

## ANI LOAN PROGRAM BANGKO KABAYAN INC., PHILIPPINES CASE STUDY

This case study was prepared by Bridge to promote new lending models that effectively address the risks associated with agricultural production.

This study focuses on the Bangko Kabayan's ANI unsecured loan program for various agricultural activities.

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### A. HISTORY AND BACKGROUND:

**Bangko Kabayan Inc. (BK)** is one of the largest rural banks in Southern Luzon that provides agricultural and SME loans, alongside a range of microfinance, consumer, and housing loan products to low-income clients. With over Php2 billion in assets as of 2015, Bangko Kabayan to date serves over 60,000 depositors and borrowers through its twenty branches in the provinces of Batangas, Laguna and Quezon. It has earned a rank among the top 3% of rural banks in the Philippines.

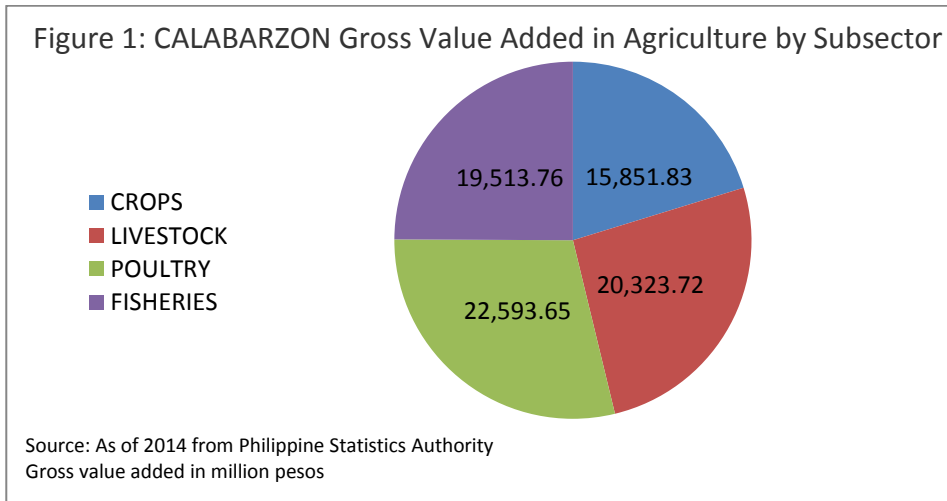
The bank has its origins in Ibaan Rural Bank Inc. (IRB), which was founded in 1957 to promote the development of Ibaan, Batangas by providing affordable credit to the small merchants, farmers, and traders. In its early years, IRB operated largely with reliance to the Central Bank's rediscounting facilities to refinance lending and maintain liquidity. Upon transition to its second generation leadership in 1989, the bank sought to develop stability and sustainability by focusing on deposits generation among its clients, and by 1991 IRB was already gaining growth and industry recognition. In 1997, the 40<sup>th</sup> anniversary of its founding, the bank changed its name to Bangko Kabayan Inc. as a sign of its commitment to serve the needs of their expanding market outside Batangas. That same year, it launched a microfinance lending program in response to the needs of the local population severely affected by the Asian Financial Crisis, and established the IRB Foundation with the purpose of granting micro-credit and scholarship programs to poor households.

Bangko Kabayan finances a wide range of agricultural activities including poultry, livestock, fish, and crop cultivation through three main agricultural credit products:

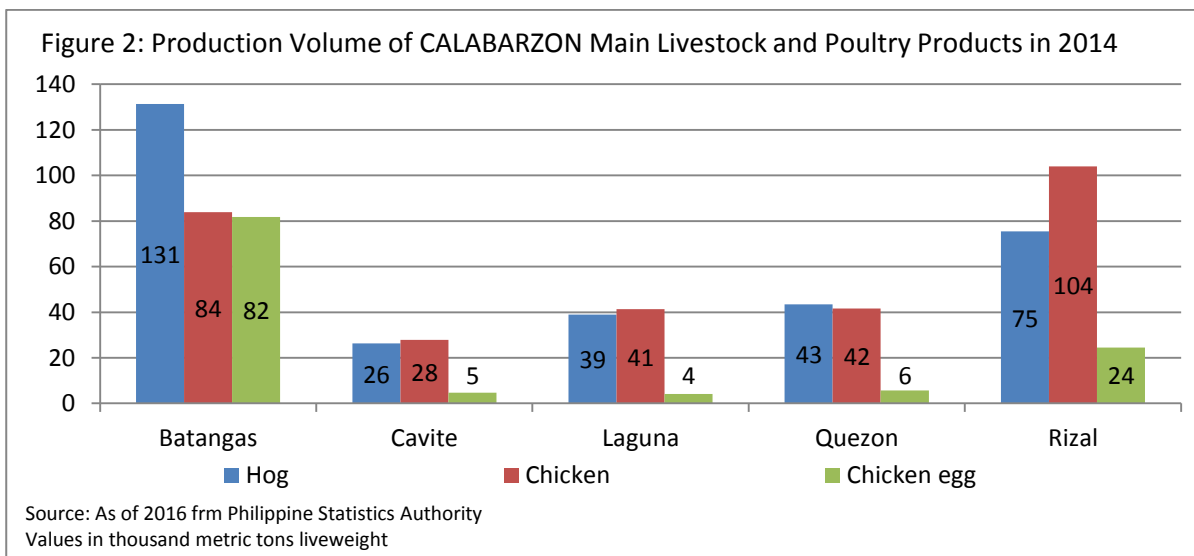
- **Agricultural Secured** is a loan collateralized by real estate property with applicable interest rate between 12% and 18% per annum. Loan sizes range from Php151,000 to Php95 million, payable through monthly, quarterly or annual installments.
- **ANI Loan** is an unsecured credit facility designed for small producers and cultivators, 85% guaranteed by the Agriculture Guarantee Fund Pool (AGFP). The loan is repaid lump sum upon scheduled maturity date depending on the crop or livestock.
- **ANI Plus** offers larger loan amounts (Php200,000-Php900,000) intended for farmers who are planning to expand operations. It is secured by livestock inventory or chattel mortgage and has the same repayment schedule as the ANI Loan.

**B. AGRICULTURAL LANDSCAPE AND TRENDS:**

CALABARZON has been the second largest contributor to the national agricultural output since 2009. In 2014, the region registered 9.8% of the total agriculture GVA amounting to of Php70.28 billion, following Central Luzon’s 15.95% at Php144.53 billion. The poultry subsector had the biggest share of 29.27%, while livestock was at 25.21% making CALABARZON the top producer of chicken eggs and the second largest producer of hogs. Crops and fisheries output however, both declined by about 2%.

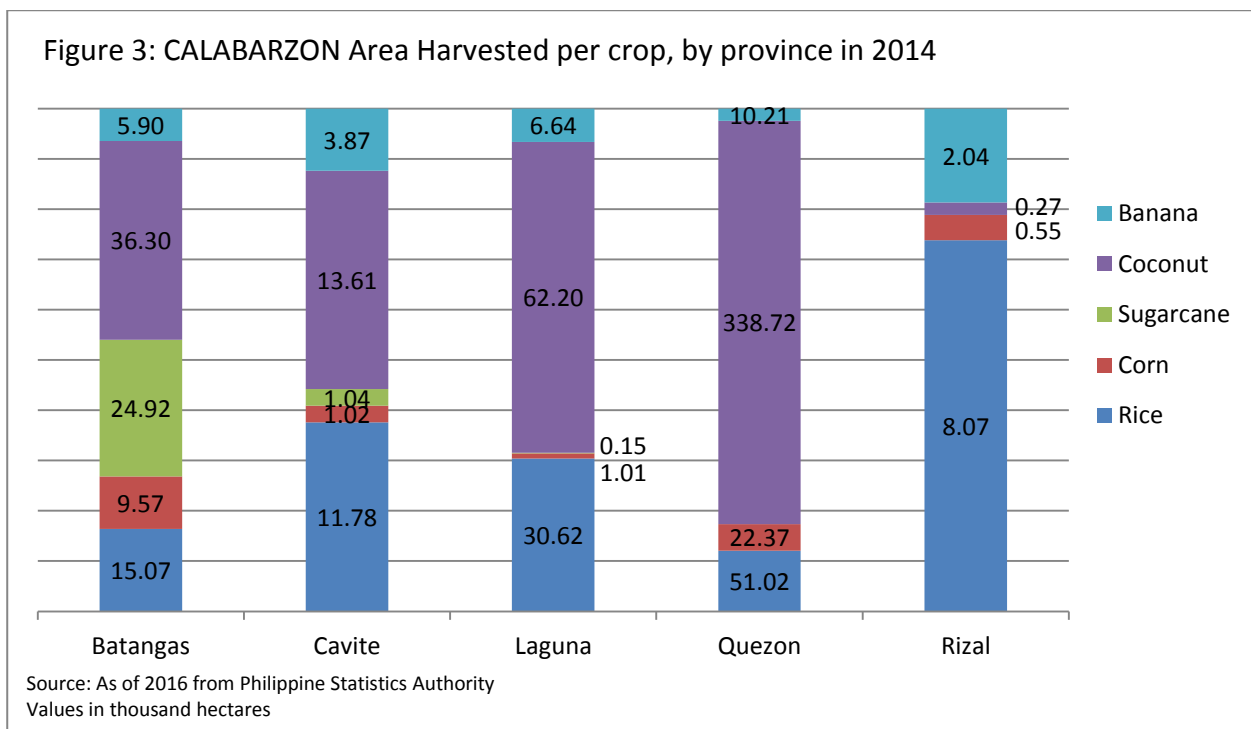


Hog raising is the most productive livestock activity with about 315,600 metric tons of live weight produced, bringing in Php18.48 billion to the region. Cattle and goat are also being raised, mostly coming from Batangas also, but not as significantly large with 26,147mt live weight amounting Php1.359 billion, and 3,565mt live weight at Php189 million, respectively. Looking at poultry commodities, chicken and chicken egg amounted to Php22,450 billion while duck and duck egg production brought in some Php142 million. Batangas has the highest production of hogs at 131,400 metric tons and chicken eggs at 81,000 metric tons. The local fishing industry had about Php19.51 billion total production value from milkfish, roundscad (galunggong), and tilapia among others. Fishing is a year-round activity because of rich fishing grounds in Quezon and Rizal communities along the northern coast of Laguna de Bay.



Over 770,000 hectares of land is utilized for crops, of which 78% is planted with coconut, rice and corn. The region’s predominant crops are Rice and Coconut coming mostly from Laguna and Quezon.

Among the provinces in the region, the bank’s trading area have the highest opportunity in agricultural lending as these are the top in terms of area harvested. Quezon province has the largest harvested area of about 449,000 hectares mostly planted with coconut, rice and corn. Batangas is second with about 130,000 hectares used for coconut, sugarcane and rice while Laguna comes in third with 117,000 hectares used mostly for the same crops. Rice is coming mostly from Quezon with 154,700 metric tons produced, followed by Laguna with 130,900 metric tons in 2014. Other crops providing income to the rural communities include cassava, ampalaya and eggplant in Batangas, squash and tomato in Laguna, and sweet potato in Quezon.



Particular trends in the local agricultural landscape of CALABARZON present areas where Bangko Kabayan can potentially increase their market:

**Significant production of high value crops** - There is an opportunity for Bangko Kabayan to develop lending schemes for high value crops like eggplant which generated Php 519 million. Quezon province has the second largest eggplant production in the country of 30,024 metric tons according to the High Value Crops Development Program (HVCDP). Aside from eggplant, calamansi and coffee are also large contributors to output with Php321 million and Php180 million, respectively.

***Decrease in average farm size while number of farms increase*** - The population increase in the region has resulted in the conversion of large tracts of agricultural land to residential and commercial use. By 2012, the total agricultural land area in CALABARZON had decreased by 15.4% compared to 2002. On the other hand, the number of farms in the region increased from 287,000 in 2002 to 341,800 in 2012 (18.8%) due to the partitioning of farms as ownership transferred from one generation to the next. As a consequence, the average farm size decreased from 2.08 hectares in 2002 to 1.45 hectares over the period. Although there are potentially more farmers now in need of capital (and more smallholder farmers covered under the AGFP program), questions around the farms' long-term viability arise due to their smaller size.

***Continuous government investment in climate change resilience*** – The adverse weather conditions brought about by climate change continue to pose problems in the entire agriculture sector of the country. CALABARZON provinces were affected by the El Nino phenomenon that began in 2015 albeit not as severely as those in Mindanao. The government is trying to mitigate the problem through programs that improve farmers' resilience. These adaptive strategies include continuous investment in agricultural research to develop heat-resistant varieties of rice, corn and sugarcane, looking into climate smart agricultural practices (e.g., improved pest protection and integrated soil fertility management), improvement of irrigation, and shifting the growing season for rain fed crops to avoid the hottest months.

Aside from climate change adaptation measures, the government has established programs to address other issues faced by farmers, such as the construction of farm to market roads, establishment of Agri Pinoy trading centers, and strengthening of financial safety nets through PCIC crop insurance, and AGFP loan guarantee programs. The overall development of the agriculture industry would make the value chain more viable to various players and enablers in the system by minimizing costs and improving efficiency.

### **C. BANGKO KABAYAN'S ANI (AGRIKULTURA NG NAYON, ISULONG) LOAN PROGRAM**

Bangko Kabayan piloted the ANI Loan Program in 2013 after seeing an opportunity to expand their service to the community by catering to farmers who do not possess any real property to secure a loan from formal lenders. The ANI Loan was first introduced in a fishing community in Agoncillio, Batangas that produced tilapia, a common freshwater fish. The pilot confirmed the existence of significant demand for unsecured loans among small-holder producers and, with 85% of the loans guaranteed by the Land Bank of the Philippines' AGFP Program, decided to roll out the product to highly agricultural communities, such as San Juan, Calatagan, Balayan, Nasugbu, Lemery, and Calaca.

The bank has also thought of serving the people through non-traditional collateral for those who have no hard assets but would need more than what ANI loan can give. They launched ANI Plus, a loan program intended to serve clients whose needs are minimum of two hundred thousand (Php200k) to nine hundred thousand (Php900k). The ANI Plus program used livestock inventory and chattel as security.

**Product Features** – ANI Loan is an unsecured credit extended to smallholder farmers for various agricultural activities such as crop cultivation, poultry and livestock raising and aquaculture. The maximum loan amount for crops is 75% of the total projected cost per hectare at 2.16% monthly interest rate. Interest rate is 2.08% for livestock and fisheries with maximum loan amount usually based on the projected cost estimated by AGFP. The loan is repaid in a single payment upon maturity (not in installments), and the bank sets different maturity dates depending on the cropping cycles of the different crops.

Crop	Maximum Loan Amount per Hectare (Php)	Term	Interest Rate	Other Charge	Repayment Method
Palay - Hybrid	37,500	4 months	26% per annum	4% service charge deducted upon fund release	Single payment, interest to be paid upon maturity via auto debit or post-dated check
Palay - Inbred	30,750	4 months			
Corn	30,000	4 months			
Sugarcane-Plant	37,500	10 months			
Sugarcane-Ratoon	33,750	12 months			
Ampalaya -Direct Seeding	67,500	12 months			
Ampalaya - Seeding	86,250	2 months			
Cassava	15,000	6 months			
Okra	51,000	2 months			
Papaya	37,500				
Potato	66,000				
Soybean	30,000				
String Bean	30,225				
Tomato	42,000				
Sweet Potato	30,225				
Other Short Term Crops	varies depending on projected cost	6 months			

Source: As of 2016 from Bangko Kabayan Inc.

Crop	Maximum Loan Amount (Php)	Term	Interest Rate	Other Charge	Repayment Method
Poultry – Layer	50% of total project cost	12 months	25% per annum	4% service charge deducted upon fund release	Monthly amortization
Poultry – Broiler	50% of total project cost	2 months			Single payment, interest to be paid upon maturity via ADA/PDC
Fatteners	300,000	6 months			
Tilapia	180,000	6 months			
Prawn	180,000	6 months			

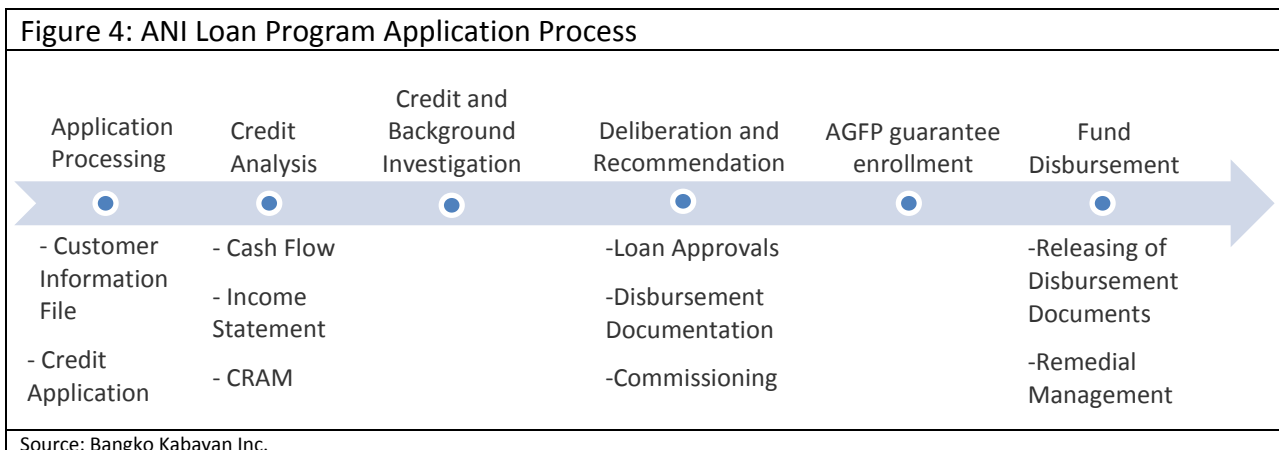
Source: As of 2016 from Bangko Kabayan Inc.

**Marketing and Salesforce** – Branches in highly agricultural areas have ANI Loan officers (ALO) and Senior ANI Loan officers (SALO) are primarily in charge of the product marketing. ALOs report directly to the Branch Manager, while the SALOs report to the Credit Management Head. Currently, the bank has one SALO and five ALOs assigned to cover Sariaya, Tiaong, San Juan, Calatagan, Balayan, Nasugbu, Lemery, Agoncilio, and Calaca. ALOs each manage about 82 accounts and an average loan portfolio of Php4 million.

The ALOs are tasked to (1) sell the product to obtain new accounts and expand portfolio of current borrowers, (2) process new loans and renewals and, (3) conduct farm visits to monitor usage of funds disbursed. Based on an interview with an ALO, however, majority of their time is spent processing loan renewals, and they are unable to spend sufficient time marketing the product. Farm monitoring is conducted twice:

- 1st Visit - 30 days after the release of loan to ensure appropriate allocation and spending of funds for land preparation and inputs purchase
- 2nd Visit - 30 days before harvest to check if the crops are in good condition, and if they are ready for harvesting on the planned date

**Loan Process** – ANI Loans processing is accomplished within four days, both for new applications and loan renewals, after the submission of all of the required documents. Most of the work is handled by the ALOs and Branch Managers (for branches without ALOs).



**Current Market Performance** – The ANI Loan program was growing rapidly in its first two years of implementation until typhoon Glenda hit the region in July 2014, which caused delinquencies to spike. The ANI Loan’s portfolio grew by 67% to Php38.2 million in 2014 from Php 22.8 million in 2013. After the devastation caused by the typhoon, the portfolio’s past due ratio increased to 10.69%, and the bank decided to suspend its marketing efforts until March 2015. As an added precaution, the bank opted to renew only those loans that met the respective repayment schedules between March and April 2015. Many of the bank’s borrowers cultivated multiple crops. Due to the stricter renewal policy, the bank financed only one of the crops cultivated the prior season. By the end of 2015, the portfolio decreased to Php20.2 million and the past due ratio increased to 17.06%. The breakdown of the current portfolio shows that 228 accounts are renewals, 52 are new, and 208 are delinquent.

Period	Number of active clients	Portfolio outstanding (Php million)	Portfolio at risk
2013	570	22.8	6.30%
2014	774	38.2	10.69%
2015	496	20.2	17.06%

Source: As of 2016 from 1<sup>st</sup> Valley Bank

More than 50% of the accounts have been past due for more than one year and these are mostly loans from farmers whose crops were destroyed by the typhoon in 2014. As of January 2016, the bank still had Php1.9 million in uncollected claims from the AGFP.

Past due days	Number of Accounts
>0 days	6
>30 days	10
>60 days	13
>180 days	71
>400 days	108

Source: As of 2016 from 1<sup>st</sup> Valley Bank

#### D. Lessons Learned, Challenges, and Action Plans

##### **Success Factors**

- Farmer's success is the bank's biggest triumph – Whenever they have a dialogue with the farmers, they hear stories of how their lives improved because of the financial assistance extended to them. This also paved way for the bank to create a social impact. There were farmers who were able to expand their business like from 10 heads of sows, they now have 50. The loan became the farmer's enablers to have the capability to have additional farms thus helping them to provide more for the family especially for their children's education.
- The product benefited the reputation of the bank and has created brand awareness in the municipalities they covered. Through word of mouth, new clients are coming not just getting loans but opening deposits as well.
- ANI loan helped Tiaong branch to grow its portfolio and to earn income. Being a new branch 2013, it was struggling to generate both deposits and loans. ANI loan beefed up its loan portfolio and paved way for the branch to be known in the area.

### ***Lessons Learned***

- Farming households that solely rely on agriculture as the only source of income have a higher tendency of delinquency and default, especially after the onslaught of natural calamities. The bank can lower the default risks by targeting farmers with other additional income sources and by matching disbursement and repayment schedules to the household's cash flow cycles.
- Loans intended for agriculture activities are not necessarily entirely used for the intended purpose since smallholder's business is often tied to household needs. Agricultural lending requires intensive follow-up to ensure proper allocation and economical use of borrowed funds.
- Farmers appreciate accessibility and quality customer service. They also provide valuable feedback for the improvement of the product's features, as well as anecdotes about how the program has helped them that is both inspirational to the bank's staff and encouraging to potential new clients.
- The ALOs serve as conduit for information gathering for the bank while assisting the farmers in managing the loan through close monitoring of spending and of production outcomes.

### ***Challenges***

- Acts of nature like typhoon is the primary reason of increased past due affecting the quality of the portfolio. Like for example, farmers who were affected by typhoon Glenda in 2014 have not yet paid and these farmers were not able to get back on their feet.
- They wanted to maintain a not more than 8% past due but it has become a challenge. Although AGFP is supposed to be an instrument to recover losses from past due, collecting from the agency has been a challenge as well because it's taking longer than usual. There are still Php1.9 Million that are uncollected. AGFP hasn't finished their field validation but is schedule to do it in February 2016.
- The bank lost momentum in selling in late 2014 and early 2015 which resulted to a declined portfolio because of the bank's deliberate decision to freeze selling in the last quarter of 2014 to March 2015. They stopped and implemented some stricter controls to fix quality of portfolio, some of these are: renewal only for those who have perfect payment and loan applications are being disapproved if applicant can't provide other sources of income. The bank believes that the move to qualify only those who have dual or multiple income posts as another marketing challenge as this limits the number of qualified borrowers. However, this also serves as a risk mechanism for the bank.
- The ability to employ new product development such as using other guarantee like PCIC. This becomes a hindrance because of system limitation. PCIC's premium varies on the crop. This seems to be complicated for the bank because they have multiple crops and this would require setting up of different Promissory Notes.



***Action Plans For Product Development***

- Bangko Kabayan has seen the strong demand for an unsecured agricultural loan product and they intend to further grow the products portfolio beyond what AGFP guarantees. The bank is looking at opportunities for expansion in providing value chain services, weather-based insurance, and crop insurance via PCIC. The development of supply chain lending products is also one of the opportunities that the bank would like to study further.
- It is also looking into expanding the ANI Loan features to include various other services such as loans for education and housing, and partnerships that would help improve productivity.

Along the way, the bank has experienced challenges that gave them lessons on how to strengthen the product and their risk controls. On the other hand, clients' success stories have proved that despite the challenges, they are making a big difference in the lives of the farmers. There were times when they were tempted to stop but decided to just go ahead and just find other ways to do it. The lessons learned from the ANI business have them more riveted to polish, enhance and develop the product to have more risk management controls.

## E. Annexes

### E.1 Vision

With a God-centered united workforce, we will be the preferred financial institution of MSMEs in Region 4, delivering relevant financial services with excellence

### E.2 Mission

Bangko Kabayan is committed to become the region's partner in economic development by providing quality financial products and services to MSMEs and individuals in the community we serve. Through continuous growth, we will provide optimum returns to our shareholders as well as opportunities for employees to develop themselves as fulfilled and holistic individuals, aware of the important role they play in the lives of others.

### E.2 Branches

Batangas			
Agoncillo	Calatagan	San Jose	Ibaan
Balayan	Tanauan City	San Juan	Lemery
Batangas City	Mabini	San Pascual	Lipa City
Calaca	Rosario	Cuenca	Nasugbu
Quezon			
Tiaong		Sariaya	
Laguna			
Nagcarlan		Pagsanjan	

### E.2 Products & Services

PRODUCTS	DESCRIPTION
<b>MICROFINANCE</b>	
KAPITAN LOAN – Kapisanan ng mga Ilaw ng Tahanan	Group microfinance lending program for businesses with long gestating period like livestock raising, provided the secondary income can pay the weekly amortization payment
KABAYAN – Kaakibat ng Bangko sa Pagunlad sa Kabuhayan	Individual microfinance lending program for working capital or acquisition of fixed assets for existing businesses
KABAYAN Plus	Transitory special financing schemes providing credit assistance for loans above P150k to a maximum of P300k for existing microfinance borrowers with excellent payment records
EDUCATIONAL	An incentive credit window for existing microfinance clients to finance tuition and/or entrance fees, graduation fees, board reviews, books, school supplies and uniforms, or premiums for educational plans
GABAY Housing – Garantisado ng Bangko and Maayos na Pabahay	An incentive loan granted to microfinance clients and depositors for home improvements, repairs or expansion with a term of 6 months to 1 year

<b>LOAN PRODUCTS</b>	
AGRICULTURAL	For cultivation, development and improvement of agricultural land, raising of poultry and livestock and improvement of fishpond & other development activities related to agriculture
SME	Loans granted for marketing and distribution of commodities or trading business either wholesale or retail ; finance the manufacturing of goods(handicrafts making, food processing, etc); Or to any business activity engaged in services such as hotel, restaurant, parlors, etc
SALARY	Loans granted to permanent employees, both in government and in the private sector Loan amount is minimum 5k maximum or 3x the individual's gross monthly income; payable from 6 months to 2 years
HOUSING	Loans for individuals for housing purposes which may be for acquisition. Construction or improvement of a residential unit
AUTO	For car buyers with maximum amount equivalent to 70% of unit price with a term of 1 to 4 years
ASENSO LOAN	For additional working capital for small enterprises both for existing KABAYAN or KABAYAN Plus and newly acquired clients
OFW HOUSING LOAN	Loan for acquisition of house and lot, townhouse or condominium unit, house construction or renovation, reimbursement of acquisition or construction cost; Loan amount is from P300k to P3M up to 10 years, reprisable after 5 years; Free insurance for the 1 <sup>st</sup> year
<b>DEPOSITS</b>	
SAVINGS ACCOUNT	Used primarily for safekeeping of funds and evidenced by a passbook; Initial deposit of P100
TIME DEPOSIT	Minimum placement of P10k, with minimum term of 30 days
SURE SAVE	5 year time deposit with free life insurance; interest is withdrawable and reprisable annually; Minimum placement of P100k;Not subject to 20% Withholding Tax, provided deposit is not pre-terminated
CHECKING ACCOUNT	Used by individuals or enterprises to support their personal or business requirements; initial cash deposit of 5k for Direct and 10k for 2-in-1
OFW SAVINGS	5 year Time Deposit for OFWs and their spouses with free life insurance; Minimum placement of P50k; Interest rate is 3% per annum
BIBO KID SAVERS	Savings account for children 7 to 12 years old evidenced by a passbook ; Minimum placement of 1k
<b>OTHER SERVICES</b>	
ATM Service Provider	
REMITTANCE	Western Union, GCash Remit, Uniteller, Xoom, Moneygram, BDO Remit
MOBILE PHONE BANKING	<ul style="list-style-type: none"> <li>● Text-A-Loan payment</li> <li>● Text-A-Deposit/Text-A-Withdrawal</li> <li>● Payroll through Powerpay+</li> </ul>

## F. References

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