

# Review of the Regulatory Environment for Credit and Deposit-taking Cooperatives

LEE ARBUCKLE  
RESCINA S. BHAGWANI  
GILBERTO M. LLANTO  
MA. PIEDAD S. GERON  
ZENO RONALD R. ABENOJA<sup>1</sup>

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<sup>1</sup> *Consultants, Credit Policy Improvement Program. The authors would like to thank the following for excellent research assistance: Zeno Abenoja, Marie-Christine Tang, Rowena Raymundo and Mary Ann Rodolfo.*

Published by the  
**Credit Policy Improvement Program**  
**Department of Finance – National Credit Council**

The Credit Policy Improvement Program (CPIP) is a technical assistance provided by the United States Agency for International Development (USAID) to the Department of Finance (DOF) – National Credit Council (NCC). The Project is being implemented by the International Management and Communication Corporation (IMCC). The findings, interpretations and conclusions in this book are those of the author/s and should not be attributed to the USAID, IMCC or DOF-NCC.

*Please address all inquiries to:*

**National Credit Council Secretariat**  
**Department of Finance**

**Credit Policy Improvement Program**  
**Project Management Office**

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Gil S. Beltran  
Ma. Teresa S. Habitan  
Joselito S. Almario  
Ma. Lourdes V. Dedal  
Aurora Luz D. Villaviray  
Febe J. Lim  
Eric C. Tippos

*4th Floor Executive Tower Building*  
*Bangko Sentral ng Pilipinas Complex*  
*Roxas Boulevard, Manila*  
*Telephone Nos: (632) 523-3825 and 525-3305*  
*Fax No: (632) 524-4287*

Gilberto M. Llanto, Ph.D  
Ma. Piedad S. Geron, Ph.D  
Susan R. Elizondo  
Mary Ann D. Rodolfo

*4th Floor Executive Tower Building*  
*Bangko Sentral ng Pilipinas Complex*  
*Malate, Manila*  
*Telephone No: (632) 525-0487*  
*Telefax No: (632) 525-0497*  
*E-mail: cpipuser@philonline.com.ph*

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# 1

## Background

The Philippine Government has a long history of intervention in the credit market. The 70s witnessed strong government intervention in directing the flow of credit to those sectors perceived to be lacking in financial resources. The intervention came in various forms, such as implementation of directed credit programs (DCPs) by government non-financial agencies, imposition of interest rate ceilings on loans to favored sectors, and opening up of cheap rediscount windows to direct the flow of financial resources to target sectors. Liberalized, market-oriented policy reform initiatives in the 80s began to reduce the government's market intervention and to emphasize its normative, standard-setting role. The government reduced the provision of cheap funds through rediscount windows and lifted the cap on interest rates. However, despite the government's stated policy of reducing intervention in the credit market, credit programs funded and implemented by the government continued to proliferate. Some policymakers still see the implementation of DCPs as an expedient tool to ensure the flow of financial resources to "disadvantaged" sectors.

In 1994, representatives from both the civil society and the government signed the Social Pact on Credit after they realized that despite the proliferation of DCPs the disadvantaged sectors continued to lack access to credit. They asked for the creation of a Council that would a) rationalize the implementation of DCPs in all sectors of the economy, and b) encourage the implementation of viable alternatives

to DCPs. In 1995, President Ramos issued Administrative Order No. 15 to create the National Credit Council with the following mandates:

1. Rationalize and optimize the various credit programs of all government institutions;
2. Develop a national credit delivery system which incorporates capability upgrading and institutional strengthening mechanisms for both beneficiaries and financial intermediaries; and
3. Encourage a high level of private sector participation.

To assist the NCC in the implementation of its mandate, the Credit Policy Improvement Program<sup>2</sup> conducted several studies that assessed the performance of DCPs. These studies found that as of March 1997, 86 DCPs were being implemented by both the government non-financial agencies (GNFAs) and government financial institutions (GFIs). The DCPs, funded through budgetary allocation or donor funds in either loans or grants, were found to be inefficient, especially those implemented by the GNFAs. Most of these programs were unable to recover their costs of operation, entailing huge fiscal costs to the government. They, therefore, faced the problem of sustainability.

In view of this finding, and in line with its vision of establishing a sound and viable financial system, the government is encouraging private financial institutions (PFIs) to provide financial services to the disadvantaged sectors. The PFIs include rural banks, non-government organizations (NGOs), some cooperatives, and cooperative banks. PFIs have increasing importance in ensuring access to credit for all sectors. Aside from providing credit, most of them are able to generate deposits from the public, as in the case of rural banks and cooperative banks, and from members of cooperatives. It is important to consider deposit-taking cooperatives (DTCs) separately from cooperatives that only serve as conduits of funds and are often essentially creations of the DCPs.

With the growing importance of PFIs, and as the government moves to establish a viable and sustainable financial market, it is imperative to look into the performance of the different institutions. Under the current financial system, NGOs engaged in micro-credit are not regulated and supervised by the Bangko Sentral ng Pilipinas (BSP),<sup>3</sup> while credit unions and cooperatives are legally under the regulation of the Cooperative Development Authority (CDA). A review of CDA and its legal mandate, however, shows that it does not apply uniform and consistent standards to credit cooperatives and other DTCs. This casts doubt on the effectiveness of current regulatory environment for credit cooperatives and other cooperatives involved in financial intermediation. The increasing but undetermined number of credit cooperatives and multipurpose DTCs, their impact on the lives of the poor, and their potential role in national development justify the government's move to ensure that they, especially the larger ones, are financially stable and soundly managed.

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2 *The Credit Policy Improvement Program (CPIP) provides technical support to the National Credit Council through the assistance of the United States Agency for International Development (USAID).*

3 *The Microfinance Coalition (a group of micro-credit NGOs) has recently formulated a set of standards for use by its members. Discussions are on-going on how the formulated standards will be used to somehow "regulate" the micro-credit NGOs which do not yet have a standard chart of accounts.*



## 2

### Purpose of the study

To develop viable alternatives to inefficient DCPs, the CPIP commissioned a review of the current regulatory environment for deposit-taking cooperatives (DTCs). DTCs are considered separately from other cooperatives because although they mobilize deposits, they remain dependent on external fund resources. Moreover, the taking of deposits from members implies custodial responsibility that should be subject to regulation and supervision.

The study has the following specific objectives:

1. Review and assess the current regulatory environment (both government-initiated and privately-initiated) for DTCs;
2. Determine the role and assess the capabilities of the agency (including the legal basis of its role) mandated by law to exercise regulatory authority over all cooperatives;
3. Based on the assessment, present viable options for the regulation and supervision of DTCs. Specifically, recommend the role of the government in the regulation of these institutions.

The Cooperative Code, enacted in 1990, encouraged the organization of cooperatives, and unified their registry and regulation in one agency, the CDA. With CDA's indulgence, and the tax advantages that cooperatives enjoy, the number of cooperatives increased from 4,744 in 1990 to 45,819 in 1997. Some of the new cooperatives were DTCs;

many more were credit channeling cooperatives often organized to capture the subsidies in DCPs. The principal justification for external prudential regulation is the taking of deposits from the general public, so the cooperatives that merely channel credit are not a concern of regulators, as they are creations of the lenders or of fund donors. Similarly, closed bond credit cooperatives are not a concern, as they constitute a sort of voluntary “club” that self-regulates.

# 3

## Scope of the study

Based on interviews with cooperatives, CDA personnel, and policymakers, this study decided on DTCs as the main focus of review since they appear to be a concern for regulators. These DTCs include:

- Community based credit cooperatives, and
- Community based multi-purpose cooperatives with financial intermediation activities.

Institution-based credit and multi-purpose cooperatives, even if they take deposits, are not included in the study because they are often just a form of benefit group with homogenous membership (e.g., employees who know each other), use free office space, and receive support for operating costs. Moreover, they use payroll deduction for deposit taking and loan recovery, and may have accounting or auditing support. The set of controls originating from the place of employment is generally more effective than the internal controls or informal regulation currently used in community based DTCs.

Cooperatives that merely serve as conduits for DCPs are also not included. By definition, they do not take deposits. Often they are agricultural cooperatives of a type known formerly as pre-cooperatives, created specifically to act as conduits for DCPs. Sometimes they become inactive when credit has been fully disbursed. In this case, they are better handled or supervised by the lending institution which created or used them as credit channel.



# 4

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## Performance of DTCs

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There is no reliable information that would give an accurate estimate of the impact of DTCs on the financial system. The very limited information on hand limits the impact assessment to the micro level, involving specific cooperatives in particular communities.

An attempt to measure the DTCs' contribution to the country's savings revealed that the assets of the credit cooperatives as a whole account for an insignificant 0.1 percent share of the total assets in the banking system. In contrast, the rural banks collectively account for about 2.0 percent, or approximately 10 times that of the credit cooperatives.

The following two tables show the number of credit cooperatives and of the DTCs as of December 1966. If anything, it took the CDA over two months to provide the data to complete the tables.

**Table 1**  
**Credit Cooperatives** *As of December 1996*

Size Classification	Number In class	Type of Membership Field		
		Community	Institutional	Others
Large (above 80M)	18	9	2	7
Medium (15 to 80M)	51	24	21	6
Small (1.5 to 15M)	241	103	95	43
Cottage (0.5 to 1.5M)	245	105	89	51
Micro (0.5 and below)	412	221	85	106
<b>Total</b>	967	462	292	213

Notes: Total number of operating cooperatives 24,037  
 Total number of operating cooperatives in the database 11,143  
 "Others" refer to bond membership; i.e., occupational and associational

**Table 2**  
**Multipurpose Cooperatives That Take Deposits**  
*As of December 1996*

Size Classification	Number In class	Type of Membership Field		
		Community	Institutional	Others
Large (above 80M)	30	12	2	16
Medium (15 to 80M)	135	82	16	37
Small (1.5 to 15M)	1,229	806	197	226
Cottage (0.5 to 1.5M)	2,857	1,840	446	571
Micro (0.5 and below)	5,925	3,918	532	1,475
<b>Total</b>	<b>10,176</b>	<b>6,658</b>	<b>1,193</b>	<b>2,325</b>

The information was limited to the number of cooperatives since CDA data did not separate the assets used for financial intermediation activities in multipurpose cooperatives (MPCs) from the assets for other activities. The only data available from CDA are the aggregate assets of the MPCs. Apparently, the MPCs are not required to file reports that separate financial intermediation, production, consumer, and other activities.

### **Successes, Shortcomings, and Lessons Learned on DTCs**

Many of the cooperatives organized in the Philippines have survived and prospered, while others have failed. Some of the findings and lessons learned are summarized in Table 3 below. These may be of help for those who want to guide and participate in a modernized, efficient, transparently safe cooperative system.

Table 3

SUCSESSES	SHORTCOMINGS
<p><b>Measuring Effectiveness</b></p> <p>The cooperative sector has become a potent means of empowering grassroots</p>	<p>population to uplift their economic condition. No reliable data available in measuring success of the cooperative sector.</p> <p>DTCs do not have:</p> <ul style="list-style-type: none"> <li>- A common chart of accounts</li> <li>- Clear accounting standards</li> <li>- A segregation of records for financial intermediation and other activities</li> <li>- Generally accepted uniform performance measures</li> <li>- Institutions or mechanisms to examine soundness of cooperatives</li> </ul> <p><i>Lesson: There is need to use a uniform chart of accounts and to set clear accounting standards for the establishment of database for cooperatives.</i></p>
<p><b>Registration</b></p> <p>Registered cooperatives have grown phenomenally in number.</p>	<p>Many cooperatives have ceased operations, although there is no precise information on the extent of failures.</p> <p>Only 11,344 of 45,819 registered cooperatives filed annual reports with CDA for 1997.</p> <p><i>Lessons: Registration should follow strict criteria or requirement and economic survey should be validated. The registry should be rid of failed and moribund cooperatives which damage the image of good cooperatives.</i></p>
<p><b>Savings and Credit Operations</b></p> <p>DTCs which successfully tap member savings and channel these as credit to fund viable projects have become very strong.</p>	<p>Easily available of DCPs which do not adhere to sound credit principles and standards have distracted some functioning cooperatives from generating savings. Members borrowing through DCPs have a general perception that the money borrowed is public and therefore need not be repaid, resulting in high loan delinquency ratio.</p> <p>Many failed cooperatives, which were organized for the sole purpose of receiving subsidized directed loans, disbanded after credit was fully disbursed.</p> <p><i>Lessons: External credit displaces savings mobilization and may result in poor loan quality. Registry of cooperatives organized solely to channel funds from DCPs should be subjected to more rigorous standards.</i></p>

Table 3 cont.

SUCSESSES	SHORTCOMINGS
<p><b>Restricted Growth</b></p> <p>Successful cooperatives with policies and administrative and financial systems in place have exhibited robust growth in membership, assets, loan portfolios, and capital branching to deliver more services to more people. Scale economies are making some credit cooperatives competitive in providing financial services.</p> <p><i>Lesson: Growth of DTCs is restricted by depositors' lack of confidence. Soundness, safety, access, efficiency and quality of services, and overall capability to compete with other financial service providers, are vital to the growth and important for members and potential members of DTCs.</i></p>	<p>Assets of credit cooperatives amounted to only 0.1 percent of the assets of the banking system.</p> <p>Depositors have no idea as to how well DTCs are managed, and there is no institution that checks on the soundness of DTC management.</p>
<p><b>Cooperation</b></p> <p>Credit cooperatives have organized effective second and third level organization to get a broad variety of services:</p> <ul style="list-style-type: none"> <li>- Technical assistance and training in accounting, financial management, and credit administration</li> <li>- Audit services</li> <li>- Representation of the interests of cooperatives in public opinion, agencies of the State, Congress, and others</li> <li>- Incipient liquidity management systems</li> <li>- Deposit insurance</li> </ul> <p><i>Lesson: Although federations may be capable of providing auditing services and, to some extent, of exercising self-regulation, an independent regulatory and supervisory body vested with legal authority is necessary in instilling discipline to protect DTC members.</i></p>	<p>Credit cooperatives and multipurpose cooperatives do not have:</p> <ul style="list-style-type: none"> <li>- A commonly accepted chart of accounts, accounting rules, or financial statement presentation</li> <li>- Segregated accounts of financial intermediation from goods and services</li> <li>- Generally accepted measures of financial strength and efficiency for use by managers, boards of directors, and other institutions in the sector</li> <li>- Institutions or mechanisms to examine their soundness for the overall interest of the sector and its stakeholders.</li> </ul>

## 5

# The Cooperative Development Authority

The Cooperative Development Authority (CDA) is the lead government agency in the promotion, development and regulation of cooperatives in the Philippines. It was established in 1990 through Republic Act No. 6939 (CDA Act) pursuant to the constitutional provision that “*the Congress shall create an agency to promote the viability and growth of cooperatives as instruments for social justice and economic development*” (Section 15, Article XII of the 1987 Constitution). The CDA has adopted as its mission: “*The fostering and promotion of the viability of cooperatives among people of limited means for a) harnessing people power and b) assuring their self-reliance and nurturing their economic well-being towards the establishment of a just and equitable society.*”

### **Legal Powers and Functions**

The powers, functions and responsibilities of the CDA, as stated in R.A. No. 6939, or the CDA Act, and in R.A. No. 6938, or the Cooperative Code, are classified into regulatory and developmental, as follows:

#### ***A. Regulatory Powers and Functions***

The CDA is the main regulator of the cooperative industry. It is tasked to ensure the soundness and viability of cooperatives. Underlying this task is the government’s commitment to people empowerment, as reflected in the Cooperative Code, which declares that it is the “*policy of the State to foster the creation and growth of cooperatives as a practical*

*vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives” (Art. 2, paragraph 1). The Code further states: “...the government and all its branches...[will] enable said cooperatives to develop into viable and responsive economic enterprises and thereby bring about a strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives”.*

To encourage the private sector to organize cooperatives, the Cooperative Code introduces the concept of subsidiarity. *“The State recognizes the principle of subsidiarity under which the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives with government assistance where necessary” (Art 2, paragraph 3).*

Thus, on the one hand the law gives the CDA registry and regulatory authority over cooperatives, and on the other hand allows the cooperative sector to regulate itself.

Cooperatives and their federations and unions are required to register with CDA. Through this, the CDA gives a cooperative juridical personality. Complementary to its registration function, the CDA also has the power to issue and implement guidelines on the cancellation of certificates of registration, mergers and consolidation, dissolution and liquidation of cooperatives.

To monitor their soundness and health, cooperatives are required by law to open their share books, financial statements, and records of account for inspection by their members and by representatives of the CDA. It must be noted that the inspection function of the CDA is not stated in the section enumerating the powers and functions of the CDA but in the responsibilities of cooperatives.

The CDA is empowered to require cooperatives to submit audited annual financial statements, general information sheets, and annual reports.

Cooperative banks are required to register with the CDA, but only after their articles of cooperation and bylaws, and their establishment and operation as a cooperative bank have been approved by the BSP and all requirements have been satisfied. Thus, supervision of cooperative banks is clearly the mandate of the BSP, and CDA's role is only vaguely stated as *"the promotion and development of cooperative banks as part of the Philippine banking system."*

### ***B. Developmental Powers and Functions***

To ensure the growth of the cooperative sector, the CDA is mandated to formulate and implement integrated and comprehensive plans on cooperative development. It develops management training programs and conducts them upon request of cooperatives. Whenever necessary, the CDA provides technical and professional assistance. In terms of financial assistance, the CDA arranges financial support and administers all grants and donations coursed through the government for cooperative development. This includes donations to specific cooperatives from the Congressional Initiatives Allocation.

The CDA supports the voluntary organization and consensual activities that promote cooperative movements and upgrade managerial and technical expertise. Moreover, it coordinates the efforts of local government units and the private sector in the promotion, organization and development of cooperatives.

The promotion and development of cooperative banks is also a major concern of the CDA. Thus, it is mandated to undertake necessary support programs in collaboration with the BSP and the cooperative movement (CDA Act, Section 12).

A more detailed listing of the regulatory powers and responsibilities of the CDA and their corresponding legal bases are shown in *Table 4* below.

**Table 4**  
**Powers, Functions and Responsibilities**  
**of the Cooperative Development Authority**

Powers, Functions, and Responsibilities	Legal Basis*
<i>Registry/Regulatory Functions</i>	
1. Register all cooperatives and their federations and unions, including their division, merger, consolidation, dissolution or liquidation	CDA Act, Sections 3e, 9 and 120; Cooperative Code, Art. 16–17
2. Inspect the register of members, share books (where applicable), financial statements, record of accounts and other documents	Cooperative Code, Art. 53
3. Prescribe the procedure/guidelines on the division of a cooperative	Cooperative Code, Art. 20
4. Prescribe the procedure/guidelines on the merger and consolidation of cooperatives	Cooperative Code, Art. 21
5. Prescribe the procedure/guidelines and approve the dissolution and liquidation of cooperatives	Cooperative Code, Art. 65-71
6. Require all cooperatives, their federations and unions to submit audited annual financial statements and general information sheets	CDA Act, Section 3f
7. Prescribe the form and content and require the submission of annual reports	Cooperative Code, Art. 54
8. Order the cancellation, after due notice and hearing, of the cooperative's certificate of registration (a) for non-compliance with administrative requirements and (b) in cases of voluntary dissolution	CDA Act, Section 3g
9. Mediate and conciliate within or between cooperatives upon request of at least one of the parties	CDA Act, Section 8

*Table 4 cont.*

Powers, Functions, and Responsibilities	Legal Basis*
10. Approve amendments to the articles of cooperation and bylaws	Cooperative Code, Art. 18
11. Determine the normal rate of return which limits the interest on share capital	Cooperative Code, Art. 76
<i>Developmental Functions</i>	
12. Formulate, adopt and implement integrated and comprehensive plans and programs on cooperative development consistent with national policy	CDA Act, Section 3a
13. Develop and conduct management and training programs upon request of cooperatives and provide, when necessary, technical and professional assistance to ensure viability and growth of cooperatives with special concern for agrarian reform, fishery and economically depressed sectors	CDA Act, Section 3b
14. Support the voluntary organization and consensual development of activities that promote cooperative movements	CDA Act, Section 3c
15. Coordinate the effects of the local government units and the private sector in the promotion, organization, and development of cooperatives	CDA Act, Section 3d
16. Assist cooperatives in arranging for financial and other forms of assistance	CDA Act, Section 3h
17. Administer all grants and donations coursed through the government for cooperative development	CDA Act, Section 3k
18. Formulate and adopt continuing policy initiatives in consultation with the cooperative sector	CDA Act, Section 3l
19. Manage the Cooperative Loan Fund	CDA Act, Section 10

*The organizational structure and staffing pattern of the CDA are discussed in Annex 1.*



6

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**Legal Framework  
for Regulation of  
Cooperatives**

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This study reviewed the legal framework that underlies the regulation of cooperatives to determine the current status of the regulation. The review yielded both positive and negative observations, which are presented in Table 5 below.

*Table 5*  
**Legal and Policy Context for  
DTCs: Positive and Negative Factors**

POSITIVE	NEGATIVE
<p><b>The Cooperative Code:</b></p> <ul style="list-style-type: none"> <li>– Favors organization and support of cooperatives, enabling and empowering people in the private sector</li>   <li>– Facilitates emergence of responsive, innovative, flexible cooperatives by restraining the State from the administration of cooperatives</li>   <li>– Encourages the cooperative sector to organize itself, e. g., for audit and, implicitly, for non-formal regulation</li> </ul>	<p><b>The Code does not:</b></p> <ul style="list-style-type: none"> <li>– Make CDA responsible for setting accounting and financial standards appropriate for credit cooperatives as financial institutions. Chapter XIV of the Code covers Credit Cooperatives and could be amended with specific language to clarify its responsibility.</li>   <li>– Make CDA responsible for requiring multipurpose cooperatives to provide separate accounts and financial statements for financial intermediation activities. Clear accounts support good management and sound governance, reduce lender risk, and increase member understanding of and confidence in their business.</li> </ul>

*Table 5 cont.*

POSITIVE	NEGATIVE
<p><b>The CDA:</b></p> <ul style="list-style-type: none"> <li>– Has interest in improving the registry and the regulatory standards</li> <li>– Has a network of offices throughout the nation</li> <li>– Has some field extension workers trained in business or agriculture</li> <li>– Has staff interested in improved performance</li> </ul>	<p><b>The CDA does not:</b></p> <ul style="list-style-type: none"> <li>– Follow a defined and agile process for cancellation of registrations of inactive DTCs</li> <li>– Take immediate action to begin the liquidation process for DTCs that are unwilling to file an annual report</li> <li>– Have an orderly program to advise and assist DTCs that are unable to file annual reports</li> </ul>
<p><b>GOP policy makers</b></p> <ul style="list-style-type: none"> <li>– Recognize that cooperatives can play an important role in improving the incomes and well-being of the people</li> </ul>	<p><b>GOP policymakers</b></p> <ul style="list-style-type: none"> <li>– Continue to sponsor directed credit programs that distract DTCs from their core competencies of mobilizing savings from members to make loans for the purposes most desired by their membership.</li> </ul>
<p><b>Monetary and credit policymakers</b></p> <ul style="list-style-type: none"> <li>– Recognize that cooperatives can play an important role in improving the incomes and well-being of the people</li> <li>– Are interested in establishing sound policy and regulation for the development of non-governmental financial institutions</li> <li>– Desire to “clean up” problems in the sector</li> </ul>	<p><b>Monetary and credit policymakers</b></p> <ul style="list-style-type: none"> <li>– Lack reliable information on the condition and trend of DTCs for sound policymaking</li> <li>– Lack a defined regulatory framework to harmonize norms and policies for the quasi-formal financial sector (in which the DTCs operate) and for the formal financial sector</li> </ul>

CDA's regulation of DTCs is particularly important because of the latter's financial intermediation activities. To protect members' funds, specific rules must be applied to ensure the financial soundness of the cooperative. An important regulatory measure for DTCs is the establishment of uniform accounting standards (e.g., the chart of accounts and accounting rules) as well as minimum financial performance standards appropriate for institutions engaged in financial intermediation. However, the CDA Act is not explicit about this power of the CDA. It is thus recommended that the CDA, or another appropriate body, be mandated to regulate and supervise DTCs, and be granted explicit powers to establish and impose accounting and minimum financial standards for DTCs. This will allow the formulation of standard accounting rules and adoption of CAMEL-based performance measures for DTCs. In keeping with the spirit of subsidiarity, the regulator should consult with the cooperatives in formulating these standards. Inputs from the PICPA and the BSP should be solicited when developing these standards.



# 7

## Status of Regulation of Cooperatives by CDA

The significance of the cooperative sector in alleviating poverty justifies the need for formal regulation of the sector. At present, the CDA, which is mandated to promote the viability of cooperatives, limits its regulatory role to registration and, to some extent, monitoring. Yet given the big number of non-reporting cooperatives and those that have failed, particularly those organized purely as conduits of DCPs or donations, it is necessary to assess the effectiveness of existing regulatory set-up. This will be an important first step toward strengthening regulation for the protection of cooperative members and for the preservation and productive use of funds allocated to the sector.

### **Registration**

The law mandates all cooperatives to register with the CDA. Registration gives a cooperative legal personality, which allows it to officially transact business. Corollary to this is the keeping of updated registry. There is general interest in knowing that a cooperative has been legally chartered, continues to operate, and that the extent of its operations and general financial condition is certified by an accountant and verified by the regulator. Those interested include members and potential members, commercial firms considering doing business with a cooperative, financial institutions considering lending or other financial relationships with a cooperative, tax authorities and other public officials, and the public in general.

In the case of DTCs, or cooperatives that accept deposits from members, there is an even greater need for the public to know or verify the financial condition of the DTC. It is in the interest of the management of a DTC to have a meaningful certification of the DTC's existence, active status, and satisfactory financial condition. A certification by the regulator would contribute to create an image of safety and soundness that would be helpful to the Manager and the Supervisory Committee in expanding the DTC's services. Furthermore, other DTCs are interested to be perceived by the general public as sound institutions, and therefore safe depositories of savings.

The number of cooperatives registered with the CDA phenomenally grew to 45,819 as of end-1997.<sup>4</sup> This represents more than 60 percent increase from the end-1993 level. A substantial number of these cooperatives is involved in the mobilization of funds and provision of credit for productive purposes. They include cooperative banks, credit cooperatives, and multi-purpose cooperatives with significant credit operations (*please refer to Table 6*).

Of the total cooperatives in 1997, credit cooperatives numbered almost 3,000, or more than 6 percent, while cooperative banks numbered 50, or about 0.1 percent. There was difficulty in determining the number of DTCs among multipurpose cooperatives, as most of them accomplish consolidated financial statements.

**Table 6**

**Number of Registered Cooperatives by Type**

*As of end-1997*

Type	Number of Cooperatives	Percent of Total
Credit	2,913	6.36
Consumers	911	1.99
Producers	714	1.56
Marketing	599	1.31
Service	1,012	2.21
Multi-Purpose		
Agriculture	27,262	59.50
Non-Agriculture	11,819	25.79
Laboratory	18	0.04
Area Marketing	13	0.03
Cooperative Bank	50	0.11
Federation	444	0.97
Union	64	0.14
<b>TOTAL</b>	<b>45,819</b>	<b>100.00</b>

While the number of cooperatives has increased rapidly, many were unable to sustain operations. A nationwide survey by the CDA showed that 28 percent, or 12,751, of the registered cooperatives in 1997 were found to be non-operating.<sup>5,6</sup> Several interviews with CDA and cooperative officials confirmed that a insignificant number of cooperatives were organized for the sole purpose of serving as conduits for credit and that many of them disbanded after receiving the credit disbursement or when the source of credit had been exhausted.

To enhance the usefulness and credibility of CDA's registry, it must purge its list of inactive or dissolved cooperatives. This will also help establish the Certificate of Registration as a universally recognized and accepted document.

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4 *Cooperative Development Authority, 1997 Annual Report, p. 6.*

5 *The difference between the number of registered cooperatives per the registration system (45,819 units) and the registered/ confirmed cooperatives (45,668 units) in the classification system may be attributed to cooperatives canceled prior to the start of the classification process.*

6 *Cooperative Development Authority, 1997 Annual Report, p.8.*

It has been observed that the number of new cooperatives registered annually with the CDA has gradually declined during the 1991-1995 period (please refer to *Table 7*). From more than 8,000 new cooperatives in 1991, registration declined to about 4,000 in 1995. CDA attributed this to the shift in the sectors' thrust from mere growth to consolidation and strengthening of the sector. In 1996, cooperative registration again increased as a result of the government's revitalized cooperative programs. In 1997, 4,700 new cooperatives were registered, higher than the two previous years' but merely over half of those registered in 1991.

**Table 7**  
**Number of Registered Cooperatives by the CDA by Type**  
 1990-1997

Type	1990*	1991	1992	1993	1994	1995	1996	1997	Total
Credit	15	276	168	251	256	260	206	419	1851
Consumers	4	78	53	72	130	70	51	186	664
Producers	7	113	51	64	116	69	54	114	608
Marketing	3	104	54	49	57	51	26	82	426
Service	1	78	89	126	95	99	90	175	753
Multi-Purpose									
Agri	134	7025	5374	4175	3114	2011	1838	1703	25374
Non-Agri	44	1130	1516	1443	1525	1474	1789	2000	10921
Laboratory	0	0	0	2	3	3	4	6	18
Area Marketing	0	0	0	0	0	0	0	0	0
Cooperative Bank	0	2	0	6	1	5	2	4	20
Federation	3	44	89	64	64	38	23	21	346
<b>Total</b>	<b>212</b>	<b>8870</b>	<b>7401</b>	<b>6254</b>	<b>5364</b>	<b>4082</b>	<b>4083</b>	<b>4711</b>	<b>40977</b>

\* from 31 Aug 1990 to 31 Dec 1990 only

Source: CDA

The current regulation systems and procedures of CDA seem to greatly favor approval, such that CDA's inaction on the application within 30 days constitutes an approval. Likewise, if CDA denies the application, the decision may be appealed to the Office of the President (OP). If the OP did not act on the appeal within 90 days, it also constitutes an approval. There has been no denial of application to date. Applications with incomplete requirements are not formally received. Requirements,

however, are ceremoniously submitted, patterned after existing documents of other cooperatives. No validation is made whether the cooperative is legitimate, or whether there are duplications in a particular area. The economic survey is also not validated for feasibility.

The law as crafted recognizes that “cooperation is a right.” Thus, there is virtually no entry barrier, except for those that need approval of a primary regulator, such as cooperative banks (BSP), electric cooperatives (NEA), hospitals (DOH), agrarian reform (DAR), etc. But cooperatives take on some fiduciary functions, particularly the DTCs. Some have a broad membership base, such that failure may cause serious economic displacement in a particular community. To prevent losses to members of cooperatives and avoid failure, entry criteria may be applied to some types of cooperatives. Thus, registration requirements may be differentiated by type and size of cooperatives, such that bigger ones and those with deposit-taking functions may be subjected to more rigorous qualification criteria, including minimum capital, institutional organization, and “fit and proper” test for management and members of the board. CDA, therefore, should take steps to apply entry criteria to DTCs.

For special approvals, such as in amendment of the articles of cooperation, mergers, consolidations and divisions, the CDA should explore different requirements for varying types and sizes of cooperatives.

### **Monitoring**

All registered cooperatives are required to submit to the CDA an annual report and audited financial statements (balance sheet, income statement, net surplus, losses and bad debts) within 60 days from the end of the fiscal year using CDA-prescribed form and contents. These information are necessary for the CDA to monitor developments in the sector. However, data on the compliance to this requirement are not encouraging. In 1997, only 11,344 cooperatives, about 38 percent of

registered operating cooperatives, submitted annual reports, and only 10,088 cooperatives, or 34 percent, submitted audited financial statements.

In 1993, the CDA, in coordination with some cooperatives and accounting firms, has come up with a chart of accounts for different types of cooperatives. But this has not been formally adopted as the standard form for reports. Per law, the CDA, when it fails to receive such reports within 15 days from due date, is required to send registered notices stating reportorial delinquencies and consequences. The procedure, as promulgated, is very tedious for CDA because of the volume of work involved. Also, compliance is very difficult to track given varying fiscal yearends.

In practice, the CDA designates cooperative development specialists (CDS) to monitor cooperatives in particular geographic areas. The CDS is expected to monitor submission of reports and to follow-up such submissions. He or she collates and consolidates the reports into a provincial compilation, which in turn is submitted to the regional office for regional consolidation, and then forwarded to the central office for national consolidation.

Processing of cooperative statistics has been limited to consolidation without verification and checks for accuracy. Given the dismal rate of compliance with reportorial requirements, it is evident that the CDS is ineffective in generating the information required on cooperatives.

Cooperatives are required to submit reports only once a year. CDA may consider requiring the board of directors to submit reports at least quarterly, for posting among cooperative members.

For DTCs, the Standard Chart of Accounts that applies to all cooperatives should be replaced by a chart specifically developed for them, based on current international standards. A specialized chart of

accounts for DTCs would logically require separate books for financial intermediation operations in multi-purpose cooperatives. At present, multi-purpose cooperatives often seem unable to identify whether different cost centers are profitable or not, or to track profitability and efficiency of each type of operation, deterring them from making more effective decisions.

There are no clear sanctions for non-reporting. The heaviest sanction so far is cancellation of registration, but this is not being applied. There have been recommendations for cancellation, but there seems to be no uniform standards for such. A regional director interviewed expressed sympathy for cooperatives that do not have accountants and recording systems in place. He was of the opinion that CDA should exhaust all means to empower the cooperatives to enable them to promptly record transactions and submit reports. Only then can cancellation proceedings against erring cooperatives be justified. There is no evidence of an established system to monitor or sanction inaccurate or late reports.

In E.O. No. 96 dated 8 June 1993, the local government units (LGUs) are instructed to assist CDA in its regulatory functions, including the collection of annual reports and audited financial statements of cooperatives. This has not improved report compliance.

Cooperatives consider registration as an important factor in their operation because the certificate of good standing issued by the CDA, after they have complied with reportorial requirements, qualifies them for tax exemption. Unfortunately, the CDA has not taken advantage of this to acquire a more comprehensive information base about cooperatives. Poor compliance despite the tax privilege may imply, however, that operating cooperatives do not have the incentive to submit reports because they either make very little or no profits at all. Or they simply do not bother to file tax returns, taking comfort in the fact that they are tax-exempt. However, it should be noted that the CDA accepts unaudited financial statements in any form that generally meets PICPA

standards. This is in consideration of the fact that many cooperatives are unable to hire professional bookkeepers.

The registration certificate, with a current certificate of good standing, is useful in sustaining the public's confidence in the legitimacy and capability of the cooperative. DTCs registered as credit or multipurpose cooperatives need to have a good public image of safety and soundness. DTCs find it essential that their members, and the public at large, know that they are publicly registered by the CDA, have accounting systems that meet the standards established by the CDA, and have submitted annual financial statements to their membership and to the CDA. Ideally, the public should be assured that only DTCs which meet certain financial criteria and performance targets are allowed to operate. For larger DTCs, such as those with more than P15 million in assets, they should be required to submit reports quarterly to make more information available to members, regulators and other stakeholders interested in the financial soundness of DTCs, and to allow them to promptly respond to decision calls and problem situations.

To enhance market discipline, CDA should strictly impose sanctions against violators of reportorial requirements. Under Art. 54 of the Cooperative Code, the "failure to file the required annual report shall be ground for revocation of authority of the cooperative to operate as such." According to Rule 2, Section 5, of the Implementing Rules and Regulations of the Cooperative Code, reportorial violation "may lead to the cancellation of the cooperative's certificate of registration and no certificate of whatever kind will be issued by the CDA". Based on these legal provisions, the CDA issued Memorandum Circular (MC) 94-009 dated 19 September 1994 authorizing the Area Cooperative Director to impose sanctions on erring cooperatives. For cooperatives which submitted only an audited financial statement or an annual report, the sanctions are: a reprimand for the first offense; six (6) months suspension for the second offense; and one year suspension for the third offense. For cooperatives which failed to submit both, the sanctions are: six (6)

months suspension for the first offense; one year suspension for the second offense; and cancellation of registration for the third offense.

Enforcement of sanctions for non-reporting has been lenient. The process of cancellation of the registration should begin immediately after failure of the cooperative to submit both the audited financial statement and the annual report for the third time. CDA should at this point classify such cooperative as *"In process of cancellation."*

### **Inspection**

Internal memoranda of the CDA indicate that each cooperative should be inspected at least once a year. The scope of inspection is intended to be extensive, seeking to update all basic information about the cooperative, as may be gleaned from the Inspection Working Paper. Data recorded are generally a comparison of the current and of last year's inspection. Although the inspection working paper covers a broad scope of information (it even requires information on the gender or class of officers and members), the inspection itself focuses more on how the current situation compares to the past, or how a cooperative adheres to its by-laws; it fails to provide information on the quality or stability of a cooperative being inspected..

Apparently, the CDA does not consider inspection as a major activity. Despite internal issuances on the manner of inspection, very little inspection seems to have been undertaken. Interviews with both cooperatives and CDA officials reveal that inspection has been limited to the CDS' brief visit to a cooperative. In Region XI, a cooperative claims that inspection is limited to a CDA personnel looking at the books, noting and marking the last entry made to check punctuality of recording. The inspection is done almost monthly, which lasts for a few minutes per visit. Another big cooperative in the same region claims that it is not inspected at all and that visits from CDA are mainly to solicit participation in CDA projects.

Inspection should be explored as an effective means of regulating DTCs. It should include at least validation of records and verification of reports, results of which should be shared with the management and board of the cooperatives inspected. The ceremonial posting of a registration sticker in front of the cooperative's office does not signify anything at this point, as there is no substantive inspection or review carried out. The registration sticker should be a seal of quality that assures the public that CDA has carefully reviewed the condition of the DTC. Any inspected cooperative found to be weak and, therefore, jeopardizes the welfare of members should not be permitted to post the inspection sticker. This should deter members from entrusting more of their savings into weak institutions.

### **Performance Rating**

The prescribed rating system is contained in the *“Policy Instructions on Cooperative Classification Information System” (CCIS)*, issued on 24 June 1998. The CCIS is done off-site using information available in reports submitted to CDA. It uses performance criteria which cover a wide range of information about a cooperative, parallel to the Inspection Working Paper prescribed for inspection, giving it a semblance of comprehensiveness. A deeper review of CCIS, however, reveals that it is not effective in assessing the quality of operations, particularly on how well a cooperative is able to service member needs. CCIS indicators do not provide users of the report a clear picture of how well a cooperative is performing either financially or socially. It lacks the depth of CAMEL or PEARLS type of rating.

Some of the major observations on CCIS are summarized below.

- Membership and Asset Growth. The CCIS assigns heavy positive weight to high growth of membership and assets. It is unable to assess how well a cooperative's organization and systems are able to cope with such growths. The rating system does not require alarm signals for rapid growths which may entail serious risk.

- Capital Adequacy. The inspection does not pay much attention on capital adequacy, as evidenced by the lack of a precise and consistent method of measuring solvency of DTCs. Nor does it seek to establish the adequacy of loss reserve to cover non-performing assets, which would require an asset review. The critical process of estimating probable losses and amply providing reserves are totally disregarded.
  
- Asset Quality. Except for an attempt to measure loan delinquency, there is no review on the quality of assets. Quality of loans are not reviewed, not even on a very limited sampling basis. Determination of loan delinquency is unclear, since “*past due ratio*” is defined as “*total past due installments over total loan portfolio due.*” Furthermore, “*matured loans*” are defined as “*at least 31 days past due.*” Thus, not only are delinquent loans grossly understated because delinquency ratio is not based on total portfolio at risk, they are also identified as delinquent long after they have turned sour.
  
- Credit Process Soundness. A cooperative with lending as a major activity should be assessed for the quality of its credit process, an aspect not covered by the existing CCIS. For DTCs, this is of utmost importance because only through sound lending practice could members’ savings be made productive and DTCs viable.
  
- Liquidity. Liquidity is critical to DTCs since depositors may opt to withdraw their deposits anytime. Thus, the maturities of assets must somehow match the maturities of liabilities. Otherwise, a DTC should have access to liquidity facilities. Yet the CCIS does not attempt to measure a cooperative’s liquidity other than the perfunctory current and acid ratios. Limiting indicators to these two ratios will not provide information on how well a DTC can service withdrawals of members upon demand.

- Profitability. Indicators are heavily biased in favor of high profitability. This should be tempered with the needs of members or clients for reasonably priced products and services. Very high profits may not only be detrimental to members, but to the cooperative's competitiveness and viability. Operating efficiency or analysis of earnings in relation to assets is not measured.
- Capability of Management. Assessment of management is wanting. CCIS merely accounts for occupancy rate of key positions without looking into how qualified or effective the officers are in discharging their duties and responsibilities. Internal controls for checks and balances are not clearly covered. The formulation and implementation of pre-identified policies are given good marks, but the policies considered do not include policies on credit and investment. Risk management systems are not covered by the CCIS.

The CCIS process needs revisiting. Results of CCIS ratings are not fed back to the cooperatives concerned. Indicators need to be replaced to provide for depth and focus on quality. At present, CCIS does not allow for a meaningful assessment of cooperatives' performance and financial soundness, or of how well a cooperative has been performing over time in comparison with its peers and the rest of the sector. A review of CCIS may be done by a collegial body composed of financial institution regulators, the CDA, and distinguished representatives of cooperatives.

### **Issuance and Enforcement of Rules**

The CDA has been vested with authority and has issued rules and regulations to implement the provisions of the law. It has also caused the promulgation of similar regulations by other government agencies. *Annex 2* presents a summary of the various rules, regulations and guidelines issued by CDA and other government agencies. The law, however, does not explicitly clothe CDA with enforcement powers,

except for actions leading to cancellation of registration for non-submission of reports and for violation of laws.

### **Dissolution/Liquidation**

CDA has drafted a comprehensive manual covering the dissolution and liquidation of cooperatives. It differentiates between voluntary and involuntary dissolution, and between those involving creditors and those that do not. Cooperatives may opt for voluntary liquidation if they decide to disband, or the CDA may order dissolution in cases where they have been found to have engaged in illegal activities, have violated rules and regulations, or have failed to meet CDA requirements. In this case, cooperatives are no longer permitted to conduct business, except to wind down operations for the liquidation and distribution of assets among cooperative members and creditors.



## 8

# CDA's Discharge of Developmental and Regulatory Functions

CDA has focused more on discharging its developmental role and has given the sound registry and regulation minor attention. CDA perceives its main function to be the registration of cooperatives, federations and unions. Thus, its emphasis has been on accommodating the huge number of cooperatives seeking to register.<sup>7</sup> Little attention has been given to the cancellation of registration of cooperatives that do not file annual reports and audited financial statements, which may in fact be a more important aspect of registry and regulation. In its developmental role, CDA conducts management and training programs for cooperatives and provides financial assistance through grants, donations and subsidized loans.

Because of low barriers to entry (e.g., minimum capital required for a cooperative to register is a mere P2,000, and attractive tax and other incentives await the registered cooperative), as many as 45,819 cooperatives were registered with CDA as of end-1997. However only 11,344 have filed annual reports and satisfied the basic regulatory requirement of filing audited financial statements. With so many registered cooperatives needing “developmental” assistance, the CDA faces the daunting task of assisting those cooperatives to the detriment of efficient registry and regulation.

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<sup>7</sup> *Inaction of the CDA on an application within 30 days constitutes an approval of the same. Denial of application may be appealed to the Office of the President. If not acted upon within 90 days, the application is deemed approved.*

The developmental role conflicts with the regulatory role. This stems from the moral hazard problem raised by inconsistent objectives and roles lodged within one agency. In the case of CDA, it faces the dilemma of: (1) promoting development, e.g., organizing and advising cooperatives, providing them “development or soft loans,” funding their training, etc., and (2) regulating their lending and deposit-taking activities. Objectivity can not be expected of a regulator who is at the same time deeply involved in the development and promotion of the institutions it regulates. Recent experience points to this dilemma: the (defunct) Central Bank of the Philippines had the task of efficiently regulating and supervising banks while providing them development finance. The inconsistency was resolved by making the Central Bank concentrate on regulatory function and handing over to GFIs the task of providing development finance to private banks.

In the case of CDA’s posture toward the DTCs, the development function of organizing and advising more and more cooperatives conflicts with the registry and standards-setting functions, and consumes time otherwise spent on registry, setting of standards, and enforcement. This in turn makes CDA ambivalent in its organization and in selecting, assigning, training and supporting its employees.

It is difficult, and probably impossible, for CDA to carry out well both development and registry/regulation of DTCs. Registry and regulation are basic and mutually reinforcing responsibilities of the State assigned by law to CDA. In contrast, there are alternatives for CDA in carrying out its developmental functions. In keeping with the “subsidiarity”<sup>8</sup> principle of leaving cooperative operation in the hands of the private sector, CDA can cease carrying out developmental activities with DTCs. There is a need to segregate multi-purpose cooperatives’ financial intermediation activities and to classify those with significant credit portfolio as DTCs. A three-year transitory program of assisting affected multi-purpose cooperatives may be necessary.

**Table 8**

**Functions that CDA should carry out with each type of cooperative**

Type of Cooperative	Development function	Registration/ Regulatory Function
Credit Cooperatives	CDA should exit from this function.	Continue to do
Multipurpose DTC	CDA should exit from this function after multi-purpose coops complete transition to separation of accounts and specialization.	Continue to do
Other types of coops	Continue to do until the function can be carried out by the sub-sector.	Continue to do

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8 *Contained in Article 2 of the Cooperative Code — "...the cooperative sector will initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives with government where necessary."*



# 9

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## Importance of Transparency in Regulation

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This study considers regulation across a broad spectrum: from formal regulation, through informal regulation, and internal controls and other forms of self-regulation, to the regulation that customer/members exercise through their choices in the marketplace. Transparent information is essential in the regulation of any financial institution. Sound prudential regulation is in the interests of policymakers, DTCs, and the public in general. However, clear, consistent, comparable, and timely information about DTCs is lacking, to the detriment of regulation across the spectrum. The major problem in obtaining transparent information is that different DTCs follow different accounting rules. At a bare minimum, CDA as a regulator should be able to produce the following information (see Table 9) in a clear, accurate, timely, and consistent way for each size class of credit cooperative and DTC cooperatives, from large to micro:

*Table 9*

Number of DTCs in class	
Membership	
Total assets	
Total Loan Portfolio (Loan write-off provision) Net loan portfolio	
Passbook savings	
Certificates of deposit	
Share capital	
Institutional reserves	
Credits to the DTC from external sources	
Deposits of the DTC in other financial institutions (classified by type, e.g. commercial/thrift/rural/ cooperative bank, liquidity fund, etc.)	

However, CDA is unable to present this type of report to the cooperative sector, to monetary policymakers, or to the general public because:

- It has no standard accounting and information systems for credit cooperatives and other DTCs that defines the chart of accounts and accounting rules, and the form of financial statement preparation in terms appropriate for financial intermediaries
- Some DTCs are registered as multipurpose cooperatives and commingle the accounts of financial intermediation with the accounts of mercantile activities.
- CDA does not give non-reporting DTCs any sanction, such as suspension or cancellation of their registration, even if they may be inoperative, insolvent, or, for all practical purposes, dissolved.

In addition to the minimal information shown above, it is recommended that CDA calculate a simple set of CAMEL type indicators for individual credit cooperatives. As an example, *Annex 3* displays a small set of indicators.

Policymakers understand the importance of transparent information for the regulation and development of financial markets and institutions. The lack of transparent information from DTCs makes it difficult for CDA to compile or certify the information it receives. As DTCs grow and become more complex, COOPERATIVE TRANSPARENCY becomes a bigger problem. Clear, accurate, timely, and usable information is necessary for managers, for the boards of directors and members, and for regulators within outside the sector.

Some key attributes of effective and transparent cooperative accounting and financial information systems are:

- **CLARITY:** Information should be understandable for sound decisions and timely actions. DTCs should have a standard chart of accounts, consistent use of accounting terminology [nomenclature], and defined rules for making accounting entries, so that interested readers may clearly understand their condition and financial trend.
- **ACCURACY:** Undefined accounting policies or inconsistent application of accounting rules produce inaccurate information.
- **TIMELINESS:** Accounting and financial information should be available to management and the Board of Directors on time, by the 10<sup>th</sup> of the next month.
- **ACCESSIBILITY AND USABILITY:** Information must be structured most appropriately for the type of reader or “public” that receives it, especially the boards of directors as they review management results and set plans and policies for the DTC. Data remain mere data and do not become information unless they are properly structured to be useful.
- **COMPARABILITY:** Consistent information permits comparison over time and among peer institutions. This can guide and motivate better performance by managers and the boards of directors.

In summary, clear, accurate, timely, and usable information is necessary for COOPERATIVE TRANSPARENCY. It leads to better decisions and actions by managers and employees, by the boards of directors, other cooperative institutions, lenders, regulators, and the public. The part of the public that is most important is the people who already are members of the cooperative, or people who are potential members.

As DTCs grow, become more complex, and affect the lives of more and more people, computerized information systems become essential. Regulation, either from within or outside the sector, is also more accurate and timely if modern information systems are in place.

**External Auditors:** The role of external auditors deserves special comment. The Cooperative Code assigns an important role to auditors in certifying to members and to the CDA the condition of a DTC. Some, given problems with information, do a satisfactory job. However, the effectiveness of the most responsible auditor is diminished by the lack of a commonly accepted chart of accounts, accounting rules, and basic CAMEL-like indicators of a DTC's condition and trend.

Once the CDA has issued uniform accounting standards, together with the Philippine Institute of Certified Public Accountants (PICPA), CDA should sponsor training for auditors in the uniform chart of accounts and accounting rules. If CDA employees are reassigned to review and respond to DTC financial statements, they should also go through this training. Completion of this training could be made a requirement for cooperative auditors.

CDA, consulting with auditing firms and the PICPA, should circulate model audit contracts for DTCs that meet audit standards.

# 10

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## Forms Of

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## Regulation Of DTCs

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Regulation, in a broad sense, involves the key role of clearly structured information in bringing about control on the actions or condition of a financial institution.

It is important to recall that regulation is most effective when it imitates efficient markets. To quote from Gonzalez Vega, *“Efficient markets regulate [market actors] by rewarding or penalizing them when they assume correct or inappropriate combinations of risk and expected returns or when they acquire reputations that lead other agents to transact or not with them. In principle, an efficient market guarantees that [actors which] make incorrect choices eventually go bankrupt and, as a result, have to exit the market.”*<sup>9</sup>

**The more regulation imitates regulation by efficient markets, the more effective it will be.**

### **Regulation by market forces: the member/customer as regulator**

- Members reward credit cooperatives with efficient services by placing more savings in them, thus playing a role in regulating their growth. This is the most informal and quiet regulation of the growth and permanence of credit cooperatives. Evidence from Latin America and other parts of the world indicates that directed credit programs

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<sup>9</sup> Gonzalez Vega, *GEMINI Article*

weaken and often destroy credit unions by inducing them to make riskier loans and by serving as disincentives for savings mobilization. That is a concern for regulators, but a related issue is the damage that directed credit programs inflict on market information by distorting the member/customer's decisions.

- The decision to deposit savings depends, principally, on:
  - The perception that savings deposited in the cooperative are secure;
  - Access, such as proximity, hours of service, and a friendly environment;
  - Quality of service, liquidity, and transactions costs; and
  - The interest rates that the cooperative offers.
- As the credit cooperative grows, it becomes more possible to achieve operating efficiencies and competitiveness in attracting members and savings.
- Member decisions are sometimes distorted by DCPs that lead to expectations of lower interest, slack collection, or preferred uses.
- The fact that credit unions do not have deposit insurance is a significant disadvantage for them in the marketplace. However, that is not a good argument for creating deposit insurance before the preconditions discussed earlier are satisfied.

In summary, consumers play an important role in regulating the survival and growth of DTCs. This role is played best when market distorting interventions, such as subsidies and directed credit flows by the government, are minimized.

## **Formal Regulators of DTCs**

The only formal regulator of DTCs is the CDA. To date, CDA's Board of Administrators has narrowly interpreted CDA's standard setting and regulatory role to consist only of :

- Registration of cooperatives that fulfill the minimum requirements for organization
- Receipt and filing of the Annual Reports and audited financial statements
- Issuance of a Certificate of Registration for cooperatives that file audited financial statements.

The BSP has no regulatory authority over DTCs. Nor does BSP, to assure a consistent regulatory posture, show any interest in taking on the task. However, CDA should ask for BSP's opinion on its standards for accounting systems and financial analysis.

Should CDA prove unwilling or unable to set standards and enforce compliance over the next 18 months, the NCC may wish to recommend legislation to create a specialized DTC regulator.

## **Informal Regulators**

This study considers regulation in the broadest sense, from internal controls and other forms of self-regulation as well as external informal regulators.

### ***Existing forms of Self-Regulation***

- Managers of credit cooperatives and other DTCs
  - Consistent, timely accounting systems are necessary to assist managers in their day to day choices which affect the efficiency and financial strength of the DTC. Multipurpose cooperatives present major problems in this regard.

- Well-defined administrative processes lead to more accurate, consistent, and timely actions by the employees, as directed by management, sometimes referred to as administrative and organizational
  - DTCs large enough to justify computerized accounting systems may achieve better internal controls, operating efficiency, and faster member service. Robust computer systems do not tolerate inconsistent administrative practices. Credit unions that successfully convert to computing are able to regulate their administrative practices better.
  - The condition and efficiency of financial institutions is most understandable when expressed as financial ratios for comparison of those ratios over time and among peer institutions. Some credit cooperative managers use CAMEL-based ratios to assist them in their analysis and management. The World Council of Credit Unions (WOCCU) developed a thorough set of indicators, known as PEARLS. The USAID-funded CUES project works with 12 credit unions in Mindanao applying PEARLS indicators. Credit union managers and boards of directors throughout the Philippines would find that system or other CAMEL-derived systems of indicators to be helpful in monitoring the financial condition and efficiency of the credit unions.
- Governance by the boards of directors, representing the member/owners
    - Boards of directors, as in all businesses, play a central role in the governance and regulation of a DTC. In a fully developed cooperative, the principal instruments used by the boards in policy setting are the financial statements, budgets, and operating and strategic plans.
    - CAMEL measurements of the condition of a DTC are helpful in the board's understanding of the condition and trend of the cooperative.

- Secondary and tertiary cooperative organizations have several hundred DTCs as affiliates. They provide technical assistance for accounting systems, financial management, and information systems. These systems, depending on how their clarity of definition, timeliness and cost effectiveness, support the boards of directors in promoting good management and good governance. However, some Federations have systems that mix data and indicators from financial intermediation and mercantile activities.

### ***External Informal Regulation***

- External audit services provided by federations and confederations:
  - they are also most effective if administrative and accounting systems are defined, consistent, and timely.
  - The group conducting this study does not know of an example of a credit union federation that profitably provides audit services to credit unions, and because of the representational role of the federation, it is often loath to issue unfavorable audit reports to a credit cooperative.
- Federations in the Philippines and elsewhere often set standards and counsel and train on their achievement, but generally their actions are limited to encouragement and stop short of enforcement. As representational, associative organizations they are naturally disposed to do what all affiliates agree to, unless a stronger contractual agreement is reached among the subset of affiliates willing to establish a serious set of standards.
- External audit by PICPA certified auditors
  - Some auditors are not familiar with the special structure of cooperative firms.
  - Cooperatives describe the quality of external audits as ranging from poor to satisfactory.
  - As noted, the DTCs lack defined, consistent, and timely

- administrative and accounting systems, which limits the effectiveness of external auditors.
- A commonly accepted chart of accounts, accounting rules, and basic CAMEL-like indicators of a DTC's condition and trend would help auditors to produce better quality external audits.
- Lenders assess the financial condition of a DTC if it applies for a loan. They may require certain types of information. This is a form of informal regulation.
    - However, lenders as regulators are not relevant to most DTCs that are sound and efficient, because a cooperative can mobilize savings from its members if it has an image of safety and soundness, good service, and competitive interest rates.
    - The Land Bank has standards for analyzing loan applications from cooperatives. Unfortunately its analytical guidelines lump DTCs and other cooperatives together, making the analytical standards meaningless.
    - To promote the deepening and broadening of financial markets in the country, the credit policy environment should not distort credit cooperatives' decisions. For example, the availability of subsidized, directed lines of credit for channeling through credit cooperatives often tempts cooperatives into using external lines of credit.
    - In Latin America, directed lines of credit have been referred to as the “poison pill” of credit cooperatives for at least three reasons:
      - a) Cooperatives raise funds for lending by borrowing from subsidized lines of credit instead of mobilizing savings from members, and its ability to fund loan demand from savings is weakened.
      - b) Directed lines of credit are often directed to uses that are high risk, leading to repayment difficulties, high operating costs, and loan write-offs.
      - c) Borrowers often perceive that funds that originate from the government do not have to be repaid. The members of the credit cooperative absorb the loss.

***Alternatives for the regulation of deposit taking cooperatives (DTCs)***

- **Credit or collection bureau**

As cooperatives become successful and strong, information on its condition becomes in demand among a growing number of stakeholders, and rating by a credit bureau or by a rating agency becomes necessary. The presence of raters enhance transparency and regulation.

- **Deposit insurer**

Like in many countries that have deposit insurance, a separate insurance is set up to cover the cooperatives. A deposit insurance agency may provide an effective means of regulating DTCs after putting in place a standard DTC chart of accounts and accounting rules, key performance indicators, and supervisory and inspection capabilities. This may take some time, but once these conditions are satisfied other minimum features may prove to be critical in making the deposit insurance scheme effective, such as:

- Highly selective membership (only those deemed to be strong and soundly managed);
- Access to all information, including deposits, in order to monitor, enhance the performance of members, correct weaknesses, and terminate membership (to be recognized as a seal of quality);
- Ability to generate broad membership from those meeting strict qualifications;
- Ability to generate funds for developmental/training activities from premiums or grants;
- Ability to pay off claims immediately; and
- Clear receivership and liquidation processes.

- Considering these and other factors simultaneously, a private regulator may be encouraged to emerge once consistent accounting and financial information are applied by a significant number of

credit unions. Such a regulator might, for example,

- Be formed by a group of credit cooperatives that are capable of meeting, or can contractually commit to meeting, safety and soundness standards;
- Institutionalize enforcement of those standards via period examinations;
- Offer deposit insurance;
- Be supported by adequate fees from insured credit cooperatives
- Secure maintenance fee to pay for examination services
- Secure capitalization premium to fund deposit guarantees; and
- Be governed by a qualified, independent, apolitical board

Strengthening regulatory framework for cooperatives, particularly for DTCs, is becoming an important contribution of the sector to the country's economic development. Policies conducive to effective regulation need to be adopted. Regulation must be based on greater transparency in information and stricter and clearer accountabilities of key people, such as the regulators, cooperative management, members of the board of directors, external auditors, and even asset appraisers. The law, rules and regulations should be checked for clarity in establishing these accountabilities.

The following measures are recommended:

**In the short term, CDA should:**

- ◇ Give top priority to establishing an accurate registry of operating DTCs.
  - Compile basic financial information on all DTCs (assets, loans, passbook savings, share capital, external credits, etc.) and classify them by asset size.
  - Motivate CDA employees to produce an accurate report of active DTCs.
  - Purge inactive cooperatives from the registry, classifying them as cooperatives in process of cancellation. All those which have not filed their audited financial statements should be classified as in process of liquidation until they have filed current reports.

- Make registration of DTCs more selective, with higher minimum paid on capital, more rigorous analysis of the economic survey, and so forth. Consider implementing a license for deposit taking operations.
  - Shift from a goal of registering more cooperatives to a goal of enhancing quality of cooperatives.
- ◇ Initiate the reengineering of CDA's structure and processes to carry out the foregoing recommendations
- Ensure capability to maintain an accurate registry
  - Establish and enforce minimal accounting standards in DTCs
  - Emphasize the retention, repositioning, and retraining of qualified CDA employees.
- ◇ Discontinue credit programs to cooperatives because of the conflicting objectives of regulation and extension of credit.

**For NCC in the short term:**

- ◇ Rationalize DCPs to allow DTCs to increase reliance on the savings and share capital of members as sources of loanable funds.
- ◇ Identify alternative institutions that could undertake the strengthening of the regulatory framework for DTCs in the event CDA proves unable to perform the task.

**For CDA in the medium term (within two years):**

- ◇ Implement a reengineering of CDA's organization, structure and processes.
- ◇ Improve the quality of information for managers, boards, and members of DTCs, issue and enforce uniform accounting standards for the DTC sector,
- By the end of 1999, after intensive consultations with credit

cooperatives, auditing firms and financial system regulators, a memorandum circular should establish a specialized, uniform chart of accounts and accounting rules for DTCs. The system, with small modifications, could be used for microfinance NGOs.

- Require all DTCs to segregate accounting for financial intermediation. Begin, for completion in three years, assistance to multi-purpose DTCs in separating the accounts of their financial intermediation activities, applying the uniform accounting system for DTCs.
- To improve information for governance and management, require all DTCs, as part of their annual report to the CDA and to members, to calculate a simple set of CAMEL-based indicators derived from the uniform accounting system.

- ◇ Develop a database system on DTC financial statements adequate for assuring compliance with regulatory standards and for the off-site monitoring of most credit cooperatives:
  - Analyze performance and identify risk areas.
  - Provide feedback to DTCs on such analysis.
  - Trigger enforcement actions. CDA should reach agreement with the NCC and other regulators on the technical capability of CDA to address the risk to members' deposits in DTCs which are not complying with the law and which need to take corrective actions.
- ◇ Discontinue development activities with DTCs. The federations and confederations now have the ability to "initiate and regulate within its own ranks the promotion and organization, training and research, audit and support services relating to cooperatives."
- ◇ Disseminate the uniform specialized accounting standards for DTCs to PICPA and university and other cooperative management training programs.

- ◇ Encourage the development by the sector of informal examination and supervision schemes with adequate independence.
- ◇ Encourage the development of informal regulation by improving members' capability to interpret financial statements.

**For the NCC in the medium term (within two years)**

- ◇ Make policy makers agree on the constitution or transformation of CDA, or a part of CDA, into a DTC regulatory body with greater technical ability and political independence.
  - ◇ Initiate legislative amendments to RA 6938, perhaps by amplifying Chapter XIV (Credit Cooperatives) to:
    - Vest regulatory responsibility and authority for DTCs in CDA or another appropriate body.
    - Include in the regulator's mandate the authority and responsibility to analyze the financial reports submitted by DTCs for compliance with the minimum standards. It should be emphasized that to avoid violating the principle of subsidiarity, the standards should be set in consultation with the cooperatives.
    - Authorize the examination of DTCs by the regulator.
- Increase the accountability of DTC auditors, managers, and boards of directors for financial reports.

# Annexes

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## *Annex 1*

### **Organizational Structure and Staffing Pattern Of The CDA**

#### **Organizational Structure**

The Board of Administration is the policy-making body of the CDA. It is composed of a chairman and six (6) members appointed by the President. The six board members are chosen from nominees of the cooperative sector with two (2) representatives each for Luzon, Visayas and Mindanao.

The Office of the Executive Director is the national implementing body. The executive director administers the affairs of the agency and implements policies, plans, programs approved by the Board.

Under the Office of the Executive Director are two (2) line departments, (namely, the Legal and Registration Department and the Institutional Development Department), fifteen (15) extension offices, and one (1) support department.

#### ***A. Departments Engaged in Regulatory Activities***

The **Legal and Registration Department** (LRD) implements the regulatory and quasi-judicial functions and is divided into two divisions. The **Registration Division** formulates guidelines on registration, division, merger, consolidation dissolution or liquidation; recommends

applications for registration of special cooperatives or the cancellation of registration for all types of cooperatives; and evaluates annual financial statements and general information sheets. On the other hand, the **Legal Division** assists the Board in the conduct of investigations and hearings of cases including the mediation and conciliation of cooperative disputes.

The **extension offices** are the implementing arms of the CDA for specific areas of the country. Currently there are fifteen (15) extension offices. The **Registration Division** implements the guideline, and rules and regulation on the registration, division, merger, consolidation, dissolution and liquidation of cooperatives. This division is tasked with evaluating annual financial statements and general information sheets submitted by cooperatives. The **Legal Division**, on the other hand, assists the Director on legal matters and provides legal counseling/training to NGOs and cooperatives regarding cooperative laws. It also conducts the investigation and hearing of cases involving cooperatives that are brought to the extension office. The **Institutional Development Division** formulates and evaluates the implementation of programs on research, information, training and projects, and compiles and evaluates data that can be used in formulating these programs.

### ***B. Departments Engaged in Developmental Activities***

Another line department is the **Institutional Development Department (IDD)** which assumes the developmental functions of the CDA. It has two divisions to carry out its responsibilities. First, the **Cooperative Research, Information and Training Division (CRITD)** develops programs on cooperative research, information and training; produces modules and other information materials for training programs and information campaigns; and monitors and evaluates the effectiveness of its research, information and training programs. Second, the **Cooperative Project Development and Assistance Division (CPDAD)** initiates special projects and joint projects with local government units and the private sector to promote cooperative development; coordinates

with other institutions for possible assistance to cooperative; and administers all grants and donations for cooperative development.

At the regional level, the implementation and evaluation of the various programs and assistance to cooperatives are conducted by the Institutional Development Division of the respective extension offices.

The **Support Services Department** provides assistance to the line departments and extension offices. The Planning Division is tasked to conceptualize and study the policies, plans, programs and strategies of the CDA; formulate long-range and annual plans; and conduct research and continuing analysis of economic conditions and policy issues related to the cooperative sector. Other divisions under the Support Services Department are the **Finance Division and Administrative Division**.

### ***C. Staffing Pattern***

Available data show that a total of 681 persons (excluding the Board of Administrators) are employed by the CDA. About 64 percent, represented by Cooperative Development Specialists (CDSs) and Legal Officers, are directly involved with the regulatory and developmental functions of the CDA. On the other hand, about 34 percent is composed mostly of support staff, including the statisticians, planning officers, secretaries, clerks, administrative officers, information officers. The remainder (less than three percent) is accounted by the directors of the CDA (please refer to table below).

An examination of the required qualification for the positions involved in the regulation and support of cooperatives reveal that the staff possessed the appropriate educational background (e.g. economics, accounting, agriculture, law) to perform their duties.

The staffing pattern showed that the CDA had the core manpower to fulfill their responsibilities. However, it can be observed that there is

a tendency for the CDSs to be overwhelmed by the large number of cooperatives that should be monitored and regulated. Based on the survey that led to the Cooperative Classification Information System, there were about 29,898 operating cooperatives as of end-1997. This translates to more than 70 cooperatives for each of the roughly 400 CDSs. Moreover, it must also be emphasized that there is a critical need to upgrade the expertise of the staff if the agency is to be empowered as the regulator of cooperatives, particularly of DTCs.

Staffing Pattern							
	Director	Planning Officer	Coop Devt Specialist	Legal Officer	Others	Total	
<b>Central Office</b>						(in percent)	
Office of the Executive Director	2				4	6	0.9
Planning		6			8	14	2.1
Finance					10	10	1.5
Administrative					25	26	3.8
Institutional Devt	1				1	2	0.3
Coop Research Infor & Training			8		4	12	1.8
Coop Project Devt & Assistance			6		2	8	1.2
Registration & Legal	1				1	2	0.3
Coop Registration			5		2	7	1.0
Legal				6	3	9	1.3
<b>Extension Offices</b>							
Manila	1		38	1	12	52	7.6
CAR	1		21	1	12	35	5.1
Tuguegarao	1		24	1	12	38	5.6
Pampanga	1		37	1	12	51	7.5
Dagupan	1		24	1	12	38	5.6
Calamba	1		52	1	12	66	9.7
Naga	1		30	1	12	44	6.5
Iloilo	1		34	1	11	47	6.9
Cebu	1		28	1	12	42	6.2
Tacloban	1		28	1	12	42	6.2
Pagadian	1		33	1	12	47	6.9
Davao	1		30	1	12	44	6.5
Kidapawan	1		16	1	12	30	4.4
CARAGA	1		2		6	6	1.3
<b>Total</b>	18	6	416	19	222	681	100.0
(in percent of total)	26	0.9	61.1	2.8	32.6	100.0	

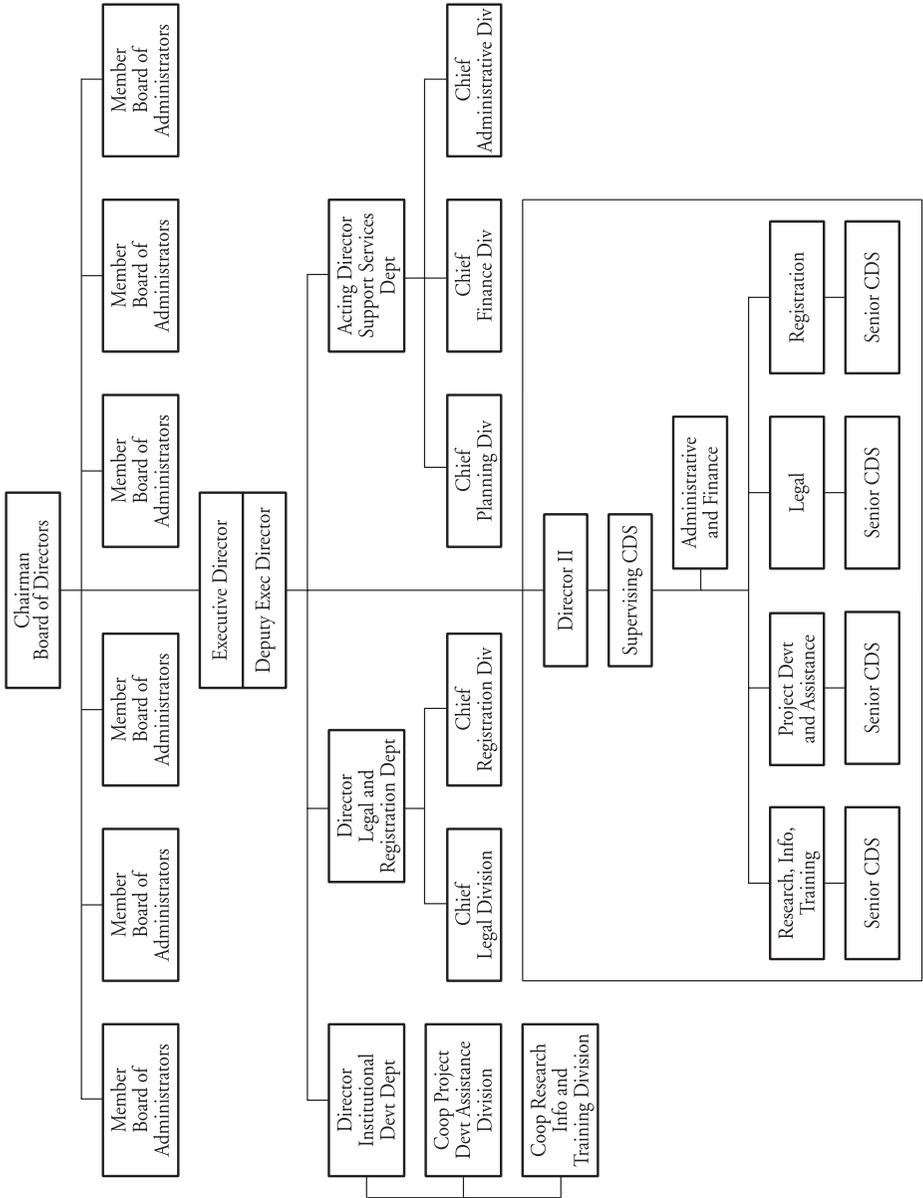
Notes: Director refers to Executive Director, Deputy Executive Directors and Directors

Planning Officer refers to Planning Officers II – V

Legal Officer refers to Legal Officers III – V

Cooperative Development Specialist (CDS) refers to Supervising CDS, Senior CDS and CDSs I – II

**Annex 1a**  
**Cooperative Development Authority (CDA)**  
**Organizational Structure**



**Annex 2**

**CDA Administrative Issuances**

Issuance/Date	Subject	Issuer	Description/Contents
MC 92-002 series 1992 23-Jan-92	<b>Annual Reports of Cooperatives</b>	CDA	In line with the approved IRR of the Cooperative Code of the Phils., “all cooperatives are required to submit a copy of their Annual Report within 60 days from the end of their respective fiscal year.” This Circular shall take effect immediately
	<b>Procedures for Mediation and Conciliation Cases</b>	CDA	<p>Basis: Section 8 , Republic Act No. 6939 Authorizes the CDA to mediate and conciliate disputes within a cooperative or between cooperatives; Provided, that if no mediation or conciliation succeeds within 3 months from request, a certificate of non-resolution shall be issued by the commission prior to the filing of appropriate action before the proper courts</p> <p>Subsections include: (1) Title; (2) Definition of Terms; (3) Petition; (4) Grounds for Petition/ Request for Mediation And/Or Conciliation; (5) Matters not cognizable under these Procedures; (6) Comments; (7) Prohibiting Motions; (8) Conference; (9) General Preparations (10) Purpose of Conference; (11) Conduct of Conference; (12) Notes; (13) Recess and Suspension; (14) Motion for Postponement; (15) Settlement or Agreement; (16) Responsibility of Mediator/ Conciliator (conclusion of agreement does not terminate the mediator’s responsibility over the case. He must monitor implementation and compliance therewith to insure that the parties have normalized relations); (17) Certificate of Non-Resolution ; (18) Interpretation; These procedures have been <b>approved September 21, 1991.</b></p>
	<b>Guidelines on Monitoring of Annual Reports and Audited Financial Statements</b>	CDA	<p><b>WHERE &amp; WHEN TO FILE</b></p> <ul style="list-style-type: none"> <li>* Registered and confirmed coops (in the barangay, municipal, city, provincial and regional levels shall file annual reports and audited FS at the Extension office concerned</li> <li>* Registered and confirmed coops (Inter-regional and national in scope) shall file annual reports with audited FS at the Central Office, Registration Division</li> <li>* Annual reports together with audited FS shall be filed with the CDA 60 days from the end of every calendar or fiscal year</li> </ul>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
	<p><b>Guidelines on Monitoring of Annual Reports and Audited Financial Statements (cont)</b></p>	<p>CDA</p>	<p><b>RESPONSIBILITY FOR REPORTING AND MONITORING</b></p> <p>* PROVINCIAL CDS II shall: (1) maintain a list of confirmed &amp; registered coops in his assigned area; (2) keep track &amp; monitor the filing of annual reports and audited FS using prescribed form; (3) see to it that all cooperatives in his area accomplish annual reports correctly; (4) coordinate with Sr. CDS, Registration unit of the Extension Office in seeing to it that he receives a copy of provincial/city summaries of annual reports computer encoded and printed by the Extension Office</p> <p>* SR. CDS, REGISTRATION UNIT, EXTENSION OFFICE shall: (1) summarize, consolidate and analyze information date found in the consolidated annual reports and FS submitted by all the provincial CDS II under the Extension Office; (2) submit to Central Office c/o Registration Division the summary and consolidated annual reports and audited FS; (3) Extension Office shall inform coops which have not filed annual reports and audited FS and those who have incomplete reports; (4) Sr. CDS of the Registration Unit of the Extension Office, shall provide provincial CDS a summary computer print report of his area; (5) all consolidated annual reports shall be submitted by the Extension Office to the Central Office in computer diskette form</p> <p>* CENTRAL OFFICE (REGISTRATION DIVISION) shall: (1) take charge of the collection, summarization, consolidation and analysis of data contained in the annual reports and audited FS from cooperatives all over the country; (2) see to it that all 14 extension have submitted correct and complete reports; (3) consolidate annual reports from the 14 Extension offices and the Central office and submit the same to the Office of the Executive Director in printed form; (4) maintain file of consolidated annual reports in diskette form</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
			<p><b>PRESCRIBED FORMS AND THE FLOW OF REPORTS</b></p> <p>* <i>From Provincial CDS II to Extension Office FORMS to be accomplished by Provincial CDS II</i></p> <p>(1) CDA-AR-1A — this contains list of confirmed and registered cooperatives in CDS II area w/ columns to keep track and monitor filing of annual reports and audited FS</p> <p>(2) CDA-AR-1B — this contains consolidated annual reports of the 6 types of coops</p> <p>* <i>From Extension Office to Central Office (LRD) FORMS to be accomplished by the REGISTRATION/COMPUTER UNIT of the Extension Office:</i></p> <p>(3) CDA-AR-1C — this contains consolidated annual reports of the 6 types of coops as reported by all provincial CDS II of the Extension offices</p> <p>* <i>From Central Office (LRD) to Office of the Executive Director FORMS to be accomplished by the LR Department</i></p> <p>(4) CDA-AR-1D — contains consolidated annual reports of the 6 types of cooperatives</p>
Joint Administrative No. 01 Series 1991 (10 March 1991)	<p><b>Procedural guidelines for the organization and registration of Agrarian Reform Cooperatives</b></p>	CDA & DAR	<p>Pursuant to the provisions of the Agrarian Reform Coops of RA 6938 and in order to obtain coordination in the organization and registration of agrarian reform cooperatives, the procedural guidelines for the organization and registration of coops composed of agrarian reform beneficiaries and marginal farmers is created. This is primarily intended for agrarian reform beneficiaries/marginal farmers who would like to be registered as Agrarian Reform Coops</p> <p>Sections include: (1) Definition of terms; (2) Purposes for Organizing Agrarian Reform Cooperatives; (3) Membership in Agrarian Reform Cooperatives; (4) Requirements for registration; (5) Registration procedure.</p>
	<p><b>Guidelines for the Registration of New Cooperatives</b></p>	CDA	<p><b>Section (3) Purpose:</b> to insure that proposed cooperatives are viable and comply with registration requirements, the Code and Policies of the Authority;</p> <p><b>Section (6) Officers responsible for Registration:</b></p> <p>a/ The Authority's extension offices shall register primary and secondary cooperatives at the city, municipal, provincial and regional levels; b/ The Authority's Central office shall register secondary and tertiary coops at the inter-regional and national levels and other coops governed by</p>

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
			<p>special provision <b>Section (8): Capital Requirements</b> — <i>All cooperatives shall be organized with share capital.</i> At least 25% of the authorized share capital shall be subscribed by members and at least 25% of the subscribed share capital shall be paid by members upon registration</p> <p><b>Section (10) Provisionally registered Coops</b> — no cooperatives shall be registered provisionally or conditionally. Coops provisionally registered under previous laws shall be registered as new coops after complying with the requirements of the Code for Registration of Cooperatives; provided too that they submit audited FS of the last fiscal year.</p> <p><b>Section (11) Registration Documents</b> — a/ Economic survey describing the Organization structure, purposes, economic feasibility study, area of operation, number of initial members and potential members; b/ Articles of Cooperation and By-laws; c/ Treasurer’s affidavit; d/Bonds for accountable officers; e/ registration fee</p> <p><b>Section (13) Common and Preferred Shares</b> — Preferred share capital shall not exceed 1/4 of the total authorized share capital of the cooperative. The 25% rule on the subscribed and paid-up share capital shall be applicable to the common share capital contribution only.</p> <p><b>Section (16) Pre-Membership Education Seminar (PMES)</b> — the conduct of PMES for new cooperative is not a mandatory requirement for registration. Regular PMES will be conducted in accordance with the By-laws of the cooperative</p> <p><b>Section (18) Dual Membership</b> — prospective cooperatives shall include in its by-laws a provision not allowing members of existing cooperatives of the same type w/in the same area of operation to be a member of the proposed cooperative unless they resign from the former.</p> <p><b>Section (21) Bonding Requirements of accountable officers/employees of the coop</b> — The ff: persons shall be bonded: a/treasurer and cashier; b/ manager; c/ warehouseman; d/ signatories of checks and other financial instruments; e/ custodian of funds merchandise, inventories, securities and other assets The following types of bond maybe acceptable: cash, real estate, and surety/performance bond.</p> <p><b>Section (22) Required Period of Approval of Registration</b> — Application for registration should be finally disposed by the Authority w/in 30 days from filing, otherwise, the application is</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
MC # 92-003	<b>Legal Interpretation of Article 28 and 43 of the Cooperative Code</b>	CDA	<p>deemed approved unless cause of delay is attributed to the client. In case of denial, appeal may be sent to the OP 90 days from receipt of notice of denial. Failure of the OP to act on the appeal w/in 90 days shall mean approval of said application.</p> <p>The Guidelines was approved by the Board of Directors, 17 March 1992, and took effect immediately.</p> <p><b>Article 28 (2):</b> Elective officials of the government except barangay officials shall be ineligible to become officers and directors of cooperatives.</p> <p><b>Legal Interpretation:</b> In case the bgy. captain is elected president of the Association of Barangay Captains of his municipal council, he is still qualified to become an officer or director of his cooperative.</p> <p><b>Article 43: Officers of the Cooperative</b> — The Board of Directors shall elect from among themselves only the chairman and vice-chairman and elect or appoint other officers of the coop from outside the board in accordance with their by-laws.No two (2) or more persons w/ relationships up to the third degree of consanguinity or affinity shall serve as elective or appointive officers in the same board</p> <p><b>Legal Interpretation:</b> For purposes of clarity, hereunder are the degree of relationship covered under the said prohibition</p> <p><b>RELATIONSHIP BY CONSANGUINITY:</b></p> <p><b>First Degree:</b> Parent to Child</p> <p><b>Second Degree:</b> Grandparent to Child Brother to Sister</p> <p><b>Third Degree:</b> Uncle/Aunt to Child Great-grandparent to Child</p> <p><b>RELATIONSHIP BY AFFINITY:</b></p> <p><b>First Degree:</b> Parent-in-law to Daughter-in-law</p> <p><b>Second Degree:</b> Brother-in-law to Sister-in-law</p> <p><b>Third Degree:</b> Great grandparent-in-law to daughter/son-in-law to Uncle/Aunt-in-law to Niece/nephew-in-law</p>
	<b>Guidelines on the Books and Documents of Cooperatives and the Inspection Thereof</b>	CDA	<p>The guidelines are adopted to govern the books and documents required to be kept by a cooperative and to provide a uniform system of inspection of such books (pursuant to provisions of Section 3 (e) and (o)of RA 6939)</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
	<p><b>Guidelines for the Exercise of the Rights of Inspection and Examination of Cooperatives by Cooperative Development Authority</b></p>	<p>CDA</p>	<p><i>Section (2): Books to be kept</i> — Based on Article 53 of the Cooperative Code, the books and documents to be kept by all cooperatives are the ff: a/ register of members; b/ books of minutes; c/ share capital books; d/ book of accounts</p> <p><i>Section (7): Authentication</i> — w/in 90 days from receipt of a certificate of registration by the Authority, the cooperative must present the books (mentioned in Section 2) to the Cooperative Development Specialist assigned to the city of province for authentication purposes.</p> <p><i>Section (8): Visitorial Power</i> — Any duly authorized employee of the Authority maybe called upon to exercise the inspection power (<i>as stated in Article 53 of the Cooperative Code</i>); Provided however, that such visitorial power shall not be exercised on the cooperative for more than twice in a calendar year.</p> <p><i>Section (9): Disposal of Books</i> — the books of a cooperative may be disposed of in accordance with the provisions of <i>Article 53(4)</i> and with prior approval of the Authority. The Guidelines took effect March 17, 1992 upon approval of the BOA.</p> <p>Pursuant to <i>Article 53 of the Cooperative Code. Section 2(b)</i> The representative shall have the ff: documents wherever a visit is conducted: a/ a special order instructing him to conduct the visit; b/ letter addressed to the Board of Director, and manager of the cooperative informing them of the visit</p> <p><i>Section 5. Visit When Conducted</i> — An annual visit to a cooperative may be made not more than once a year by such representative or the Authority, except in cases where a particular cooperative are parties to a petition of complaint, then a special visit may be conducted to ascertain the facts of the controversy.</p> <p><i>Section 6. Visit How Conducted</i> —</p> <ul style="list-style-type: none"> <li>* visits shall be conducted during the normal business operation hours of the cooperative</li> <li>* should the officer or employee refuse to receive or acknowledge the credentials of the representative, or refuse to produce such books and documents, such refusal and the reason for refusal shall be duly noted by the representative</li> <li>* upon production of such books and documents, the representative shall vote down the first transaction following 3 previous</li> </ul>

Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
MC # 93-003 series of 1993	Additional guidelines for the registration of amendments to the articles of cooperation and by-laws of cooperatives	CDA	<p>inspection and the late entry of the books prior to the visit.</p> <p><b>Section 7. Reports</b> — the representative shall fill out a "Report of Visit". A copy will be provided to the cooperative for file, and the original shall be forwarded to the officer requesting such visit.</p> <p>These Guideline was <b>approved July 29, 1992</b>, and took effect immediately.</p>
Revenue MC # 48-91 18 June 1991	Publishing the provisions of Articles 61 and 62 of RA 6938, prescribing the extent of the Tax Exemption of Cooperatives and Providing the Guidelines for the Availment Thereof	BIR	<p>Pursuant to Section 3(m) of RA 6939. For purposes of uniformity in the structure and operation of cooperatives and in order to assure proper organization, development and supervision, the model Articles of Cooperation and By-laws prepared by CDA for each type of cooperative may be used as a pattern.</p> <p>The model articles of cooperation and by-laws may be modified or altered to suit the needs of the cooperative; <i>Provided the provision on the ff: shall not be modified or altered:</i> a/ names of original incorporators/cooperators; b/ name of incorporating officers; c/ adoption of the Articles of Cooperation and By-laws; d/ capitalization unless there is an increase or decrease thereto. <i>Provided further that in case of credit coops,</i> provision for authorized, subscribed and paid-up capital shall be included therewith; <i>Provided finally that the statutory provisions incorporated in the Articles of Cooperation and By-Laws shall not be altered.</i></p> <p><b>Process of Amendment:</b> All amendments maybe adopted in a special general assembly called for the purpose or during annual general assembly either through: a/ <i>Amendment by substitution</i> (whole old articles of cooperation and by-laws are amended and new sets are adopted); b/ <i>Amendment by specific provision</i> ( only pertinent provision of the articles and by-laws are amended)</p> <p><b>Section 2. Definition of Cooperative</b> A COOPERATIVE MAYBE ORGANIZED AND REGISTERED BY AT LEAST 15 PERSONS FOR ANY OR ALL OF THE FF. PURPOSES: 1/ to secure thrift and savings credit to members; 2/ to generate funds and extend credit to the members for productive and provident purposes; 3/ to encourage among members systematic production and marketing;</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
			<p>4/ to provide goods and services and other requirements to members;  5/ to develop expertise and skills among its members;  6/ to acquire lands and provide housing benefits to members;  7/ to insure against losses of the members;  8/ to promote and advance the economic, social and educational status of the members;  9/ to establish, own, lease or operate cooperative banks, cooperative wholesale and retail complexes, insurance and agricultural/ industrial processing enterprises, and public markets  10/ to coordinate and facilitate the activities of cooperatives; and  11/ to undertake any and all other activities for the effective and efficient implementation of the provision of the Code, RA 6938, Art. 6</p> <p><i>Section 3: (Types of) Cooperative that may avail of the tax exemption privileges.</i>  a/ credit; b/ consumers; c/ producers; d/ marketing; e/ service; f/ multi-purpose; g/ cooperative bank; h/ federations; i/ unions; j/ agrarian reform coops; k/ all other coops registered/confirmed with the CDA and are organized for any purpose provided under RA 6938.</p> <p><i>Section 4: Tax Exemption, Extent Allowable.</i>  <u>4.1 Coops dealing/transacting business with members only</u> shall not be subject to any or all taxes or fees of whatever name and nature imposed under the National Internal Revenue Code. However, when this cooperatives distribute interest on capital, such interest shall be taxable to the recipient member and shall be declared in his ITR for tax purposes  <u>4.2 Coops dealing/transacting business with members and non-members with accumulate reserves and undivided net earnings of NOT MORE THAN P10M</u>  * shall not be subject to tax on their transactions with members  * shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name nature  * shall be exempt from value added tax, advalorem and excise taxes on their importations of machineries, equipment and spare parts used by them and which are not available locally.</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
Revenue MC # 48-91 18 June 1991	Publishing the provisions of Articles 61 and 62 of RA 6938, prescribing the extent of the Tax Exemption of Cooperatives and Providing the Guidelines for the Availment Thereof (con't)	BIR	<p><u>4.3 Coops dealing/transacting business with both members and non-members with accumulated reserves and undivided net earnings of MORE THAN P10M shall pay the following taxes:</u></p> <ul style="list-style-type: none"> <li>* income tax on the amount allocated for interest on capital; provided that the same tax shall not be imposed on interest individually received by members.</li> <li>* Sales tax on sales to non-members; PROVIDED HOWEVER THAT ALL COOPS, REGARDLESS OF CLASSIFICATION, ARE EXEMPT FROM THE PAYMENT OF INCOME AND SALES TAX FOR THE PERIOD OF TEN YEARS</li> <li>* taxes on importation of machinery, equipment and spare parts to be used by them and which are not locally available</li> <li>* all other taxes unless otherwise provided herein.</li> </ul> <p><b>Section 5. Tax Exemption of Cooperatives Dealing/Transacting Business with both members and non-members</b></p> <ul style="list-style-type: none"> <li>* Exempt from payment of local taxes and taxes on transactions with banks and insurance companies</li> <li>* All sales or services rendered for non-members shall be subject to the applicable percentage taxes except sales made by producers, marketing or service cooperatives</li> </ul> <p><b>Section 7. Period of Tax Exemption for Cooperative with accumulated reserves and undivided net earnings of more than P10M</b></p> <ul style="list-style-type: none"> <li>* Registered and qualified coops regardless of their classification, shall be exempt from income and sales taxes for a ten-year period, reckoned from date of registration with the CDA</li> <li>* Previously registered coops (under PD 175, PD 775 or EO 898), whose tax exemptions therein provided were withdrawn by EO 93, shall be granted the same tax exemption under RA 6938 upon CONFIRMATION and qualification; the ten-year exemption period shall be reckoned from March 10, 1987, the effectivity date of EO93</li> </ul> <p><b>Passive Investment Income :</b> All coops are subject to the 20% final withholding tax on interest from Phil currency deposits, yield from</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
DOF-CDA Joint Circular # 1-90	<b>Procedural Guidelines in the availment of Tax Exemption privileges under Article 62 (1) of RA6938</b>	CDA- DOF	<p>deposit substitutes, trust funds and similar arrangements, royalties, derived from sources w/in the Phils, the said income not being derived from cooperative economic activity.</p> <p><b>Section 10. CDA Certification of Status:</b> Newly organized coops transacting business with both members and non-members shall be issued certificate of tax exemption on the basis of the CDA Certification of Status, w/c shall be submitted to the BIR, together with Articles of Cooperation and By-Laws</p> <p><b>Section 3. Conditions for Availment:</b>  <b>3.1/</b> Letter-Application signed by president/GM of a registered or qualified coop or his duly authorized representative attaching usual import documents;  <b>3.2/</b> Certification from the CDA that the coop is duly registered and qualified for tax exemption  <b>3.3/</b> Certification from the Dept of Trade and Industry (DTI) that the machinery, equipment and spare parts are not locally available  <b>3.4/</b> An undertaking from the coop that upon release and physical possession of the machinery/equipment, the words “ENTERED DUTY-TAX FREE UNDER RA 6938” shall be printed on a conspicuous space on the machinery and equipment which was accorded duty and tax free release.  <b>3.5/</b> The DOF, based on recommendation of the CDA, may allow the importation w/o payment of custom duties and VAT.</p>
DOF-CDA Joint Circular # 1-90	<b>Procedural Guidelines in the availment of Tax Exemption privileges under Article 62(1) of RA6938 (con’t).</b>	CDA- DOF	<p><b>Section 4. INSPECTION:</b> The DOF may conduct periodic pre- and post inspection of imported articles to be released duty and tax-free. Copies of its findings/report shall be furnished the Authority.</p> <p><b>Section 5. PENALTY:</b> All importations accorded duty and tax free shall not be transferred or disposed of in any manner whatsoever to any person until after 5 years. Otherwise, the cooperative and transferee shall be liable to pay twice the amount of tax and duties due thereon, in addition to other penalty provided for under revenue laws.</p> <p>This <b>Procedural Guidelines</b> was approved Nov. 7, 1990.</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
Revenue Regulations #11-89 27 Oct 1989	<b>Registration of Book of Accounts</b>	BIR	<p><b>Section 1.</b> Promulgated pursuant to the provisions of Section 245 of the National Internal Revenue Code., as amended, to amend Section 19(a) of Revenue Regulations No. V-1, as amended by Revenue Regulations No. 6-87, otherwise known as the Bookkeeping Regulations, in order to strengthen compliance with the requirement for the registration of books of accounts by concerned taxpayers.</p> <p><b>Section 2. Amendment:</b> the first paragraph of Section 19(a) of Revenue Regulations No. V-1 as amended by Revenue Regulations No. 6-87 is hereby amended, as follows:</p> <p>*** Persons required to keep books of accounts, internal revenue books, records of receipts and disbursements, additional registers and other records shall, before using any of the aforesaid books, first present them to the Revenue Collection Agent for approval and registration.</p> <p>*** In the case of Renewal of Registration of books of accounts, the applicant-registrant shall present to the said Revenue Collection Agent his duly registered books of accounts used during the immediately preceding taxable year as a condition precedent for the registration of his books of accounts for the current taxable year.</p> <p>*** If it is shown that the said books of accounts used during the said preceding taxable year has not been duly registered or no such books of accounts have in fact been used, registration applied for the current books of accounts shall be effected subject to payment of the corresponding penalty for the said violation.</p> <p>*** This requirement shall not apply with respect to a registrant-applicant only engaging in the business for the first time since he was not required to keep duly registered Books of Accounts with respect to such prior period.</p>
Memo Circular #92-004 series of 1992	<b>Revised Registration fees and other fees to be charged by the Authority</b>	CDA	<p>Per Board Resolution No. 78, S. 1992 dated April 24, 1992, hereunder are the approved revised registration fees and other fees which are to be charged by the Authority effective 01 May 1992.</p> <p><b>A. Registration fees</b></p> <p>1/ Laboratory Cooperative — no fee</p> <p>2/ New Primary Cooperative — P250.00</p> <p>3/ Secondary Cooperative — P500.00</p>

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
Memo Circular #92-004 series of 1992	<b>Revised Registration fees and other fees to be charged by the Authority (cont.)</b>	CDA	<p>4/ Tertiary Cooperative — P2,000.00</p> <p>5/ Amendments</p> <p style="margin-left: 20px;">i) Compliance to RA 6938 — no fee</p> <p style="margin-left: 20px;">ii) Others — P200.00</p> <p><b>B. Docket Fees</b></p> <p style="margin-left: 20px;">1/ Mediation/Conciliation — No fee</p> <p style="margin-left: 20px;">2/ Merger/Consolidation/Division/Dissolution/Liquidation — P300.00</p> <p><b>C. Certification Fee</b> — for any kind or type of certification issued by the Authority — P50.00</p> <p><b>D.i)</b> Certified true copies of documents — P25.00</p> <p style="margin-left: 20px;">ii) Certified true xerox copies of documents — P1.50/page</p>
	<b>Guidelines for the registration of amendments to the articles of cooperation and by-laws of cooperatives</b>	CDA	<p><b>Article 18. Amendment of Articles of Cooperation and By-laws.</b></p> <p>Any provision or matter stated in the articles of cooperation maybe amended by 2/3 vote of all members with voting rights, w/o prejudice to the right of dissenting members to exercise their right to withdraw their membership under Articles 31 &amp; 32</p> <p><b>Section 2. Coverage.</b> This guidelines shall be applicable for all types of cooperatives duly registered under the Cooperative Code. In case of coop banks, proposed amendment should be presented first to the Central Bank</p> <p><b>Section 4. Resolution of the Gen. Assembly.</b> The resolution of the general assembly shall be certified under oath by the coop's secretary and a majority of the board of directors stating the fact that the resolution was approved by the required vote of</p> <p><b>Section 7. Evaluation of Amendments.</b> Upon filing of proposed amendment with the Authority, the Authority shall fully evaluate the amendments with due regard to the provision of the Coop Code and other relevant laws. The Authority, at its option, may hold hearings, take testimonies and decide upon the amendments.</p> <p><b>Section 8. Effectivity of Amendments.</b> No amendments shall be valid prior to its approval by the Authority.</p> <p><b>Section 9. Dissenting Members.</b> Coop members who are against the amendment approved by the general assembly may exercise their right to withdraw their membership.</p> <p><b>Approved May 21, 1992</b></p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	Guidelines for the use of share books and the issuance of share capital certificates	CDA	<p><b>Section 2. Share Book.</b>  a/ every newly-registered cooperative shall present for authentication a blank share book to the CDS II w/in 90 days from the issuance of the cooperative's certificate of registration.;  b/ as soon as one share book is filled up, the cooperative secretary shall present for authentication another blank share. The filled-up share book shall be presented to the CDS II for inspection and verification; c/ for coops registered prior to the effectivity of RA6938, their respective cooperative secretaries shall present blank share book to the CDS II w/in 30 days from notice.</p> <p><b>Section 5. Duties of CDS II</b>  a/ to verify the share books of every cooperative within his area of responsibility.  b/ shall sign notation on the first blank page of every share book  c/ when the share book is filled up, he shall make the proper notation on the last page and sign up over his printed name.</p>
	Guidelines for the use of share books and the issuance of share capital certificates (cont.)	CDA	<p><b>Section 6. Duties of the Cooperative Secretary.</b>  a/ keep and maintain the share book in proper order for examination and inspection of the members of the coop and the CDA representatives  b/ fill in all data required whenever a member transacts business using his share capital contributions  c/ make, execute and issue the requisite share capital certificates for share fully paid-up by the members</p> <p><b>Section 7. Share Capital Certificates.</b> Is a document issued by the cooperative under its seal evidencing that a member has contributed a sum of money or value of property received by the cooperative corresponding to his share in the contribution.</p> <p><b>Section 8. Reports.</b> W/in the first 5 days of every month, the CDS II shall attach to his report a list of cooperatives whose share books he has verified. The cooperative secretary shall submit a list of the share certificates issued by him together with their value along with the annual report.</p> <p><b>Section 9. Rights to Inspect.</b> The share book shall be among the books and/or documents which shall be kept open for inspection and examination by member of the cooperative and CDA representative.</p> <p>These guidelines took effect July 29, 1992</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
Memo Circular #92-009 01 Sept 1992	<b>Issuance of Certificates and Types of Acceptable Bonds</b>	CDA	Board Resolutions passed and approved during BOA meeting on August 24 and 25, 1992 <i>Resolution No. 211, S-1992, August 24, 1992 — Certificate Issued by CDA</i> “No endorsement shall be issued by the Authority but only certification that a cooperative is duly registered with the CDA and qualified for tax exemption pursuant to DOF-CDA Joint Circular No. 1-90 and BIR MC No. 48-91”. <i>Resolution No. 212, S-1992, August 24, 1992 — Type of Acceptable Bonds</i> “RESOLVED as it is hereby Resolved to amend Section 21 (b) of the Guidelines for the Registration of New Cooperatives by adding as Number (4) thereon the word Others.”
Memo Circular #92-013, S-1992 17 Nov 1992	<b>Courses of Action on the Failure to Submit the Required Annual Report and Audited FS after 30 Sept 1992</b>	CDA	<i>(Action taken by the Central Office on those cooperatives who failed to submit their annual report and audited financial statement inspite of the extension granted until 30 Sept, 1992.)</i> The Board resolved to approved the ff: courses of action to be taken by the field personnel concerning such violation of the administrative order:  A. To be strict and to express the idea that the Authority can penalize the coops for failure to submit the Annual Reports and Audited Financial Statements B. The above may be done by the Area Cooperative Director by issuing a formal letter to the concerned coop <i>(if coops fail to respond to these, the next recourse would be to...)</i> C. Be very strict with such coops by sending a follow-up letter D. If concerned coop still do not comply, then proceed with the filing of a petition for mandamus with the proper court E. Depending on the outcome of the litigation, initiate cancellation proceedings F. Above actions maybe dispensed with if the erring coops opt for voluntary dissolution under Articles 65 and 66 of RA 6938
	<b>Rules on Procedure of the CDA in the exercise of its Quasi-Judicial Function (cont)</b>	CDA	Pursuant to provisions of Section 3 of RA 6939, the CDA promulgates the ff: rules governing the pleading, practice and procedure before it or any of its officers: <i>Section 2. Applicability of the Rules:</i> These shall be applicable to all petitions and/or complaints brought to the attention of the Authority

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
			<p><i>Section 3. Construction:</i> these rules shall be liberally construed in order to promote the growth and viability of coops, preserve harmony and the coop way of life w/in and among cooperatives and to achieve a just and expeditious determination of every action brought before the Authority</p> <p><i>Resolution No. 244, S-1992, October 6, 1992</i></p> <p><b>Rule 2 — Power and Jurisdiction of the Authority</b></p> <p><i>Section 1. Express Power:</i> The Authority may express such powers as are enumerated under Section 3 of RA 6939 and such other powers as expressly stated in the Code</p> <p><i>Section 2. Inherent Power:</i> when performing its statutory functions, the Authority and its Hearing Officers shall have the inherent power to:</p> <ul style="list-style-type: none"> <li>a/ preserve and enforce order in its immediate presence</li> <li>b/ enforce order in proceedings brought before it or any of its offices</li> <li>c/ compel compliance of its orders and processes</li> <li>d/ compel the attendance of persons to testify in any petition or complaint pending before it and compel the production of documents relevant to such cases</li> <li>e/ administer or cause to be administered oaths in a petition or complaint pending before it</li> </ul> <p><i>Section 3. Exclusive Jurisdiction:</i></p> <ul style="list-style-type: none"> <li>a/ petition for the approval of amendments to the articles of cooperation and by-laws of a coop</li> <li>b/ petitions for the division, merger or consolidation of coops</li> <li>c/ petitions concerning the exercise of the rights of members of coops, including the conduct of financial audit</li> <li>d/ petitions to hold a regular or special general assembly meeting and/or elections of directors, officers or committee members of a coop</li> <li>e/ petitions for the removal of a director, officer or committee member of a coop</li> <li>f/ petitions for the voluntary dissolution of a coop</li> <li>g/ petitions for the suspension, revocation or cancellation of the certificates of registration for grounds stated in Articles 68 &amp; 69 of the Code</li> <li>h/ petition for the liquidation of a coop</li> <li>i/ petition for the filing of annual report and</li> </ul>

Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	<p>Rules on Procedure of the CDA in the exercise of its Quasi-Judicial Function (cont).</p>	<p>CDA</p>	<p>audited financial statements of a coop                      j/ disputed concerning the internal affairs of coops (<i>such as rights and privileges of members; rules and procedures of meetings of the general assembly; Board of directors and committee members; allocation and distribution of net surpluses and all other matters</i>)                      *** Provided however that all petitions under subsections (b), (f), (c), and (h) shall be filed with the Legal and Registration Department</p> <p><u>Section 4. Concurrent Jurisdiction</u>                      a/ the Authority, through its Legal officers , may exercise concurrent jurisdiction with the provincial or city prosecutor in the preliminary investigation of individuals or coops for violations of Article 124 of the Code                      b/ Resolution of cases involving only preliminary investigations wherein respondent is found to be responsible for such violation of the Code, shall be furnished to the provincial or city prosecutor, who shall determine whether a prima face case exists to warrant the filing of criminal charges against such violators</p> <p><b>Rule 3: Transaction of Business</b>  <u>Section 1: Transaction of Business</u> — The Authority shall transact business through the Hearing Officers as may be appointed ; Further, the Authority may act on appeals brought before it from the resolutions of such Hearing Officers  <u>Section 2: Disqualification of Administrator and Hearing Officers</u> — a/ No admin. or hearing officer shall take part in any proceeding wherein he, his spouse, or child is related to any party or counsel w/in the 4th degree of consanguinity or affinity; b/ shall not take part in any case of coop where he was formerly a member; c/ in the exercise of his own discretion, they shall inhibit themselves from taking part in any proceeding in the case for just or valid reasons other than those mentioned above</p> <p><u>Section 3: Lack of Hearing Officer</u> — Should a hearing officer be disqualified from the proceedings or inhibit himself from acting on a case, the CDA shall appoint another to act as hearing officer, upon recommendation of the Director of the Legal and Registration Department</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
			<p><b>Rule 4: Parties to Proceedings</b> — a/ Only natural persons who are member of duly-registered coops, may bring an action or request for mediation and conciliation; b/ shld a government agency or any of its officials be included as a complainant or respondent to the complaint, such shall be considered as an amicus curae, and shall be asked to submit their comments to the controversy</p> <p><b>Section 5: Commencement of Proceedings</b> — a/ any natural person or coop shall file a verified complaint containing personal circumstances, jurisdictional facts and a concise statement of the ultimate facts constituting the causes of action and relief sought; b/ where the Authority is authorized to initiate the proceedings, the Authority shall issue an order of hearing. Copies of such order shall be served upon persons or cooperative organizations having interest in the matter.</p> <p><b>Rule 6: Pleadings How Filed:</b> a/ Documents shall be filed with the Legal Officer or Legal Division; b/ the complainant and the answer shall be duly verified; c/ Upon the filing of a complaint, the Legal Officer or the Legal Division shall docket the same and assign number which must be consecutive according to the date it is filed, must bear the year and appropriate prefixes (as to Extension office)</p> <p><b>Rule 8: Intervention</b>— a/ Any person or cooperative allowed by the Authority to initiate a proceeding may also intervene in such proceeding. He shall file a motion for leave of the Authority with notice upon all the parties to the action. b/ In acting on a motion for intervention, the Authority shall consider whether or not the intervention will unduly delay or prejudice the adjudication of the rights of original parties</p>
	<p>Rules on Procedure of the CDA in the exercise of its Quasi-Judicial Function (cont)</p>	<p>CDA</p>	<p><b>Rule 10: Periods for Pleading:</b> a/ The answer to a petition, complaint, amended complaint or counter complaint must be filed with the Authority within 15 days from receipt of copy of the summons; b/ When intervention is allowed, the same must be filed w/in 5 days from receipt of the order allowing the intervention, unless a different period has been fixed by the Authority</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
			<p><b>Rule 11: Motions</b> — <i>a/</i> All motions must be made in writing, except motion for continuance made in the presence of an adverse party, or those made in the course of a hearing; <i>b/</i> No oral argument shall be heard in support of motions, unless the Authority provides otherwise.</p> <p><b>Rule 12: Service and Filing of Pleadings and Other Papers</b> — Service of pleadings, motions, notices, orders or resolutions and other papers, the completeness and proof of service shall be made in the manner prescribed by the Rules of Court</p> <p><b>Rule 13: Prohibited Pleadings</b> — <i>a/</i> Following pleadings shall not be allowed, motion to dismiss, motion for a bill of particulars, motion for extension of time to file memorandum; motion for re-opening or re-hearing of cases and motion to declare a party in default; <i>b/</i> should a respondent file a motion to dismiss, such shall constitute an answer and the proceeding may continue on the merits</p> <p><b>Rule 14: Summons</b> — <i>a/</i> the Hearing Officer shall issue the corresponding summons following the filing of a complaint; <i>b/</i> summons shall be directed to the respondent signed by the Extension Director or the Director of the Legal and Registration Department; <i>c/</i> in petitions for division, merger or consolidation of cooperatives and for the suspension, revocation, cancellation or liquidation of coops, notice of pending case maybe sent to government agencies which maybe affected by the resolution of such issues</p> <p><b>Rule 15: Conciliation and Mediation Conference:</b> <i>a/</i> after issues have been joined, the CDA may send notice to the parties to attend a mediation and conciliation conference to determine whether any settlement or agreement can be reached by the parties; <i>b/</i> notice shall be given to the parties concerned at least 1 week prior to the scheduled date; <i>c/</i> conference maybe recessed from time to time in order for both parties to consult with one another; <i>d/</i> should parties be unable to reach amicable settlement of their dispute and the complaint does not contain a specification of the relief sought, the case shall be deemed non-resolvable and a certificate of non-resolution shall be issued by the CDA; <i>e/</i> if no mediation</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
	<p><b>Rules on Procedure of the CDA in the exercise of its Quasi-Judicial Function (cont)</b></p>	<p>CDA</p>	<p>or conciliation conference succeeds w/in 3 months from filing, a certificate of non-resolution shall be issued by the CDA; <i>f/</i> a copy of the certificate of non-resolution shall be furnished the Legal and Registration Department for its files</p> <p><b>Rule 16: Subpoena:</b> Subpoena shall be signed by the Extension Director or the Director of Legal and Registration Department</p> <p><b>Rule 17: Hearings —</b></p> <p><b>Rule 18: Resolutions —</b> <i>a/</i> Any matter submitted to the CDA shall be decided upon w/ in 30 days from the date it is submitted for resolution; <i>b/</i> any resolution shall become final and executory w/in 15 days from receipt of the parties of a copy of resolution and no appeal or motion for reconsideration has been filed w/in the same period</p> <p><b>Rule 19: Appeals —</b>  <i>A/</i> any appeal from the resolution as signed by the Extension Office Director or Director of the Legal and Registration Department any be made to the Board of Administrators (BOA) w/in 15 days from receipt of a copy of such resolution  <i>B/</i> an appeal from the resolution of the Board of Administrators shall be made to the Office of the president (OP) w/in 15 days from receipt of such resolution  <i>C/</i> w/in 15 days from receipt of the notice of appeal and the appeal brief, the Extension office or the Board of Administrators shall forward the entire records of proceedings to the BOA or the OP as the case may be.</p> <p>These Rules of Procedures shall take effect upon approval of the BOA. Approved October 6, 1992</p>
<p>Memo Circular #92-012 20 Oct 1992</p>			<p><b>Issuance of Certificate of Good Standing</b></p>

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
			<p>case with the CDA as certified by the Legal officer of the Extension office and/or Legal Division of the CDA Central office</p> <p><b>Section 2. Term of the Certification</b> — The Certificate of Good Standing shall be valid for a period of one year from the date of issuance unless sooner revoked by CDA for non-compliance with RA 6938 &amp; 6939</p> <p><b>Section 3. Jurisdiction of the Central and Extension Office</b> — a/ The Area Cooperative Director shall have authority to issue Certificate of Good Standing to coops located w/in the Extension Office's area of jurisdiction; b/ for cooperative insurance, cooperative banks, electric cooperatives, and other inter-regional or national level, the certificate shall be issued by the Central office</p> <p><b>Section 4. Monthly Reports on the Issuance of Certificate of Good Standing</b> — A monthly report on the issuance of certificates shall be submitted to the Legal Division-Central Office, not later than the 10th day of the following month; The monthly report shall be in accordance with the attached report format for the uniformity of the needed data.  <b>This Circular shall take effect immediately.</b></p>
Memo Circular #92-011 20 Oct 1992	Board Resolution No. 228, S-1992 dated September 9, 1992	CDA	<p><b>RESOLUTION NO. 228, S-1992</b></p> <p>A/That all cooperative cases, disputes, controversies and litigation's to be filed with the CDA shall be heard, tried and resolved in the extension offices having operational jurisdiction over the cooperatives and parties involved;</p> <p>B/The parties aggrieved by the decision/regulations rendered by the Extension Office may elevate the case by appeal to the Central Office through the Legal Division;</p> <p>C/The Legal Division shall review the decision rendered on the case appealed and thereafter submit the recommendation to the Board of Administrators;</p>
Memo Circular #92-011 20 Oct 1992	Board Resolution No. 228, S-1992 dated September 9, 1992 (cont.)	CDA	<p>D/All cases appealed shall be resolved and decided by the Board of Administrators through the Chairman upon the recommendation of the Director of the Legal and Registration Department, duly endorsed by the Executive Director and reviewed by the Administrator in charge of CDA's legal affairs;</p>

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
			E/ In exceptional cases where officers handling the case show apparent bias and partiality to one of the parties, the case could be heard at the Central Office or another Hearing Officers may be appointed to hear the case.
Memo Circular # 93-005, Series of 1993 March 25, 1993	<b>Exemption of cooperative from local business taxes, fees and charges</b>	CDA	Pursuant to certain provisions (Section 133 & 134) of the Local Government Code, duly registered cooperatives are no longer subject to any local taxes, fees and charges that maybe imposed by local government units.  Pursuant to Section 5 of the Local tax Code, the exercise of taxing powers of local government units shall not extend to the imposition of taxes on cooperatives duly registered with the proper government offices  Beginning January 1, 1992, cooperatives which are duly registered with the CDA shall not be subject to any LOCAL BUSINESS TAXES AND CHARGES THAT MAY BE IMPOSED BY LOCAL GOVERNMENT UNITS. In view of this development starting January 1, 1992, cooperatives are exempted from paying all forms of local business taxes, and other non-taxes revenue source such as permit fees, service charges, license fees, sanitation fees and other charges.
Memo Circular #93-004 Series of 1993	<b>Authority to suspend or revoke certificate of registration of cooperatives</b>	CDA	<b>RESOLUTION No. 45, S-1993</b> All area cooperative directors are authorized to suspend or revoke after due notice and hearing, the certificates of registration of cooperatives registered in their respective areas of operation, on any of the following grounds: 1/ having obtained their registration by fraud 2/ existing for illegal purpose 3/ willful violation, despite notice by the CDA, of the provisions of the Cooperative Code or the cooperative's By-laws 4/ willful failure to operate on cooperative basis 5/ failure to meet the required minimum number of members in the cooperative; and 6/ failure to commence business and operation w/ in 2 years after the date shown on their certificates of registration or failure to carry on business for 2 consecutive years
	<b>Guidelines for the Registration of Federations and Unions of Cooperatives</b>	CDA	Pursuant to Section 3 of RA 6939, the CDA hereby adopts the guidelines to cover registration of cooperative federations and unions:

*Annex 2 cont.*

Issuance/Date	Subject	Issuer	Description/Contents
	Guidelines for the Registration of Federations and Unions of Cooperatives (cont)	CDA	<p><i>Section 2. Requirements:</i></p> <p>1/ The minimum number of members of a federation or union shall be 15. In special cases, registration can be made by at least 5 cooperatives with condition that the proposed federation shall reach the minimum requirement of 15 w/in three years from the registration date</p> <p>2/ The minimum paid-up share capital for any proposed federation or union shall be:  * Municipal level — P50,000  * Provincial/City level — P100,000  * For regional/inter-regional level — P200,000  * National level — P300,000</p> <p>3/ Accountable officers of the proposed federation or union shall be covered by sufficient bonds, amount of which shall depend on the amount of accountabilities being handled.</p> <p>4/ Registration fee, which is P500 for a secondary coop, P2,000 for a tertiary coop or 1/10 of one percent of the subscribed share capital of the coop, whichever is higher.</p> <p>5/ Economic survey containing the ff: organizational structure, purposes/objectives, area of operation, size of membership and potential members, economic feasibility</p> <p>6/ Articles of Cooperation and By-laws</p> <p>7/ For special types of cooperatives (under Chapters 11,12,13 and 14 of the Code), registration documents shall be accompanied by a favorable endorsement for registration from the licensing government agency concerned and the Area Cooperative Director</p> <p><i>Section 4. Additional Policies on the Registration of Federations:</i></p> <p>1/ There will be one federation per type of economic activity per province. In exceptional cases, such as geographical, location, language, culture and accessibility considerations, more than one type may be allowed, provided that such federations are economically viable.</p> <p>2/ Municipal federations may be organized and registered depending on the viability of such federation in particular municipality</p> <p>3/ Dual membership in federations is strictly disallowed by the Authority</p> <p>4/ Federations shall not allow individual, natural persons to be members of their organization, as federations are primarily composed of other cooperatives.</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
			<b>Section 5. Registration Procedures:</b> Registration procedures shall follow the same procedures outlined for ten registration of primary cooperatives, as approved by the Board of Directors
Memo Circular #93-006, as amended by Board Resolution No. 164, S-1993 17 Aug 1993	<b>Guidelines on the Cooperative Development Councils</b>	CDA	<p>Pursuant to Article 2 of the Cooperative Code and Executive Order No. 95, the following guidelines are hereby adopted in the formation of Cooperative Development Councils, under the magis of the CDA</p> <p><b>A/ Legal Basis:</b> The establishment of Cooperative Development Councils is authorized under EO 95 at the national, regional, provincial and city/municipal levels. Such councils are also implied authorized under Article 2 of the Cooperative Code which states that ... <i>"The State shall encourage the private sector to undertake the actual formation and organization of cooperatives, and shall create an environment that is conducive to the growth and development of these cooperatives"</i></p> <p><b>B/ Functions and Powers of the Council</b></p> <ul style="list-style-type: none"> <li>* assist in the policy formulation on cooperative development w/in the areas of such councils</li> <li>* harmonize and monitor the implementation of various cooperative development plans and projects</li> <li>* operationalize and monitor the Cooperative Medium Term Development Plan (CMTDP)</li> <li>* share scarce resources towards the full realization of such development plans</li> </ul>
	<b>Guidelines on the Cooperative Development Councils (cont)</b>	CDA	<ul style="list-style-type: none"> <li>* serve as forum for the discussion of various problems, issues and concerns affecting cooperatives within the area, and to propose solutions to them</li> <li>* to recognize and promote the observance of the principle of subsidiarity and the universal cooperative principles as embodied in the Coop Code of the Philippines</li> </ul> <p><b>C/ Composition and Structure of the Councils:</b> national cooperatives development council, regional cooperative development councils, Chairman of the regional development council, city/municipal cooperative development council. The CDA shall be the Vice-chairman of the council at all levels and shall provide coordinative and secretariat services to the councils. The Chairman of the council shall be chosen free among the members. His term shall be for one</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
Memorandum 12 May 1994	<b>Amended Delegation of Authority to Register Cooperatives</b>	CDA	<p>year only. The council shall meet at least once a month on date and place agreed upon by members present.</p> <p>The Board of Administrators passed, on April 14, 1994, Resolution No. 155, series of 1994, adopting the ff:  *** that the Central Office (Legal and Registration Department) shall only register tertiary cooperatives with a national coverage, electric cooperatives, insurance cooperatives and cooperative banks.  *** that Extension Offices shall register all primaries and secondaries and other types of cooperatives, including transport cooperatives</p> <p>In cases where the proposed cooperative shall operate with inter-regional coverage, it shall be registered in the Extension Office where the principal office is located.</p>
Memo Circular #94-005, S-1994	<b>Minimum capitalization of a cooperative bank</b>	CDA	<p>Quoted hereunder are pertinent provisions of the Manual of Regulation for Banks and other Financial Intermediaries Book pursuant to Monetary Board Resolution No. 331 dated October 6, 1993 of the BSP:</p> <p>Cooperative banks that may be established shall have a minimum authorized capital of:  1/ P200M for national cooperative banks divided into such number of shares with a minimum par value of P1,000 per share, with a private paid in capital of at least P12.5M  2/ P20M for local cooperative banks, divided into such number of shares with a private paid in capital of at least P1.25M, except as follows:</p> <p>*** P20M minimum paid in capital for coop banks to be established in Manila  *** P10M minimum paid in capital for coop banks to be established in Cebu and Davao  *** P5M minimum paid in capital for coop banks to be established in other cities</p>
Memo Circular #94-009, S-1994 19 Sept 1994	<b>Policy on the suspension/cancellation of the certificate of registration of Cooperative (Board Resolution No. 328, S-1994, Sept 13, 1994)</b>	CDA	<p>This memorandum provides the policy on the suspension/cancellation of the Certificate of registration of Cooperatives.</p> <p>Legal Basis:  1/ having obtained their registration by fraud  2/ existing for illegal purpose  3/ willful violation, despite notice by the CDA, of the provisions of the Cooperative Code or the cooperative's By-laws</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
Memo Circular #94-009, S-1994 19 Sept 1994	<b>Policy on the suspension/cancellation of the certificate of registration of Cooperative (Board Resolution No. 328, S-1994, Sept 13, 1994) (cont)</b>	CDA	<p>4/ willful failure to operate on cooperative basis 5/ failure to meet the required minimum number of members in the cooperative; and</p> <p>Further, Article 69 states that the CDA may order the dissolution of a cooperative for its failure to commence business and operations w/ in 2 years after date of registration or when the cooperative has not carried on business operation for 2 consecutive years.</p> <p>Rule 2, Section 5 of the implementing rules also states that the failure of any cooperative to file the Annual Report shall be a ground for the revocation/cancellation of the certificate of Registration of a cooperative.</p> <p><b>Who may suspend/cancel the Certificate of Registration:</b> The Area Cooperative Director may impose the sanction of suspension/cancellation on an erring cooperative falling under his jurisdiction after complying with the requisites of due process of law. The Executive Director, through the Legal and Registration Department may impose such sanctions on cooperatives falling w/in the jurisdiction of the Central Office.</p> <p><b>Sanctions available:</b> The sanctions enumerated in the Table of Sanctions (attached as Annex A), maybe imposed by the Director in accordance with the nature and level of the offense/s committed.</p> <p><b>Contents of Resolution:</b> Following the procedure for the hearing of the administrative cases, the resolution shall contain the ff:  *** pertinent facts of the case/controversy  *** provision of the cooperative laws, or rules and regulations which were violated by the coop  *** evidence in which the finding is based  *** the sanction imposed and its effects on the coop</p> <p><b>Effects:</b>  <i>A/ Suspension:</i> Business operation of the coop maybe continued during the suspension period at the discretion of the Area Director/Executive Director concerned. Such operations may include loan collection from coop members, and the payment of due and demandable obligations of the coop. However all the benefits and privileges accorded under the Cooperative Code</p>

Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	<p>Memorandum of Agreement between CDA and Philippine Institute of Certified Public Accountants (PICPA) October 16, 1991, Q.C.</p> <p>Implementation Guidelines for the MOA between CDA and PICPA</p>		<p>shall be revoked for such period of time of suspension by the Authority, including but not limited to the issuance of a certificate of good standing or any endorsement to govt. agencies</p> <p><b>B/ Cancellation:</b> Once the certificate is revoked or canceled, the cooperative shall be liquidated in accordance with the procedures provided under Rule 8 of the Implementing Rules and Regulations.</p> <p><b>Effectivity of Resolution:</b> The resolution on suspension, revocation or cancellation issued by the Area Director/Executive Director shall become final and executory after the lapse of the appeal period of 15 days from receipt thereof by the coop.</p> <p>This policy was approved 13, Sept. 1994 and took effect 30 days after.</p> <p><i>where CDA shall:</i></p> <p>1/ see to it that cooperatives comply with required submission of duly audited FS within prescribed period</p> <p>2/ submit, through Extension Office, provincial listing of registered and qualified cooperatives to nearest PICPA chapter</p> <p>3/ support pertinent provisions of existing laws and resolutions governing accountancy</p> <p><i>and PICPA shall:</i></p> <p>1/ provide accounting/auditing services for free to cooperatives concerned upon request.</p> <p>2/ submit, through its Chapter, list of its members who will undertake accounting/ auditing services to CDA</p> <p>3/ conduct a training program which shall simplify accounting systems, promulgate audit standards and design audit procedures and programs for cooperatives.</p> <p>4/ conduct audit of cooperatives until simplified accounting system has been put in place or have been started.</p> <p><b>Section 2. Certificate of Eligibility:</b> Cooperatives shall submit the following documents to CDA Extension Office: a/ letter-request or application for PICPA auditing services signed by Chairman or General Manager; b/ financial statement for years to be audited Should documents be found to be meritorious, the area director (CDA) shall issue a Certificate of Eligibility to PICPA</p>

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
			<p><b>Section 3.</b> CPA who will conduct the audit shall request the following:                      a/ financial statement for years to be audited; b/ up-dated books of accounts; c/ vouchers and receipts of transactions during year to be audited; d/ subsidiary ledgers; e/ other pertinent documents</p> <p><b>Duties of Cooperatives:</b> a/ prepare submit documents to CDA; b/ submit to designated CPA within 30 days from receipt of written designation the required documents; c/ submit to CDA Extension Office copy of CDA audit report within 15 days from receipt of audit report</p> <p><b>Duties of CPA:</b> a/ conduct and complete audit within 50 days from receipt of required documents; b/ accomplish CDA prescribed statement of representation; c/ submit copies of audit report to the cooperative and concerned CDA</p> <p><b>Duties of CDA:</b> a/ issue Certificate of Eligibility to qualified cooperative; b/ issue Certificate of Audit Completion to the CDA concerned, upon submission of the Audit Report; c/ within 30 days, submit to PICPA a list of CPAs who were issued Certificate</p> <p><b>Duties of PICPA:</b> a/ prepare list of voluntary members who may conduct audit; b/ monitor the progress of audit works</p>
Memo Circular #93-002 S-1993	Promotion and development of APEX Organizations	CDA	<p><b>Definition:</b> APEX Organizations maybe a federation or union where members are registered secondary/tertiary or higher level cooperative organization. Composed initially of 5 secondary and higher cooperatives within a 3 year period</p> <p><b>Membership:</b> shall be composed of duly registered secondary/tertiary or higher cooperatives whether federations or unions</p>
Memo Circular #93-002 S-1993	Promotion and development of APEX Organizations (cont)	CDA	<p><b>Requirements:</b> a/ Articles of Cooperation and By-laws; b/ Bonds of Accountable Officers; c/ Treasurer's Sworn statement as to compliance with subscription and paid-up share capital requirements; d/ economic survey; e/ General assembly resolutions; f/ registration fee equivalent to 1/10 of one per cent of paid-up share capital but not less than P2000</p> <p><b>Effectivity of Registration:</b> The Apex Organization, upon registration shall perform its functions as defined in its Articles of Corporation and By-laws and comply with the</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	"Cooperative Congress, April 14, 1993" Labor Laws affecting Cooperatives		Cooperative Code and Policy Issuances of CDA <i>Signed February 18, 1993</i>  Since the Labor Code does not embody any specific provisions applying to cooperatives, hence cooperatives are treated just like any private establishments as to application and implementation of labor laws.  <i>Labor laws applicable to cooperatives:</i> a/ Minimum Wage Rate (RA 6727); b/ Cost of Living Allowance (Wage Order RO6-01); c/ Holiday Pay; d/ Premium Pay; e/ Overtime Pay; f/ Night Shift pay; g/ Service Incentive Leave pay; h/ 13th month pay; i/ termination pay; j/ retirement pay
Department Order #32-93 28 may 1993	Rules and Regulations Implementing Chapter XV of the Cooperative Code of the Philippines relating to Cooperative Insurance Societies	DOF	Pursuant to special provisions of Article 118 under Chapter XV of RA 6938 <i>Purpose and Objectives of Cooperative Insurance Societies:</i> a/ may provide members with different types of insurance consisting of life insurance, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle <i>Organization and Membership:</i> a/ only registered cooperative, their federation or unions may organize cooperative insurance societies; b/ membership is also open to coop-oriented societies and organization which are basically non-profit organization <i>Registration:</i> Shall be in accordance with RA 6938 <i>Capitalization:</i> Minimum paid-up capitalization of P10,000,000 for both stock and mutual life insurance companies <i>Investment and Reserves:</i> Shall not be reduced to less than half of the investments and reserves required under Rules and Regulation of the Commission or Insurance Societies upon consultation with CDA and Cooperative Sector <i>Suspension and Revocation of Certificate of Authority:</i> The Commission may, after due notice and hearing, suspend or revoke the Certificate of Authority issued to cooperative insurance society for violation of existing laws, rules and regulation or any pr
	Omnibus Rules and Regulations on the Registration of Electric Cooperatives under RA 6938		Promulgated jointly by the CDA, created under RA 6939, and the National Electrification Authority (NEA), created under PD 269, for proper guidance and compliance by electric cooperatives.

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
	<p><b>Omnibus Rules and Regulations on the Registration of Electric Cooperatives under RA 6938 (cont)</b></p>		<p><i>Electric Cooperatives (EC) shall mean those corporation and/or cooperatives organized and existing under PD 269 or a cooperative supplying or empowered to supply service which have heretofore been organized under RA2023, otherwise known as the Phil. Non-Agricultural Cooperatives Act</i></p> <p><i>Nature and Purpose and Organization of Electric Cooperatives.</i> a/ ECs are non-stock, non-profit membership cooperatives, and principally organized for the purpose of supplying and of promoting and encouraging the fullest use of electric light and power service w/in their respective franchise areas. b/ Subject to favorable endorsement of NEA, and their compliance with the requirements, ECs may be converted into stock cooperatives, engage and undertake any or all of the activities enumerated under Article 6 of RA 6938; c/ Any proposition for the conversion of ECs into stock cooperatives shall be submitted to the members in a General Membership meeting called for the purpose wwhereby 2/3 majority vote of all members shall be needed to approve the same.</p> <p><i>Requirements for the Registration with the Authority.</i> a/ Certified Copy of Articles of Incorporation and By-Laws filed with NEA; b/ A copy of certificate of Registration with the NEA; c/ Duly audited financial statements for the last 2 calendar or fiscal years; d/ copies of the loan agreements between the ECs and NEA; e/ Sworn statement executed by the treasurer stating the name of Directors of the EC, amount of its authorized share capital, subscribed share capital and paid-up share capital, contributed by the members; f/ favorable endorsement by the National Electrification Commission, as the government agency authorized to grant, amend, after repeal, and/or modify franchises for power generation, transmission and distribution; g/ favorable endorsement by the NEA tasked with the carrying into effect the declared national policy objectives on rural electrification.</p> <p><i>Conditions for Issuance of NEA Indorsement.</i> ECs seeking registration with the CDA shall obtain the favorable indorsement of the NEA as required in Rule III, Section 1 hereof. Provided, that the EC is current in its amortization payments with the NEA</p>

**Annex 2 cont.**

Issuance/Date	Subject	Issuer	Description/Contents
	<p><b>Implementing Guidelines on the Conversion of EC under RA 6938</b></p>		<p><i>Cut-Off Date for Registration with CDA.</i> ECs shall have three years from the date of effectivity of these Omnibus Rules and Regulations w/in which to qualify for registration with the CDA. For this purpose, the CDA, NEA and PHILRECA shall immediately and jointly evolve a plan to qualify these cooperatives. After a lapse of the aforesaid period, cooperatives shall undergo the required procedures for the registration of new cooperatives, incl. submission of an economic survey.</p>
	<p><b>Implementing Guidelines on the Conversion of EC under RA 6938 (cont)</b></p>		<p><i>Capitalization.</i> The electric cooperatives shall raise their own capital. Authorized share capital may be computed on the basis of the ff: a/ number of actual consumers of the cooperatives; b/ amount of total fixed assets of the cooperative; c/ subscribed share capital shall be at least twenty-five per centum of the authorized share capital; d/ paid-up share capital shall be at least 25% of the subscribed share capital.</p> <p><i>Membership.</i> There shall be two kinds of membership: <i>Regular Member</i>- A natural person owning at least a specified number of shares in the cooperative. He shall have the right to vote and be voted upon.  <i>Associate Member</i> - a juridical person who does not have the right to vote and be voted upon.</p> <p><i>Nature.</i> All cooperatives shall be considered as share capital cooperatives.</p> <p><i>General Assembly.</i> The General Assembly shall be composed of all members of the cooperative. Special and district meetings of the members may be called by the Chairman, by a majority of the members of the Board or by not less than 100 regular members.</p> <p><i>Voting System.</i> All regular members shall be entitled to only one vote regardless of the amount of his share capital; No proxy voting shall be allowed.</p> <p><i>Board of Directors.</i> Shall be composed of such members that are elected as representatives of the district. The term of office shall be three years only. They shall only be allowed two consecutive terms. The By-laws shall prescribe the qualifications and disqualifications for members of the board. If elected, the members must undergo a seminar on electric cooperatives</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	Philippine Medium Term Cooperative Development Plan (1993-1998)		<p>jointly conducted by the NEA, CDA, PHILRECA w/in 6 months from assumption of office.</p> <p><i>Officers.</i> The Board of Directors shall elect from among themselves the Chairman and the vice-chairman and elect or appoint other officers of the cooperative from outside the Board in accordance w/ their by-laws The Gen. Manager shall be appointed by the Board of Directors w/ such qualifications as prescribed in the cooperative By-laws. He shall be an ex-officio member of the Board of Directors w/o voting rights.</p> <p><i>Disposition of Property, Assets, and Net Surplus.</i> No cooperative will be allowed to dispose of its properties or assets, except members' equity if it has a subsisting loan with the NEA, and only upon approval of the NEA. Allocation and distribution of net surplus, shall be governed by the provisions of the Cooperative Code.</p> <p><i>A. Development Philosophy and Vision.</i> Development of cooperatives which will institutionalize economic control of the people themselves at the grassroot level is imperative. To achieve this, the cooperative development actors shall promote, organize and develop cooperatives as instruments for: a) popular ownership, management and control of resources; b) by people of limited means; c) for poverty alleviation; d) for popular participation. At the end of the plan period 1998, cooperative movement should have acquired the following characteristics: a) 80% of primary coops are viable; b) expansion of membership by 30%; c) possession of managerial competence and entrepreneurial capability through continuing education and training; d) 50% increase in per capital income of coop members; e) establishing linkages with gov't. and non-gov't. or private sector; f) continuous advocacy for the promotion of cooperatives; g) provision of basic social services to members and communities; h) ability to compete or interplay with the market forces; i) vertical and horizontal integration</p> <p><i>B. The Development Plan, 1993-1998</i> <u>I. MACROECONOMY AND DEVELOPMENT FINANCING.</u> Has the following Programs: a) promotion, organization and strengthening of Coop Banks Nationwide;</p>

## Annex 2 cont.

Issuance/Date	Subject	Issuer	Description/Contents
	Philippine Medium Term Cooperative Development Plan (1993-1998) cont		<p>b) Establishment of a national coop bank; c) Strengthening and Expansion of Coop Financial Intermediation. Key measurable targets are: a) organization of 15 coop banks in different regions; b) minimum of 25% of CRB Capital per year raised; c) creation of apex national cooperative bank.</p> <p><u>II. AGRICULTURAL DEVELOPMENT.</u> Has the following programs: a) area focused, coop-led agro-industrial enterprise program; b) coop marketing system; c) organization of cooperatives of agrarian reform beneficiaries; d) establishment of cooperatives for exporting products of the cottage industry. Key measurable targets include: a) 13 post harvest facilities acquired by cooperatives; b) 10 ARB coops per province organized; c) 1 integrated production system established; d) 1 national marketing grid formed; e) 1 coop for exporting cottage industry product per region organized.</p> <p><u>III. HUMAN DEVELOPMENT.</u> Has the following programs: a) comprehensive and unified continuing education and training programs; b) local and international linkages to coordinate initiatives in the cooperative movement; c) organization of cooperativized community health center; d) cooperative housing program; e) establishment and strengthening of an integrated database system for cooperatives; f) promotion of science and technology through cooperative formation. Key measurable targets are: a) laboratory coops in 1 school per region formed; b) 1 worker's coop formed in major factories, farm and offices; c) 1 coop health center formed per province; d) 1 coop housing project per province; e) 1 national cooperative research and information center.</p> <p><u>IV. INFRASTRUCTURE DEVELOPMENT.</u> Has the following goals and programs: a) capability building program on Infrastructures; b) organization of water service, electricity, transport and communication users cooperatives. Key measurable targets include: a) sea and land transport terminal cooperative installed; b) 3 telecom coop organized; c) 1 water service coop organized and developed per region; d) 119 electric coops rehabilitated and strengthened.</p>

**Annex 3**

**Sample of CAMEL-type Indicators**

<p><b>Capital Adequacy</b></p> <ol style="list-style-type: none"><li>1. Net Worth to Risk Assets Ratio</li><li>2. Classified Loans to Adjusted Net Worth</li></ol>
<p><b>Asset Quality</b></p> <ol style="list-style-type: none"><li>1. Non-performing assets to Total Assets Ratio</li><li>2. Classified loans to Total Loans Ratio</li><li>3. Concentration of credits</li></ol>
<p><b>Management</b></p> <p>Evaluate management according to :</p> <ol style="list-style-type: none"><li>1. Qualification</li><li>2. Competence</li><li>3. Compliance with regulations</li><li>4. Frequency of turnovers</li></ol>
<p><b>Earnings</b></p> <ol style="list-style-type: none"><li>1. Return on assets</li><li>2. Return on equity</li></ol>
<p><b>Liquidity</b></p> <ol style="list-style-type: none"><li>1. Reserves to Total Deposits Ratio</li><li>2. Liquid assets to Total Assets Ratio</li></ol>

## About the Author

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LEE ARBUCKLE is currently a part-time consultant in rural finance and cooperative development. For over 11 years in Honduras, he directed USAID's activities in strengthening credit unions and the credit union Federation, FACACH. The result was a rapidly growing and strengthening credit union system that grew by over 10 times in membership, assets, portfolio, and reserves. Since the end of the project, the system has continued to grow and withstood the shocks of Hurricane Mitch well. Concurrently in Honduras, he directed a project for the development of a specialized rural financial institution, FINACOOOP. He also worked in the U. S. cooperative Farm Credit System, in as a loan officer, in supervision on lending associations, and as Assistant to the President of a Bank in the system.

Immediately after college he worked in cooperative strengthening projects for 5 years with the Peace Corps in Colombia and Bolivia. As a young man prior to developing multiple sclerosis, he worked in putting together a successful Montana ranch, management and continued improvement of which now occupies him for several months a year. Mr. Arbuckle received a B. A. in economics from Dartmouth College, a Master in Science in economics from Montana State University, and an M.B.A. from the Tuck School of Business Administration at Dartmouth.

**RESCINA S. BHAGWANI** is the Vice President for the Special Actions and Assistance Group of the Philippine Deposit Insurance Corporation (PDIC). Her main responsibility is to ensure that confidence in the banking system is maintained through timely and prompt resolution of distressed banks either by closure or rehabilitation. She has been a resource speaker and lecturer to various workshops/seminars sponsored by the Southeast Asian Central Banks (SEACEN) and has been an active participant/contributor to global projects on deposit insurance and banking such as those by the FDIC, CDIC, the Fed, World Bank, Asian Development Bank, Bank for International Settlements. Prior to her stint at PDIC, Ms. Bhagwani worked with the Department of Budget and Management for 12 years. She earned her AB Economics degree at the University of the Philippines in 1978, completed all academic requirements but thesis for her MA in Business and Government Administration at the Ateneo de Manila University Graduate School of Business, and MA in Development Economics at Williams College (USA) in 1987.

**GILBERTO M. LLANTO** is a Senior Fellow at the Philippine Institute for Development Studies. His main research and policy analysis interests are financial markets and public finance. He is currently on-leave from the Institute and serves as consultant to the National Credit Council, Department of Finance. He manages the Credit Policy Improvement Program, which has been tasked to help government efforts to rationalize the credit programs and introduce financial and credit policy reforms.

He has a Ph.D in Economics from the School of Economics, University of the Philippines (Diliman) and has served as adviser and consultant to various government and international institutions.

**MA. PIEDAD S. GERON** is currently a consultant to the National Credit Council. She has a Ph.D in Economics from the University of the Philippines. Her main interests are in the field of credit policy, rural finance, micro-finance, and agriculture planning and policy. She was formerly Director III of the Agriculture Staff of the National Economic and Development Authority (NEDA).

**ZENO RONALD R. ABENOJA** is a bank officer at the Research Department of the Bangko Sentral ng Pilipinas. His expertise lies in financial markets and banking research. He teaches international economics at the School of Economics, University of the Philippines, where he earned his masters degree in economics. At present, Mr. Abenoja is working on his Ph.D. in economics at the U.P.