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Transforming Land Bank into a Microfinance Development Institution

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Transforming Land Bank into a Microfinance Development Institution

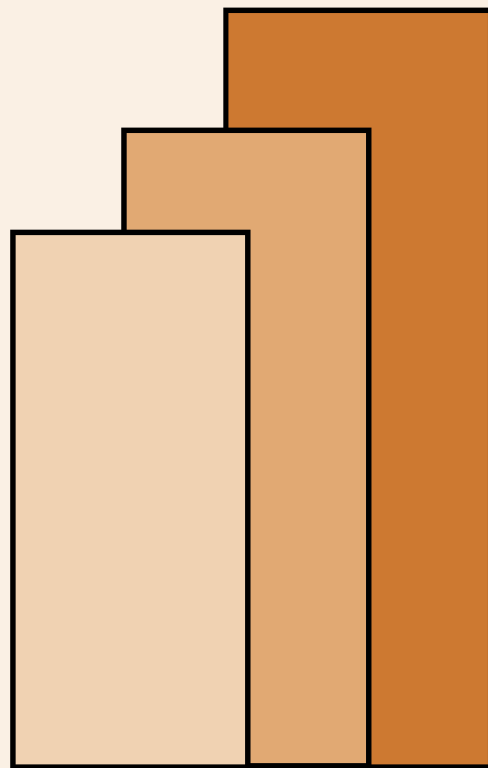
Mario B. Lamberte

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TRANSFORMING LAND BANK INTO A MICROFINANCE DEVELOPMENT INSTITUTION¹

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Abstract

This paper has re-examined the role of Land Bank of the Philippines, a government-owned bank, in light of the recent reforms and developments in the Philippine financial markets. It recommends that the Land Bank should shed off its commercial and investment functions, which can very well be done by private commercial banks, and instead focus on its development function. It also argues that there is no need for the government to create a Grameen-type of bank because the Land Bank, once transformed into a market-based microfinance development institution, can play that role.

Introduction

The economic crisis, which has put the Philippines under severe stress, is a stark reminder that the country's economy has remained fragile despite the respectable growth realized during the first half of the 1990s. Official statistics have shown that the unemployment rate has continued to rise in recent months, which would surely add more families whose incomes fall below the poverty line.

As the country repairs its economy by strengthening further macroeconomic management, it must not lose sight of the need to complement it with a concrete strategy to enhance employment opportunities and raise incomes of a great majority of the population. The promotion of small enterprises through better policy environment and responsive programs easily comes to mind. A great majority of the population are engaged either in small-scale farming (small landowners and landless agricultural workers) or in labor-intensive cottage and small-scale industries in rural and urban areas. Those who could not find jobs but yet have to work to earn a living

¹ Thanks are due to Ms. Ma. Chelo V. Manlagñit for research assistance and to Ms. Juanita E. Tolentino for secretarial assistance.

try to create jobs for themselves by engaging in small enterprises. Thus, a development strategy that gives greater attention to the promotion of small farm and non-farm enterprises both in rural and urban areas will have a better chance of expanding employment opportunities and reducing poverty in the country.

Improving the access of small farmers and SMEs to financial services will certainly be a major component of that strategy.² Microfinance can create employment opportunities for many unemployed workers by undertaking economic activities on a self-employed basis. Interestingly, despite the numerous directed credit programs initiated by the government for small farmers, fisherfolk and SMEs, still they seriously lack access to credit. Almost all of these directed credit programs are found to be ineffective and inefficient (Lamberte *et al.* 1999).

In 1997, Congress passed the Agricultural and Fisheries Modernization Act (AFMA). One of its aims is to improve the access of farmers and fisherfolk to institutional credit by rationalizing the various credit programs for the agricultural sector (see **Annex A**). More recently, President Estrada issued Executive Order No. 138 (August 10, 1999) mandating, among others, the transfer of directed credit programs implemented by government non-financial agencies to government financial institutions. Included in the said EO is the formal declaration of a policy that the provision of financial and credit services to the basic sectors should follow a market-oriented approach. Under this new policy environment, government financial institutions, such as the LandBank, DBP, etc., are expected to play a significant role in providing financial services to small farmers, fisherfolk and SMEs.

It is to be noted that the Philippines is one of the few remaining countries that maintain subsidized credit programs managed by non-financial government agencies. In most countries, market-oriented credit programs for small farmers and SMEs have been successfully managed by financial institutions, some of which are government-owned while others are purely or substantially owned by the private sector. The Bank Rakyat Indonesia (BRI) in Indonesia, Bank for Agriculture and Agricultural

² It is emphasized here that improving the lot of small farmers, fisherfolk and SMEs will require more than improvement in their access to credit. Other complementary factors are needed, such as good infrastructure, skills, well performing product and input markets, efficient bureaucracies, etc.

Cooperatives (BAAC) in Thailand and the Grameen Bank in Bangladesh can be cited as examples. The reform in the government credit programs envisioned in EO 138 is a step in the right direction. *It will not take away resources meant for the small farmers and SMEs. Rather, it will ensure that those resources will be efficiently allocated to those who need them most and will be enhanced through better repayment rates and savings mobilization over time to cope with the growing demands for credit by small farmers and SMEs.* This envisioned reform, however, requires a financial institution that can efficiently provide financial services to small farmers and SMEs. It is in this light that the proposal to transform LandBank into a microfinance development institution for small farmers and SMEs is put forward. It is to be noted that the AFMA has mandated a review of the mandates of LandBank and other government financial institutions that play a key role in the delivery of credit to farmers and fisherfolk. This paper could serve as an input to said review.

What LandBank Does Today

It is worthwhile to note that the legal basis for the creation of LandBank is contained in one of the chapters of RA 3844 (August 1963), which introduced land reform in the country. The purpose for the creation of LandBank was to finance the purchase of agricultural estates offered for sale and to resell the lands to farmer beneficiaries under 25-year amortization. In 1973, PD 251 was issued, giving LandBank expanded commercial banking powers so that it can earn profit from its commercial banking activities and use it to cross-subsidize the cost of its agrarian land transfer operations and loans to small farmers. There were other laws that were subsequently passed that significantly affected LandBank's operations. One of them was the Comprehensive Agrarian Reform Law of 1988.

As of December 1997, LandBank's total resources reached P160.1 billion. Its total capital and deposits amounted to P14.8 billion and P113 billion, respectively. Deposits of the government, its branches, subdivisions and instrumentalities, and of government-owned or controlled corporations comprised the bulk of the deposit liabilities of LandBank. Of its total assets, P98 billion or 61 percent were in the form

of loans and discounts and P36.1 billion or 22.6 percent in the form of investments. (See **Annex B** for details.)

LandBank plays a dual role: development banking and commercial banking. As a development bank, it is undoubtedly the largest provider of financial services either directly or indirectly to individual farmers, land-reform beneficiaries, and farmers' cooperatives/associations. Its agrarian lending operations include: financial assistance to small farmers and fisherfolk; assistance to rural financial institutions in the form of rediscounting, liquidity support and support for cooperative bank formation; land transfer operation; and assistance to farmers and fisherfolk cooperatives. It also has loan programs for SMEs and non agri-based cooperatives. It is currently the major lender to LGUs for countryside infrastructure projects.

Aside from financial services, LandBank also provides technical assistance to cooperatives. In addition, it is also an implementing agency of the Comprehensive Agrarian Reform Program (CARP) involved in land valuation, compensation to owners of private agricultural lands, and collection of amortizations from CARP farmer-beneficiaries.

Although LandBank is the largest lender to the agricultural sector, it is worthwhile to note that its loan portfolio (including ALF/CLF and agricultural reform/other agricultural loans) to this sector is only equivalent to about 13 percent of its total assets.

As a universal bank, LandBank performs both commercial and investment banking functions. Its total commercial and industrial loans, which include loans to large corporate enterprises in the country, comprised about 43 percent of its total assets in 1997. It has an active investment banking activities, with investment portfolio comprising 23 percent of its total assets. It has also an international business and foreign exchange operation and a consumer banking operations. Taken as a whole, therefore, LandBank's investment and commercial banking portfolio is much larger than its agricultural loan portfolio. (See **Annex C** for details.)

The distribution of LandBank's assets discussed above suggests that LandBank has substantially deviated from its original mandate. Thus, the AFMA is emphatic in raising this issue. Specifically, Section 24 of the said Act states that:

“The Land Bank of the Philippines, shall, in accordance with its original mandate, focus primarily on plans and programs in relation to the financing of agrarian reform and the delivery of credit services to the agriculture and fisheries sectors, especially to small farmers and fisherfolk.”

LandBank and the Banking System

The banking sector is one of the sectors of the domestic economy that has been substantially liberalized in the 1990s. The twin policy of the government is to establish and maintain a level playing field in the banking system and to reduce its presence in areas where the private banking system can play a significant role. As of the second quarter of 1999, there were 53 universal and ordinary commercial banks, and LandBank ranks 4th in terms of assets, loan portfolio and deposit liabilities. Because of the entry of several domestic and foreign banks in the last five years, competition in the domestic banking system is much stiffer today than ten years ago.

The domestic banking system is expected to undergo a substantial restructuring in the coming years as it becomes more integrated with the international financial system. The recent mandatory increase in the minimum capital requirement for banks has already forced some banks to consolidate or merge with other banks to meet such requirement. More foreign banks are expected to enter the domestic banking system after the passage of the proposed General Banking Act currently pending at Congress. Thus, more mergers/consolidations and acquisitions are expected to occur, resulting in fewer but large and highly competitive banks that are able to project themselves as regional, if not global, players. While large banks will work hard to make their presence felt in almost all segments of the financial system, some banks, particularly the small ones, will be looking for a niche where their competitive edge lies. In fact, some universal banks, which think that they can no longer compete at the top end, have downgraded or are planning to downgrade

themselves into ordinary commercial banks, specializing in a few areas where they can find great value for themselves.

Where does LandBank fit into this emerging banking structure? In other words, where is Landbank's niche? To answer this question, it is necessary to invoke the above-mentioned twin policy of the government for the banking system. As a government bank, LandBank must play a special role in the domestic banking system, which means that it must not encroach into areas that private universal and commercial banks can sufficiently cover. It must play a catalytic and supportive role, not as a competitor to private banks. This is the value-added expected of a government bank. At present, however, LandBank directly competes with private banks, especially in the areas of investment and commercial banking. It cannot be denied anymore that these areas can be adequately served by private universal and commercial banks. The expected entry of new global players into the domestic banking system in the coming months will make the investment and commercial banking business much more crowded and highly competitive areas. Thus, there is no reason for LandBank to continue its operations in these areas. Nor is there a need for it to project itself as a regional or global player. As a bank for the agriculture sector, it must fashion a structure that will enable it to have frequent contacts with local farmers and fisherfolk on a firmer basis. Its program to maintain or open new branches in other countries must, therefore, be reviewed thoroughly.

The withdrawal of LandBank from the investment and commercial banking business will raise the government's credibility in establishing and maintaining a level playing field in the domestic banking system. It cannot be denied that LandBank has some undue advantages over private universal and commercial banks in investment and commercial banking business. First, its total liabilities (i.e., deposits, bonds, domestic and foreign borrowings, etc.) are either explicitly (by PDIC) or implicitly guaranteed by the national government in full. Thus, risks in lending to or depositing money at the LandBank are much lower compared with those of private universal and commercial banks. Second, being "an official government depository with full authority to maintain deposits of the government, its branches, subdivisions and instrumentalities, and of government-owned or controlled corporations....," and a

conduit of several ODA funds, LandBank has easy access to cheap and more stable sources of funds, whereas private banks have to work hard to mobilize funds. Although ODA funds, such as the Countryside Loan Fund funded by the World Bank, are earmarked for specific credit programs, nevertheless funds are fungible. All this translates into much lower cost of funds for LandBank compared to private universal and commercial banks.

It has been pointed out that the investment and commercial banking operations of LandBank are needed to generate profits that will be used to expand and subsidize its less profitable development banking operation. This Robinhood or “cash cow” approach to development financing must be examined carefully. It may have worked well under a less competitive banking system, wherein banks can easily realize above-normal profits. But under a competitive market structure to which the Philippine banking system is heading, such abnormal profits would disappear, which would make the “cash cow” approach detrimental to the long-term viability LandBank itself.

Cross-subsidization does not sit well with the present thrust of the government to make all subsidies transparent and to make government institutions more accountable to the public for their performance.³ To date, LandBank has never presented to the public how much cross-subsidization it has made over the years and the costs and benefits of such program to the entire country. More importantly, such approach assumes that farm enterprises are not bankable entities. Such attitude must be changed. It is to noted that several financial institutions in the country and elsewhere have been successful in providing financial services to small, uncollateralized borrowers including small farmers and landless farm workers using market-oriented approach.

Finally, the losses recently incurred by LandBank from some of its commercial and industrial loans to large private corporations have further weakened the “cash cow” argument. Without proper loan loss provisioning, LBP will have a hard time determining how much cross-subsidization it has to make as well as how much dividend it should declare to the government, an issue which cropped up in

1998 that has not yet been resolved between the LandBank and the Department of Finance at the time of writing paper.

What Should LandBank Do

One of the perennial problems of small farmers, fisherfolk and urban and rural SMEs is that they lack access to bank credit. The final outcome of the current banking restructuring, i.e., having large and stable banks, may improve their access to bank credit because some banks will be forced to look for new markets, and hopefully the small borrowers will appear in their radar screen. But such improvement will certainly not happen in a significant way in a short period. This is not to say that small borrowers are not bankable. In fact, many of the informal lenders who lend to small farmers, fisherfolk and urban and rural SMEs have obtained high repayment rates. There are also a number of microfinance institutions in the country that have experienced high repayment rates from loans to the above-mentioned borrowers because they adopted appropriate lending technologies, like the Grameen bank technology of lending.⁴ Thus, the design of a credit program matters a lot when it comes to lending to small borrowers who can offer very little collateral. This, however, requires expertise and total dedication on the part of the lending institution.

In rural areas, there are some linkages between farm and non-farm enterprises both in the consumption and production sides. It is important to point out that rural family business enterprises are, in most cases, multi-product firms. Thus, the design of rural credit programs must take these factors into account. Credit programs that would focus only on one segment of a rural family enterprise, say only rice production, rather than considering the rural family as one business enterprise engaged in several economic activities, would likely be less successful in attaining their objectives.

³ The government is now in the process of phasing out cross-subsidization in other sectors of the economy, such as telecommunications and energy sectors.

⁴ See below for a detailed discussion.

It is, therefore, suggested that LandBank should focus on providing financial services only to small farmers and fisherfolk, and to rural and urban SMEs. It should not distinguish between farm and non-farm enterprises or between rural and urban SMEs.⁵ It may lend to small farmers and SMEs either directly or indirectly through financial conduits as what it has been doing in the past few years so long as it does not compete with private microfinance institutions. It may continue lending to LGUs for small countryside infrastructure projects. It may also provide technical assistance to financial institutions that are interested in developing their capacity to lend to farmers, fisherfolk and rural and urban SMEs. As a microfinance development bank, LandBank should engage in action research to develop lending technologies, such as variants of the Grameen Bank technology, that would reduce transaction costs and risk in lending to small borrowers and share the results of such research to those who would like to engage in lending to small borrowers.

Critics have charged that LandBank has not been sympathetic to the needs of small borrowers and has instead been very accommodating to large corporate enterprises. They, therefore, raise some fears that the transfer of several credit programs from non-financial government agencies to the LandBank stipulated under EO 138 will starve agriculture of credit because LandBank will continue to behave like a private universal or commercial bank, paying more attention to commercial and investment banking. No matter how much effort LandBank and the government exert to allay such fears, the public will continue to harbor such fears so long as LandBank maintains its commercial and investment functions. The proposal to transform LandBank into a microfinance development bank will squarely address such fears. It will also obviate the need for converting LandBank's subsidiary, the People's Credit and Finance Corporation (PCFC), into a bank. Instead, PCFC should be consolidated with its mother institution.

Measures to be Taken

To transform LandBank into a microfinance development institution, the government must come up with a clear policy stating that LandBank should focus

⁵ As mentioned earlier, the private universal and commercial banks can look after the financial needs of

only on development banking function. It should abandon its commercial and investment banking functions, which can be adequately performed by private universal and commercial banks. To give flesh to that policy statement, the government must require LandBank to formulate and implement a program for winding down its commercial and investment operations and for establishing itself as a microfinance development institution over a three-year period. The transition period is long enough for the LandBank to restructure its operations and acquire new expertise needed for its operations while it gradually sheds off expertise that it no longer needs for its development banking function.

The proposed restructuring in the operation of LandBank does not require a legislative action. More specifically, the proposal to allow LandBank to lend to rural and urban SMEs does not require changing its charter. Section 75 of RA 3844 as amended states that LandBank shall have the power, among others, “to grant short, medium and long term loans and advances against security of real estate and/or other acceptable assets for the establishment, development or expansion of agricultural, industrial, home buildings or home financing projectes and other productive enterprises.”

The issue of possible overlap with DBP can also be addressed administratively by clearly delineating the roles of DBP and LandBank. It is suggested here that DBP should focus on financing large scale development projects while LandBank should focus on the provision of financial services only to small farmers and SMEs. This should be taken into account during the transition period.

Private Participation in LandBank

Presently, the participation of the private sector in the management of LandBank is very minimal. The private sector may hold preferred shares of LandBank and that two out of nine members of the Board will be elected from among the holders of preferred shares. The government should entertain the idea of

large commercial and industrial enterprises.

increasing private participation in LandBank by allowing cooperatives, small business associations, to own common shares up to 60 percent of the total outstanding shares in the medium term and possibly 100 percent in the long-term. This, however, requires a change in the charter of LandBank. This should be examined seriously, especially in light of new approaches towards improving access of the poor and SMEs to institutional credit by relying more on market-based financial institutions that are self-financing and owned and managed by the private sector.

Grameen Bank: No Need to Create One

Some quarters have suggested the creation of a bank similar to the Grameen (Village) Bank of Bangladesh organized by Professor Yunus to address the credit needs of small borrowers.⁶ The Grameen Bank can be traced to an action research project aimed at examining the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. Because of its initial successes, the project was extended to several villages with the sponsorship of the central bank and support of the nationalized commercial banks of Bangladesh. In October 1983, the Bangladesh government passed a law transforming the Grameen Bank Project into an independent bank. Today, borrowers own 90 percent of the total shares of the Grameen Bank, while the government retains 10 percent. By the end of 1998, the Grameen Bank had 1,128 branches in operation, with 2.34 million members (96% of whom were women) in 38,957 villages or half of the total number of villages in Bangladesh. The repayment rate of its loans, which average US\$160, is over 95 percent.

The Grameen Bank is based on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. Intensive discipline, supervision, and servicing characterize its lending operations. The salient features that have contributed to the success of the Grameen Bank are the following:

⁶ The information about the Grameen Bank are taken from its website

1. The bank goes to the people instead of the people going to the bank.
2. Intensive training is extended to prospective members on such topics as community-organizing and value formation.
3. It stresses on savings mobilization, making the institution self-financing and, at the same time, imposing discipline on members.
4. Loans provided are non-collateralized, guaranteed and with non-subsidized interest rates.
5. It has a self-empowerment mechanism, which gives women of Bangladesh an opportunity to assert themselves and their dignity in society.

The issue is whether there is a need for the government to formally create a Grameen Bank in the Philippines. The answer is no. First of all, the success of the Grameen Bank can be attributed to the so-called Grameen Bank technology or approach described above, which can be replicated by microfinance institutions. In fact, a number of microfinance institutions in the Philippines including banks, cooperatives and people's organizations/non-government organizations have already applied the Grameen Bank technology with some modifications. ACPC's study (1995) shows that the Grameen bank replicators have been successful in terms of reaching the poor clientele, obtaining high repayment rates ranging from 94 percent to 98 percent, mobilizing deposits and in reducing the borrowers' dependence on more costly informal sources of loans. The government's support to the Grameen bank replicators was minimal, which were mostly in the form of technical assistance.

A recent evaluation of the CARD Rural Bank's modified Grameen Bank project yielded the same results (Hossain and Diaz 1997). The bank's target clients are landless women rural workers who have no regular jobs and have total marketable assets of less than P50,000. Access to CARD's loans, despite an effective loan rate of 44 percent per annum, has yielded some benefits to the borrowers in terms of higher income, employment, productivity and capital accumulation.

There are other microfinance institutions that defy tradition by serving small clients. The City Savings is one example. Applying its own way of banking, the Cebu-based thrift bank has debunked the myth that servicing low-income borrowers is

highly risky and unprofitable. It continues to search for new technology that will allow it to provide financial services to small clients at a reasonable cost.

Secondly, the proposed conversion of LandBank into a microfinance development institution, which will eventually be privatized, will make the creation of another bank performing similar functions redundant. One common problem facing the Grameen Bank replicators was the high administrative cost incurred during the initial years because of additional activities they undertake, such as training of their staff and prospective members before they are granted a loan. Being in a better position to realize economies of scale and scope from these activities, the LandBank can provide technical assistance to prospective Grameen Bank replicators.

Finally, the proposal outlined in this paper will save the government some money in the sense that it does not have to allocate funds as capital for a new financial institution.

Concluding Remarks

This paper has suggested that LandBank should focus on its development banking function and shed off its commercial and investment banking functions. More specifically, it has recommended that LandBank be transformed into a real market-based microfinance development institution, providing financial services to small farmers as well as rural and urban SMEs. In this way, LandBank can play a more significant role in enhancing employment opportunities both in rural and urban areas and in raising the productivity and incomes of small farmers, landless farm workers, fisherfolk and SMEs.

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Annex A

Excerpt from Chapter 3 “Credit” of DA AO 6, the IRR of the AFMA

Section 20. *Declaration of Policy.* - It is hereby declared the policy of the State to alleviate poverty and promote vigorous growth in the countryside through access to credit by small farmers, fisherfolk, particularly the women involved in the production, processing and trading of agriculture and fisheries products and the small and medium scale enterprises (SMEs) and industries engaged in agriculture and fisheries.

Interest rates shall be determined by market forces, provided that, existing credit arrangements with agrarian reform beneficiaries are not affected. Emphasis of the credit program shall be on proper management and utilization.

In this regard, the State enjoins the active participation of the banking sector and government financial institutions in the rural financial system.

Section 21. *Phase-out of the Directed Credit Programs (DCPs) and Provision for the Agro-Industry Modernization Credit and Financing Program (AMCFP).* - The Department shall implement existing DCPs; however, the Department shall, within a period of four (4) years from the effectivity of this Act, phase-out all DCPs and deposit all its loanable funds including those under the Comprehensive Agricultural Loan Fund (CALF) including new funds provided by this Act for the AMCFP and transfer the management thereof to cooperative banks, rural banks, government financial institutions and viable NGOs for the Agro-Industry Modernization Credit Financing Program (AMCFP). Interest earnings of the said deposited loan funds shall be reverted to the AMCFP.

Section 22. *Coverage.* - An agriculture, fisheries and agrarian reform credit and financing system shall be designed for the use and benefit of farmers, fisherfolk, those engaged in food and non-food production, processing and trading, cooperatives, farmers'/fisherfolk's organization, and SMEs engaged in agriculture and fisheries, hereinafter referred to in this chapter as the “beneficiaries.”

Section 23. *Scope of the Agro-Industry Modernization Credit and Financing Program (AMCFP).* – The Agro-industry Modernization Credit and Financing Program shall include the packaging and delivery of various credit assistance programs for the following:

- a) Agriculture and fisheries production including processing of fisheries and agri-based products and farm inputs;
- b) Acquisition of work animals, farm and fishery equipment and machinery;
- c) Acquisition of seeds, fertilizer, poultry, livestock, feeds and other similar items;
- d) Procurement of agriculture and fisheries products for storage, trading, processing and distribution;
- e) Acquisition of water pumps and installation of tube wells for irrigation;
- f) Construction, acquisition and repair of facilities for production, processing, storage, transportation, communication, marketing and such other facilities in support of agriculture and fisheries;
- g) Working capital for agriculture and fisheries graduates to enable them to engage in agriculture and fisheries-related economic activities;
- h) Agribusiness activities which support soil and water conservation and ecology-enhancing activities;
- i) Privately-funded and LGU-funded irrigation systems that are designed to protect the watershed;
- j) Working capital for long-gestating projects; and,
- k) Credit guarantees on uncollateralized loans to farmers and fisherfolk

Section 24. *Review of the mandates of Land Bank of the Philippines, Philippine Crop Insurance Corporation, Guarantee Fund For Small and Medium Enterprises, Quedan and Rural Credit Guarantee Corporation, Agricultural Credit Policy Council. - The Department of Finance shall commission an independent review of the charters and the respective programs of the Land Bank of the Philippines (LBP), Philippine Crop Insurance Corporation (PCIC), Guarantee Fund for Small and Medium Enterprises (GSFME), Quedan and Rural Credit Guarantee Corporation (Quedancor), and Agricultural Credit Policy Council (ACPC), and recommend policy changes and other measures to induce the private sector's participation in lending to agriculture and to improve credit access by farmers and fisherfolk: Provided, That agriculture and fisheries projects with long gestation period shall be entitled to a longer grace period in repaying the loan based on the economic life of the project.*

The Land Bank of the Philippines, shall, in accordance with its original mandate, focus primarily on plans and programs in relation to the financing of agrarian reform and the delivery of credit services to the agriculture and fisheries sectors, especially to small farmers and fisherfolk.

The review shall start six (6) months after the enactment of this Act. Thereafter, the review shall make recommendations to the appropriate Congressional Committees for possible legislative actions and to the Executive Branch for policy and program changes within six (6) months after submission.

Rule 24.1. The Secretary of Finance shall issue a directive on or before August 30 1998 to execute the review mandated above. The review shall consider the structure and results so far of the work of the NCC ongoing since 1993, and shall provide for substantial inputs from the private sector and intended beneficiaries. The Secretary of Finance shall engage an independent panel of experts to perform the review. The review will be financed by the guarantee institutions according to a sharing formula determined by the Secretary of Finance. The review shall start no later than November 1, 1998 and shall be completed by March 30, 1999.

Rule 24.2. On or before May 1, 1999 the results of the review shall be presented for executive action to the Office of the President; the Secretaries of Finance and Agriculture; the BSP; the ACPC Council; the NCC; the Governing Boards of the Land Bank of the Philippines (LBP), Philippine Crop Insurance Corporation, the Guarantee Fund for Small and Medium Enterprises, QuedanCor, stakeholders and beneficiaries, and finally the appropriate Congressional Committees for possible legislation.

Rule 24.3. The *Bangko Sentral ng Pilipinas* and the ACPC Council shall formulate, through a participatory process involving representatives of lenders, beneficiaries and independent financial and agribusiness analysts, the implementing guidelines for the setting of variable grace periods on the repayments on loans and guarantees to long-gestating and viable agricultural and fisheries projects. The guidelines shall be presented to the Monetary Board and the Secretaries of Agriculture and Finance for consideration and implementation on or before December 30, 1998.

Section 25. *Rationalization of Credit Guarantee Schemes and Funds. - All existing credit guarantee schemes and funds applicable to the agriculture and fishery sectors shall be rationalized and consolidated into an Agriculture and Fisheries Credit Guarantee Fund. The rationalization and consolidation shall cover the credit guarantee schemes and funds operated by the Quedancor, the GFSME and the Comprehensive Agricultural Loan Fund. The Agriculture and Fisheries Credit Guarantee Fund shall*

be managed and implemented by the Quedancor, provided that, representation to the Quedancor Board shall be granted to cooperatives, local government units and rural financial institutions; provided further that, credit guarantee shall be given only to small-scale agriculture and fisheries activities and to countryside micro-, small, and medium enterprises. It may also cover loan guarantees for purchase orders and sales contracts.

The Agriculture and Fisheries Credit Guarantee Fund shall be funded by at least ten percent (10%) of the funding allocation for the AMCFP.

Rule 25.1.

Annex B. Condition of Land Bank	
As of end year 1997	
In million pesos	
Resources	
Cash and Due from Banks	19,952.96
Investments (Net)	36,122.23
Loans and Discounts	98,498.81
Allowance for Probable Losses	(4,839.21)
Bank Premises, Furniture and Equipment (Net)	2,425.91
Other Assets (Net)	7,988.53
Total Resources	160,149.23
Liabilities and Capital	
Deposit Liabilities	113,187.59
Cashier's/Manager's and Certified Checks	1,221.22
Bills Payable	18,176.93
Accrued Interest and Other Expenses Payable	2,379.52
Other Liabilities	10,394.02
Total Liabilities	145,359.28
Paid in Capital - Preferred	1,200.00
Paid in Capital - Common	7,400.00
Paid in Surplus	56.50
Surplus Reserve - Contingencies	2,682.50
Surplus Reserve - Trust Business	11.10
Surplus (Free)	1,739.47
Undivided Profits	1,700.38
Total Capital	14,789.95
Total Liabilities and Capital	160,149.23

Source: 1997 Annual Report, Land Bank of the Philippines

Annex C. Operational Highlights of Land Bank

I. Agrarian Lending Operations

- A. Financial Assistance to Small Farmers and Fisherfolk*
- B. Land Transfer Operation*
- C. Farmers and Fisherfolk Cooperatives*
- D. Rural Financial Institutions*

II. Commercial and Investment Functions Banking Operation

- A. Commercial Banking Services*
- B. International Business and Foreign Exchange*
- C. Investment Banking and Trust Services*
- D. Consumer Banking*

III. Special Financing Programs

- Wholesale Financing*
- Retail Financing*
- Environment-Related Financing*

IV. Branch Network Expansion and Electronic Banking