

# RURAL FINANCIAL RISK IN THE CONTEXT OF COOPERATIVES

(The LANDBANK Experience)

*International Conference on Cooperatives:  
“Cooperative Transformation in the Changing Global  
Economy”*

*by*

**EDGARDO S. LUZANO**

*Assistant Vice President*

*Head, Programs Management Department I*

**15-16 November 2018**

**Development Academy of the Philippines , Tagaytay  
City**



**LANDBANK**  
WE HELP YOU GROW.

# LANDBANK IN PERSPECTIVE

1. *100% government-owned bank focusing on countryside development and farmers & fisherfolk cooperatives*
2. *Among the top 5 Philippine commercial banks as of 30 June 2018 –*
  - *No. 4 in deposits – P 1,508.0 B*
  - *No. 4 in assets – P 1,705.9 B*
  - *No. 4 in loans – P 687.2B*
  - *No. 5 in capital – P 117.9 B*
3. *Single largest lender to :*
  - *Small Farmers and Fisherfolk Cooperatives;*
  - *Rural Banks;*
  - *Local Government Units; and*
  - *MSMEs (among government agencies)*
4. *Most extensive branch network – presence in all 81 provinces of the country with 385 branches and 44 Lending Centers extension offices (as of September 30, 2018)*



No. Branches, Extension Office & Servicing unit	
NCR	<b>87</b>
NORTH & CENTRAL LUZON	<b>83</b>
SOUTH LUZON	<b>73</b>
VISAYAS	<b>66</b>
MINDANAO	<b>76</b>
<b>TOTAL</b>	<b>385</b>

LANDBANK EASY ACCESS FACILITY (LEAF)	
<b>TOTAL</b>	<b>49</b>
LANDBANK EXPRESS ACCESS MACHINE (LEAM)	
<b>TOTAL</b>	<b>50</b>



ATMs	
<b>NCR</b>	366
<b>NORTH &amp; CENTRAL LUZON</b>	461
<b>SOUTH LUZON</b>	357
<b>VISAYAS</b>	304
<b>MINDANAO</b>	429
<b>TOTAL</b>	<b>1,917</b>
<b>ON-SITE = 819; OFF-SITE = 1,098</b>	
LENDING CENTERS (LCs)	
<b>TOTAL</b>	<b>44</b>
<b>ON-SITE = 51; OFF-SITE = 46</b>	

**As of 30 Sept. 2018**

## RURAL FINANCIAL RISK IN THE CONTEXT OF COOPERATIVES

**FINANCIAL RISK**, or **CREDIT RISK**, is the risk that a counterparty will fail to perform on an obligation to the institution – *CBP Circular Letter series of 1994*

(The risk is taken when a loan is made that the borrower will default or delay payment of the principal or payments of interest – *Oxford-Finance and Banking Dictionary*)

**COOPERATIVES** are major credit conduits of LANDBANK for lending to small farmers and fishers. From 2005-2009, average of 33% of loans to SFF are through cooperatives.

SFF Loan Releases thru Coops  
(In Million Pesos)

Year	Amount of Loan to SFF	Percent Share
2005	4,857.59	30.9
2006	6,045.52	35.3
2007	5,878.41	32.3
2008	7,058.83	30.0
2009	8,212.54	27.9

*Other credit conduits are countryside financial institutions (rural banks, cooperative banks and thrift banks), SMEs and other entities.*

## LENDING TO COOPERATIVES

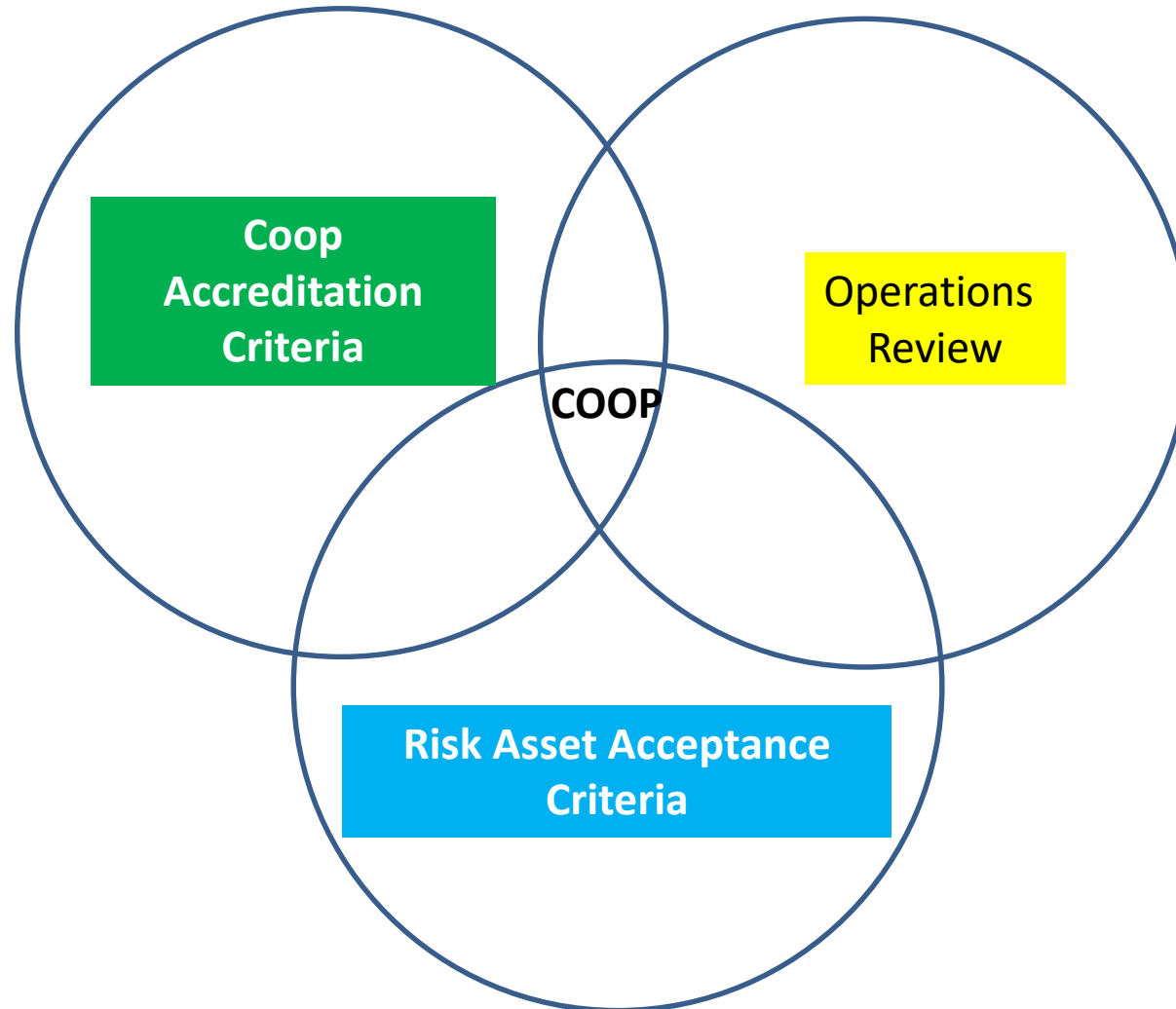
### The Practice and the Result

“Cooperative is not the best way, it’s the only way...”

- Cooperatives, as long as with juridical personality were eligible for loans;
- LANDBANK has reached more than 7,000 cooperatives;
- Past due rate reaches more than 25%.



**LANDBANK** developed and adopted various policies and measures to improve its lending operations and continue to provide financial assistance to **cooperatives**.



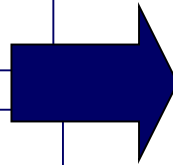
# COOPERATIVE ACCREDITATION CRITERIA

## I. Minimum Requirement

- Duly registered with the CDA
- Membership of at least 60
- Paid up capital of P30,000.00
- Core management team of Manager, Cashier/Treasurer and Bookkeeper
- With updated BOA
- Members have attended PMES

## II. Standard Requirement

- Organization and Management  
(Membership, leadership and management, patronage of business, CBU and savings, continuing education and skills development, PSP installation, books of accounts)
- Business Operation  
(Business volume and diversification, provident services, market linkages)
- Financial and Loan Portfolio  
(Profitability, liquidity and co-op relationship with LANDBANK)



- Synchronized into the computation of a CREDIT RATING

PRIME
HIGH GRADE
VERY SATISFACTORY
SATISFACTORY
GOOD

Basis of determining the loan pricing or interest spread.

- Observations/findings serve as basis in the design of capacity-building interventions

Improvement in the credit rating



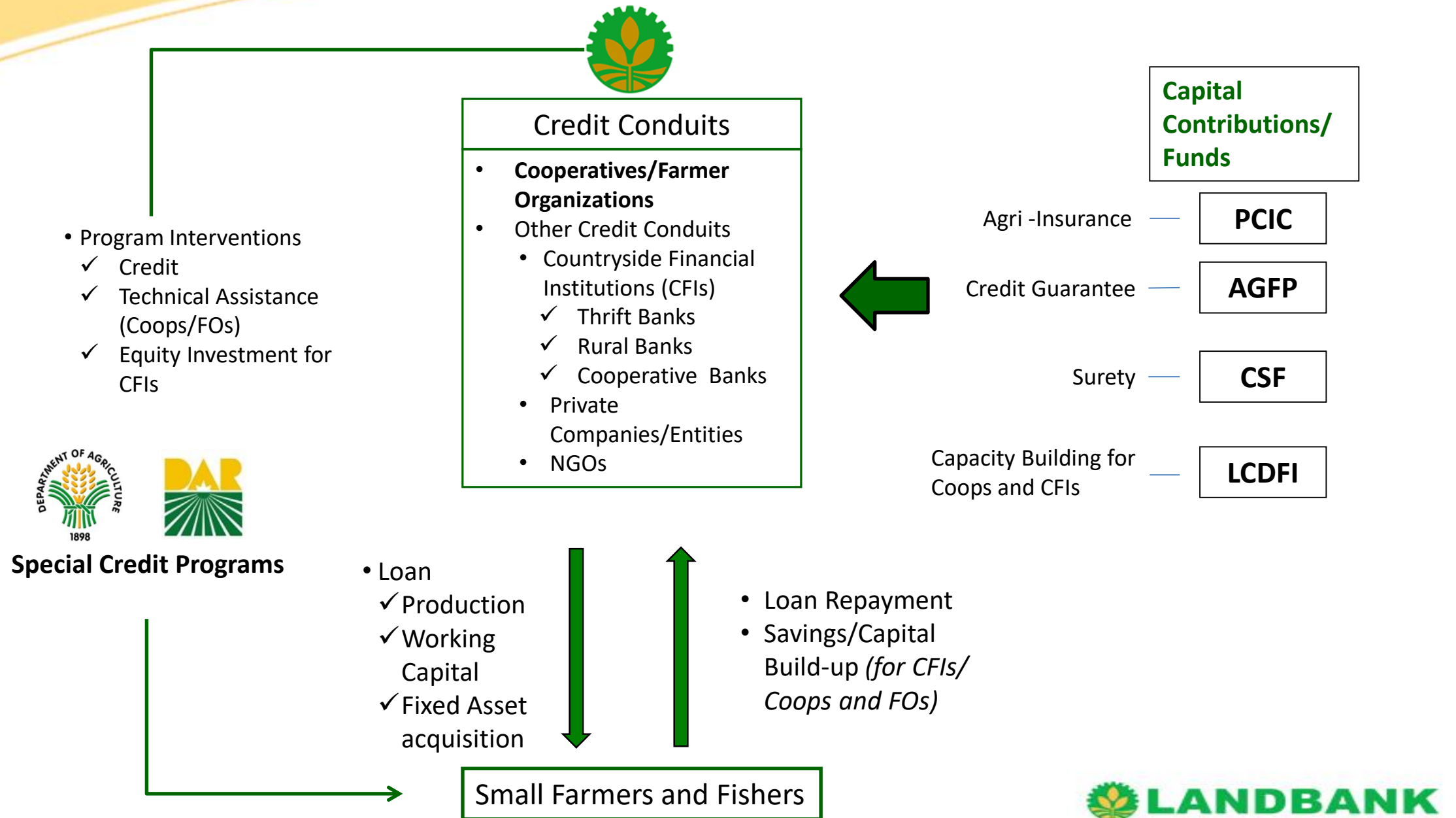
# ENHANCED CO-OP OPERATIONS REVIEW

- E-CORI is a risk-based rating system that assesses the overall effectiveness of co-op's internal control system, particularly in the management of risks.
- Aims to check:
  - reliability & integrity of financial & operational information
  - if assets are safeguarded
  - compliance with existing laws, regulations, policies, contracts, etc.
- Output is used, among others, in the design and provision of training intervention.

# Risk Asset Acceptance Criteria for Co-ops

Acceptance Parameters	Acceptance Criteria
Character	No adverse findings on the borrower No adverse on the principals (i.e., Directors and Key Officers)
Capacity	With well defined source of repayment Track record <ul style="list-style-type: none"><li>• At least 3-year profitable operations (except start-up)</li></ul> Net Past Due ratio of not more than 25%
Condition	Positive /favorable outlook of the industry
Capital	Capital requirement per Cooperative Development Authority but not less than P30,000.00 D:E Ratio of 85:15

# LBP Credit Delivery Framework



# **AGRICULTURAL INSURANCE & GUARANTEE PROGRAMS**

## Philippine Crop Insurance Corporation (PCIC)

- A government owned and controlled corporation created by laws that serves as the implementing agency of the government's agricultural insurance programs
- Attached agency of the Department of Agriculture.
- Principal mandate :
  - ✓ Provide insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestation of their corn and palay crops as well as other crops.
  - ✓ Provides protection against damage to/loss of non-crop agricultural assets, including but not limited to machineries, equipment, transport facilities and other related infrastructure due to peril/insured against.

## Agricultural Guarantee Fund Pool (AGFP)

- Spearheaded by the Department of Agriculture to encourage financial institutions and other lending entities to expand their lending to small farmers and fishers (SFFs) borrowers by providing guarantee to cover the unsecured loans extended to SFFs.
- Covers food production **covering all risks from losses** due to non-payment of loans including those that were caused by natural calamities, such as, typhoons, floods, pests and diseases, market aberrations, except fraud on the part of the Financial Institutions

## Credit Surety Fund (CSF)

- A credit enhancement scheme developed by the Bangko Sentral ng Pilipinas (BSP)
- Aims to increase the credit worthiness of MSMEs that are experiencing difficulty in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge and credit track records
- Created by pooling of contributions of coops, NGOs, LGUs, partner financial institutions, such as DBP, LBP, Industrial Guarantee and Loan Fund and other interested parties
- LBP awarded by BSP as Best Lending Bank for two (2) consecutive years



## SFF Loan Releases thru Coops (In Million Pesos)

YEAR	RELEASED AMOUNT		% Share	NO. OF SFF ASSISTED BY CHANNEL					% Share of Coop To Total
	TOTAL	Thru Coops		COOP	CFIs	IAs	SME/others	TOTAL	
2013	51,574.747	16,737.831	32.45	347,563	376,245	41,213	147,573	912,594	38.085
2014	58,438.974	18,386.111	31.46	401,592	476,030	11,945	137,861	1,027,428	39.087
2015	55,611.404	23,066.702	41.47	462,108	333,928	10,282	135,091	941,409	49.087
2016	59,394.443	28,190.609	47.46	605,968	84,116	8,203	131,253	829,540	73.049
2017	62,479.711	31,042.580	49.68	400,183	138,844	6,236	281,406	826,669	48.409

### PAST DUE RATE, %

2013	2014	2015	2017	2017
12.87	8.08	5.40	4.42	2.76

# AGRARIAN PRODUCTION CREDIT PROGRAM (APCP)

A joint program of the Department of Agriculture, Department of Agrarian Reform (DAR) and LANDBANK which provides credit assistance to the agrarian reform beneficiaries through their respective organizations

## Salient Features

- Priority target beneficiaries are new ARBOs, particularly those in high land acquisition and distribution provinces;
- Transitory credit program;
- Institution-building support to strengthen the ARBOs;
- LANDBANK uses its own fund for credit, against a guarantee fund provided by DA.

# GAWAD PITAK

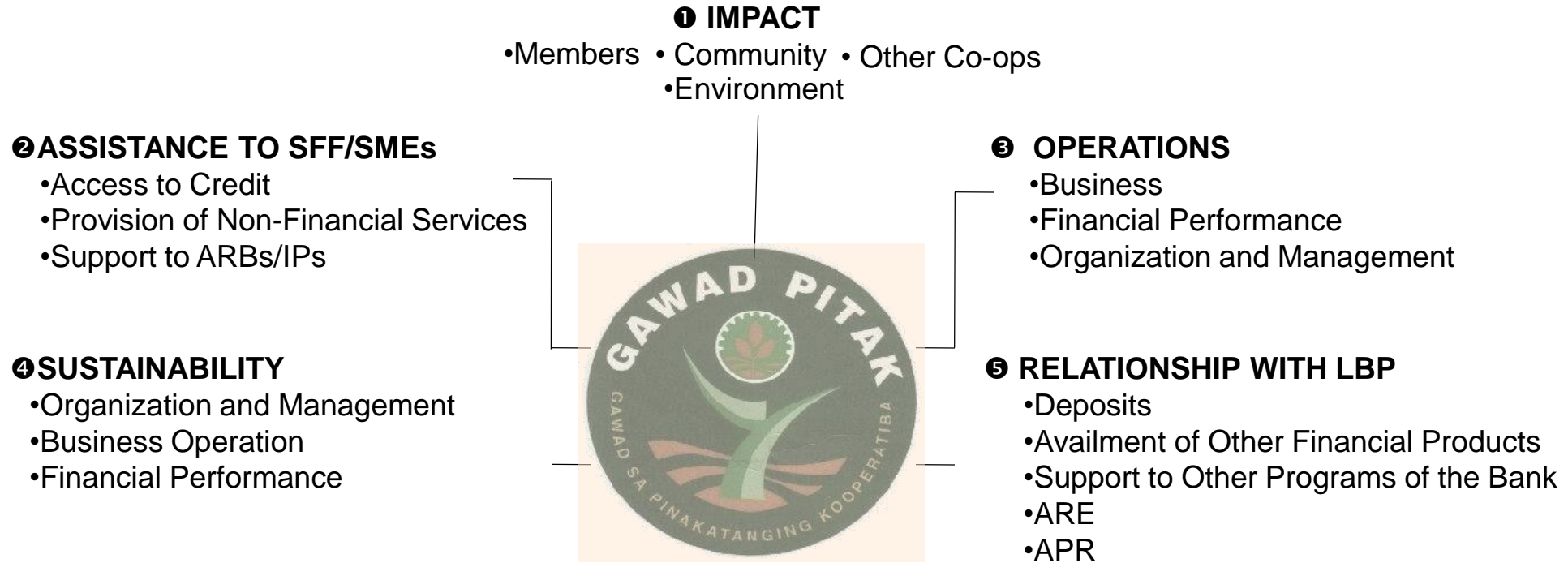
*Search for the Most Outstanding Cooperatives*

Gawad PITAK is a pioneering program that searches and recognizes exemplary LANDBANK-assisted agri and non-agri based cooperatives (BACs), including outstanding members.



The GP is intended to recognize cooperatives which:

- Are strong partners of LBP in the pursuit of its mandate;
- Have become models of excellence in their operation



### Minimum Qualification Requirements

- Class A Bank-assisted cooperatives;
- Good credit relationship with the Bank for the last 3 years;
- Membership of at least 300 and 500 for agri and non-agri, resp.
- Passing rate in the latest OR
- Net surplus in the last 2 years;
- Complies with administrative and regulatory requirement
- With full time COMAT and complete books of accounts
- Obtains a hurdle point of 85.



## **LAND BANK OF THE PHILIPPINES**

LANDBANK Plaza, 1598 M. H. del Pilar corner  
Dr. J. Quintos Streets, Malate, Manila 1004 Philippine





WE HELP  
YOU GROW!

*Thank  
you*