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AN ANALYSIS OF QUEDANCOR'S FINANCIAL CONDITION

Drawing its substance from two Agriculture & Fisheries Modernization Act (AFMA) mandated studies undertaken by PSR Consulting, Inc., this analysis presents Quedancor's finances and operating performance. The studies are; 1) the Review, Consolidation and Rationalization of Existing Guarantee Programs for Agriculture and Fisheries, and 2) the Review of the Charters and Performance of the LBP, PCIC, GFSME, ACPC, and Quedancor. Financial statements of the Corporation were also used.

Quedancor's Lending and Guarantee Performance

- At present, there are 12 lending and guarantee programs being implemented by Quedancor namely:

  1. Agri-Aqua Inventory Management (AIM)
  2. Agrikulturang Makamasa-Hybrid Corn Production Guarantee Program (AM-HCPGP)
  3. CARP-Barangay Marketing Center (CBMC)
  4. Agrikulturang Makamasa- Local Government Units (AM-LGUs)
  5. Integrated Livelihood Program for Fisherfolk (ILPF)
  6. Poverty Alleviation Credit Fund for Direct Assistance to Farmers (PAF-DAF)
  7. Long Gestating Crops Program (LGCP)
  8. Agrikulturang Makamasa-High Value Crops Program (AM-HVCP)
  9. Coordinated Agricultural Marketing Production (CAMP)
  10. Agrikulturang Makamasa- Rice and Corn Based Farming System (AM-RCBFS)
  11. Food and Agricultural Retail Enterprises (FARE)
  12. Agrikultural Makamasa-Sugar Farm Modernization Program (AM-SFMP)

- The lending programs were funded mainly by special allocations from different government agencies, with Quedancor as fund manager. In year 2000, out of the P 428.62 million loan releases made by the firm, 71% was financed out of the special allocations. On the other hand, 80% of Quedancor's equity was assumed to be the amount allocated for its guarantee programs.

- Total loan releases of Quedancor over the period 1992 – 2000 amounted to P2.2 billion, while total loans outstanding amount to P 1.2 billion. Overall repayment performance of the Corporation is 78% (Table 1). On the other hand, loans guaranteed have reached P 10.4 billion over the last 9 years (Table 2).

- Compared to the previous year's (1999) performance, Quedancor loan releases declined by 14% in CY 2000 (Table 2). Likewise, its guarantee operations dropped by 25%. It is also evident that the share of guaranteed loans to total portfolio of the Corporation has been diminishing since 1997. This indicates, among other things, the declining participation of private financial institutions in the guarantee programs, which most likely started as a result of the regional financial crisis that also occurred in 1997.

Table 1. Summary of Quedancor's Lending Performance
As of December 31,2000
(Amounts in P million)

		Loans Granted	Loans Out-Standing	Loans Matured	Loans Collected	Repayment (%)
1.	FARE	456.24	79.73	404.98	376.51	93
2.	DAPCOPO	68.5	28.79	50.18	39.71	79
3.	FLGC	32.77	32.7	9.94	0.71	1
4.	CCAP	36.65	20.8	23.52	15.85	67
5.	BMC	121.16	91.39	76.02	29.77	39
6.	LGU	95.75	61.15	36.6	34.60	94
7.	PAFDAF	34.2	26.65	10.46	7.54	72
8.	HVCP	224.39	202.27	24.12	22.12	92
9.	RCBFS	560.72	378.62	194.93	182.1	93
10.	CAMP	397.86	148.93	316.8	248.92	79
11.	FILP	38.6	24.09	29.48	14.51	49
12.	LAMP	84.12	89.29	162.8	76.19	47
13.	SFMP	12.91	12.8	0.11	0.11	100
	TOTAL	2,163.87	1,197.21	1,339.94	1,048.64	78

Source: ACPC Monitoring Reports

- Under the firm's lending operations in year 2000, there were 53 group and 837 individual borrowers. Estimated total number of individual beneficiaries is 49,413. Meanwhile, estimated total number of beneficiaries under its guarantee operation in the same year totals 44,569 (Table 3). Majority of the direct beneficiaries of Quedancor's lending operations are LGUs, while its main guarantee beneficiaries are traders. The indirect beneficiaries of both programs are small farmers and fisherfolk, which are estimated to number around 175,000 over the last 5 years.

- As of June 30, 2000, total number of guarantee claims tremendously increased by 385% from its year-ago level as a result of the economic crisis that hit the country. As a result, the amount of guarantee claims went up by 55%. Only 52% of the total approved claims were paid, while only around P 6 million or 48% of the paid claims were recovered by Quedancor (Table 4).

Table 2. Quedancor's Lending and Guarantee Performance (1992- 2000)

Year	Loan Released (P million)	% Share	Loan Guaranteed (P million)	% Share	Total Loans (P million)
1992	30.2	2	1,255.8	98	1,286.0
1993	44.8	5	793.4	95	838.2
1994	190.2	14	1,162.7	86	1,352.9
1995	171.9	9	1,778.5	91	1,950.4
1996	119.0	7	1,530.8	93	1,649.8
1997	188.0	11	1,570.2	89	1,758.2
1998	343.7	22	1,186.6	78	1,530.3
1999	572.3	47	650.5	53	1,222.8
2000	503.8	47	486.8	53	915.4
Total	**2,163.9**		**10,415.3**		**12,504.0**

Source: ACPC Monitoring Reports

Table 3. Number of Borrowers/Beneficiaries under Quedancor's Lending and Guarantee Programs As of Year 1999 and 2000

	1999			2000		
	Indv.	Group	Est. Benef.	Indv.	Group	Est. Benef.
Lending Programs						
1. FARE	595	-	697	441	-	519
2. DAPCOPO	-	3	655	-	-	-
3. FLGC	-	1	655	-	-	-
4. CCAP	-	5	2,107	-	-	-
5. BMC	-	5	715	-	3	166
6. LGU	-	25	75,000	-	6	18000
7. PAFDAF	-	9	1,104	-	6	178
8. HVCP	86	9	6,174	50	12	3,217
9. RCBFS	92	10	21,474	108	21	17,376
10. CAMP	73	1	5,825	35	1	5,700
11. FILP	244	3	5,030	191	3	3,970
12. LAMP	3	-	60	-	-	-
13. SFMP	-	-	-	-	1	287
Total	1,093	71	119,496	837	53	49,413
Guarantee Programs						
1. AIM	51	2	50,649	31	2	42,384
2. FARE	89		99	38		38
3. CAMP	6		450	8		600
4. LAMP-FSP	3		-			-
5. CORN	-		-	23		1,547
Total	149	2	51,198	100	2	44,569

Source: ACPC Monitoring Reports

Table 4. Status of Guarantee Claims
As of June 30, 1999 and 2000

	1999	2000
Guarantee Claims		
No. of FIs with claims	13	50
Amount (P million)	61.1	94.9
Claims approved for payment		
No. of FIs with claims	25	14
Amount (P million)	31.6	23.9
Claims paid		
No. of FIs with claims	21	14
Amount (P million)	43.2	12.6
% Paid to Total Claims Approved for payment	137% a/	52%
Recoveries (P million)	0.141	6.0
Recovery Rate (%)	0.33	48

- includes payment for previous year's claims approved for payment

Source: ACPC Monitoring Reports

Analysis of Quedancor's Financial Performance

Financial Condition

- Total resources of Quedancor grew from P0.55 billion in 1993 to about P2.5 billion in 2000, or an average annual growth rate of 25%. These were mostly receivables that annually averaged about P539 million or 38% of total assets. Cash on hand & in banks, meanwhile, made up an average of 26% of Quedancor's resources annually.

- The firm's total liabilities, on the other hand, are increasing at an annual average rate of 36%. The bulk of these are long-term liabilities, amounting to around P734 million and sourced mainly from programs of the Department of Agriculture and other agencies. These long-term liabilities in fact, reached more than 90% of the Corporation's total liabilities in 1999 and 2000.

- Although Quedancor's capital accounts also increased from about P303 million in 1993 to P722 million in 2000), this was mainly due to equity infusions by the National Government of an average of P56.7 million per year.

- Meanwhile, despite the fact that the firm's liabilities are increasing faster than its capital, Quedancor's debt-to-asset and debt-to-equity ratio over the past 8 years still indicate favorable leverage positions.

Profitability

- The Corporation's revenues are derived mainly from operations (68%), and from investments (32%). Operating revenues are derived mostly from interest and other service income (90%) and guarantee fees (10%).

- On the other hand, the bulk of Quedancor's expenditures are for personnel services (57%), and the rest are for MOOE. Almost sixty percent of its MOOE, meanwhile, are for bad debts and losses, interest expense, and fees & duties.

- Quedancor incurred losses in years 1993, 1996, and 1999 and realized positive revenues in years 1994, 1995, 1997,1998 and 2000, mainly because it was primarily getting its funding from government at very low cost. Overall average annual net income of the Corporation is only P350 thousand. Moreover, its returns on asset and capital are very minimal. Because of marginal profitability, Quedancor has failed to accumulate or build-up its capital from internal sources.

Lending Subsidizes Guarantee Activities

- As earlier mentioned, Quedancor's lending operation generated profit margins (before operating expenses) mainly because of the subsidized cost of the DCP funds. However, Table 5 shows that 80% of the firm's expenses arises from its guarantee activities. In fact, even with subsidy from investment income, Quedancor's guarantee operation is losing an average of P37 million yearly. Primarily, this is because Quedancor's guarantee fees do not cover the costs of its guarantee operation.

- The actual operating cost ratio of Quedancor's guarantee operations averaged 4.6% during the period 1993-1999, meaning this is the rate that would cover its actual guarantee costs. However, its actual guarantee rates (ratio of guarantee fees and service fees collected to total loans guaranteed) only averaged 1.12%. Since this is lower even than the fixed 2% fee that the Corporation is charging, revenues being generated from guarantees falls short of what is required to cover the direct operating expenses.

Table 5. Profitability of Lending vs. Guarantee Operations
(In Million Pesos)

	1992	1993	1994	1995	1996	1997	1998
Guarantee							
Guarantee fees	10.5	12.8	20.5	22.6	23.4	22.9	12.6
Investment income	7.6	20.2	27.1	14.6	15.3	26.9	62.1
Operating Expenses	50.3	48.7	63.3	67.4	81.1	112.6	132.9
Contribution to Income	-32.2	-15.7	-15.7	-30.3	-42.4	-62.8	-58.2
Lending							
Int. & other income	26	21.9	27.2	44.7	50.5	88	60.9
Investment income	1.9	5.1	6.8	3.6	3.8	6.7	15.5
Operating expenses	12.6	12.2	15.8	16.9	20.3	28.1	33.2
Contribution to Income	15.3	14.8	18.2	31.5	34	66.6	43.2

Source: Review of the Charters and Performance of LBP, PCIC, GFSME, ACPC and Quedancor

- As a result, Quedancor's lending operation has to subsidize its guarantee operation (Table 5).

The Firm's Capital is Deteriorating

- However, Quedancor's cross-subsidy scheme has only further impaired the Corporation's capital (Table 6), especially since infusions from the National Government (NG) have fallen short of the expected amounts.

- Moreover, Quedancor entered losses from guarantee calls in its books as assets. Yet, because these are non-performing, they also contribute to the firm's capital impairment. As a result of this accounting practice, the reported capital is being "bloated" by almost double (Table 6). Since only the unimpaired capital is actually available to Quedancor, putting even the entire amount of it in financial investments would still generate insufficient income to pay for the Corporation's personnel cost and MOOE.

Table 6. Non-performing Assets (NPA) Impaired vs. Unimpaired Capital
(In Million Pesos)

	1992	1993	1994	1995	1996	1997	1998
Reported capital	302.9	403.7	460.7	513.2	575.2	616.0	670.0
NPAs	128.7	134.8	134.9	151.1	260.6	348.5	395.8
Unimpaired capital	174.3	268.9	325.7	362.1	314.6	267.4	274.2

Source: Review of the Charters and Performance of LBP, PCIC, GFSME, ACPC and Quedancor

Concluding Remarks and Recommendations

- Losses from its guarantee operations suggest that Quedancor did not have sufficient market reach due to, among others, shortfalls in NG equity infusion and low fund leveraging.

- The Corporation should therefore already start withdrawing from relying on equity infusions from NG. Given the NG's track record in releasing its mandated equity counterpart (which, after all, is also subject to its overall fiscal situation), it is only logical that Quedancor already devote more effort on improving its internal generation of capital.

- In this regard, Quedancor should review its pricing scheme/s for its financial products/services. The Corporation should be encouraged to already move towards cost-recovery pricing. While this may momentarily result in higher cost for the borrower, that may still be a small price to pay for more efficient guarantee and lending operations which, at any rate, ultimately redound to better credit access for "higher-risk" borrowers, including small agriculture and fisheries stakeholders.

- Also to increase the outreach of its resources, Quedancor should put a “firewall, ” so to speak, between its guarantee and lending operations. That is, it should not utilize its guarantee resources to cover loans arising from its own lending operation. In this manner, its guarantee operation would have a different set of clientele than that of its lending operation.

- Meanwhile, Proper booking of Quedancor’s NPAs would reveal the true extent of damage suffered by the firm from its credit guarantee operation. Deferring the recognition of NPAs as an expense item only results in the continued overstatement of the firm’s capital position.

- In relation for this, Quedancor should pursue its initiative to be placed under the supervision of the Bangko Sentral ng Pilipinas (BSP). A close watch on its financial practices by the appropriate regulatory body would help ensure that the Corporation abides by strict prudential standards and discipline. This would help strengthen the sustainability of Quedancor as well as lessen potential disruption/damage to the rural financial system that may arise in the future if Quedancor’s unsustainability continues to be unaddressed.

- Finally, Quedancor should already review its cost structure and undertake serious measures to cut down on its expenses, including personnel costs. By reducing its costs, it will also lower its required interest and guarantee charges. In this regard, Quedancor should realize that it could significantly improve the efficiency of its operations by focusing on wholesale, rather than retail, service delivery.