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From Credit Unions to Credit to Multi-Purpose Cooperatives

An Examination Into Development Issues Surrounding Philippine Cooperatives

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I. Introduction

Cooperatives engaged in deposit taking and credit granting are the dominant type of cooperative in the Philippines. They represent more than 73% of all registered cooperatives at the end of 2014, according to the Cooperative Development Authority (CDA). They have proven more resilient than other coop types in meeting the challenges of organizational growth, even though they tend to act individually, rather than as a system, in the marketplace. This fact has to do with the historical development of organized cooperation in the country. This has also to do with the preponderance of cooperative laws that were enacted over the years to promote cooperatives and the developmental posture taken by government in implementing these laws.

At first, they were formed as credit unions, following the North American model and the experience of those who brought the model to the country. Later, the law referred to them as credit cooperatives. Then they were allowed to register or re-register (in case of existing ones) as multi-purpose cooperatives (MPC), enabling them to undertake any other business activities that they deemed necessary. As a result, there are right now MPCs that are doing mainly savings and credit functions but are also engaged in business activities outside of their core competence. And there are MPCs that are called such but are only engaged in savings and credit. Since other types of cooperatives are also known to engage in other services, the prevailing situation is such that the name and official classification of cooperatives no longer accurately describe what they are doing.

This characterization may seem innocuous (for what's in a name, after all). But it has fundamental implications on the present as well as future state of cooperatives in the country. For one, it is symptomatic of the random development path cooperatives are taking

individually, and collectively as a sector and as a system. For another, it is reflective of the uncertain and ambivalent regulatory regime under which they have operated over the years.

As this paper will show, this state of affairs has inhibited the growth of cooperatives in the Philippines as a distinct sector able to contribute to society and the national economy. It has also confined cooperatives to the almost permanent stage of underdevelopment, which is defined here as the inability to achieve their full potential.

II. Historical Analysis

The Philippines celebrated in October 2015 the Philippine Cooperative Centennial Year to mark the hundred years from the time the first law on cooperatives was promulgated. The Rural Credit Cooperative Association Act (P.A. 2508) was enacted in 1915 to promote the organization of credit cooperatives in the agricultural sector throughout the country. Although there were some accounts of cooperatives being organized even before this law but did not prosper, P.A. 2508 marked the beginning of government preoccupation with promoting and organizing cooperatives “to protect and develop the agricultural interest of the country,” in the words of the original authors of the law (Villamin, 2007, p. 4). Since then, over 25 laws, decrees and executive orders affecting cooperatives have been promulgated.

These laws were initially designed to promote specific types of cooperatives and to support them with special programs aimed at developing agriculture and the agricultural sector. Most of these initiatives failed but did not deter government from initiating new legislation and organizing new cooperatives, resulting in the enactment of a series of laws over the years. In the meantime, there were efforts at forming cooperatives outside of government initiative and initially outside of existing cooperative laws. Most of the early

private initiatives did not survive the war (World War II), partly also due to lack of supporting legislation. It was not until the late 50's when a law for non-agricultural cooperatives was passed did these private initiatives begin to take root. It is from this period that cooperatives that have thrived and are operating to this day grew from.

A historical analysis of cooperative development in the Philippines has, therefore, to draw the line between two distinguishable traditions. The first can be called the *mandated tradition* to refer to efforts aimed at inducing the development and growth of cooperatives from the outside or with the use of external resources, a tradition that is mostly associated with government's efforts but also includes other externally-driven initiatives. The second can be called the *voluntary tradition* to refer to the private initiative that developed outside of government influence and which adhered to the traditional cooperative philosophy, values and principles. Each of these traditions has very distinct philosophical orientation and, therefore, different development strategy from the other. This distinction is important to remember when analyzing the present state of cooperatives in the country, in determining the factors that promote or inhibit their potential for growth, and in looking for the way out of the stage of underdevelopment that they are in right now.

The Mandated Tradition

Cooperatives became part of public policy in the Philippines early on. During the colonial period, they were part of the program of government in mobilizing the rural population for socio-economic development. After gaining independence, cooperatives continued to be regarded as vital instruments for the two-fold objectives of people's participation and internal economic growth. As the economy was largely dependent on

agriculture, it was understandable that the government would concentrate its development efforts on farmers and the agricultural sector in general.

From 1915 to 1954 in fact, the cooperative laws that were promulgated and the programs that accompanied them involved mainly cooperatives among farmers and their role in strengthening the agricultural sector. The laws also exemplified the government's tendency to create a special law for each type or function of the cooperative and to assign a specific agency to promote, organize, supervise and assist cooperatives. The resultant failure of the agricultural cooperatives organized did not discourage the government from initiating new laws and programs. Aside from organizing and supervising agricultural cooperatives, government also provided them with financial and technical assistance. Such assistance drew external support from donors, particularly the United States Agency for International Development (USAID).

By the 1950s, a pattern had already been established as far as government initiatives in cooperative promotion and assistance were concerned: new cooperatives of farmers were formed and assisted on the strength of a new law and government program; after a few years they ceased to operate for various reasons, both internal and external; then a new law would be enacted and a new program implemented with the same results in a seemingly unending series of experimentation. One could not fault government for good intentions but perhaps it could be faulted for sticking to a development paradigm that obviously did not work.

The observation made by Van Steenwyk (1987) in his study on cooperatives in the Philippines may well be a good description of what was happening. He wrote: "Under the leadership of ACCFA (Agricultural Credit and Cooperative Financing Administration), FACOMAs (Farmers' Cooperative Marketing Associations) were organized, beginning in

1953, in the six priority provinces of Nueva Ecija, Pampanga, Bulacan, Tarlac, Pangasinan and Cotabato. U.S. technical assistance was provided in these early years (1952-1956) along with substantial commodity assistance in the form of construction materials and equipment. Records show that FACOMAs had robust business activity during this early period. Later, rapid expansion of FACOMAs proved to undermine these early successes. Following the sudden death of President Magsaysay in 1957 anomalies in business dealings of FACOMAs began to surface. Massive government importations of rice prior to elections at about this time, when FACOMA warehouses were fully stocked, depressed rice prices severely nearly causing a collapse of more than 250 FACOMAs. Later attempts by government in the early 1960s to inject additional funds to assist the credit and marketing operations of the FACOMAs had limited impact” (Van Steenwyk, 1987, pp 6-7).

Government involvement and engagement in the agricultural sector continued, nevertheless. In 1957, however, it promulgated a law for non-agricultural cooperatives – Republic Act No. 2023 – in effect drawing the line between cooperatives organized among farmers and the non-farming sector. It also enacted specific laws for electric cooperatives, producers’ cooperatives in the cottage industry, as well as transport cooperatives. And the government continued to prioritize the development of agricultural cooperatives.

At no time perhaps was government support for agricultural cooperatives emphatically more pronounced than during the long reign of Ferdinand E. Marcos (1965 – 1986), who was elected president in 1965 but governed under martial law powers from 1972. The early stage of his reign coincided with the general stagnation of the national economy – rising unemployment, rising inflation, erosion of purchasing power, shrinking per capita income and disproportionate distribution of income and wealth – resulting in severe

economic dislocation and social unrest. To arrest this economic and social malaise, the government adopted in August 1969 a “Magna Carta of Social Justice and Economic Freedom,” which “called for the acceleration of agrarian reform and strengthening of cooperatives as strategic vehicles for national development” (Van Steenwyk, 1987, p 15).

Almost immediately, the martial law government issued Presidential Decree 27 on October 21, 1972 entitled, “Decreeing The Emancipation Of Tenants From The Bondage Of The Soil, Transferring To Them The Ownership Of The Land They Till And Improving The Instruments And Mechanism Therefor” (Official Gazette, 1972). On April 14, 1973, Presidential Decree 175, entitled “Strengthening the Cooperative Movement,” was promulgated as “a parallel measure to the emancipation of tenant-farmers from feudal bondage, as provided for in Presidential Decree No. 27” (Official Gazette, 1973). It then drew up an elaborate program requiring farmers to be organized into village associations (*samahang nayon or SN*), which were to be the foundation of an integrated cooperative structure from towns, provinces, and regions up to the national level. The national system was complete with support structures specializing in financing, production, marketing, distribution, insurance, and technical services. A professional management group was put in place to provide the system with adequate management expertise and capacity.

It was a system designed not to fail according to the government, so much so that all types of cooperatives like credit unions, consumers cooperatives and other non-agricultural cooperatives were required to re-register and conform to the SN structure. Since many of these cooperatives were already established at that time, the move created tension between government and the voluntary sector. The latter refers to groups associated with the voluntary tradition, as distinguished from the private sector or groups which used external resources to

induce the formation of cooperatives among beneficiaries of their program. This tension may have also exacerbated the apparent psychological divide between cooperative-promoting agencies of government and the voluntary sector, with ramifications into their attitude towards the whole issue of regulation versus development.

By the time the martial law government collapsed in February 1986, the Bureau of Cooperatives Development reported 17,115 SNs organized throughout the country, most of which were reported to be inactive, 84 area marketing cooperatives, and 29 cooperative rural banks. They were remnants of those organized by the martial law government. Among the non-agricultural types, there were

<u>Type of Cooperative</u>	<u>No. of Registered/Re-registered</u>
Credit	1,591
Consumers	853
Marketing	294
Producers	218
Service	194
Electric	125
Area Marketing Cooperatives	84
Multi-Purpose	83
Transport	59
Federations	56
Unions	48
Sugar	31
Cooperative Rural Banks	29
<u>Samahang Navon</u>	17,115
TOTAL	20,780

Source: BCOD, Other Agencies
Note: Data compiled by Van Steenwyk (1987)

1,591 credit cooperatives, 853 consumers cooperatives, 218 producers cooperatives, 194 service cooperatives, 56 cooperative federations and 48 cooperative unions (*Table 1*).

The assumption of Corazon Aquino to the presidency after the People Power Revolution ushered in the 1987 Constitution that promised “to promote the viability and growth of cooperatives as instruments for social justice and economic development.” On March 10, 1990, Republic Act No. 6938, otherwise known as the “Cooperative Code of the Philippines” was enacted, declaring it a policy of the State to “create an atmosphere that is

conducive to the growth and development of these cooperatives” and to “encourage the private sector to undertake the actual formation and organization of cooperatives” (Official Gazette, 1990).

Coincidentally, this liberal regime was reinforced by the flood of donor money that flowed into the country following the People Power Revolution. Donor money spilled over into cooperatives. NGOs of various persuasions, foundations, international organizations, government agencies, local governments, even politicians organized cooperatives using donor funds. Cooperatives literally mushroomed all over the country almost overnight as a result. This was a “period of confusion” for cooperatives contributing in no small measure to their haphazard development (Villamin, 2010). From 3,350 registered cooperatives at the end of 1985, their numbers grew to 25,125 in 1993, then ballooned further to 78,611 by the end of 2009. Even more significant was the number of registered cooperatives that confirmed their existence in those years – 1,142 in 1985, 4,494 in 1993, and 23,836 in 2009 (*Table 2*), pointing to the phenomenon of “instant” cooperatives described by Llanto as those “which have been organized by self-interested external parties and motivated by the immediate and instant access to government credit programs” (Llanto, 1994, p. 6).

TABLE 2
Philippine Cooperatives, 1939 – 2009

Year	1939	1969	1977	1980	1985	1993	2009	2014
Number	570	1,530	1,897	2,941	3,350	25,125	78,611	24,652
No. Confirmed/ Reporting*	--	--	--	--	1,142	4,494	23,836	10,762*

Sources: 1939-1985 - Gray Wine Think Tank, 1993, 2009, 2014 – CDA

Note: Cited by Prof. Jorge V. Sibal, *The Philippine Cooperative Movement: Problems and Prospects* (1986 – present)

These externally-driven initiatives fit into the mandated tradition, which can be characterized as follows:

1. In all, cooperative organizations that were created by outside agents to serve their own development ends are products of the mandated tradition. Conceptually, such ends regard people as object rather than subject of change, the difference being in the response of people to the outsiders' actions. In the former, people are and remain passive recipients or "beneficiaries" of these actions; in the latter, as subject of change, people assume or gain ownership of these actions. In practice, actions meant to induce development and growth of cooperatives with external resources, particularly funds, materials and similar inputs, promote "beneficiary" mentality and dependence.
2. Actions taken by the Philippine government to promote, organize and assist agricultural cooperatives exemplify the mandated tradition, both in intent and in practice. The successive failures of these cooperatives that resulted from these actions proved the limits of this model of development. While well-intentioned (the intent, after all, was the development of farmers in particular and agriculture in general), the strategy adopted failed to empower farmers to assume or gain ownership of the process of development.
3. The same can be said of the actions taken by the private sector in promoting cooperatives using external funds. While well-meaning (the intent, after all, was to provide people with institutional means to help themselves), these actions created organizations that were not sustained by real members as proven by their subsequent failures.
4. It has to be stated, however, that the mandated tradition is absolutely not a graveyard for all externally-driven development initiatives. For there are examples of such initiatives around the world that resulted in self-propelling institutions. In the Philippines, there is at

least one example of an SN that grew out of the mandated environment to become a successful cooperative on its own. Here as in other successful examples, the story is about visionary leadership with a capability to develop institutions. The mandated tradition then is not determinism in the absolute sense. It is a body of practice that needs to be informed by innovative processes and a new paradigm.

The Voluntary Tradition

Historical accounts of the beginnings of cooperatives in the Philippines tell of the national hero, Dr. Jose P. Rizal, who organized a consumers cooperative and a supply and marketing cooperative while in exile by the Spanish colonial authorities in Dapitan (Southern Philippines) from 1892 to 1896. The agricultural cooperative ran an irrigation system, procured farming implements, and marketed the produce of farmer members. Dr. Rizal got first-hand knowledge of cooperatives in Germany where he studied and lived, and where he learned about rural cooperatives organized by Friedrich Wilhelm Raiffeisen. In his historical account, Sibal (n.d.) wrote about Raiffeisen-type rural agri-based cooperatives being introduced by Irish-American missionaries and teachers “which featured the principles of self-help and self-reliance.” This was during the period the Americans replaced the Spaniards as the new colonial administrators (1900-1913).

As noted earlier, the early cooperative laws were specifically for rural credit and marketing cooperatives. The government agencies created to promote their respective type of cooperative went about their task literally as mandated, so the possibility of non-farmer groups being organized into cooperatives would have depended on efforts independent of government. In addition, such efforts had to develop without the benefit of an appropriate

law as there was no room under the specific cooperative laws. Cooperatives not organized by government at that time had to register under the Corporation Law (P.A. No. 1459) enacted in 1906.

This was the situation in 1938 when the idea of credit unions in the form known today was brought to the Philippines by the Rev. Allen Huber, an American missionary who was involved with credit unions in the United States. He successfully organized the Vigan Community Credit Union, the first credit union organized in the country. The cooperative was registered, with much reservation, by the Securities and Exchange Commission (SEC), which initially wanted the group to register as an ordinary corporation and drop the principle of “one-man, one-vote” and the idea of “no proxy voting.” By 1941, there were 30 credit unions organized but were not registered by SEC. All these credit unions were dissolved during the Second World War (Villamin, 2010).

Things would change in 1957 with the enactment of the Philippine Non-Agricultural Cooperatives Act (Republic Act No. 2023), the fundamental law that would govern all non-agricultural cooperatives like credit unions, consumers cooperatives, industrial cooperatives, and service cooperatives (electric, housing, transport). The law essentially recognized private sector efforts in the non-agricultural sector. As the government later directly promoted electric cooperatives, industrial cooperatives and transport cooperatives, efforts of the voluntary sector in particular and the private sector in general were focused on credit unions, consumers cooperatives, and service cooperatives.

It should be noted that the credit unions of the voluntary tradition were inspired by the North American experience, particularly credit unions in Canada and the U.S., with the active involvement of the Credit Union National Association (CUNA) in the country. They

adhered to the traditional cooperative philosophy, values and principles, particularly self-help and mutual help, ensuring that the cooperatives were capitalized from within and not dependent on external funding. They also emphasized volunteerism among coop leaders who had to dedicate time and even personal resources to the organization, ensuring the emergence of a leadership that was dedicated to building the institution.

By 1969 or about the time the country was going through a crisis period (immediately before the declaration of martial law), there were 1,981 credit unions, 1,921 consumers cooperatives, 81 industrial cooperatives, and 78 service cooperatives reported as registered throughout the country. Not all of these were reported as active and only 1,530 were considered operational. Noted Van Steenwyk (1987, p. 17): “While reliable data for the period immediately preceding Martial Law is unavailable, it appears that only credit unions suffered the least losses during this crisis period.”

It should also be noted that it was the credit unions that mostly survived the restructuring demanded by the martial law government (for all cooperatives to conform to the SN program). They also lived through the explosion in the number of cooperatives organized by a motley of private sector groups after the People Power Revolution. Meantime, they changed their name to credit cooperatives and later to multi-purpose cooperatives under a liberalized regulatory regime. They thrived and prospered through all these, and now they are the dominant type of cooperative in the country today.

These deposit taking and credit granting cooperatives are keepers of the voluntary tradition because they rely mostly on internal resources in achieving growth. Although they no longer rely on the volunteer spirit of leaders, they have become established institutions that have taken root in their own communities. A summation of key events in their

development, from the past to the present, may be an appropriate characterization of the voluntary tradition, thus:

1. The “Raiffeisen-type” rural cooperatives and the first credit unions introduced by American missionaries in the early years were based on established models of organized cooperation that relied on internal resources drawn from members. The organizers relied only on their knowledge of cooperative thought and practice in educating the early cooperators, who grew the organization themselves. The first credit union in Vigan mentioned earlier had 590 members within two years and granted a total of P38,000 in loans out of savings of members.
2. This positive experience may have moved government to finally enact a fundamental law for non-agricultural cooperatives in 1957. The law opened up the opportunity for the voluntary sector, led by the Catholic Church and other private groups, to form credit unions and other non-agricultural cooperatives. They preserved the voluntary tradition by sticking to the traditional cooperative philosophy, values and principles, and relied on volunteers in the initial stages of their growth. The period of the late 50s, 60s and early 70s saw vigorous efforts in organizing cooperatives by the voluntary sector.
3. Many of the bigger cooperatives right now, particularly the deposit taking and credit granting cooperatives, trace their roots to this period. The change in their names – from credit unions to credit cooperatives and to multi-purpose cooperatives – has little to do with change in their functions. Rather, it has to do with loose regulation, which is discussed below because of its importance to the present and future development of cooperatives in the country.

4. These cooperatives also survived what was described earlier as the “period of confusion” following the People Power Revolution when donor money corrupted the environment. But it exacted a heavy toll: Cooperatives started to look inward as if to defend their own territory. Connections and relationships between cooperatives were disrupted; they increasingly became conscious only of their own existence. Coop unions and federations no longer played the role of unifying centers able to provide direction to affiliated cooperatives. This process of looking inward can help explain the current phenomenon of cooperatives growing individually rather than as a system (Villamin, 2010).

One final note on history. The passing of Republic Act 2023 in 1957 had another historical significance: It divided cooperative development in the country essentially into two parts. Agricultural cooperatives comprised the first part which was like the domain of government. Non-agricultural cooperatives comprised the second part and was led by the voluntary sector. A third part was later added comprising of specialized cooperatives like electric, transport, and water service cooperatives when specific government agencies were allowed to directly assist and supervise them.

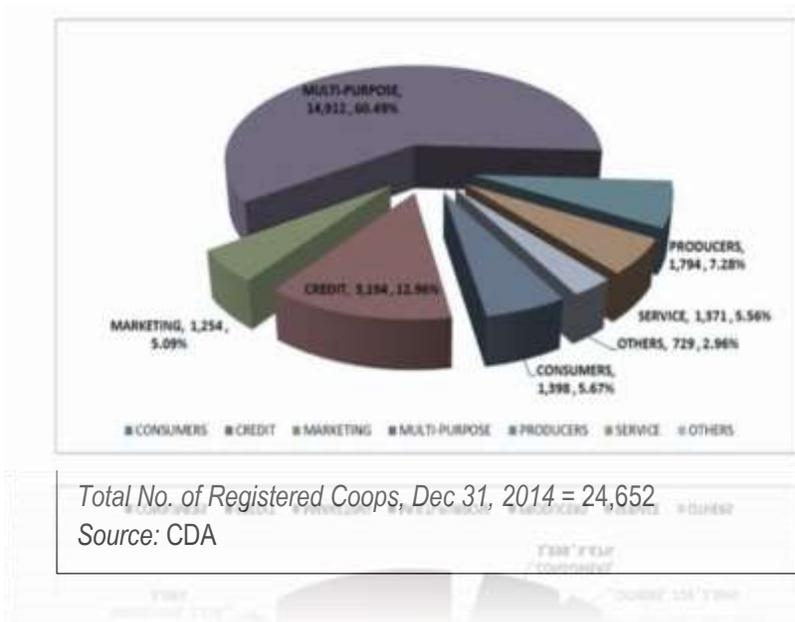
Under the present governing law, the Philippine Cooperative Code Of 2008 (Republic Act 9520), which covers all types of cooperatives, such division should no longer exist at least legally. But in reality some old attitudes still persist. On the one hand, the government continues to be pre-occupied with its developmental functions. On the other hand, not enough effort is being done by the voluntary sector on the whole in the development of the agriculture sector as if this continues to be the domain of government. And with particular government agencies still very much involved in developing, assisting and supervising

specific types of cooperatives, the issue of regulation vs development remains uninformed by intelligent discussion and debate.

Present State of Cooperatives

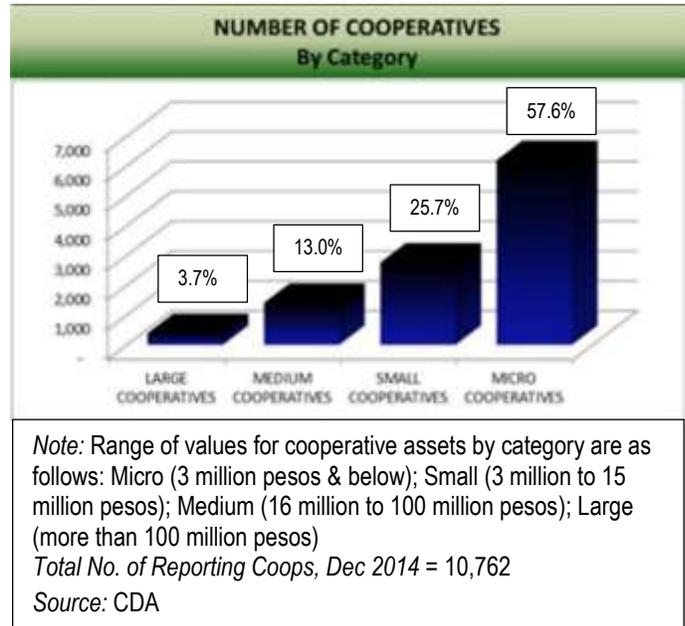
As mentioned earlier, more than 73% of registered cooperatives as of December 31, 2014 are deposit taking and credit granting cooperatives, according to the data of the CDA, the agency mandated by law to supervise all cooperatives. These cooperatives are classified

either as credit cooperatives or multi-purpose cooperatives (*see Graph*). They make up the bulk of what the government considers as “large” cooperatives (with assets of P100 million and above). Most of them are also products of the voluntary tradition.



The CDA data grouping cooperatives into micro, small, medium and large (*see Graph below*), however, tell a lot more about the state of cooperatives in the country. According to the data, 83.3% of all cooperatives registered and reporting as of the end of 2014 are micro and small. If the number of those non-reporting (13,890), which can be assumed to be micro and small, is included the percentage goes up to over 93%. The figures may not seem unusual, given that people are free to form organizations, but seen against the backdrop of

over hundred years of cooperative promotion and development, the numbers tell something more. For one, the data follow the historical pattern of “boom and bust” cycle of development of the mandated tradition. Although the government may not be directly involved in organizing at present, the old attitude of “developing” as opposed to “regulating” cooperatives still persist.



For another, the data indicate the state of underdevelopment that cooperatives in the country have been confined to over the years. Seen as a totality, underdevelopment here means the inability of cooperatives, individually and as a system, to achieve their full potential. Several reasons can be cited why this is so:

1. *Cooperatives are growing individually rather than as a system*

Reference was made earlier to the inward looking tendency of cooperatives right now, giving rise to the current phenomenon of cooperatives growing individually and independently of any rules-based system. Big cooperatives even divide markets, small already as they are, among themselves. This has led to competition among cooperatives, which has seen them negating one another in the marketplace. It has also deprived cooperatives of a vital source of strength in a competitive marketplace, which is what the principle of “cooperation among cooperatives” has achieved in mature cooperative movements. And without reference to a common body of practice, it has led to the

tendency to imitate the policies and business practices of investor-owned enterprises, resulting in the gradual loss of the “cooperative identity.”

2. *There is serious lack of support systems*

Even more worrisome is the exposure of cooperatives to systemic risk. Deposit taking and credit granting cooperatives participate in the formal financial system, which is subject to all kinds of risks and where even in a heavily regulated environment individual players have succumbed to financial distress or crisis. While more established institutions like banks can access financial support from the central bank when they encounter financial difficulties, cooperatives do not have this kind of life line. Efforts to establish support systems like a liquidity fund, stabilization fund or a deposit guarantee fund have not succeeded because cooperatives prefer to go it alone. The absence of these support systems has created a situation where the bigger a cooperative is, the more vulnerable it becomes.

3. *The federation or union system is weak and disorganized*

Corollary to the above is the reality of a weak federation and union system in the country. Strong federations or unions are very much part of established cooperative movements around the world because there are things that only secondary level organizations can do that individual cooperatives cannot. But they work only if member cooperatives give them some powers to enforce rules for the good of all. In the Philippines, federations or unions have no authority over their members and have been reduced to mere service providers openly competing with one another. CDA reports that there are 217 federations and 59 unions registered as of the end of 2014, each doing its own thing with no overall strategic purpose. Cooperatives, therefore, suffer from the

absence of a unifying center able to provide leadership and direction to the whole movement.

4. *The case of single vs multi-purpose cooperatives*

Multi-purpose cooperatives, as a business model, are a unified system of business serving a unitary membership. They are traditionally associated with farmers who need value-added services in improving productivity and in maximizing income when their produce is brought to the market. In the Philippines, a multi-purpose cooperative can be an urban-based community credit cooperative doing merchandising business or other businesses unrelated to its core business of savings and credit. While it purports to serve a community of members with various needs, it over stretches its own resources and capacity in the process. Noted Llanto in his study of the *“The Financial Structure and Performance of Philippine Credit Cooperatives”*: “Financial intermediation is a difficult enough business to pursue and the credit cooperatives may be devoting scarce management talent and technical skills to the non-financial activities to the detriment of more efficient and profitable financial intermediation... The allocation of scarce management and technical skills to non-financial activities would detract from the quality of financial intermediation of credit cooperatives. Comparable experience among Latin American credit unions/cooperatives shows that those which did not focus solely on financial intermediation faced financial difficulties as time went on. Eventually, they failed” (Llanto, 1994, p.4, pp. 19-20).

5. *There is absence of effective regulation*

All the above reasons boil down to lack of effective regulation. Cooperatives would not go it alone and compete against one another if there was effective regulation.

They would have established support systems and rationalized their federation and union structure if effective regulation was in place. And as Llanto again noted in his study: Deposit taking and credit granting cooperatives are “organizations with a ‘public character,’ especially so since their resource and membership base come from the broad masses of society. The stakeholder in the credit cooperatives is not the typical elite in the community or even in the offices but the ordinary small saver and borrower who contributes share capital and savings out of ordinary personal incomes. While to some extent, the laissez faire approach (of government) serves its purpose, the approach could not but have some actual and probable costs to the organization and members’ share capital and deposits at some future time. This will come when the credit cooperatives grow rapidly in membership, financial base, activities and profitability but at a cost in terms of unnecessary risks to financial soundness and profitability that could be unwittingly or wittingly incurred... The absence of a supervisory and regulatory system magnifies the risks that members bear as the credit cooperative expands the scope and types of its business and economic activities and pursue unexamined financial management and lending policies” (Llanto, 1994, p. 31).

III. Regulation and Development

The overall picture of deposit taking and credit granting cooperatives described above is one of individual players without any semblance of a system. These cooperatives pursue different operational practices at the expense of building a common body of knowledge that can help inform and strengthen individual performance. By shunning support systems in favor of individual growth, they have imposed limits on such growth. And so individually

and collectively, cooperatives have not achieved their full potential – in deepening financial services to members, in strengthening their resource base, and in broadening their reach in the national economy. For this reason, they have remained underdeveloped and are far from becoming the “model preferred by people” and the “fastest growing form of enterprise” envisioned by ICA’s Blueprint for a Cooperative Decade (ICA, 2013).

Major change has to happen, if Philippine cooperatives are to move from this stage of underdevelopment to real development. And no less than systems change is required for this to happen. But systems change is a complex endeavor – one that needs leverage points to manage. “Leverage points,” according to Meadows (1999, p. 1), “are places within a complex system where a small shift in one thing can produce big changes in everything.” This paper submits that one such leverage point is *regulation*. And it is here where government can play a very important role – in re-directing cooperatives to the right path while fulfilling a developmental function.

At the strategic level, the CDA should clearly establish itself as regulator and re-define its role in development as *enabling* rather than substituting for people’s initiative, in line with the United Nations Guidelines, which states: “Governments are concerned with creating, and with maintaining as conditions change, an enabling environment for cooperative development” (UN Economic and Social Council, 2001). The government has clearly a role in development so the issue of “regulation *versus* development” should be re-stated. The paradigm for government rather should be “regulation *and* development” because it is through effective regulation that government can safeguard the real development of cooperatives, in the words of the United Nations, “as associations and enterprises through which citizens can effectively improve their lives while contributing to the economic, social,

cultural and political advancement of their community and nation” (UN Economic and Social Council, 2001).

At the operational level, this means regulating the registration of new cooperatives (i.e guarding against “instant” cooperatives) and encouraging consolidation and merger between and among cooperatives of all sizes. It also means streamlining the whole cooperative union and federation structure in the country along industry or functional lines. It also means promoting and supporting the establishment of support systems such as the liquidity fund, stabilization fund, deposit guarantee fund, and other such systems that can strengthen the position of cooperatives in the financial market.

At the strategic level, the CDA has to establish what the United Nations Guidelines refer to as “effective partnership between Governments and the cooperative movement.” This includes the “recognition of the full autonomy and capacity for self-regulation of the cooperative movement” (UN Economic and Social Council, 2001). At the operational level, this means strengthening the supervisory function of CDA, especially in the area of audit, and monitoring compliance to prudential standards already established. This also means empowering appropriate federations or unions, through deputization or other means, in providing technical assistance to cooperatives that do not meet the standards. As well, this means giving federations and unions appropriate authority to regulate their own membership (self-regulation).

At the strategic level, the CDA has to set up an accurate and timely information system that can guide policy making and decision making by government and the whole cooperative sector. At the operational level, this means ensuring regular compliance by cooperatives with the reportorial requirements and maintaining a good database

encompassing critical data and information on the performance of individual cooperatives. This also means effective utilization of the database for analysis of the comparative performance of individual cooperatives and cooperatives as a whole.

IV. Conclusion

This study has centered on deposit taking and credit granting cooperatives because they are the dominant type of cooperative in the country. They have their roots in the voluntary tradition which has given them the foundation and the energy to survive and thrive through what has been described as haphazard development through the history of cooperatives. They have also the best potential to grow among other types of cooperatives, and even the potential to contribute to the development of the agricultural sector, which has preoccupied government over the years.

But that potential for growth and greater impact on the national economy has been circumscribed by their current preoccupation with individual growth. This has been due, historically, to that “period of confusion” described earlier, to the absence of support structures, and to the absence of the leadership and guiding hand of a unifying center. This is a systems problem and one that can be dealt with only at the systems level. The “leverage point” identified by this paper to effect change at this level is **regulation** or the effective exercise of regulatory power by the CDA. Regulation right now is the best key to unlocking other forces within the system that can create change and move cooperatives forward to the path of real development.

Annex

Laws and Regulations Affecting Philippine Cooperatives, 1915 - Present

Year	Laws, Decrees, Executive Orders
1915	Act No. 2508 (Rural Credit Co-operation Law) mandated the organization of rural credit cooperatives.
1916	Act No. 2508 amended creating the Rural Credit Co-operative Section under the Bureau of Agriculture to organize and supervise rural credit associations.
1919	Act No. 2818 was enacted to make loans to members of rural credit co-operatives for rice and corn production.
1927	Act No. 3425 (Co-operative Marketing Law) provided for the organization of marketing co-operatives throughout the country. The Market and Credit Division under the Bureau of Commerce was charged with the function.
1936	Commonwealth Act No. 116 gave the marketing co-operatives access to loans from the Rice and Corn Fund (which gave out loans also to rural credit co-operatives).
1940	Commonwealth Act No. 565 created the National Trading Corporation (NTC) to handle and take charge of all Government activities relating to the formation, organization, and supervision of co-operatives.
1941	The National Co-operatives Administration took over the function of promotion and supervision of all types of co-operatives from NTC.
1945	Commonwealth Act No. 713 revived the National Co-operative Administration (NCA).
1947	Executive Order No. 93 converted NCA into National Co-operatives and Small Business Corporation (NCSBC).
1950	Executive Order No. 364 abolished NCSBC and created the Co-operatives Administration Office (CAO) under the administrative supervision of the new Department of Commerce and Industry. Republic Act No. 583 created the Small Farmers Cooperative Loan Fund.
1952	Republic Act No. 821 created the Agricultural Credit and Co-operative Financing Administration (ACCFA) to organize, supervise and finance Farmers' Cooperative Marketing Associations (FACOMA).
1954	Republic Act No. 1135 (Philippine Tobacco Administration Act) created the Philippine Tobacco Administration and charged it with the responsibility of promoting cooperatives among tobacco farmers. Republic Act No. 1145 created the Philippine Coconut Authority and charged it with the responsibility of promoting cooperatives among coconut farmers.
1957	Republic Act No. 2023 (Philippine Non-Agricultural Co-operative Act) provided a general basic law for non-agricultural co-operatives. This law established the jurisdiction of CAO for non-agricultural cooperatives as separate from agricultural co-operatives which remained under ACCFA's supervision.

1960	Republic Act No. 2717 (Electrification Administration Act) created the Electrification Administration and charged it with promoting and financing electric consumers' cooperatives.
1962	Republic Act No. 3470 (National Cottage Industry Development Act) encouraged the development of producers' marketing cooperatives.
1963	Republic Act No. 3844 (Agricultural Reform Code) re-organized ACCFA into the Agricultural Credit Administration (ACA) charged with the financing, examination and regulation of agricultural co-operatives.
1969	Republic Act No. 6389 (Code of Agrarian Reform in the Philippines) made cooperatives as instruments for creating "a truly viable social and economic structure in agriculture conducive to greater productivity and higher incomes."
1972	Letter of Instruction No. 7 , issued by the martial law government, creating the Bureau of Cooperative Development (BCOD) under Ministry of Local Government and Community Development but later transferred to the Ministry of Agriculture.
1973	Presidential Decree 175 , enacted by the martial law government, mandated the organization of cooperatives in support of the land reform program of the government. Presidential Decree 269 created the National Electrification Administration and granted it the power "to organize, register, supervise and finance electric cooperatives. Executive Order 898 created the Office of Transport Cooperatives under the Ministry of Transportation and Communications to promote, develop and supervise transport cooperatives.
1975	Presidential Decree 775 mandated the Philippine Sugar Commission to organize producers' cooperatives among sugar planters, providing them tax incentives.
1990	Republic Act 6938 (Cooperative Code of the Philippines) covered all types of cooperatives, with special provisions relating to agrarian reform cooperatives, public cooperatives, cooperative banks, credit cooperatives, cooperative insurance societies, and electric cooperatives. Republic Act 6939 (Cooperative Development Authority Act) created the Cooperative Development Authority which took over the functions of BCOD.
2008	Republic Act 9520 (Philippine Cooperative Code Of 2008) amended The Cooperative Code Of The Philippines and repealed all decrees, executive orders, circulars, memorandum orders, letters of instructions, ordinances, and implementing rules and regulations inconsistent with the Code.

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