The Secretary of Finance acts as Chairman of the Board of Directors and has pragmatic allies such as multilateral and bilateral lenders that would be the first to object to a possible misuse of Land Bank loans sourced from official development assistance. Private-sector representatives also are present to speak for the farming and labor sectors, although these may be the weakest link as they are appointed directly to the Board by the president rather than serving in Cabinet-level capacities. Private-sector representatives may be beholden to the appointing power especially if their appointment as members of the Board is perceived as a political reward rather than as an opportunity to represent the farming and labor

¹⁸ This structure may not be replicable in other countries where the Minister of Agriculture may represent large farmers and landholders.

sectors. Although Cabinet secretaries are also political appointees, they are expected to represent specific and well-identified constituencies. Thus, once appointed, they represent those constituencies and not directly the president and friends who seek behest loans.

DEVELOPING ITS OWN FINANCIAL MUSCLE

Land Bank has ingeniously used its good performance and the support of clients based in the countryside to persuade Congress to increase its capitalization. Land Bank's attempts to respond to the demands of a diversified clientele base and the financial requirements of the agrarian reform program were matched by its own and its political supporters' successful efforts to increase capitalization and improve incentives for staff. It now ranks fifth in terms of capitalization and fourth in terms of assets among the country's universal banks. Nonetheless, it continues to require increased capitalization in view of the magnitude of financing requirements of its diversified clientele base and the tough competition among the country's top universal banks.

Land Bank also has drawn financial muscle from a huge deposit base to fund its lending programs, which has prevented a dependency on multilateral and bilateral sources and the government for providing its loan funds. The downside is that the Land Bank is dependent on deposits of the government, especially LGUs, because it is the government depository bank. This position has discouraged it from being as aggressive in deposit mobilization as private commercial banks.

The privatization of PNB and the downsizing of DBP have left the Land Bank as the only government depository bank with an extensive branch network. It currently enjoys a monopoly of LGUs' deposits, but it has started to respond with attempts to provide a full range of financial services to LGUs and other local depositors, including rural banks, that use the Land Bank as a clearinghouse for various transactions such as current accounts. As a universal bank, Land Bank is a full-service commercial bank that is able to compete with similar products offered by private commercial banks. The extensive branch network, which serves poorer regions, provinces, and municipalities, gives it the necessary presence in those areas, and is rewarded by sizeable LGUs and a growing interest among private depositors.

GOOD RISK MANAGEMENT AND INTERNAL AUDIT AND CONTROL

Land Bank apparently has adopted good risk management practices and internal audit and control as required by the BSP in the wake of the 1997 Asian financial crisis. To its credit, Land Bank had been especially serious about those aspects of effective bank management even before that crisis. Its long association with the donor community has strengthened this crucial aspect of Land Bank's bank management and operations because loan covenants with multilateral and bilateral lenders require the presence of effective risk management and internal audit and control as a condition to financial assistance. Multilateral and bilateral lenders also typically have regular supervision missions that monitor compliance with loan covenants and, invariably, risk management and internal audit and control are examined in those supervision missions.

TENSION BETWEEN WHOLESALE AND RETAIL LENDING

The current wisdom that government-owned banks should avoid retailing has its roots in the observation that such lending has almost everywhere become politicized, leading these banks to financial disaster. Even where such lending is not subsidized, targeted lending adds to transaction costs and, perhaps more importantly, causes borrowers to think they belong to a favored class that need not repay their loans. Such thinking has led international development agencies to pressure Land

Bank to curtail its retail lending and to focus on wholesaling to avoid the crowding out effect on private initiatives at lending to end-borrowers.

Despite current Philippine government policies and international views on best practices for government-owned financial institutions, Land Bank continues extensive wholesale and retail lending, although it appears conflict of interest (that is, client stealing) has been avoided. This practice contradicts current thinking that indicates government-owned banks should not do both, especially not to the same clientele. The Land Bank uses ‘market failure’ as justification for its retail business, arguing that other commercial lenders would not ordinarily cater to the retail clients of Land Bank—such as LGUs—especially those in the poorer areas of the country that apply for rural infrastructure loans.

OPPORTUNITIES AND CHALLENGES OF WHOLESALE FINANCE

There are some caveats with respect to the wholesale finance function of government-owned financial institutions, with specific attention to the challenges and opportunities that face Land Bank in such operations. First, as enunciated in Philippine government policies, it is important that wholesale lenders do not provide funding to retailers that involves below market interest rates or other subsidy elements. Such subsidies discourage deposit mobilization, and financial institutions that do not rely primarily on deposits for their funding are less likely to be sustainable. As a corollary to this, wholesale lenders should be cautious about arguments as to the need for them to provide long-term funds to support retailers’ long term lending. This will reduce incentives for retailers to develop their own private sources of long-term funds and, perhaps more importantly, to fail to understand that a stable pool of large numbers of small deposits can provide excellent support for long-term lending.

The main challenge in wholesale lending is to avoid problems of adverse selection—that is, ending up with the weakest retailers that need funds because they are having problems with deposit mobilization due to some combination of poor service to depositors and the appearance (perhaps reality) of being less stable and secure than their competitors. Land Bank, like any wholesale lender, faces the risk of adverse selection, especially if loan officers view as best clients those that draw most heavily and most frequently on its offers of funding although these may be among the very weakest rural banks, in spite of Land Bank efforts to maintain stringent diligence.

Given this, Land Bank would be well advised to consider different approaches to wholesale finance, such as developing innovative products and services to meet the particular needs of its three main types of wholesale lending clients: 1) rural banks; 2) cooperatives; and 3) NGO MFIs and other new potential clients.

Rural Banks. A challenge that faces local financial institutions in any country is the inevitable lack of diversification of local economies, which creates barriers to adequate portfolio diversification and raises the likelihood that local financial institutions will be subject to systemic risks and become noncompetitive with nationwide financial institutions. In serving rural banks, Land Bank might consider focusing on product innovation involving liquidity services for rural banks whose local economies are potentially subject to major shocks (such as adverse weather, insect pests, or substantial falls in prices for some major agricultural products). This would seemingly be a significant departure from Land Bank’s current focus on rediscounting rural bank loans to final borrowers who are selected primarily because they correspond to Land Bank’s target clientele. It would require careful development of Land Bank staff’s ability to differentiate quickly and accurately between rural banks experiencing sudden onsets of liquidity problems due to adverse, short-term external shocks and those with liquidity problems that are symptomatic of deeper problems and a possible indication of potential insolvency.

Land Bank could also seek to expand its wholesale lending to rural banks in an entirely different way. Rural banks are often constrained in making larger loans to small enterprises because of single borrower limits. In fact, studies of financial markets in the Philippines, especially in rural areas, have detected an important lack of lending in the range of US\$3,000 to US\$20,000.¹⁹ While there are a variety of challenges in moving up from micro lending to small enterprise lending, for rural banks in the Philippines lack of adequate capital may be a major additional barrier. Thus, for rural banks that are solid but lack the capital required to make larger loans, Land Bank might consider developing loan products that could serve as second tier capital, thereby expanding a rural bank's capital base and allowing it to reach this important and currently neglected market. It is, however, important to stress that Land Bank should not have an ownership role in those rural banks to which it provides second tier capital in order to maintain an arm's length relationship with those banks, thereby avoiding conflict of interest situations.

Cooperatives. Land Bank serves two types of cooperatives: credit cooperatives and cooperatives whose primary activities are non-financial, typically production and/or marketing. From the perspective of not disrupting deposit mobilization, it would be best if Land Bank focused its wholesale lending activities on the non-financial cooperatives. However, Land Bank's wholesale credit cooperative clients have had much better repayment performance than the non-financial cooperatives. Moreover, recent work by the Philippine National Credit Council (NCC), with support from the U.S. Agency for International Development's (USAID's) Credit Policy Improvement Project (CPIP), has focused on promoting transparency in the credit cooperative sector through promoting the use of a standardized chart of accounts (ultimately to be required) and performance indicators. Land Bank might take advantage in the near term of likely improvements in transparency for credit cooperatives, which could allow it to judge more quickly and accurately the financial soundness of such cooperatives and thereby expand its existing client base among such cooperatives. This could provide an interesting opportunity for Land Bank to refocus its wholesale lending efforts on cooperatives with a considerable head start over any potential competitors because of its longstanding efforts in the cooperative sector. Nonetheless, Land Bank needs to maintain constant vigilance with respect to the danger of over-indebtedness of credit cooperatives, which is even more hazardous than for rural banks because of the possibility of disrupting the self-help traditions of these member-owned organizations. In this respect, Land Bank has learned from the lessons of its failed lending program for cooperatives in the 1990s and has undertaken a program of technical assistance to rehabilitate weak cooperatives and improve their performance.

NGO MFIs, new potential clients. In addition to its work with credit cooperatives, the NCC, with support from CPIP, is working simultaneously with nonprofit (NGO) MFIs to promote transparency by introducing a standardized chart of accounts and a set of performance indicators for NGO MFIs as well. This would be an entirely new wholesale market for Land Bank, although its intimate relationship with the People Credit and Finance Corporation (PCFC) has already given Land Bank substantial indirect knowledge of the NGO MFI sector. The government has attached PCFC to Land Bank for administrative supervision. Land Bank is represented in PCFC's board of directors, which enables it to have some familiarity with PCFC's client base. Since NGO MFIs are not permitted to take deposits, except perhaps as compensating balances for guarantees against members' loans, Land Bank does not face any conflict of interest with respect to introducing incentives that could disrupt possible deposit mobilization efforts. In fact, BSP is currently concerned about possible illegal deposit taking by NGO MFIs. In this sense, wholesale lending by Land Bank to NGO MFIs could provide an important incentive for them to avoid possible problems with BSP.

¹⁹ For example, Gilberto M. Llanto. 2005. *Rural Finance in the Philippines: Issues and Policy Challenges*, a report prepared for the Agricultural Credit Policy Council.

In attempting to optimize its balance between wholesale and retail lending, Land Bank might consider a variety of innovative products and services at the wholesale level that could avoid problems of adverse selection and/or weakening its clients by creating incentives that weaken their deposit mobilization efforts.

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ANNEX 1: PESO–U.S. DOLLAR RATE, 2000–2005

TABLE 1A: PESO- US DOLLAR RATE, 2000 – 2005 (MONTHLY AVERAGES)

Period	2000	2001	2002	2003	2004	2005
January	40.4266	50.9693	51.4097	53.5635	55.5261	55.7662
February	40.5717	48.2897	51.2817	54.0748	56.0696	54.8128
March	40.9381	48.4673	51.0661	54.5909	56.3029	54.4402
April	41.1884	50.1854	50.9872	52.8068	55.9039	54.4918
May	41.8063	50.5389	49.8383	52.5072	55.8453	54.3411
June	42.6489	51.4881	50.4065	53.3992	55.9848	55.1790
July	44.3557	53.2242	50.5963	53.7138	55.9527	56.0062
August	44.8977	51.9877	51.7931	54.9914	55.8342	55.9523
September	45.7367	51.2499	52.1292	55.0235	56.2132	56.1562
October	48.1061	51.7333	52.9070	54.9520	56.3414	
November	49.7537	51.9899	53.3082	55.3718	56.3221	
December	49.8962	51.7889	53.5195	55.4451	56.1828	
Average	44.5363	50.9948	51.6212	54.2615	56.0866	55.1724

Source: BSP website

ANNEX 2: GROSS NATIONAL PRODUCT AND GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN, 1ST QTR 2003–2ND QTR 2005

**TABLE 2A: GROSS NATIONAL PRODUCT AND GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
1ST QTR 2003 – 2ND QTR 2005 (AT CURRENT PRICES, IN MILLION PESOS)**

Period	Agriculture, Fishery and Forestry	Industry	Service	Gross Domestic Product (GDP)	NFIRW	GNP
2003						
Q1	152,730	318,321	519,948	990,999	68,604	1,059,603
Q2	133,346	329,011	566,638	1,028,995	77,935	1,106,930
Q3	144,394	343,448	561,844	1,049,687	76,361	1,126,047
Q4	200,834	381,808	640,703	1,223,345	75,517	1,298,862
Total	631,304	1,372,588	2,289,133	4,293,026		
%of GDP	14.7	32.0	53.3	100.0		
2004						
Q1	173,010	345,970	574,144	1,093,124	75,946	1,169,070
Q2	156,625	364,468	637,516	1,158,608	96,937	1,255,545
Q3	178,652	386,335	632,460	1,197,447	80,572	1,278,019
Q4	226,057	440,880	710,226	1,377,163	87,777	1,464,940
Total	734,344	1,537,653	2,554,346	4,826,342		
%of GDP	15.2	31.9	52.9	100.0	100	
2005						
Q1	186,035	385,397	646,512	1,217,944	87,984	1,305,928
Q2	167,106	414,211	710,081	1,291,399	107,678	1,399,077
Total	353,141	799,608	1,356,593	2,509,343		
%of GDP	14.1	31.9	54.1	100.0		

Source: Philippine National Statistical Coordination Board website

ANNEX 3: EMPLOYED PERSONS BY MAJOR INDUSTRY GROUP, PHILIPPINES: JULY 2004 AND 2005

TABLE 3A: EMPLOYED PERSONS BY MAJOR INDUSTRY GROUP, PHILIPPINES: JULY 2004 AND 2005

	2004		2005	
	No. employed ('000)	% of total	No. employed ('000)	% of total
Philippines	32,521	100.0	31,632	100.0
Agriculture	11,990	36.9	11,450	36.2
Agriculture, Hunting and Forestry	10,595	32.6	10,082	31.9
Fishing	1,395	4.3	1,368	4.3
Industry	4,999	15.4	4,933	15.6
Mining and Quarrying	111	0.3	114	0.4
Manufacturing	3,068	9.4	3,056	9.7
Electricity, Gas, and Water	111	0.3	110	0.3
Construction	1,709	5.3	1,653	5.2
Services	15,532	47.8	15,250	48.2
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles	6,064	18.6	5,901	18.7
Hotels and Restaurants	859	2.6	805	2.5
Transport, Storage, and Communications	2,419	7.4	2,465	7.8
Financial Intermediation	358	1.1	348	1.1
Real Estate, Renting, and Business Activities	715	2.2	691	2.2
Public Administration and Defense, Compulsory Social Security	1,497	4.6	1414	4.5
Education	1,005	3.1	976	3.1
Health and Social Work	380	1.2	375	1.2
Other Community, Social, and Personal Service Activities	714	2.2	782	2.5
Private Households with Employed Persons	1,520	4.7	1,491	4.7
Extra-Territorial Organizations and Bodies	2	0.0	2	0.0

Source: Philippine National Statistical Coordination Board website, last updated September 15, 2005.

ANNEX 4: LOAN RELEASES UNDER LAND BANK'S DONOR-FUNDED CREDIT PROGRAMS

This annex presents a listing of special credit programs of Land Bank that are funded by loans including grants obtained from foreign financing institutions and their corresponding amount of loan funds, drawdowns and cumulative loan releases under each as of yearend 2004 (Table 4A). Further, these are summarized in Annex Table 4B. Land Bank implements a total of 20 foreign-funded special programs most of which started in the mid-1990s. Three are funded by grant assistance totaling 54.8 million dollars from ADB and WB all for environment-related projects such as pollution control and resource management in protected areas and the phase-out ozone-depleting substance consumption in the country. All the rest (17) are funded by loans of Land Bank from ADB, WB, JBIC, KfW, and IFAD aggregately amounting to 1,086 million dollars or 95 percent of the total funding for its special programs. Of the more than 1 billion dollars foreign funding for special credit programs of the bank, almost 50 percent came from the WB for the Agricultural Loan Fund (ALF), Countryside Loan Fund (CLF) I, II and III projects, which all support SMEs; 20 percent came mainly from ADB and JBIC for lending to CARP beneficiaries and small farmers and fisherfolk cooperatives; another 20 percent from JBIC, WB and ADB for LGU 4 projects; 6 percent for environment-related projects; and 2 percent for microfinance projects with funding from KfW, ADB and IFAD.

As to the utilization of the funds, 77 percent of the total foreign funding had been withdrawn from the funding sources and disbursed to clients. Eight of the twenty programs had fully withdrawn and utilized the funds.

TABLE 4A: CUMULATIVE LOAN RELEASES UNDER LAND BANK'S FOREIGN-FUNDED CREDIT PROGRAMS (AS OF DECEMBER 2004)

Program	Year Started	Program Objective	Amount (In US\$ M)	Draw-downs (In US\$ M)	Cum. loan releases
I. SMALL FARMERS AND FISHERFOLK					
1. JBIC-Financing Program for Small Farmers and Fisherfolk Cooperatives	1992	To provide loans to small farmers/fisherfolk co-ops to strengthen their production base and income-generating capacity of co-op members	57.7	57.7	P1.5 billion, reflow P0.2 billion
2. ADB-Mt. Pinatubo Damage Rehabilitation Project	1992		8.9	8.9	
3. ADB-Small Farmers Credit Project	1993	To contribute to the improved productivity and income of small farmers and strengthen the rural financial system	75.0	75.0	P2.9 billion; reflows 1.5 billion
4. JBIC-Rural Farmers and Agrarian Support Credit Program	1996	To finance crop production and fixed asset acquisition of CARP beneficiaries in targeted agrarian reform communities	86.8	86.8	3.6 billion, reflows – P0.4 billion
Sub-Total I Small Farmers and Fisherfolk			228.4	228.4	
II. SMALL AND MEDIUM ENTERPRISES					
5. WB – AGRICULTURAL LOAN FUND		To provide for the financing of agricultural/agri-business investments intended to hasten development and support economic growth in the country	120	120	3.5 billion to 768 PFI sub-borrowers; reflow – P3.4 billion
6. WB-Countryside Loan Fund I	1991	To finance agri-related production, food or agro-processing services, and manufacturing that generates employment and exports outside Metro Manila.	150.0	150.0	P12.7 billion involving 1,057 sub-borrowers

Program	Year Started	Program Objective	Amount (In US\$ M)	Draw-downs (In US\$ M)	Cum. loan releases
7. WB-Countryside Loan Fund II	1995	To provide medium and long-term loans to finance private investment in the countryside	150.0	150.0	P8.5 billion involving 1,205 PFI sub-borrowers
8. WB-Countryside Loan Fund III	1999	To finance viable sub-projects: a. US\$ 130 million for wholesaling to PFIs b. US\$15 million for retailing to Land Bank clients c. US\$5 million for on-lending to PCFC for relending thru MFIs	150.0	111.3	P5.3 billion involving 389 PFI sub-borrowers
Sub-Total II SMEs			570.0	411.3	
III. MICROENTERPRISE					
9. ADB AND IFAD – RURAL MICROENTERPRISE FINANCE PROJECT	1997	Relent to PCFC for onlending to micro-finance institutions to provide credit to rural poor in order to finance livelihood projects using the Grameen Bank approach adapted to Philippine conditions	31.2	30.6	P1.4 billion
10. KFW-LAND BANK-PBSP SMALL, MICRO AND COTTAGE ENTERPRISE CREDIT PROJECT I	1996	Relent to PBSP for onlending to intermediary financial institutions to finance investments in fixed assets and working capital of small and microenterprises	9.2	9.2	P251million
11. KFW-LAND BANK-PBSP SMALL, MICRO AND COTTAGE ENTERPRISE CREDIT PROJECT II		Relent to PBSP for onlending intermediary financial institutions to support the development of micro and small enterprises by allowing them access to credit to finance fixed assets and working capital investments	3.2	3.2	P140 million
12. WB-MICRO-FINANCE LOAN FUND		To provide funds to PCFC for on-lending to conduit-MFIs	5.0	5.0	P267.2 million
Sub-Total III –Microenterprise			48.6	48.0	
IV. LGUs					
13. JBIC-Metro Cebu Development Project III	1996	To reduce the incidence of poverty and accelerate economic growth in Metro Cebu through the reclamation of an additional 330 hectares for industrial and export processing used	109.6	109.2	P4.7 billion
14. JBIC-Local Gov't. Units Support Credit Program	1999	To augment sources of development funds for LGUs through the extension of credit assistance	55.3	27.6	P1.5 billion
15. WB-Water Districts Development Project (Urban Sewerage, Sanitation and Drainage Facility)	1999	To support the government in its reform of the water and sanitation sector and address problems of inadequate sanitation and sewerage facilities of LGUs	25.9	13.6	P618 million
16. ADB-Mindanao Basic Urban Services Sector	2002	To provide financing for urban infrastructure and services initiated by Mindanao LGUs	35.5	2.1	P119 million
Sub-Total IV – LGUs			226.3	152.5	

Program	Year Started	Program Objective	Amount (In US\$ M)	Draw-downs (In US\$ M)	Cum. loan releases
V. ENVIRONMENT-RELATED					
17. ADB-Industrial Forest Plantation Project	1992	To finance the development of industrial forest plantation	13.2	13.2	P428.2 million
18. WB-Ozone Depleting Substances Phase-Out Project (Grant)	1994	To reduce and phase-out ozone-depleting substance consumption in the country	10.8	10.8	US\$ 10.8 million
19. ADB-Air Pollution Control Credit Facility (Grant)	1999	To improve air quality in Metro Manila and other urban cities and provide resources for the purchase and installation of air emission control equipment	27.7	5.8	P297.9 million
20. WB-Integrated Protected Areas Project (Grant)	1994	To enforce conservation laws and resource management in 10 priority habitats of endangered plants and animals through the promotion of livelihood activities as alternative source of income	16.3	12.0	US\$ 12.0 million
Sub-Total V – Environment			68.0	41.8	
TOTAL			1,141.3	882.0	Php 47.716 billion and US\$ 22.8 million

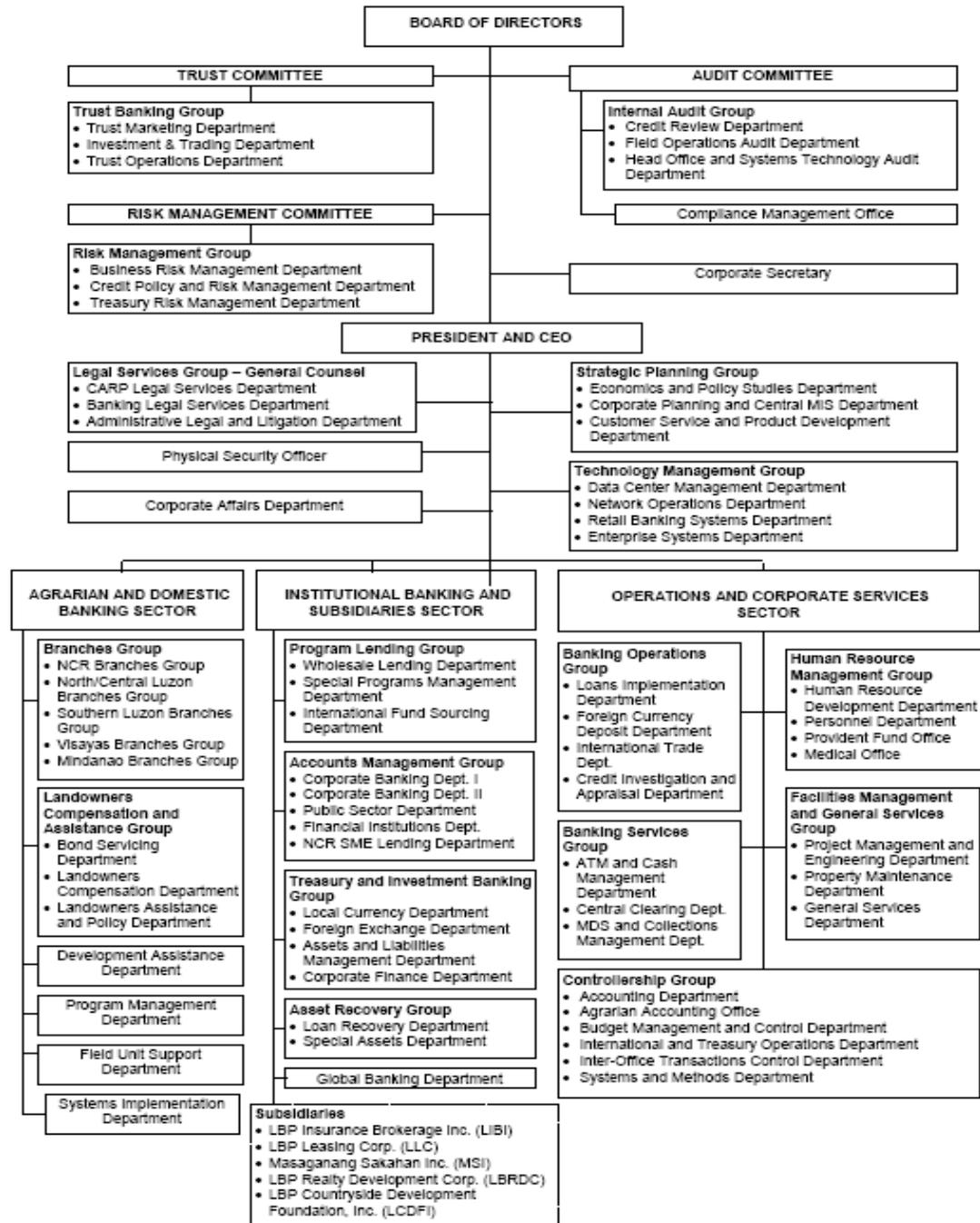
TABLE 4B: RELEASES UNDER LAND BANK'S FOREIGN-FUNDED CREDIT PROGRAMS (AS OF DECEMBER 2004)

Target Sector of Programs	Foreign Funding Sources	No. of Programs	Ave. Years in Operation	Total Funding (In US\$ M)	Draw-downs (In US\$ M)	Cum. loan releases
Small Farmers and Fisherfolk (SFF Co-ops-1992, Mt. Pinatubo-1992, SFCP-1993, RASCP-1996)	JBIC, ADB	4	11	228.4	228.4	> 8 billion pesos
Small and Medium Enterprises (ALF-1991, CLF I-1995, CLF II-1999, CLF III-_____)	WB	4	9	570.0	411.3	30 billion pesos to 3,419 sub-borrowers
Microenterprises (ADB/IFAD RMFP-1997, KfW I-1996, KfW II-____, WB MF Loan Fund)	ADB, IFAD, KfW, WB	4	7	48.6	48.0	2.06 billion pesos
LGUs (MCebu-1996, LGU Credit-1999, Water District-1999, Mindanao-_____)	JBIC, WB, ADB	4	6	226.3	152.5	6.93 billion pesos
Environment-Related (Forest PP-1992, Ozone-1994, Air Pollution-1999, Protected Areas-1994)	ADB, WB	4	9	68.0	41.8	726 million pesos and 22.8 million dollars
Total		20		1,141.3	882.0	47.716 billion pesos and 22.8 million dollars

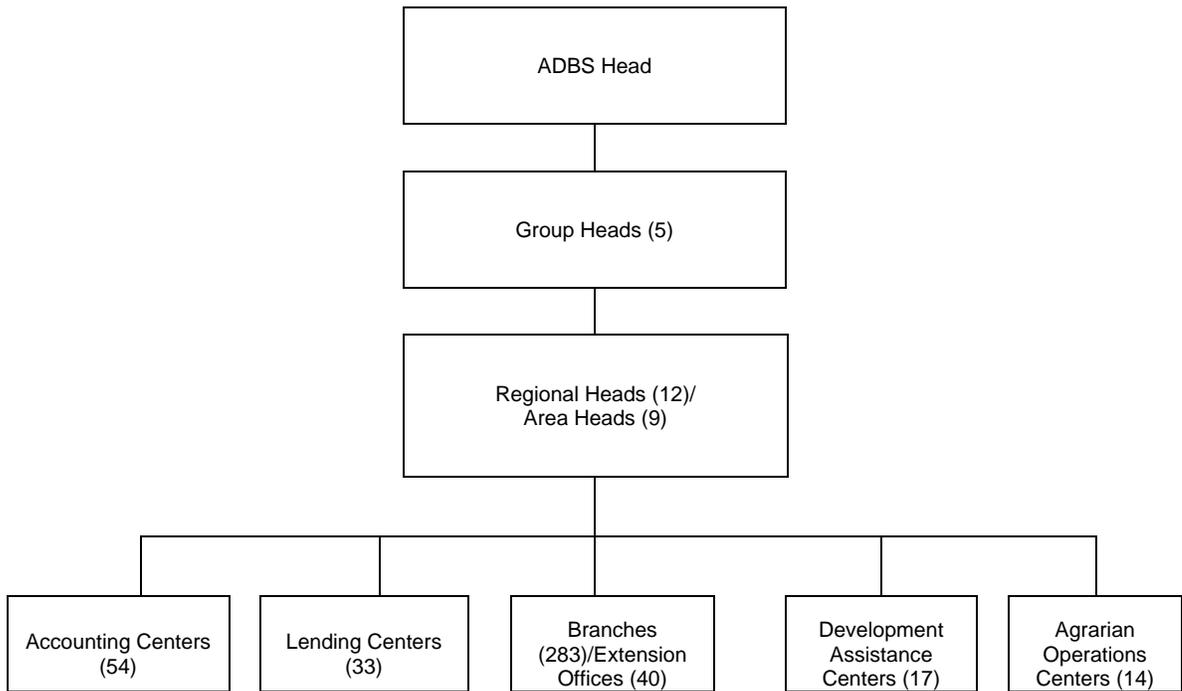
ANNEX 5: LAND BANK ORGANIZATIONAL STRUCTURE

As of March 2005

LAND BANK OF THE PHILIPPINES Organizational Structure



ANNEX 6: LAND BANK FIELD STRUCTURE



ANNEX 7: RISK MANAGEMENT GROUP UNITS

CREDIT RISK MANAGEMENT

The CPRMD manages credit risks through continuous assessment, proper delegation of approving authorities, strict adherence to the prescribed credit risk policies and practices and close monitoring of various credit portfolios. It implements risk control and measures to mitigate credit risks, especially those arising from increasing loan exposure to the agricultural sector.

The continuous review, monitoring and approval of loans are being done at various levels. The Loan Executive Committee, chaired by the President, convenes weekly to approve loans of 50 million pesos (906 thousand dollars) to 100 million pesos (1.8 million dollars)²⁰. However, new and/or additional loans in excess of 100 million pesos are elevated to the Board of Directors for approval. Loan accounts with lesser amounts are approved by sub-committees at the provincial and regional levels, as shown in Table 7A.

TABLE 7A: LOAN SIGNING AND APPROVING LIMITS, AS OF SEPTEMBER 2003

Approving Authority	Maximum Credit Limit
Land Bank Board of Directors	Above 100 million pesos (1.814 million dollars)
Investment and Loan Executive Committee (ILEC)	Above 50 – 100 million pesos (907 thousand -1.8 million dollars)
Institutional Banking Loan Committee (IBLC-Head Office Loans)	Up to 50 million pesos (907 thousand dollars)
Domestic Banking Loan Committee - (DBLC-Branch Loans)	Up to P50 million pesos (907 thousand dollars)
Branch Group Heads	Up to P15 million pesos (272 thousand dollars)
Regional Heads	Up to P3 million pesos (54 thousands dollars)
Branches/Lending Center Heads	Up to P1 million pesos (18,141 dollars)

The CPRMD issues policy guidelines to all lending units (i.e., the lending centers/branches of the Agrarian and Domestic Banking Sector and various departments of the Institutional Banking Sector) to ensure that the bank-financed projects conform to environmental laws, regulations and requirements, among others. Credit rating systems for financial institutions, SMEs and LGUs were also established and enhanced through setting up loan default probabilities and benchmarks for calibration to give higher efficiency and reliability.

Also playing important roles in credit risk management are a number of units of Land Bank that provide credit support functions and other ancillary services to the Lending Units. These credit support units and their respective functions are listed in Table 7B.

²⁰ At 55.1724 pesos per dollar, the average peso to dollar rate for January to September 2005.

LIQUIDITY RISK MANAGEMENT

TABLE 7B: SUPPORT UNITS AND SERVICES TO LENDING UNITS

Name of Units	Support Functions
Accounting Centers	Perform general accounting of commercial and agrarian loans for the agrarian and domestic sector.
Loans Implementation Department	Books Head Office (HO) loans, including processing and releasing of approved loans/lines and billing and application of payment.
Operations Legal Department	Handles all agrarian and banking legal requirements of HO and Metro Manila Units, including legal issues related to bank credit operations raised by ADBS Regional Heads and Legal Officers assigned to IBS and ADBS.
Credit investigation and Appraisal Department	Conducts appraisal of property used as collateral for loans. Handles credit investigation of borrowers and background investigation for prospective suppliers
Loan Program Development Department	Designs and develops financial products and programs for lending.
Development Assistance Center (DAC)	Provides institution building (IB) support to cooperatives and financial institutions (CFIs); and technical and market assistance for cooperatives, CFIs and small and medium enterprises at the field-level.
Development Assistance Department	Provides technical assistance to cooperatives, CFIs and SMEs; and assistance to DAC in IB, enterprise development assistance, and operations review of cooperatives.
Development Assistance Research and Programs Group	Researches and generates institution-building models and non-financial development assistance for mandated clients.
Credit Review Department	Performs process compliance review and assessment.
Credit Policy and Risk Management Department (CPRMD)	Formulates/reviews credit policy and conducts loan portfolio valuation review, norm setting and adjustments.

The Asset and Liability Committee (ALCO) and the Treasury and Investment Banking Group are the teams in Land Bank that take charge of the daily implementation of liquidity strategies approved by the Land Bank Board and monitors relevant variables affecting the bank's liquidity position. The ALCO reviews Land Bank's assets and liabilities position on a regular basis and recommends measures to diversify liabilities to minimize liquidity risks resulting from concentration in funding sources. TRMD assists ALCO in liquidity risk management by regularly preparing a liquidity gap report that provides analysis of maturity mismatches between deposits and loans over a given period. It also prepares a contingency plan to cover for any unforeseen events or disruptions in operations.

MARKET RISK

Market risk or the risk of loss arising from a change in the value of a financial instrument or portfolio caused either by changes in interest rates, foreign exchange rates, credit spreads or commodity price is managed by Land Bank through the conduct of sensitivity analysis of the trading, investment and asset/liability portfolios.

To control risks inherent in trading, investment and other banking activities related to treasury, the TRMD prepares a daily Market Risk Profile Report that captures the bank portfolio's outstanding

position, marked-to-market valuation, computed Value at Risk, as well as the actual trading gains/losses. The report is regularly presented to the ALCO and the ARMCOM.

SYSTEMS AND OPERATIONS RISKS

As part of its risk management program, Land Bank developed a comprehensive *Business Continuity Plan (BCP)* in September 2003. The BCP identified various contingencies that may affect or disrupt Land Bank operations and its delivery of services and strategies to be undertaken to ensure the continuity of the bank's operations and minimize financial losses arising from lost business opportunities or asset deterioration. A *Crisis Management Committee (CMC)* was established in 2003 to serve as the policy and decision-making body for the implementation of the bank's BCP. The Land Bank President & CEO serves as Chairman of the CMC.

In cases of any malfunctioning in the Bank's information technology systems, the Technology Management Group initiated contingency measures to ensure that critical computer system remain viable in support of the Bank's business continuity plan or the BCP. Land Bank also implemented an Automated Back-up System for all NT and UNIX-based servers to ensure a more reliable back-up of critical data utilized for trade finance, global transactions and other backroom operations.

ANNEX 8: RESOURCE PERSONS

Land Bank of the Philippines

Julio D. Climaco, Jr.
First Vice President
Strategic Planning Group

Teresita E. Cheng
Vice President
Risk Management Group

Romeo Glenn B. Sumido, Jr.
Assistant Vice President
Strategic Planning Group

Raquel R. Rimonte
Assistant Vice President
Risk Management Group

Cherry Ann R. Cruz
Department Manager
Risk Management Group

Marjorie R. Cortez
Special Assistant to the President

Liduvino S. Geron
Vice President
Program Management Department

Danilo Quilantang
Bank Executive Officer
Credit Policy and Risk Management Department

Antonio T. Hernandez
Senior Vice President (Ret.)

Agricultural Credit Policy Council

Jovita Corpuz
Executive Director

Jocelyn Alma Badiola
Deputy Executive Director

National Credit Council

Joselito Almario
Deputy Director

Credit Policy Improvement Program

Maria Piedad Geron
Chief of Party

Bangko Sentral ng Pilipinas

Wilfredo Domo-ong
Director

Edgardo Jimenez
Microfinance Consultant

Microfinance Council of the Philippines

Edgardo Garcia
Executive Director

CARD Rural Bank, Inc.

Jaime Aristotle Alip
Chairman of the Board of Directors

Rural Bank of Cainta

Felino Angeles, Jr.
Chief Executive Officer

Municipal Development Fund Office

Helena Habulan
Executive Director

Network (Rural) Bank

Alex Buenaventura
President