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**TERMINAL REPORT OF THE CONTRACTOR
PHILIPPINE COOPERATIVE MARKETING PROJECT**

OCTOBER 1979 - MARCH 1983

Contractor

**Agricultural Cooperative Development International
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**AID Loan No. 492-T-051
Project No. 492-0300/CN001
Contract No. AID 492-0300-008HCC**

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LIST OF ACRONYMS

ACCI	- Agricultural Credit and Cooperative Institute
ACDI	- Agricultural Cooperative Development International, Washington, DC
ADB	- Asian Development Bank
AMC	- Area Marketing Cooperative
BAECON	- Bureau of Agricultural Economics, Ministry of Agriculture
BCOD	- Bureau of Cooperatives Development, Ministry of Agriculture
CB	- Central Bank of the Philippines
CCF	- Committee for Cooperative Finance
CDLF	- Cooperative Development Loan Fund, Ministry of Agriculture
CFG	- Cooperative Finance Group, CB/DRBSLA
CFPI	- Cooperative Foundation of the Philippines, Inc.
CFS	- Cooperative Finance System
CMP	- Cooperative Marketing Project
CMSP	- Cooperative Marketing System of the Philippines, Inc.
CRB	- Cooperative Rural Bank
CUP	- Cooperative Union of the Philippines, Inc.
DRBSLA	- Department of Rural Banks and Savings and Loan Associations, Central Bank of the Philippines
EDF	- Economic Development Foundation
FAMCOM	- Federation of Agricultural Marketing Cooperatives of Mindanao

- F E S** - Friedrich-Ebert-Stiftung (German Foundation)
- FAO/UNDP** - Food and Agriculture Organization/United Nations Development Program
- GOP** - Government of the Philippines
- IAPMP** - Integrated Agricultural Production and Marketing Project (Kansas State University, Contractor)
- ICC** - Inter-Agency Coordinating Committee, CMP
- LOI-23** - Letter of Implementation No. 23 (Rules and Regulations Implementing P.D. 175)
- MA** - Ministry of Agriculture
- MIS** - Marketing Information System
- MLGCD** - Ministry of Local Government and Community Development
- MRCC** - Metro Manila Consumers Cooperative
- MTAP** - Management Training and Assistance Program
- NEDA** - National Economic and Development Authority
- NFA** - National Food Authority
- PACD** - Project Assistance Completion Date
- P.D. 175** - Presidential Decree No. 175 - Strengthening the Cooperative Movement
- PIP** - Project Implementation Plan
- SN** - Samahang Nayon
- SNSP** - Samahang Nayon Support Project
- STD** - Special Time Deposit
- TBAC** - Technical Board for Agricultural Credit
- UPLB** - University of the Philippines, Los Baños (the U.P. Agricultural College)
- USAID** - United States Agency for International Development
- VDC** - Volunteer Development Corps, Washington, D.C.

PHILIPPINES COOPERATIVE MARKETING PROJECT

TERMINAL REPORT OF THE CONTRACTOR

AID Loan No. 492-T-051

Project No. 492-0300/CN-001

Contract No. AID 492-0300-008-HCC

This report is being submitted in fifty (50) copies to the Bureau of Cooperatives Development, Ministry of Agriculture (BCOD/MA) of the Government of the Republic of the Philippines (GOP) by Agricultural Cooperative Development Int'l. (ACDI), Washington, D.C., U.S.A., hereinafter referred to also as "the Contractor," pursuant to Article 4.2 of a certain host-country contract between the GOP and ACDI with an effectivity date of October 4, 1979, hereinafter referred to as "the Contract".

1. BACKGROUND

The Contract was designed to implement the technical assistance component of the Cooperative Marketing Project (CMP) which was a bilateral undertaking between the GOP and the United States Government through its Agency for International Development (USAID) mission in the Philippines in accordance with a certain Project Loan Agreement dated May 3, 1978 and subsequently amended on February 15, 1979.

Under the terms of the Contract, the Contractor was obligated to provide not less than an aggregate of ninety-six (96) person months of in-country technical assistance as follows:

a. Long-Term Consultants

- (1) One Senior Cooperative Marketing Specialist who would serve as the Contractor's Chief of Party and perform the following functions:
 - (a) Assist in developing an effective technical assistance program for area marketing cooperatives receiving financial and/or managerial assistance under the project;
 - (b) Help develop, test, evaluate and systematize effective supply and marketing operations for area marketing cooperatives, with these operations being integrated with the national cooperative and government marketing programs;
 - (c) Serve as liaison between the implementing agencies of the project in order to enhance coordination. In addition, the Senior Cooperative Marketing Specialist shall participate in the planning and development of the cooperative marketing information system and the central marketing and supply outlet designated to be created under the project.
- (2) One Cooperative Finance Specialist who would perform the following functions:
 - (a) Serve as Cooperative Finance Advisor to the Central Bank's Cooperative Finance Group and the Committee for Cooperative Finance;
 - (b) Assist in the determination of the policies on the development of the cooperative finance program

and shall submit recommendations or suggestions for its improvement;

- (c) Assist in designing long-range development plans for the growth of the National Cooperative Finance System;
- (d) Participate in planning and conducting training programs for key personnel of the said system covering such areas as cooperative finance and financial management.
- (e) Assist the Cooperative Finance Group and selected cooperative rural banks' personnel in conducting feasibility studies for potential borrower cooperatives.

b. Short-Term Consultants

- (1) One Cooperative Finance Management Specialist who would assist in developing and conducting training programs on cooperative finance management for key national level trainers and cooperative managers and staff members of project assisted cooperative rural banks and area marketing cooperatives.
- (2) One Cooperative Marketing Information Systems Specialist to assist in the development of effective cooperative marketing information systems to be set up within the Cooperative Foundation Philippines, Inc.

- (3) A central cooperative marketing and supply team of consultants to conduct a detailed and economic feasibility study on the establishment of a central cooperative marketing and supply complex to serve the cooperatives.
- (4) One Central Cooperative Marketing and Supply Specialist who would assist in the establishment of a central cooperative marketing supply and distribution outlet.

2. SCOPE OF THE PROJECT

The Cooperative Marketing Project was designed as an intensive undertaking to provide financing for an improved cooperative marketing system for essential agricultural commodities produced by small farmers in the Philippines. Specifically, the CMP was directed toward improving a nucleus of some fifteen (15) Area Marketing Cooperatives (AMCs) organized on a provincial level, that would serve the needs of approximately 90,000 small farmer members for supply of farm inputs and marketing of farm outputs.

Accordingly, the CMP would assist the targetted existing cooperative institutions, including the Cooperative Marketing System of the Philippines (CMSP) an existing apex institution established to supply marketing and farm input needs of the AMCs, to overcome basic deficiencies in availability of financing, technical expertise and managerial capabilities. A wide range of assistance was to be provided, including financing for investments for physical facilities; long-term

and short-term seasonal or commodity loans for working capital; training for persons in positions of responsibility; and technical support.

Largely, as a result of recommendations contained in a mid-project evaluation study conducted by the Economic Development Foundation (EDF), an indigeneous consulting firm, which was completed in November 1981, it was determined to expand the financing component of the project to make similar financial assistance available to Samahang Nayons (SNs). SNs, being the barangay level primary cooperatives which are the owners of the provincial level secondary AMCs and Cooperative Rural Banks (CRBs), are an integral element in the overall cooperative development program, but until August 1980 were not permitted to engage in any economic activities for their own behalf. Following considerable effort to develop the framework for including SNs in the CTF financial assistance program, it was approved by the National Economic Development Authority (NEDA) and the USAID in August 1982. However, because such financial assistance was not incorporated in the Project Loan Agreement, it was determined that project loan funds provided by USAID could not be used for that purpose. Funds for such financial assistance must come from GOP counterpart loan funds which were already deposited with the Central Bank of the Philippines and very adequate for the purpose. However, because of the need to utilize all available manpower resources to complete financial assistance to AMCs prior to the Project Assistance Completion Date (PACD) of March 31, 1983,

it was decided to postpone full implementation of the SN financing program until after that date. Initially targetted for financial assistance are some 210 SNs located in 14 widely dispersed provinces.

Another very important element of the CMP was to develop a cooperative finance institution which initially would serve the financial needs of the AMCs participating in the project. Provided it was determined to be serving a real economic need and could potentially become a viable entity, it was envisioned that this embryonic institution would eventually be transformed into an enduring central or apex cooperatively owned banking institution catering to the unique financial needs of cooperatives in the Philippines.

Financial resources for the implementation of the CMP came from basically two sources. The U.S. Government provided \$6,000,000 on a loan basis pursuant to a Project Loan Agreement which was for specific purposes including loan, guarantee and trust funds for borrowing cooperatives, expatriate technical assistance and certain commodities. The GOP and participating agencies supported the CMP with \$6,668,000 in counterpart designated to be used principally for in-kind support, in-country support of consultants, research, training and education, cooperative equity build-up and loan funds, for borrowing cooperatives. The latter amounted to ₱16,372,000 which will be utilized by the CFG subsequent to the PACD and which is currently invested in Government securities by the CFG.

3. PROJECT IMPLEMENTATION

Pursuant to a condition precedent contained in the Project Loan Agreement, the participating host-country agencies were required to develop a Project Implementation Plan (PIP). Such a plan was developed and incorporated in a Memorandum of Agreement executed on August 15, 1978 by the four action agents involved in project implementation. The host-country action agents included the Bureau of Cooperatives Development (BCOD), the Cooperative Foundation of the Philippines, Inc. (CFPI), the Cooperative Marketing System of the Philippines (CMSP) and the Central Bank of the Philippines (CB).

The PIP, in addition to defining specific roles and responsibilities of the parties, also called for the establishment of two Committees. One committee, called the Inter-Agency Coordinating Committee (ICC) whose membership was composed of representatives from each of the four action agencies with the Director of BCOD designated as Chairman, the Executive Director of CFPI as vice-chairman, and the General Manager of CMSP and the Director of the CB's Department of Rural Banks and Savings and Loan Associations (DRBSLA) as regular members. Also, a representative of the NEDA was included as an ex-officio member of the ICC. As the name implies, the ICC was charged with the responsibility to insure smooth coordination between project components and among implementing agencies and for insuring overall project implementation according to plan.

The other committee established pursuant to the PIP was the Committee for Cooperative Finance (CCF). The CCF membership consisted

of the Director of the DRBSLA/CB who was designated as Chairman, the Director of BCOD as vice-chairman and the Executive Director of CFPI as member. These members were to appoint two other persons as regular members, one to represent the Cooperative Rural Banks (CRBs) and the other to represent the Area Marketing Cooperatives (AMCs). The CCF had the responsibility to prepare for Monetary Board approval, detailed loan policies and procedures for the lending component of the CMP. Additionally, the CCF was responsible for the review of the credit and related services required by cooperatives on an annual basis and for recommending plans and programs to meet those needs in order to assure a Cooperative Finance System (CFS) which is reliable and responsive to the growth of cooperatives in the Philippines.

Also created by the PIP and in satisfaction of a condition precedent in the Project Loan Agreement was the Cooperative Finance Group (CFG). The CFG was to be established within the DRBSLA/CB, to perform a major operating role with the responsibility for the administration, extension and supervision of short, intermediate and long-term financial assistance including trust fund investments to qualifying AMCs in accordance with the policies and procedures determined by the CCF and approved by the Monetary Board.

The BCOD was to be the focal point for project implementation with the Director of BCOD being designated as the Project Manager and Chairman of the ICC. The BCOD was also charged with several other

responsibilities which generally and briefly included: legal registration of AMCs and CRBs; providing technical staff to assist in development of participating cooperatives together with membership education, training and organizational development to some 1,500 Samahang Nayons (SNs) which are members of these cooperatives; finance research proposals and management training to be conducted by CFPI in support of the development of a cooperative marketing system; continue its support for cooperative management development through its Management Training and Assistance Program (MTAP); and provide direct or contractual technical assistance to AMCs as determined by CFPI or CFG.

The CFPI was designated in the PIP to serve as the main arm of the ECOD in administering the project. Specific responsibilities included: monitoring CB administration of the financing component; conducting pertinent research; providing management development services; conducting or making provision for financial and management audits; and developing a marketing information system to be administered by CMSP.

The CMSP would serve as the central agency to coordinate cooperative marketing activities including intelligence for all project supported AMCs and would assist in assessing the business operations of these cooperatives.

The CB, through its newly established CFG, was responsible for the administration of the financial component of the CMP, for providing adequate training for the CFG staff in the specialized field of

cooperative finance, and to make available a portion of its earnings to provide further funding for certain activities assigned to CFPI.

The NEDA was to serve as the Philippine Government agency to monitor overall project implementation.

The USAID likewise would be the primary U.S. Government agency to monitor overall project implementation.

Thusly, the host country agencies participating in the project provided for a complete and sound structure to achieve the goals and objectives of the CMP.

4. START-UP STATUS

At the beginning of the Contract period (October 1979), the long-term consultants found the existing situation to be as described briefly in the following paragraphs.

The ICC was established and holding monthly meetings on a regular basis. It had also established a working sub-committee known as the ICC Technical Committee.

The CCF was also established and functioning and had developed the Rules and Regulations Governing the Operations of the Cooperative Finance System and had received approval of same from the Monetary Board.

The CFG was established by the CB pursuant to Office Order No. 170, Office of the Governor, on July 5, 1978 but was relatively inactive pending arrival of the ACDI long-term Cooperative Finance Specialist. The same Office Order designated certain CB staff members to serve

as Chief Executive Officer, Executive Officer, Fiscal Officer, Business Analyst (2), Legal Consultant, Engineering Consultant and Secretary and appointed the three senior officers of CFG as members of the Loan Committee. However, of the aforementioned staff, only one Business Analyst was on a full-time basis, the other Business Analyst was on a long-term leave of absence for educational purposes and all others were assigned on a part-time basis. Also, only three of the CFG staff were situated in a somewhat contiguous area within CB, because of their other and more major CB responsibilities, causing some difficulties in communication and coordination within the group. However, it appeared ready to start.

The BCOD had established a Project Management Staff pursuant to Ministry Order No. 79-15, Ministry of Local Government and Community Development (MLGCD), dated January 16, 1979. This staff consisted of Project Manager, Project Coordinator, Chief of Education and Training Unit, Chief of Administrative Support and Planning Unit, Project Budget Officer and Chief of Monitoring and Evaluating Unit, all of which were part-time assignments at the staff level. BCOD had also detailed a number of its other regular employees, mostly on a part-time basis, to support the above mentioned staff. The BCOD had commissioned the Agricultural Credit and Cooperative Institute (ACCI) located at UPLB to conduct a baseline study of the 15 targetted AMCs/CRBs/SNs. This study was nearing completion when the consultants arrived. The BCOD had also conducted several

workshops/seminars to orient AMC/CRB directors and staff in the targeted areas on the CMP and for management training purposes. However, this training, etc. turned out to be largely lost effort as it was learned later that most of the originally targeted AMCs were no longer viable and therefore could not qualify for CMP financial assistance.

However, very early during the Contract period it became apparent that the BCOD would have difficulty in effectively implementing a cooperative development program and in fulfilling some of its responsibilities under the CMP. First, the BCOD was a part of the Ministry of Local Government and Community Development (MLGCD) which by its nature had a socio-political orientation. Second, BCOD was established as a staff bureau within the Ministry which had virtually no line functions and accordingly weak linkages with the regional and provincial level offices of MLGCD. Therefore, it would be very difficult to have much influence on implementation of its programs nor an effective delivery mechanism for on-site assistance to AMCs, CRBs and SNs.

In October 1979, the CFPI was leaderless since the two principal officers had recently left. It had only three or four regular professional staff, had serious budget problems and was therefore not in a position to undertake its responsibilities under the CMP. It was not clear but it appeared that CFPI, prior to October 1979, had participated in some of the training efforts of the BCOD and had assisted at least one AMC in developing its request for financial assistance from the CFG.

Similarly, the CMSP was neither properly organized nor managed nor was it's financial condition such that it could effectively perform its assigned functions. In fact, for all practical purposes, CMSP was insolvent largely as a result of over-borrowing from the Government's Cooperative Development Loan Fund (CDLF). Most of its earlier borrowings were invested in a large Super Palengke Complex in Metro Manila which included a retail level supermarket, other retail rental units and a movie theater the latter segment of which was incomplete due to lack of funds. The supermarket was leased to the Metro Manila Consumers Cooperative (MMCC) which operated it together with another nearby retail supermarket leased by CMSP and sub-leased to MMCC. Due to poor performance of the MMCC, it was seriously in arrears on its lease payments making it impossible for CMSP to service its highly leveraged debts. Apparently, some sporadic attempts had been made by CMSP to market products and supply farm inputs for AMCs. However, these proved unsuccessful as the AMCs dealt with either had no confidence in CMSP or they themselves were in dire financial straits and unable to pay their obligations to CMSP.

Another significant start-up constraint was the fact that the long-term consultants quickly learned that out of the 15 originally targeted AMCs, only about three appeared to be still viable and potential recipients of CMP financial assistance. Apparently, some 40 plus AMCs had been registered nationwide by the BCOD but it appeared that only about 25 were operating and with some exceptions, the BCOD had

inadequate financial data to determine the viability of those operating AHCs. Likewise, it was learned that a number of the 20 registered and operating CRBs, particularly in the originally targetted areas, were having operating problems and some had lost their discounting privileges with the CB and were therefore questionable participants as conduit lender under the CMP.

5. START-UP PROBLEMS OF THE CONTRACTOR

Two significant problems were encountered by the Contractor's long-term consultants immediately upon their arrival in-country. The first related to the difficulties they had in trying to secure adequate housing and furniture and appliances due almost entirely to the unrealistic budgeted allocations for same. After spending an undue amount of time searching and in negotiating an increase in said budget allocation with the NEDA, the consultants were able to find appropriate housing. And, with the assistance of Dr. Ronald Pollock, the USAID Project Officer, the consultants were able to obtain adequate surplus USAID furniture. All of this took several months to resolve satisfactorily and in addition to the negative morale aspects which it caused the inputs of these consultants was seriously affected during that period.

As already stated above, the other major time consuming problem for the consultants was in regard to the inadequacy of the in-country peso support budget being provided by BCOD and NEDA especially the line items already cited. On November 5, 1979, ACDI, through its

Chief of Party, made a formal written request for revision of the support budget and supplied revised estimated costs in accordance with the provisions of the Contract. However, the necessary upward revision of this budget was not formally concluded until May 22, 1981, nearly 19 months later. All during this period, the ACDI Chief of Party was compelled to spend an inordinate amount of his valuable time pursuing this matter in addition to the time required to obtain sufficient funds to meet the ongoing needs of the consultants. On more than one occasion, the consultants were unable to pay recurring obligations in a timely manner due to lack of funds.

Most of the foregoing problems, particularly the large quantity of time required of the ACDI Chief of Party to resolve them, were either directly or indirectly related to the necessity to work under a Host-Country contracting arrangement when neither the BCOD nor the consultants were accustomed to dealing with such arrangements. Perhaps in the future both the GOP and USAID should give serious consideration to working out different arrangements whereby the limited and valuable time of the consultants would not be taken up to such a degree by such administrative matters.

6. SUPPORT OF THE PROJECT IMPLEMENTING AGENCIES

As is so often, the case in such a project unexpected problems arise or constraints develop which could not possibly be foreseen when the project was designed and which have varying degrees of impact

on the degree of ongoing progress of the project as well as in achieving its original goals. The CIP was no exception. Most of the problems were beyond the control of the particular agencies but in many cases these problems were recognized and resolved, albeit not always with the speed desired by the sometimes impatient expatriate consultants. As a result, the CIP was able to achieve, in the end, a large part of its original goals and objectives. However, perhaps it would be best to highlight and document some of the major problems which frustrated the implementing agencies and the Contractor's consultants together with how they were resolved or not resolved during the course of the project.

The BCOD and the CIP management underwent some major changes which tended to correct at least some of the structural deficiencies noted in section 4 herein. In May 1980, the BCOD was transferred from the MLGCD to the Ministry of Agriculture (MA). This led to several months of relative inactivity while the staff of BCOD undertook to orient and train the MA regional and provincial level staff of the MA on the BCOD responsibilities, programs, etc. This move did not solve one problem. The BCOD remained a staff bureau under the same Director, Clemente E. Terso, who because of his position and lack of line authority in the field was unable to harness and utilize the vast human resources of the some 15,000 MA technicians. Also, during the transition period, BCOD lacked adequate budget which hindered its effectiveness. This problem was partially resolved however, when in August 1981, Mrs. Nelia T. Gonzalez, Assistant Minister, MA assumed leadership of the

BCOD as Officer-In-Charge in addition to her other duties. Mrs. Gonzalez also became Project Manager, CMP and Chairperson of the ICC replacing Director Terso. This change added considerable vibrancy to the project management. Mrs. Gonzalez has also been very active in travelling and improving the much needed linkages with the regional, provincial and local levels of the MA as well as with a number of AMCs, CRBs and SNs and because of her influence has been able to noticeably contribute to the success of the project.

Despite these and other handicaps, the BCOD was successful in accomplishing the tasks assigned to it in the PIP. Among its noteworthy achievements, the BCOD in June 1980 organized a group of task forces including staff members from BCOD, CFPI, CISP together with the long-term ACDI consultants and the USAID Project Officer to make a "quick and dirty" field survey and analysis of all operating AMCs which was very effective in redefining the viable AMCs that could be targetted for CMP assistance. It later initiated a new baseline study in those potential areas which was contracted out to the CFPI. In November 1980, the MA authorized SNs to engage in economic activities, which were previously prohibited, thereby allowing SNs to become stronger and more active supporters of their AMCs. BCOD with assistance from the CFG and the CFPI also developed an effective uniform accounting system and manual for AMCs. In August 1981, following competitive bidding, BCOD contracted the Economic Development Foundation (EDF), an indigenous consulting firm, to conduct an in-depth evaluation of the

CMP. The results of this study, which was completed in November 1981, highlighted many of the weaknesses and constraints of the project all of which were promptly dealt with the Project Manager and the ICC.

Among other things the ICC, in January 1982; replaced the CMSP as a participating action agency in the CMP with the National Food Authority (NFA); drastically adjusted the responsibilities of the CFPI more in line with its capabilities which at the same time removed a very serious constraint to the lending activities of the CFG; and initiated the development of a parallel program to provide financial and technical assistance to support the economic activities of the SNs, the primary cooperatives which are owners of the AICs and CRBs. All of these changes together with the new leadership and status given the BCOD as previously mentioned were instrumental in moving the project off dead-center, however late it was, and providing the basis for reasonably achieving the principal goals in the waning months of the CMP.

Additionally, the Project Manager was instrumental in getting the Technical Board for Agricultural Credit (TBAC) to undertake an in-depth feasibility study to explore the need and the potential basis for the eventual establishment of a cooperatively owned apex or national banking institution on a permanent basis to provide for the unique financial needs of cooperatives in the Philippines. This study, the cost of which was borne equally by the BCOD, the CFG and the TBAC, commenced in October 1981. It was completed for all practical purposes in August

1982 and the need and support for such an institution from a relatively broad spectrum of cooperatives was clearly evident. However, as of this writing, the feasibility study has not been released by TBAC pending resolution of the specific recommendations.

The CFPI underwent a series of convolutions which virtually nullified any attempts to have it perform its assigned functions under the PIP. As previously indicated, CFPI was leaderless and with a skeletal caretaker staff when the long-term consultants arrived in October 1979. In January 1980, Deputy Minister Rosendo Marquez from the MLGCD was appointed its Executive Director on a part-time basis. This proved to be a continuation of the same however, largely because CFPI's sole source of funds was the interest income from a ₡2,000,000 trust fund. In February 1981, Mr. Anthony Martin was appointed Executive Director and on the basis of promises of a substantial increase in trust funds, he proceeded to develop a relatively large staff. Mr. Martin was successful in obtaining an additional ₡2,000,000 of trust funds early in his administration but the promised ₡6,000,000 of additional trust funds has not materialized to this date. Overstaffing quickly resulted which together with considerable internal tensions amongst the staff caused Mr. Martin to resign in November 1981. He was immediately replaced by Dr. Rodolfo Matienzo on a part-time basis since he is also the Director of ACCI. Due to continued inadequacy of financial resources, the CFPI underwent substantial staff reduction and returned to a skeletal organization. Given this scenario, CFPI could hardly be expected to be an effective force in the CMP.

As a result of these handicaps, a serious obstacle to implementation of the cCFG's lending program had developed since CFPI was responsible for assisting AICs in the development of their loan requests, feasibility studies, etc. so the ICC temporarily transferred that function to the CFG in January 1982. At that time, the ICC also transferred CFPI's responsibilities under the PIP for training and research activities to the BCOD and ACCI until such time as CFPI was capable to reassume them.

Despite all of the foregoing, CFPI was successful in providing some sporadic but meaningful contributions to the CMP. Some of these included: providing leadership and/or assistance to the BCOD in conducting various training programs for AICs and CRBs; assistance to BCOD in developing a very good uniform accounting manual for AICs; development of a management audit and technical assistance task force which it pilot tested and subsequently implemented on a limited basis; assisted in the field survey of AICs to evaluate them for potential CMP financial assistance; and conducting the second baseline study of AICs, CRBs and SNs.

The CMSP was almost totally ineffective during the entire contract period and as previously indicated, it was eventually replaced by the NFA as an action agency under the project. The long-term consultants, especially the Senior Cooperative Marketing Specialist, repeatedly provided specific suggestions to CMSP management on ways

to correct its organizational and financial problems, but these were effectively ignored. It is interesting to note that the basic problems of CMSP as outlined in Section 4 herein were similarly identified in 1975 by Grigsby, et al in their Cooperative Rice Marketing Study and were highlighted as potential impediments to the CMP in the USAID Project Paper for the CMP in 1977. At any rate, the CMSP was not capable of utilizing the \$675,000 of CMP funds earmarked for it to build a modern marketing/supply center for AMCs nor was it able to become an apex marketing agent for the AMCs participating in the CMP as originally planned. This left a large gap in the achievement of the marketing goals of the project. The CMSP remains a dormant, technically bankrupt corporation.

The NFA which joined the CMP as an action agency in early 1982 quickly filled some of the void left by CMSP. Through its representative, Director Ramon De Jesus, the NFA has been very cooperative and effective in assisting AMCs and SNs in marketing their rice through the Government's rice procurement program. While this type of marketing assistance can be very helpful to AMCs at this stage in their development, it is clearly not a long-term vehicle for the development of an effective private sector marketing system nor does it provide the basis for maximizing returns to the country's small farmers.

The Central Bank and its CFG have been consistently reliable and effective in the performance of their responsibilities under the PIP. The lending operations of the CFG were extremely slow in

getting started mostly as the result of CFPI's inability to assist the potential borrower in the preparation of their applications, supporting feasibility studies, etc. To a degree, this slow start was beneficial in that it provided the long-term consultant some time to develop the necessary legal and procedural aspects on which the CFG had previously received only minimal guidance. It was also a period during which the CFG was able to do a considerable amount of missionary/promotional work with potential CFP participants. However, to illustrate the slow start-up, when the ACDI Cooperative Finance Specialist arrived in October 1979, the CFG had three applications for financial assistance. Of those, one was withdrawn by the applicant for reconsideration and resubmission later, one was not processed due to the applicant's internal dissensions and inability to satisfy CFG requirements, and the third, after considerable reworking of the feasibility data, became the first loan approval in July 1980. The next loans were not approved until March 1981 and as of December 31, 1981, over two years into the contract period, the CFG had closed loans with only three AMCs and had approved loans to a fourth AMC which were subsequently closed in April 1982.

Beginning in early 1982 when the CFG assumed CFPI's responsibilities for promotion and assistance to potential borrowers, the pace of lending activities accelerated dramatically. The result being that as this report is being written in mid-March 1983, the CFG had approved financial assistance to 11 AMC borrowers and were in the process of

evaluating applications from two more AMC's plus one regional federation of AMC's which are expected to be approved prior to the PACD. Also, the CFG had made additional loans at significantly higher levels to some of the previous borrowers. Thus, the CFG will have virtually achieved the CMP goal of providing financial assistance to some 15 AMC's and will have utilized some 92% of the loan, guarantee and trust funds from the USAID loan. More importantly, the CFG lending has been administered in a very sound and constructive manner which will bode well for the solid development of these cooperatives. Attached as Appendix A is a summary of all loans granted by CFG and those pending at the conclusion of the contract period.

The real challenges for the CFG remain in the immediate future. While the CFG has been very effective in evaluating and granting loans on a sound basis, it has yet to prove its mettle in the servicing (supervision) and collection of those loans. Since most of the loans have been granted during the past year, relatively few maturities have occurred and there has not been adequate time for the inevitable problems to have surfaced. It is in these areas of loan administration that the CFG staff has had the least exposure and experience and at the same time, it is where greatest potential exists for the early demise of the lending system if not properly managed. ACDI's short-term Cooperative Credit Specialist has highlighted in his terminal report several aspects of loan administration which will need close attention in the future and a copy of his report is attached as Appendix B.

In viewing the institution-building aspects of the CIP, it can be said that many of the basic building blocks appear to be firmly in place. However, much more needs to be done before this embryonic apex financial institution can evolve into such as envisioned as a long-term output of the CIP. In this regard, the long-term Cooperative Finance Specialist presented an in-depth position paper to the Project Manager in October 1982 in which he reviewed the significant institutional progress made by the CFS/CFG to date, the strengths and weaknesses of the financing system and made several specific recommendations on restructuring and strengthening the system to keep pace with the changing character and developing needs of this interim financing institution as well as the need to begin exploring sources of additional funding for the CFG. A copy of the Consultant's paper is attached hereto as Appendix C.

In recognition of the needs exposed in the foregoing paper, the Project Manager has, (1) initiated a request to the USAID for extension of expatriate technical assistance to continue the advice, counsel and skill transfers related to the institution building and effective loan administration aspects of the CFS/CFG, (2) initiated a request to the Governor of the Central Bank to strengthen the CFS/CFG along the lines suggested by the consultant, (3) initiated requests to the Asian Development Bank (ADB) and the German Cooperative Foundation, Friedrich-Ebert-Stiftung (FES) for additional loan funds. All of these requests are currently under consideration by the respective agencies.

The ICC functioned in a very effective manner as the CIP coordinating and policy making body throughout the contract period. The ICC met on a regular monthly basis and was responsive to the constantly changing needs of the project especially beginning in early 1982 as the tempo of lending activities increased. It dealt effectively with the recommendations of EDF's project evaluation which led to several significant changes including: restructuring of the ICC as previously outlined; changed the marketing assistance emphasis away from the failing CISP to direct assistance to AMCs and the development of federation of AMCs on a regional basis; broadened the lending program to include parallel financial assistance to SNs; and revised the PIP to reflect needed changes. The Technical (working) Committee of the ICC also functioned very effectively on an as-needed basis as it evaluated and made recommendations to the ICC on a number of matters. The CCF met concurrently with the ICC and acted on matters assigned to it as necessary including recommendations to the Monetary Board for changes in the Rules and Regulations of the CFS and developing and recommending to the Monetary Board the new Rules and Regulations for the SN financing program.

7. CONTRACTOR'S INPUTS/OUTPUTS

As stated in Section 1 at the outset; ACDI agreed to provide 96 person-months of technical consultants to assist their respective Filipino counterparts in the effective implementation of the CMP. The two long-term consultants were initially provided for three-year terms to respond to their terms of reference previously described in Section 1 except that one consultant, the Cooperative Finance Specialist, was extended an additional 6 months so that a total of 78 person-months were thereby supplied to the CMP.

However, because of the constraints, changing circumstances, etc. already described, with one exception, all of the short-term consultancies were changed to meet the currently perceived needs of the project with the prior approval of the Project Manager in each instance. Accordingly, the Contractor provided a total of 20 person-months of short-term consultancies bringing the total technical assistance to 98 person-months. This represented two extra months which it should be emphasized the Contractor provided within the limit of the original budget contained in Section 6.1.A of the Contract. Each of the short-term consultants prepared a terminal report for the Project Manager in which their full findings and specific recommendations were presented. Following is a brief summary of the technical assistance inputs provided by the Contractor.

Cooperative Business Specialist - Mac E. Whitsitt (4 months, January - May 1981). In accordance with his terms of reference, Mr. Whitsitt was able to successfully compile two operating manuals for use of his counterpart agency, the CFPI. One manual described the procedures and methods on how to conduct economic feasibility studies. The other was a similar type manual on how to conduct management audits of AMCs. Unfortunately, during the period of Mr. Whitsitt's consultancy, the CFPI was undergoing one of its management and staffing transitions which made it very difficult for him to train his CFPI counterparts on the use of these valuable management tools. Despite such difficulties, Mr. Whitsitt was able to conduct two training seminars with CFPI staff on the use of the feasibility study manual and three seminars on the management audit process in addition to one seminar with the BCOD and CDLF staffs. He was also able to make one field test of each manual together with assigned CFPI staff members.

Cooperative Marketing Information Systems Specialist - John W. Smith (4 months, January - May 1981). This was the only short-term consultancy which was able to be implemented as called for in the Contract. Mr. Smith was assigned however, to the CMSP to design this system instead of to the CFPI as designated in the Contract. Mr. Smith was successful in developing a very effective marketing intelligence system and data bank at the apex level together with a detailed operating manual. But, it could not be adequately tested in terms of

providing marketing information for either the CHSP or the AMCs marketing through it, the intended beneficiaries, since the CHSP was virtually dormant due to its financial problems. However, in addition to training a counterpart MIS technician in the CHSP, Mr. Smith also conducted training seminars on the uses and benefits of the system for the management of CHSP and the CFPI. In an attempt to provide a modicum of marketing information to AMCs, Mr. Smith was also instrumental in securing several single-sideband high frequency radios which fell into disuse after an earlier FAO/UNDP project for installation in some AMCs in the Mindanao area which were trying to work together but were hampered by poor communications. He also made mutually beneficial arrangements to tie-in those radios to the Bureau of Agricultural Economics (BAECON) in Manila to disseminate marketing intelligence to those AMCs in addition to communicating with each other. Shortly after Mr. Smith's departure, the MIS was transferred from the CHSP to the BCOD where it is believed the data bank has not been maintained and it is therefore serving no useful purpose at the present time. While it appears that development of the MIS was premature because of the inability of CHSP to maintain and utilize it as originally intended, the basic development work has been accomplished and it could probably be resuscitated with a minimum of resources.

Cooperative Development Specialist - Mark A. Van Steenwyk (2 months, February - April 1982). In accordance with his terms of reference, Mr. Van Steenwyk was stationed in Davao City and directed to assist Attorney Romeo Serquiña, Manager of the North Cotabato AMC

and the Regional Director, MA in the development of a regional federation amongst the AMCs located in eastern Mindanao which had already been working together on an informal basis. This was a very welcome assignment because it was one of the few attempts at building an economic organization on a felt-need basis from the bottom up as such organizations should be. And, because of Mr. Van Steenwyk's long experience in working with AMCs and SNs in the Philippines, he was able to accomplish a great deal in a short period of time. At any rate, Mr. Van Steenwyk effectively brought together the potential organizers of the proposed regional federation through a series of meetings and on-site discussions and evaluation of potential needs and desires. He also assisted in developing a logical plan and strategy for the organization and early development phases of such a federation. Additionally, he assisted in developing a set of Articles of Incorporation and By-laws, which could well serve as models for similar federations. Prior to Mr. Van Steenwyk's departure, the Federation of Agricultural Marketing Cooperatives of Mindanao (FAMCOM) was organized by six AMCs in eastern Mindanao. Unfortunately, so far, most of the organizing AMCs have been unsuccessful in raising the required initial paid-in capital and this new federation is therefore not able to be registered and operate as such. It is believed however, that in the near future, at least two of the organizing AMCs will be able to raise the necessary capital to get the FAMCOM registered with the BCOD and can thereafter become operational at least on a minimal scale.

Cooperative Marketing Information Specialist - John W. Smith (4 months, June - October 1982). On his second short-term assignment under the CIP, Mr. Smith was initially expected to develop an MIS for the FAMCOM federation in Mindanao similar in nature to the system he previously developed for the CMSP. His permanent duty station was in Davao City in the temporary offices of FAMCOM located in the Region XI MA offices. His principal counterpart was Attorney Romeo Serquiña, Manager of the North Cotabato AMC. The timing was shortly after the organization of FAMCOM. However, after an initial survey, it was quickly learned by Mr. Smith that there was little likelihood FAMCOM would be a registered and operating entity in the very near future since apparently, only two of the organizing AMCs were themselves still viable. As a result, Mr. Smith's terms of reference were drastically revised with the approval of the Project Manager. For the remainder of his consultancy, Mr. Smith then devoted his efforts to attempting to develop a strategy to help revive the failing potential participants in the FAMCOM. These efforts were concentrated on the Surigao Del Sur AMC. With the assistance of his counterpart, Attorney Serquiña, Mr. Smith, after many meetings with the AMC leaders and management, the SN leaders and other interested parties appeared to develop substantial enthusiasm for rejuvenating the AMC. Although the AMC has many problems to overcome, such as lack of equity capital, a very heavy debt burden to the CDLF and a lack of trust on the part of the farmer members due to past poor performance and large losses, a strategy was developed to guide the AMC in overcoming at least some of those problems.

Cooperative Credit Specialist - Philip L. Brown (6 months, October 1982 - March 1983). As the workload of the CFG was building to a crescendo during the closing months of the CMP, Mr. Brown was brought in to provide additional assistance and guidance to the CFG in its lending activities including training of the CFG, CRBs, AMCs. An equally important assignment of Mr. Brown's was to assist in developing appropriate loan procedure manuals as training and reference aids. Mr. Brown travelled extensively with the CFG business analysts observing and counselling the CFG, CRB and AMC staffs and in the process developed an analytical report on the CFG's one problem loan which included many appropriate and helpful suggestions in relation to dealing with that problem situation in an effective manner. Mr. Brown also drafted and assembled three much needed loan procedure manuals - one on commodity loans, one on seasonal loans and one on long-term loans - all of which have been submitted to the CFG and should prove to be very useful to them. Mr. Brown's terminal report contains a number of observations and recommendations related to improving the CFG's operating procedures primarily in the loan servicing area as well as highlighting the need to strengthen the role of the CRB lenders and their staff capabilities. Because of the currency of these matters and as previously mentioned, Mr. Brown's terminal report is attached hereto as Appendix B.

Senior Cooperative Marketing Specialist - George Voth (36 months, October 1979 - September 1982). Mr. Voth was one of the two long-term ACDI consultants who also acted as the ACDI Chief of Party. His responsibilities were as outlined in Section 1 herein. Despite concerted efforts on his part in evaluating and furnishing recommendations to rejuvenate the CMSP, his intended primary counterpart agency, the CMSP was at no time during the contract period capable in terms of financial or management capacities to receive the major degree of technical and financial assistance earmarked for it in the project design. Therefore, in the early stages of his consultancy, Mr. Voth was totally inhibited and frustrated in his attempts to assist in the development of the apex marketing organization.

Largely as a result of Mr. Voth's travelling to several AMCs, conferring with NFA officials and many others, it was determined that lacking an effective marketing entity at the apex level, the most practical route through which to provide marketing assistance was through the development of regionally oriented federations of AMCs in geographic areas where groupings of operating and viable AMCs were located. The first such grouping was found in the eastern part of Mindanao where Mr. Voth concentrated his efforts for an extended period of time and which culminated in the organization of the FAICOM as reported previously. And, in the process, Mr. Voth provided counsel to the North Cotabato AMC in its efforts to assist small rubber producers by establishing assemblage and initial processing capabilities

in contiguous groupings of SNs. Subsequently, and shortly before his departure, Mr. Voth also participated in initial organizational meetings of another regional federation of AICs in the western Visayan area of Panay Island and Negros Island. This second federation has actually surpassed the first one in that it is now duly registered with BCOD, is ready to commence operations and in fact, has an application for financial assistance currently under evaluation by the CFG. (See Appendix A).

Throughout the contract period, Mr. Voth in his role as Chief of Party, maintained continuous liaison with all of the CMP implementing agencies, particularly the Project Manager, and thereby contributed much to its overall coordination. In addition, Mr. Voth remained sensitive to and effective in adjusting the short-term technical assistance inputs to the changing needs of the project.

Cooperative Finance Specialist - Richard A. Neis (42 months, October 1979 - March 1983). Mr. Neis was the other long-term consultant provided for in the Contract. In fact, his term was extended an additional six-months, to the PACD, as it became apparent that the lending activities of the CFG would accelerate substantially during that period. Mr. Neis also assumed the responsibilities of the ACDI Chief of Party for the period of the extension. His primary responsibilities were as outlined in Section 1 of this report, all of which were accomplished in a very effective manner. Mr. Neis was assigned as advisor to the CFG and the CCF and was officed in the Central Bank.

His initial efforts were directed toward the development of some 15 basic legal and loan documents including loan agreement formats, trust receipts, collateral control reports and others. Subsequently, he also provided the CFG with custodianship agreements including monitoring reports and procedures and made substantial revision to the CFG's Special Time Deposit (STD) Agreement which is the basic agreement under which the CFG provides funds to the CRBs for lending to the ANCs and in the future to SNs. Mr. Neis also developed extensive policies for the CFG on the critical aspect of loan servicing.

Mr. Neis travelled extensively to ANCs, CRBs, SNs with the CFG field staff of business analysts providing advice and counsel to them as needed in all matters pertaining to loan development, loan evaluations, loan closings and especially loan servicing. Considerable training of the total CFG staff was also accomplished within the Central Bank on matters related to credit analysis of loan applications, preparation of credit reports and loan packaging. Because of the small staff, this training was done largely during Loan Committee meetings and on a one-on-one basis. Mr. Neis also participated as a resource person, along with other members of the CFG staff, in several seminars and training programs conducted by the BCOD on matters related to the CMP and the CFG.

In addition to the technical assistance provided to the CFG on operational matters related directly to loan administration, Mr. Neis also rendered considerable advice on the institution building aspects of the Cooperative Finance System (CFS). The designers of the CMP

envisaged that the CFS through its operating arm, the CFG, would become the basis for a lasting institution that would someday be transformed into a specialized central or apex bank for cooperatives. In June 1981, Mr. Neis initiated a recommendation including proposed outline and budget to the Project Manager that an in-depth feasibility study be conducted amongst all types of cooperatives in the Philippines to determine the long-term need and feasibility of creating an apex financial institution to serve the peculiar needs of cooperatives. As mentioned earlier, this study was undertaken by the TBAC, who frequently sought his counsel. At various times throughout the CMP, Mr. Neis has submitted recommendations to the Central Bank and the CFG on the institutional aspects of the CFG particularly in relation to changing staffing and organization needs. Recently, in October 1982, Mr. Neis presented a major paper to the Project Manager entitled, "A Position Paper on the Further Development of the Cooperative Finance System, Central Bank of the Philippines" which was mentioned earlier in this report and is also attached hereto as Appendix C. In this paper, Mr. Neis placed major emphasis on the need to strengthen the institutional and operating aspects of the CFS/CFG, including a number of specific recommendations related thereto. These recommendations are still under consideration by the BCOD, the ICC and the CB and if implemented, should provide for a sound transition of this embryonic institution (CFS/CFG) into its next and more prominent stage in its development. Coincident therewith, Mr. Neis also made specific recom-

mendations to the Project Manager in regard to the perceived need for a continuation of expatriate technical assistance to the CFS/CFG as it moves into the further critical phases of its development. This recommendation is actively being pursued by the Project Manager.

It should also be noted that in June 1980, Mr. Neis submitted to the Project Manager another paper entitled, "A Position Paper on Financing Area Marketing Cooperatives in the Philippines." While this paper was prepared in response to an anticipated major infusion of GOV loan funds into the cooperative development program which never materialized, the paper does present some interesting concepts related to more effective coordination and administration of Government lending programs for cooperatives which still seem appropriate.

In addition to the foregoing specific inputs of the ACDI consultants during the contract period, the long-term consultants as well as the short-term consultants while in-country, participated regularly in the monthly ICC and CCF meetings, the ICC Technical Committee meetings and numerous other conferences, meetings, etc. related to the CMP and cooperative development in general. The long-term consultants also furnished the BCOD with detailed semi-annual reports on a timely basis as specified in Article 4.1 of the Contract.

Although not directly related to the ACDI Contract, mention should also be made that a significant amount of technical assistance for the CMP was also provided from other sources. A part of the original project design provided that the Integrated Agricultural Production and Marketing Project (IAPMP) would supply an expatriate

cooperative management specialist to assist ANCs participating in the CMP with their management problems. This assistance was supplied by Kansas State University, the IAPMP Contractor, in Stanley J. Bednarczyk for a 15 month period, May 1981 - July 1982. Mr. Bednarczyk was assigned to work with the BCOD and CFPI to provide management assistance and training for ANCs participating in the CMP. During the course of his consultancy, Mr. Bednarczyk travelled extensively and was very active at the grass roots level. Early on, he monitored and participated in the CFPI management audit of the Bulacan ANC which commenced before his arrival. During the period September-December 1981, he also participated as a principal resource speaker in a series of six seminars in various areas of the country. Three of these related principally to Board-Management relationships and three related primarily to Financial Management. These seminars, which Mr. Bednarczyk also assisted in designing, reached a high percentage of ANCs/CRBs which were actual or potential CMP participants. Early in 1982, Mr. Bednarczyk assisted the CFPI in developing a management audit and assistance task force. From March through June 1982, this task force, consisting of Mr. Bednarczyk and one CFPI staff person, made on-site reviews and management recommendations to five ANCs, one twice. The assistance of this consultant was very helpful to achieving overall project goals.

Also in November-December 1981, at the request of the CFPI, the services of Mr. Oren Shelley were provided to the project. Mr. Shelley who was involved in the initial design of the financial component of the CMP, was supplied for a nominal fee by the Volunteer Development Corp. (VDC) based in Washington, D.C. During his brief stay, Mr. Shelley was instrumental in developing the proposed rules and regulations

for the proposed lending program for SNs. Thus, Mr. Shelley also made a very significant contribution to the project.

8. ACCOMPLISHMENTS

During the course of the CMP, many notable achievements were made which will bode well for the continuing and successful development of agricultural cooperatives in the Philippines. These accomplishments were achieved not solely because of any one individual or group of individuals but rather resulted from the concentrated and coordinated efforts of everyone involved in the project. Since it would be too voluminous to mention all of these accomplishments, a brief statement of the most significant ones follows:

- a. Financial assistance will have been provided by the CFG to 13 AMCs and one federation of AMCs which is only one short of the original goal of approximately 15. This financial assistance will benefit some 50,461 small farmers either directly or indirectly. The number of farmers benefitted is substantially below the original target of 90,000 only because the ultimate beneficiaries happened to be located in areas of lesser concentration than in the areas originally targetted. Of great importance also is the fact that this financial assistance was granted on a sound and constructive basis, as originally intended, which required substantial counterpart equity investments by SN members in each instance thereby not only improving the financial condition

of their respective AMCs but further strengthening those linkages as the members became more actively involved in the planning and development of their own cooperatives.

- b. The directors and management of participating AMCs/CRBs received substantial quantities of classroom training as well as some on-site technical assistance to help them perform their functions in a more effective manner. This has led to a better understanding of cooperatives and the need for sound business management which together with the financial disciplines imposed by the CFG in its lending operations has led to a perceptible changing of attitudes away from the dole-out psychology of the past.
- c. Through similar training efforts, a much greater understanding and appreciation of what cooperatives can do to assist farmers in gaining greater economic returns thereby improving their well being and contributing more to the total economy of the Philippines has also been perceived within the ranks of Government officials and employees from the national level down to the regional and provincial levels. This training also emphasized the need for cooperatives to be organized and operated on a sound business-like basis.
- d. A program has been developed and is in the process of implementation which will provide SNs with financial assistance on a sound and constructive basis similar to that being provided AMCs. This should result in SNs being able to engage in economic

activities which will encourage greater farmer-member participation and understanding of cooperatives in addition to further complementing and strengthening the linkages between the SNs and the AHCs/CRBs which they own.

- e. A uniform accounting system was developed and is in the process of implementation. This will be of great assistance to making sound policy and management decisions at the AHC level and will greatly assist the CFG in monitoring borrower performance.
- f. Considerable progress has been made in establishing marketing linkages between the AHCs/SNs and the NFA. This marketing tie-up with NFA will become increasingly important in these early stages of development of the AHCs rice marketing programs. Having such market outlets will also help assure repayment of loans granted by the CFG.
- g. A marketing information system has been developed which will, at the appropriate time, be of substantial value to an apex cooperative marketing organization and AHCs in marketing their products in a more effective and profitable manner.
- h. Regional federations of AHCs are beginning to emerge to capture the economics of scale thereby assisting AHCs in achieving more efficient procurement of farm inputs and marketing of their products. More importantly, these organizations are being developed on the basis of economic need from the bottom up which should give them a much stronger basis for long-term success.

- i. An embryonic but solidly based cooperative financing institution has been established in the CFG and it has developed adequate, policies, procedures, etc. commensurate with its present stage of development. Additionally, the CFS/CFG has been provided a strategy to further strengthen and enhance its capabilities to serve CRBs and a broader spectrum of cooperatives. If this strategy is implemented effectively, it should prepare the CFS/CFG for the next phase in its ultimate evolution into an enduring apex cooperative banking institution.
- j. A small but effective cadre of cooperative lending specialists has been developed within the Central Bank/CFG which with proper management and support is not only capable of promoting, evaluating, granting and servicing loans to cooperatives in a constructive manner but can also serve as a nucleus around which to continue building an apex cooperative banking institution.
- k. A feasibility study which provides the basis for the future development of an apex cooperative banking institution is nearing completion. This should provide direction to Government agencies and cooperatives as they progress toward the creation of such an institution.
- l. The groundwork has been laid to provide the BCOB and the CFS/CFG with further technical assistance and funding to continue providing financial and technical assistance to a broader scope of cooperatives in addition to meeting the rapidly expanding

financial needs of existing borrowers. These will be vital ingredients to the continued successful development of a financing institution and cooperatives in the Philippines.

9. UNRESOLVED/REMAINING PROBLEMS

While it could easily be said that virtually the same problems remain unsolved as existed at the outset of the CIP, such a statement would be an accurate generalization. However, when one takes the pains to scrutinize the specifics, one can easily see the tremendous impact the CMP has had on solving these problems. It should also be recognized that many so-called problems in developing cooperatives are never totally resolved, they simply change their character as progress is made through the different stages of development. And, of course, the recognition of problems also means the identification of opportunities for more success in the future. Nonetheless, there are a number of remaining or continuing problems in cooperative development in the Philippines, particularly in agricultural cooperatives, which need to be addressed in the future as generally outlined below (not in any priority order):

- a. Assisting AMCs in developing their own marketing system is a particularly difficult problem to even get your arms around because of an already solidly entrenched private sector marketing system which is tightly controlled and well-financed by a close-knit minority group. Recognition must also be given to the

fact that most private traders have inherent economies in their favor as they have greater flexibility and are not burdened with the same degree of overhead as is a cooperative organization. Trying to establish a top down organization, such as CMSP, proved to be unsuccessful partly because it was probably premature but also for several other reasons previously alluded to.

- b. Farmers are not being adequately served by their AMCs and CRBs. Most of this problem is believed to be the result of attempting to organize AMCs and CRBs on a provincial level with little regard for natural geographic boundaries, limits of transportation and communications systems or traditional centers of economic activity. Other contributing factors generally given include, poor performance of the AMC or CRB and/or inadequate capital to provide services. However, inadequate capital has not proven to be a critical factor since even when capital is provided, only a limited expansion of the service area occurs. At any rate, many farmers and farmer leaders appear to be disenchanted because after being convinced, perhaps by overzealous promoters, to invest their capital in an AMC or CRB, they subsequently discover they are so far away that the time and distance factors become a disincentive for those farmers to do any business with their own organizations - they feel and see little or no benefit. This problem also has an obvious effect on the willingness of such farmers to meet their obligations to invest additional and much needed capital in those organizations.

- c. Poor management of AMCs and CRBs continues to be a problem and to some degree will probably be a concern ad infinitum. Now that the SNs are beginning to engage in economic activities, this problem will become magnified at least in the near-term. This is not an uncommon problem in the earlier stages in cooperative development. Good cooperative managers are difficult to find and hold as they must be dedicated individuals willing to devote many hours usually for relatively low salaries or other rewards. The Management Training and Assistance Program (MTAP) established pursuant to PD 175 with few exceptions has not been successful in providing a source of capable cooperative managers.
- d. The institution building aspects of the cooperative financing institution are far from complete. To a degree, this also will be an ongoing concern as the institution moves through its progressive stages of development. In addition, a considerable amount of further training of the CFG staff will be necessary until they reach a satisfactory experience level in all the aspects of loan administration. The biggest challenge to the CFG staff will be in mastering the techniques of loan servicing and collection to which they have had only minimal exposure to date.
- e. The accounting and auditing needs of cooperatives is a critical factor which has not yet been fully addressed. The uniform accounting system for AMCs as previously mentioned has been

developed and it is a good one but it is not yet fully implemented. Also, a similar accounting system will be needed by the SNs. Aside from the audits of AMCs and SNs performed by the BCOD, which are at best infrequent due to lack of budget and are of questionable quality because of high turnover of relatively inexperienced auditors, few AMCs are able to afford or see the need to employ an independent external auditor. Ideally, each cooperative should be audited at least annually by an outside independent auditor in accordance with generally accepted accounting principles. On the other hand, the CRBs are regularly being capably examined by the CB/DRBSLA. Having good accounting information and at least annual audits of AMCs and SNs or in fact any future borrowers from the CFG will be essential not only so the borrower's management and board can make informed decisions but also so the CRB and the CFG can make informed judgments on loan applications and to assist them in effective loan monitoring, servicing and collection.

- f. There appears to be a need to review the laws, regulations, etc. related to cooperatives in the Philippines to assure they conform more completely with basic cooperative principles. These include at least Presidential Decree 175 (PD 175), Letter of Implementation 23 (LOI 23) as well as the regulations promulgated by the MA/BCOD and the model articles of incorporation and bylaws issued by the MA/BCOD.

- g. There appears to be a continuing need for training and education of the MA staff at all levels not only on basic cooperative principles but also practical training on the proper institution building aspects of all types of cooperatives. The MA field staff in particular are in an excellent position to assist groups in the various stages of their cooperative organization and subsequent development. However, a high proportion of the MA staff still seem to lack sufficient knowledge of these matters and are therefore not as effective as they could be.
- h. The CFS is being developed as a continuous and reliable source of financing for cooperatives. Therefore, in order to fulfill that commitment and to provide adequate borrowed capital to sustain the growth and development of the financing system and the cooperatives it serves, the sourcing of additional funds for lending will be an ongoing concern. Eventually, the financing system should develop its ability to secure funds largely or entirely from the private sector. However, during these early stages of development, the most logical sources of funds are the Philippine Government and foreign donor or development agencies.

10. RECOMMENDATIONS

In view of the foregoing, ACDI and its consultants who have been deeply involved in the CMP and who have a sincere interest in furthering the cooperative development program of the Philippines would like to leave with you the following principal but general recommendations for consideration in the immediate future.

- a. In the area of assisting in the development of cooperative marketing systems and in view of the existing structure for marketing farm products perhaps the best solution would be to allow them to develop from the bottom up. Although this is a slow process, it will be a sounder system in the long-run. Therefore, the Government should provide assistance to AMCs and SNs in developing markets locally, then encourage and assist in likewise developing regional federations which in turn will eventually develop apex or national marketing organizations. Obviously, for best results, this institutional development should not be on a force-fed basis but rather encouraged on the basis of needs as they are recognized. Each step in this process will tend to build added strength and efficiencies and ultimately more economic benefits for small farmers.
- b. Consideration should be given to encouraging the establishment of AMCs and CRBs on a municipal or multi-municipal basis in order to increase services to farmers and to enhance membership involvement. A possible alternative would be for existing provincial

level AMCs and CRBs to establish branch operations throughout the province. However, this may have added risks due to communications and transportation limitations thereby making such operations very difficult to monitor and control if the distance is too great.

- c. AMCs should be encouraged to diversify their operations into areas other than grains, especially rice since grain milling and marketing when operated on an institutional basis is relatively low margined. Likewise, the CFG, in providing some balance to its loan portfolio should avoid an overexposure in the riskier grain milling and marketing industry until such time as the agricultural cooperatives are able to establish an effective and profitable marketing system.
- d. A considerable amount of basic business training will be needed, ad infinitum, for the boards of directors and management of AMCs and SNs as well as other cooperatives. In the past, the tendency has been to accomplish this through seminars and workshops. While that method of training has its value, it is suggested that much more effective training can be accomplished by utilizing the task force approach already field tested by the CFPI at perhaps little additional cost. Because of their low experience levels, management and directors are more in need of on-site assistance from well skilled technicians to help them solve their unique local problems and to assist them in transferring the

formal training to their own institution. It would seem that either the BCOD or the CFPI could assemble a relatively small group of such skilled technicians who coordinated with the CFG activities could effectively provide management audit services followed by appropriate on-site technical or management assistance. In the management area, it appears such needed assistance comes under the general categories of general management, marketing or merchandising assistance, financial management, accounting records and controls and membership relations. The directors' needs seem to be mostly in board/management relationship, policy making assistance and techniques of monitoring and controlling management performance.

- e. Likewise, the CFG should develop similar kinds of capabilities as described in d. above to provide on-site assistance to the CRBs. Because of the unique characteristics of the CRBs, the CFG would presumably be in a much better position to effectively render this service than would the BCOD or CFPI or the regular CB staff for that matter. And, since the CRBs form a very vital link in the cooperative finance system being established, every effort should be expended in maintaining and improving their individual integrity.
- f. While considerable progress has been made, a more concerted effort should be made to develop a closer, more supportive relationship between the CFG and the CDLF. Actually, both are serving the same cooperatives and have the same goals so that

a cooperative relationship between the two can be nothing but mutually beneficial to them and the cooperatives they serve.

- g. The uniform accounting system should be fully implemented in all AMCs, especially those financed under the CMP, at the earliest possible time. Similarly, a uniform and perhaps more simplified accounting system for SHs needs to be developed and implemented.
- h. A plan or program needs to be developed and implemented to provide adequate external auditing services for cooperatives on a regular basis. This might be accomplished by enlisting a group of private sector CFAs throughout the country who with minimal added training on the unique aspects of cooperatives could probably provide very credible auditing services for cooperatives. A somewhat less desirable approach would be to assemble a group of CPAs within an organization to provide auditing services for cooperatives on a non-profit fee basis.
- i. The BCOD should continue training of the MA staff and technicians at all levels. There remains a significant lack of knowledge about what cooperatives are and how they should operate.
- j. A determination needs to be made as to which organization will provide cooperatives with lobbying, research, training and education, technical assistance, legal assistance, etc. at the apex level. These kinds of services are currently needed and should be a private sector activity. Therefore, this determination should ultimately be made by the cooperative themselves. At the present

time, these responsibilities seem to be intertwined and uncoordinated between the CFPI and the Cooperative Union of the Philippines (CUP) and neither organization seems to be performing very effectively.

- k. Institutionalization of the CFG will need to move forward in a carefully planned manner. The immediate needs appear to center around strengthening the CFG by making it a more autonomous unit within the CB and providing it with full-time management. It will also require a significant increase in staff as the loan servicing workload attendant to the large numbers of loans approved in recent months becomes obvious and as the new SN lending program simultaneously comes on stream as planned. It is believed that giving the CFG a higher degree of permanence and strengthening its staff would be critical prerequisites to obtaining needed additional funds from outside source and in gaining the technical assistance grant requested from the USAID. Both the existing CFG staff as well as new additions to the staff will need considerably more on-the-job training in loan administration especially the techniques of financing cooperatives. Since this unique type of training is not readily available in-country, the BCOD should vigorously pursue its request to the USAID for a technical assistance grant.

1. A surviving or successor group will need to be established to continue coordination amongst the various agencies involved in cooperative development and to act as a policy making body for the CFG, subject to approval of the Monetary Board as appropriate. This surviving committee could be an outgrowth of either the ICC or the CCF which were created under the CMP. However, it is strongly suggested that such a committee have a significant representation from the end users of the financing system in order to provide more balance to the committee and to help develop a cadre of leaders.

11. CONCLUDING COMMENTS

Recognizing that the successful conclusion of the CMP resulted from the collaborative efforts of a number of people, ACDI and its consultants would like to express our sincere gratitude for all of the cooperation, assistance and support we received. Without naming individuals for fear of omitting an important one, we would especially like to recognize the various contributions made by the Project Management, BCOD, MA, CB/CFG, NEDA, USAID, NFA, CFPI and of course the AMCs and CRBs with which the ACDI consultants have worked. Also, the ACDI long-term consultants wish to express a special note of thanks to the CB and to so many of its staff who took extra pains to provide them with very comfortable office facilities and who accepted them as part of the CB "family".

Perhaps, it also bears repetition that despite all of the successes of the CMP and the momentum of activity it has achieved,

the task of building and sustaining sound cooperatives and a sound cooperative financing institution in the Philippines will probably never end. Therefore, the responsibility will fall on those who remain to capitalize on the achievements and the failures already made and to continue building those cooperative institutions for the ultimate economic benefit and well being of the country's small farmers and other rural poor.

All of us in ACDI enjoyed the challenging opportunity to make some meaningful contributions to the successes of the CIP and to the overall development of cooperatives in the Philippines. We look forward to providing further services of this nature as the need may arise in the future.

Respectfully submitted,

DONALD H. THOMAS
President, ACDI

Schedule of Financial Assistance Granted
Under the CIP through the CFS/CFG

A. FINANCIAL ASSISTANCE RELEASED

<u>AMC (CRB)</u>	<u>Date, Amount & Type</u>	<u>Purposes</u>
1. North Cotabato AMC (CRB of North Cotabato) Kidapawan, N. Cotabato 100 SNs, 4,500 Farmers	<u>July 1980</u>	Purchase palay, purchase rice mill owned by ACA in Midayap, build new warehouse, dryer and office.
	₱1,250,000 Commodity	
	427,000 Long-Term	
	200,000 Trust Fund	
	<u>₱1,877,000</u>	
	<u>June 1982</u>	
	₱1,000,000 Seasonal Line of Credit	Finance purchases/inventories of fertilizers, chemicals, etc.
	<u>February 1983</u>	
	₱1,800,000 Seasonal Line of Credit	Increase in existing loan
2. AMC of Agusan Del Sur (Rural Bank of Tala- cogon) Bayugan, Agusan del Sur 41 SNs, 2,987 Farmers	<u>March 1981</u>	Purchase palay, purchase and complete new ricemill, dryer, office.
	₱ 750,000 Commodity	
	624,000 Long-Term	
	465,000 Trust Fund	
	<u>₱1,839,000</u>	
	<u>September 1982</u>	
	₱ 750,000 Commodity	Purchase Palay, provide additional permanent working capital.
250,000 Special Term		
<u>₱1,000,000</u>		
3. First Iloilo AMC (CRB of Iloilo) Sta. Barbara, Iloilo 119 SNs, 4,135 Farmers	<u>March 1981</u>	Purchase Palay
	₱ 200,000 Commodity	
	<u>June 1982</u>	
	₱ 500,000 Special Term Loan	Permanent Working capital
4. Central Nueva Ecija AMC (CRB of Nueva Ecija) Cabanatuan, N. Ecija 110 SNs, 5,700 Farmers	<u>April 1982</u>	Purchase palay, construct new ricemill.
	₱1,000,000 Commodity	
	2,250,000 Term Loan	
	950,000 Trust Fund	
	<u>₱4,200,000</u>	

January 1983

₱2,000,000	Commodity	Replacement of previous commodity loan to purchase palay. Includes increase of ₱1,000,000 in amount. Term Loan to increase permanent working capital.
750,000	Special	
	Term Loan	
<u>₱2,750,000</u>		

5. Southern Iloilo AMC
(CRB of Iloilo)
Oton, Iloilo
90 SNs, 3.150 Farmers

June 1982

₱ 300,000	Special	Permanent working capital.
	Term Loan	

6. Laguna AMC
(CRB of Laguna)
Sta. Cruz, Laguna
37 SNs, 1,480 Farmers

September 1982

₱ 300,000	Special	Permanent working capital
	Term Loan	

7. Integrated Livestock
and Poultry Raisers
Cooperative
(CRB of Misamis
Oriental) Cagayan
de Oro City
80 Farmers

November 1982

₱ 500,000	Seasonal	Permanent working capital and refinance indebtedness incurred in constructing feedmill in 1981.
3,400,000	Term	
850,000	Trust Fund	
<u>₱4,750,000</u>		

B. APPLICATIONS APPROVED MARCH 10, 1983 - NOT YET CLOSED

1. Aklan AMC
(CRB of Aklan)
Kalibo, Aklan
130 SNs, 6,645 Farmers

₱1,200,000	Commodity	Purchase palay, construct rice-mill, warehouse and dryer.
1,030,000	Term Loan	
570,000	Trust Fund	
<u>₱1,800,000</u>		

2. Second Iloilo AMC
(CRB of Iloilo)
Pototan, Iloilo
242 SNs, 7,500 Farmers

₱1,000,000	Commodity	Purchase palay, construct rice-mill, warehouse and dryer.
1,000,000	Term Loan	
652,000	Trust Fund	
<u>₱2,652,000</u>		

3. Davao Oriental AMC
(CRB of North Cotabato) Lupon, Davao Oriental
56 SNs, 2,800 Farmers

₱ 700,000	Commodity	Purchase palay and purchase privately owned ricemill and warehouse.
650,000	Term Loan	
450,000	Trust Fund	
<u>₱1,800,000</u>		

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4. Southern Iloilo AMC (CRB of Iloilo) Oton, Iloilo	₱1,200,000 1,000,000 765,000 <hr/> ₱2,965,000	Commodity Term Loan Trust Fund	Purchase palay, construct ricemill, warehouse and dryer.
5. Negros Occidental AMC (CRB of Iloilo) Bago City, Negros Occ. 39 SNS, 4,124 Farmers	₱ 420,000 300,000 ₱ 720,000	Commodity Term Loan	Purchase palay and milled rice, permanent working capital

C. APPLICATIONS UNDER EVALUATION BY CFG AS OF MARCH 10, 1983

1. First Iloilo AMC (Present Borrower)	₱1,000,000 200,000 450,000 <hr/> ₱1,650,000	Commodity Term Loan Trust Fund	Purchase palay, refurbish rice- mill, new warehouse.
2. Lanao del Norte AMC 50 SNS, 2,500 Farmers	₱1,000,000 1,100,000 695,000 <hr/> ₱2,795,000	Commodity Term Loan Trust Fund	Purchase palay, construct rice- mill, warehouse and dryer, purchase truck, permanent working capital.
3. Federation of AMCs Western Visayas 5 AMCs	₱1,120,000 375,000 ₱1,495,000	Term Loan Trust Fund	Purchase milled rice, finance purchases of fertilizers, invento- ries, chemicals, etc., permanent working capital.
4. Bohol AMC 162 SNS, 4,860 Farmers, (Estimate)	₱1,000,000 Line of Credit 500,000 <hr/> ₱1,500,000	Seasonal Line of Credit Trust Fund	Finance purchases of fertilizers, inventories, chemicals, etc. and permanent working capital.

UTILIZATION OF USAID LOAN FUNDS
(in millions)

	<u>Commodity/ Seasonal</u>	<u>Term</u>	<u>Trust Fund</u>	<u>Guarantee Fund</u>	<u>Total Pesos</u>	<u>Total ^{1/} U.S. Dollars</u>
Funds Released	₱ 5.700	₱ 8.801	₱ 2.465	₱ 3.625	₱ 20.591	\$ 2.421
Loans Approved						
Not yet Released	6.320	3.980	2.437	2.575	15.312	1.609
Applications Pending	3.000	2.420	2.020	1.355	8.795	0.916
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	₱15.020 =====	₱15.201 =====	₱ 6.922 =====	₱ 7.555 =====	₱ 44.698 =====	\$ 4.946 =====

1/

On funds already released by USAID, the conversion rates from dollars to pesos were those in effect at the time of release. For loan funds not yet released and for applications pending, an estimated conversion rate of US \$1 = ₱9.60 was used.

March 21, 1983

Memorandum

F O R : Mrs. Nelia T. Gonzalez, Project Manager of CIP
T H R U : Mario G. Vicente, CFG Chief Executive Officer
Richard A. Neis, ACDI Chief of Party
F R O M : Philip L. Brown, Cooperative Credit Specialist
S U B J E C T : Final Report, Oct. 3, 1982 - March 31, 1983

This final report summarizes the activities, observations, and recommendations rendered pursuant to this consultant's six month assignment with the Cooperative Finance Group (CFG) of the Central Bank of the Philippines.

Terms of Reference

1. Provide assistance and guidance to the CFG in all aspects of its lending operations including loan development, evaluation of loan applications and loan servicing and shall submit recommendations, suggestions or alternatives for improvements in the performance of these functions.
2. Provide assistance to the CFG in development of appropriate lending procedure manuals as training and reference aids for Cooperative Rural Banks (CRBs) and borrowing Area Marketing Cooperatives (AMCs) and Samahang Nayons (SNs).
3. Participate in training activities for key personnel of the CFG, the participating CRBs and borrowing AMCs and SNs.

4. Perform such other reasonable duties related to the Cooperative Finance System of the CIP as may be requested by the CIP Manager, the CFG, or the long-term ACDI Cooperative Finance Specialist.

Accomplishments and Activities

In accordance with the terms of reference, manuals have been prepared for use by CRBs, AMCs, and SNs as training and reference sources in the following subjects:

- Commodity Loan Servicing Manual
- Seasonal Loan Servicing Manual
- Term Loan Servicing Manual

In addition, the consultant has accompanied CFG business analysts on loan development and loan servicing calls as summarized in the following table.

<u>CRBs & AMCs Visited</u>	<u>Month of Visit</u>	<u>CFG Business Analysts Accompanied</u>	<u>Purpose of Visit</u>	
			<u>Loan Develop.</u>	<u>Loan Service</u>
AMCASI	Oct. '82	Tony Darjuan & Freddie Aagsalon		/
1st Iloilo AMC	"	" "		/
Southern Iloilo AMC	"	" "	/	/
2nd Iloilo AMC	"	" "	/	
Iloilo CRB	"	" "	/	/
Aklan AMC	"	" "	/	
Aklan CRB	"	" "	/	
ILIPCO	Nov. '82	Oswald Gervacio & Mac Rodriguez		/
Misamis Oriental CRB	"	" "		/
AMCASI	"	" "		/
North Cotabato AMC	"	" "	/	/
North Cotabato CRB	"	" "	/	/
1st Iloilo AMC	Jan. '83	Oswald Gervacio & Tony Darjuan	/	/
2nd Iloilo AMC	"	" "	/	
Iloilo CRB	"	" "	/	/
AMCASI	"	" "		/
ILIPCO	"	" "		/
Misamis Oriental CRB	"	" "		/

* Includes Loan Closing Activities.

ASSESSMENT OF CFG LENDING OPERATIONS

Program Strengths

The CFG is a soundly conceived and professionally staffed lending organization. The lending program is based on an excellent set of legal documents which include: (a) the Rules and Regulations for AIC and SN Financing, (b) Term Loan, Seasonal Loan, and Commodity Loan Agreements, (c) Equity Participation Agreement, (d) Special Time Deposit Agreement, (e) Agreement of Pledge and Loan Custodianship, (f) and miscellaneous collateral documents including mortgage forms and Promissory Notes.

The lending program is designed to offer AICs and SNs complete, single source financing while also encouraging cooperatives to build-up their own capital through increased paid-in subscriptions of member common stock. Under the program, a loan is made only after CFG has completed a thorough analysis of a project's merits and the borrowing cooperative's financial capacity and managerial talents.

CFG staff members are dedicated to their work, and are very experienced and highly knowledgeable in the field of accounting and in the technical aspects of the ricemilling and trading business. These skills have been critical in the development and upgrading of CFG's loan portfolio in that most of the loans approved thus far are related to rice trading and the most persistent problem (outside of marketing) that has confronted agricultural cooperatives is in the area of maintaining up to date and accurate accounting records.

The CFG Loan Portfolio

As of early March 1982, loans to 10 AMCs have been approved and of these borrowers, only AMCASI is in financial difficulty. Fortunately, the portfolio contains only a few other borrowers with heavy debt loads, such as First Iloilo AMC, and these AMCs have all recently exhibited improvements in earnings indicating even the riskier borrowers can reasonably be expected to retire their debt obligations as scheduled. Thus, at the present time, no borrowers other than AMCASI are showing "distress signals."

However, this lack of problems is a normal characteristic of young loan portfolios and is best viewed by CFG management as their portfolio's "honeymoon period." It must be remembered that the bulk of CFG borrowers have not yet had the first loan payments mature, so repayment habits have yet to be tested. In addition, many of these loans are to inherently risky borrowers and although all loan decisions made so far seem good, unforeseen adverse events are bound to strike several borrowers within the next year or so. These occurrences must be expected, especially considering that CFG lending is targeted towards assisting rather young, rapidly growing AMCs with relatively inexperienced management personnel.

Although CFG's loan portfolio will continue to consist of a large percentage of high risk loans for at least several more years, until its borrowers' operations and management mature and loan repayment habits become established, there are several measures that can be taken by CFG to minimize portfolio risk.

1. When developing loan packages for borrowers, emphasis could be placed on financing a larger portion of their working capital requirements through short term loans in lieu of the present practice of using term loan financing for this purpose.

Because the controls used in monitoring CFG short term loans require frequent and close scrutiny of loan balances outstanding in relation to collateral values, as well as other intensive servicing procedures, the risk of a borrower getting into financial trouble without CFG immediately being aware of it is remote. And, in cases where problems do arise, loan margins required on short term loans are sufficiently wide and collateral of such a near liquid nature (inventories and accounts receivable), that CFG can be reasonably assured it will still be able to collect its loans through liquidation of collateral with a minimum amount of time involved in legal proceedings.

Unfortunately, term loans used to finance working capital do not have the above collateral controls or other intensive servicing procedures, nor are term loans easily liquidated. As a consequence, term loans for such purposes are considered more risky than short term loans and also more costly in terms of time and money when loan liquidation becomes necessary.

2. -CFG could increase the size of its staff and allow itself greater flexibility in both the scheduling of field trips and in deciding how many individuals are necessary to go on a particular field trip. These actions would significantly decrease the amount of time presently required to process and approve a loan application, which sometimes takes 60 days or more, and would thereby minimize the likelihood that delayed loan decisions will adversely effect a borrower's operations. Although the time element in processing loan applications has not been a critical problem in the past, due to low loan volume and because loans have been mostly for financing the start-up of new AMC enterprises, the timing of loans will become very important as CFG's loan portfolio expands and matures. In particular, timing will be crucial when CFG's current borrowers start applying for follow-on seasonal and commodity loans because delays in processing these types of loans may cause severe cash flow problems for borrowers.

Past delays in loan processing have been largely the result of CFG's staffing limitations and of CFG's conformity with certain standard Central Bank operating procedures. Presently, the CFG staff is too limited in size to adequately perform all the functions associated with administering its loan portfolio, such as loan development activities, loan

processing, loan servicing, and working-out problem loans.

This staffing problem is aggravated by certain Central Bank operating procedures:

(a) CFG business analysts are seldom authorized to travel if only one applicant or borrower is to be visited. Thus, problems that arise in processing a loan application cannot be solved immediately by a quick visit.

(b) Central Bank policy also requires at least two employees to travel together on business trips regardless of the trips purpose. CFG's limited staff could be utilized much more efficiently if CFG were allowed to dispatch only one staff member on certain field trips.

3. The authority to make decisions regarding routine loan servicing matters could be delegated by the CFG Loan Committee to the CFG Chief Executive Officer. All loan agreements signed by borrowers and all special time deposit agreements signed by lenders contain restrictive clauses that require CFG approval prior to certain actions or decisions being taken by borrowers or lenders. Borrowers need CFG permission to purchase fixed assets, obtain financing from outside lenders, declare in cash any patronage refunds, or declare cash dividends or interest on its capital stock, and

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so forth. Lenders are not permitted without CFG concurrence to substitute collateral on a loan, execute releases or partial releases of collateral, restructure loan payments, etc... At present, only the CFG Loan Committee is authorized to make these types of decisions and this may prove cumbersome if decisions are needed frequently, which in most mature loan portfolios is the usual situation.

4. CFG's management might consciously try to include in its loan portfolio more diversified types of borrowers.

Out of a current total loan portfolio of 10 borrowers, 8 borrowers have approved loans for building or expanding ricemill operations. This high concentration of CFG loan funds in financing or type of enterprise is very risky. CFG has recently started to diversify its portfolio by including a poultry and livestock cooperative (ILIPCO) among its borrowers, and is anticipating shortly to become quite active in lending to SNs, wherein most loans will be for purposes other than ricemilling.

However, CFG should not only continue its efforts to diversify its portfolio through lending to various types of agricultural cooperatives, but also begin exploring the possibility of expanding its lending authority to include non-agricultural cooperative borrowers, such as consumer cooperatives and credit cooperatives. If CFG is given authority

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to lend to these latter types of borrowers, its portfolio will not only be improved through the addition of a new pool of financially sound borrowers to whom funds can be profitably loaned, but CFG's efforts of reducing portfolio risk through diversification will be given an encouraging boost.

5. Borrowers' financial positions could be enhanced and loan portfolio risk correspondingly reduced if CFG began assuming a posture of actively encouraging borrowers to retain profits and not pass Board of Directors' resolutions which call for excessive cash patronage refunds, or cash dividends and interest on capital stock. With the infusion of loan funds and consequent improvements in the economies of scale for many of the enterprises financed, profits are being earned for the first time and borrowers are now beginning to grapple with decisions of how these profits are to be allocated. It may be beneficial if CFG adopted a policy of encouraging borrowers to handle profits in the following manner: first, borrowers should allocate profits so as to satisfy all legal reserve requirements; second, an evaluation of the needs for other reserves, such as bad debts, should be conducted and allocations made as appropriate; third, a portion of the profits should be retained in equity in an amount at least equal to the scheduled debt payments (both CFG and other term debt); and last, the remaining balance may be declared

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as patronage refunds, or dividends or interest on capital stock, but remittances issued should be in the form of common stock shares.

Identification of Lending Program Weakness and Recommendations

CFG is still a relatively new lending institution and there remain areas in its operations needing improvements. During the initial three years of its existence, CFG concentrated on designing its lending system and related forms and documents, training its business analysts, and developing the present loan portfolio. Now, CFG's efforts should be slightly redirected towards "fine tuning" the lending system.

At present, management staffs at many AICs and CRBs lack awareness of how CFG's lending program should operate and what their specific responsibilities are in relation to the different types of CFG loans with which they are involved. Furthermore, CRBs are continuously having problems maintaining their eligibility as CFG conduit banks thus hampering CFG lending activities. And, there remain several areas in CFG's lending procedures that might be improved through more routine use of legal counsel as well as certain procedures in the lending program that need indepth legal research. In the remaining portion of this Final Report, each of these subjects is addressed and possible measures to help improve the lending program recommended.

Improving AIC and CRB awareness regarding CFG's lending program.

Presently, AICs and CRBs are inadequately informed regarding CFG's lending program. AIC borrowers are not knowledgeable about the various types of

reports to be submitted to the CRB and sometimes AMCs are not correctly documenting the activities being performed in relation to a CFG loan. Similarly, CRBs are not providing all the required reports concerning borrowers to the CFG, and more importantly, are not notifying CFG when borrowers become delinquent on their loan payments or other substantial problems occur. For example, on one occasion, ignorance of CFG's lending program on the part of a CRB Manager caused delays in disbursements on two loans, which adversely affected the operations of both borrowers concerned. On another occasion, a CRB charged a borrower a 2% service fee in direct violation of the Rules and Regulations Governing the Operations of the Cooperative Finance System

Several measures have already been taken to improve both AMC and CRB awareness of CFG's lending program. First, CFG staff is devoting greater attention when closing loans to informing all parties concerned of their specific responsibilities in relation to a particular loan package. Second, the CFG staff is very conscientious about visiting AMCs and CRBs just a few weeks following a loan closing to solve any problems or misunderstandings that have surfaced. Third, this consultant has recently completed draft copies of three servicing manuals covering all the responsibilities of both AMCs and CRBs in regards to Term Loans, Seasonal Loans and Commodity Loans. With distribution of these manuals to the field, knowledge of CFG's lending program among AMCs and CRBs should be vastly improved.

The effectiveness of AMCs and CRBs participating in CFG's lending program could be enhanced even further, however, through CFG pursuing the following additional activities:

1. The CFG could develop a series of comprehensive operating manuals for use by its own staff members. Subjects covered in these manuals would include policy and procedural guidelines for processing and approving loan applications, loan closing, loan servicing, loan liquidation, loan litigations, etc. The manuals would provide excellent training materials for the new members joining CFG's staff of business analysts and would more importantly help tremendously in all staff members making decisions consistent with CFG's policies and operating procedures.
2. CFG in cooperation with BCOD could also conduct training activities for AMCs and CRBs in the areas of management, accounting, loan and A/R collection techniques, ricemill operations, inventory management, and other relevant subjects. Of particular importance is the need to train AMC and CRB Managers and Boards of Directors in both cooperative principals and about their respective roles in a cooperative institution. Another priority is teaching the AMC accounting staff about the Uniform Management and Reporting and Accounting Systems Manual for Area Marketing Cooperatives which was developed jointly by BCOD, CFG, and CFPI, but has yet to be fully implemented among the AMCs.

3. Furthermore, CFG could develop a more active and closer working relationship with these CRBs involved in the lending program. At the time of loan closing, CFG should closely review and evaluate the effectiveness of the CRB management's proposed plan for disbursing and servicing CFG loans. The individual at the CRB responsible for loan servicing would be identified and s/he included in all CFG and CRB discussions and correspondence. CFG could assist the CRB in setting-up a loan monitoring system based on a "tickler file" approach and CRBs given guidelines on how to organize CFG loan files.
4. Because most CRBs have not developed the habit of submitting reports and remittances to CFG on a routine basis, CFG should develop at loan closing a list of all reports and remittances due periodically and this list should be provided to the secretary of CFG's Chief Executive Officer for monitoring. When scheduled reports or remittances become past due, the secretary as a routine could send telegrams notifying the CRB of the items past due while simultaneously notifying the appropriate CFG business analyst of the delinquencies. Of course, for this system to work all incoming mail would be routed through the secretary of the Chief Executive Officer before dissemination to CFG business analysts or filing. Unless CFG staff itself maintains a strict monitoring system of the CRBs, this consultant believes CFG's efforts to improve CRB monitoring of A/C borrowers will be ineffective.

5. When the CFG learns that a CRB is having difficulty with a particular borrower, CFG should increase its contact with the CRB and provide frequent verbal and written support for any jointly agreed upon loan remedies. Because of the relative inexperience of many CRB managers in handling loans as complicated and large as CFG's loans, this type of support over the next couple of years, could be the deciding factor between the success or failure of CFG's lending program.

Along the lines of these recommendations, there are two banks currently working with CFG which now need extra attention. The Iloilo CRB is one bank and the other is RBTI. Iloilo CRB is the largest lender in CFG's loan program, having 4 borrowers and anticipating shortly to increase its portfolio by another borrower. With the heavy responsibilities associated with this number of borrowers, CFG should be certain that the loan servicing plans of Iloilo CRB are adequate and that sufficient and competent staff have been assigned to servicing CFG's loans. For the CRB's servicing efforts to be effective, it is recommended one competent individual be hired by the CRB and assigned overall responsibility for servicing CFG's loans. In addition, CFG should dispatch a business analyst to spend several days with the CRB, reviewing the CFG loans in the Bank's portfolio and assisting in the organization of the servicing program.

When time permits, the approach recommended for servicing CFG's loans at the Iloilo CRB could be replicated at other CRBs, particularly the North Cotabato CRB which will shortly be responsible for servicing 2 CFG loans to AMCs and possibly some SN loans.

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But, even more important than assisting the Iloilo CRB or others in their servicing efforts, CFG needs to help RBTI. As the lender to CFG's major problem loan AMCASI, RBTI is faced with a very difficult situation and is desperately in need of strong CFG support. CFG needs to move very quickly, if necessary using its Central Bank connections, to remove AMCASI's manager from RBTI's Board of Directors so as to give RBTI the freedom it needs in dealing with this problem borrower. Next, an officer of CFG needs to sit down with RBTI's manager and jointly map out a strategy for handling the AMCASI loans. Last, CFG should place all its support both verbally and in writing if needed, behind RBTI's efforts to implement the jointly developed strategy.

Strengthening CRB Conduit Banks.

Almost every CRB with which the CFG is working has at one time or another temporarily lost its Central Bank loan rediscounting privileges and thus also temporarily become ineligible for participating in CFG's lending program. The most frequent causes for losing eligibility stem from CRBs either falling behind on collections of SMI member common stock subscriptions due, or the amount of loans outstanding in delinquent status increase beyond 25% of a CRB's total loan portfolio. Therefore, to strengthen CRBs in general as conduit banks for CFG's lending program, CFG should improve its existing strategies for preventing CRB stock subscriptions from becoming past due and increase its assistance to CRBs in their efforts to reduce the amount of delinquent loans in their loan portfolios.

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In the past, CFG has recommended the following strategy for those CRBs having problems in collecting SN subscriptions:

1. Initially, the CRB managers and Board of Directors are requested to visit the SNs and directly solicit payments on subscriptions past due.
2. SNs having BSF in rural banks are encouraged to take those savings eligible for withdrawal and invest the proceeds in the CRB. In cases where SNs experience difficulty in taking the BSF out of a particular Rural Bank, the Central Bank has promised to give its full support to SN requests.
3. SNs with subscriptions past due are also encouraged to execute waivers allowing the CRB to sell the delinquent subscriptions to other SNs desiring a larger investment in the CRB.

When implemented by CRBs, the above approach has been relatively successful in temporarily improving collections of stock subscriptions due. However, in situations where collection problems keep recurring or are anticipated to recur, the CFG could consider recommending to the CRB that a special meeting of stockholders be held for the purpose of voting a decrease in the CRBs capital stock by amending the Articles of Incorporation. Another option available is for the CRB to declare past due subscriptions in default and to sell the subscriptions at auction. However, before taking actions to amend the articles of incorporation or declare subscriptions in default, the CRB should always consult with legal counsel.

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In regards to helping a CRB decrease its loan delinquency rate, CFG has not been very active. This is due to CFG's limited resources and not to any unwillingness to tackle in detail this common problem of CRBs. Curing a delinquency problem is extremely difficult and requires a great amount of time. Loan approval and loan servicing procedures and policies need to be analyzed, the competence of bank staff assessed, and overall bank organization and management understood. Only then can strategies for eliminating any identified deficiencies be effectively developed and implemented. In the future, CFG will need on occasion to become involved in this type of assistance, especially with those CRBs which are active or large lenders of CFG loans.

When a CRB that is participating in CFG's loan program loses its eligibility for an extended period of time because of unpaid subscriptions, loan delinquencies, or other reasons, and CFG believes the CRB's problems cannot be overcome in the near future, CFG should consider invoking certain clauses in the STD agreement(s) signed by the CRB, whereby CFG is empowered to terminate its relationship with the Bank and assume direct control of all CFG loans held by the CRB.

Improving CFG's Use of Legal Counsel

CFG's lending program could be improved through using the legal counsel available at both CFG and the CRBs on a more routine basis, and through having CFG's attorney research and provide an opinion on certain legal procedures such as those associated with collateralizing a loan or foreclosing on collateral. For example, requiring the opinion of CFG's legal counsel on each loan applicant's eligibility to borrow and on the

enforceability of the terms and conditions of specific STD agreements and loan agreements may help considerably in avoiding some very costly errors. Similarly, CRB counsel's review of all collateral documents on a particular loan to determine that the borrower has legal title to the collateral, that the CRB's lien can be performed, and that the priority of the CRB's lien is in accordance with the loan agreements may also protect CFG and the CRB from committing some major mistakes.

Besides requiring these types of opinions on a routine basis, CFG's attorney could research and give advice on the following questions:

1. Does an assignment of inventory and accounts receivable satisfy a loan agreement's requirement that a chattel mortgage be taken?
 2. Does an assignment of inventory and accounts receivable carry the same weight as a chattel mortgage in regards to establishing who has priority among a group of creditors?
 3. Are the loans in a CFG financial package fully cross collateralized when a lien on inventory and accounts receivable is established through an assignment in lieu of a chattel mortgage?
 4. What are the procedures that CFG must follow when enforcing the various clauses of its STD agreement?
 5. What are the legal procedures for a CRB declaring on AMC borrower in default, commencing foreclosure procedures, and liquidating various types of collateral?
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6. What legal responsibilities does CFC have in regards to AIC investments in the Guarantee Fund?

There are many other legal questions that could be researched, but the questions presented above seem to be those most pressing at this stage of CFG's development.

Concluding Remarks

Many of the observations and recommendations expressed in this Final Report are not new and in fact, many of the items discussed were first brought to the attention of this consultant by CFG staff members, particularly Oswald Gervacio and Tony Darjuan as well as others. That much work remains to be done towards improving CFG as a lending institution is not an indication that substantial progress has not already been accomplished but is instead only an indication that CFG is still a fledgling institution with relatively modest resources, particularly in the area of staffing. Taken in perspective, CFG has done a very good job and has already begun to lay the foundations for the establishment of a sound lending institution. However, CFG must not rest on its past success, but should vigorously push forward towards more accomplishments. This Final Report has been written with the intent that some of the ideas expressed herein may be helpful in CFG identifying specific areas in its lending system that might be further improved.

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A POSITION PAPER ON THE
FURTHER DEVELOPMENT OF THE COOPERATIVE FINANCE SYSTEM

CENTRAL BANK OF THE PHILIPPINES

BY

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October 1982

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ABOUT THE AUTHOR

The author is a consultant on cooperative finance, engaged by Agricultural Cooperative Development International, Washington, DC (ACDI) which currently has a contract with the Government of the Philippines to furnish certain technical assistance for the Philippine Cooperative Marketing Project (CMP).

Since October 1979, the author has been assigned to the Central Bank of the Philippines, Manila as a long-term consultant to the Cooperative Finance Group (CFG) of the Central Bank to assist in development of a Cooperative Finance System (CFS) which was undertaken by the Bank as one of the participants in the CMP. Therefore, for the past three years, the author has had wide exposure to the progress and problems of cooperatives in the Philippines as well as the challenges associated with the development of a sound, constructive and enduring CFS - one of the major objectives of the CMP. Other overseas experience of the author included several weeks in 1977-78 as consultant to the General Manager of FINANCIACOOP which is an apex bank for cooperatives in Bogota, Colombia, S.A. And, very early in his career, the author was in Japan, in both a military and civilian capacity during the U.S. Occupation from 1946 to 1951 assisting cooperatives to reorganize and recover from the consequences of WW II.

For some 25 years prior to his current assignment, the author gained a wealth of knowledge and experience in both the line and staff functions of a cooperative lending institution. This included providing loans and financial counseling to a wide variety of cooperatives from the smallest and newest developing cooperatives to some of the largest and most sophisticated cooperatives. This experience was gained in the Springfield (Mass.) Bank for Cooperatives of the U.S. Farm Credit System which specializes in lending to farmers and cooperatives and wherein the author rose from the position of Business Analyst to Senior Vice President and Chief Operating Officer.

A C P O N Y M S

- ACDI - Agricultural Cooperative Development International, Washington, DC
- AMC - Area Marketing Cooperative
- BCOD - Bureau of Cooperatives Development, Ministry of Agriculture
- CB - Central Bank of the Philippines
- CBI - Central Bank Institute
- CCT - Committee for Cooperative Finance, Cooperative Marketing Project
- CDLF - Cooperative Development Loan Fund, Ministry of Agriculture
- CFG - Cooperative Finance Group, Central Bank of the Philippines
- CFPI - Cooperative Foundation of the Philippines, Inc.
- CFS - Cooperative Finance System, Cooperative Marketing Project
- CFP - Philippine Cooperative Marketing Project
- CMS - Cooperative Marketing System of the Philippines
- CRB - Cooperative Rural Bank
- DRBSLA - Department of Rural Banks and Savings and Loan Associations, Central Bank of the Philippines
- IAPP - Integrated Agricultural Production and Marketing Project
- ICC - Inter-Agency Coordinating Committee, Cooperative Marketing Project
- MA - Ministry of Agriculture
- NBC - National (Apex) Bank for Cooperatives
- NEDA - National Economic and Development Authority

**A POSITION PAPER ON THE
FURTHER DEVELOPMENT OF THE COOPERATIVE FINANCE SYSTEM
CENTRAL BANK OF THE PHILIPPINES**

**BY
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October 1982

1. PURPOSE:

- 1.01 The purpose of this paper is to first, present a review of the development and status of the Cooperative Finance System (CFS) and its operating arm, the Cooperative Finance Group (CFG), and second, to present this Consultant's recommendations for the further development of the CFS in order to more effectively meet the growing needs of cooperatives and Cooperative Rural Banks (CRBs) as the CFS moves into its next major stage of development.
- 1.02 It should be pointed out at the outset that this paper is intended to deal primarily with those aspects relating to the delivery of financial assistance to cooperatives as a part of and a future outgrowth of the Cooperative Marketing Project (CMP). Therefore, and for purposes of brevity, it will not directly address the activities and contributions to the development of cooperatives that have been or will be provided in the future by the other agencies participating in the CMP. Needless to say, the continued strong support of those agencies, especially the Bureau of Cooperatives Development, Ministry of Agriculture, and the National Food Authority, on a coordinated basis, will be absolutely essential to the future growth and success of cooperatives in the Philippines.

2. THE COOPERATIVE MARKETING PROJECT:

- 2.01 The CFS/CFG was created by the Central Bank within the Department of Rural Banks and Savings and Loan Associations (DRBSLA), pursuant to Office Order No. 170, Office of the Governor, on July 5, 1978 at which time it was charged with the administration of the loan, guarantee and trust funds of the Cooperative Marketing Project (CMP). The CMP, created as a result of a bilateral agreement between the Republic of the Philippines and the United States of America, dated May 3, 1978:

2.04 Also as a part of the CFP Implementation Plan, the Committee for Cooperative Finance (CCF) was created consisting of the following:

Director, CR/DRBSLA	- Chairman
Director, RCOD/MA	- Vice Chairman
Executive Dir., CFI	- Member
One Representative of CRBs	- Member
One Representative of A/Cs	- Member

The CCF was established primarily to develop the Rules and Regulations for submission to the Monetary Board and those Rules and Regulations now govern the operations of the CFC.

The CCF also has the responsibility to review the credit and related services required by cooperatives and to recommend plans and programs to meet those needs. The CCF therefore acts as the policy initiating body for the CFC. Together, they are expected to be ongoing entities to continue providing for the financial needs of cooperatives after the CFP completion date of March 31, 1983.

2.05 Another major element of the CFP, was the provision of 96 person months of technical assistance. To date, this has been provided by U.S. expatriate consultants through Agricultural Cooperative Development International (ACDI) under a long-term contract between it and the Philippine Government. In October 1979, ACDI fielded two long-term (three-year) consultants to assist with the CFP. This included George Voth, a Senior Marketing Specialist, who was assigned to assist in the development of the cooperative marketing aspects and this consultant, a Cooperative Finance Specialist, who was assigned to the CFC to assist in development of the Cooperative Finance System. Additionally, ACDI will be providing approximately twenty person months of short-term consultancies dealing with specific technical areas. Mr. Voth completed his tour and left the Philippines in October 1982. The services of this Consultant have recently been extended for six-months and I am now scheduled to depart on April 1, 1983.

In addition to the foregoing, the Integrated Agricultural Production Marketing Project (IAPMP) has provided other expatriate consultants in support of the CFP. This included a Cooperative Management consultant during the period from May 1978 to February 1980 and another similar consultant from May 1981 to July 1982.

- 3.04 In addition to providing loan funds to A/Cs through CRBs, the CFC can also invest on a direct basis in the preferred stock of a borrowing A/C which investments are categorized under the CFP as Trust Funds. Such investments in preferred stock cannot exceed the unimpaired paid-in member capital of ₱1,000,000 whichever is greater per A/C according to the existing Rules and Regulations. Trust Fund investments are generally, but not necessarily, made in conjunction with long-term loans to temporarily augment the members' paid-in capital to satisfy CFC's debt to equity limitations or to provide permanent working capital or capital to margin loans. Redemption of the preferred stock, the source of which is usually from future capital investments of members, is generally co-terminus with the long-term loan up to a maximum of ten-years. Preferred Stock held by CFC is non-voting and bears dividends at 1/5 the rate paid by the borrower on its common stock.
- 3.05 The general credit policies of the CFS as set forth in the Rules and Regulations include a policy to provide a borrower's total financial needs whenever possible which are tailored to the peculiar needs of the borrower. Types of loans include long-term (up to 10 years) and short-term, usually for one-year. Interest rates are concessionary at 8% per annum for long-term and 9% per annum for short-term. Interest is collected in arrears and no service charges or other add-ons by the CRB or other primary lender are permitted. All loans are generally collateralized.
- 3.06 Aside from the concessionary interest rates, all loans are made on the basis of conventional credit criteria. Applications together with supporting documentation (feasibility studies) for financial assistance, when endorsed by the CRB, are thoroughly scrutinized and evaluated by the CFC to determine if the requested financing is sound and constructive, fulfills the needs of the borrower and its members, and full repayment can reasonably be expected. Loans approved by the CFC Loan Committee which exceed the lending limit of the respective CRB must be approved by the Director of the DRBSLA and confirmed by the Monetary Board. Each loan granted is subject to an STD Agreement with the CRB which imposes specific loan servicing requirements upon the Bank and by a Loan Agreement between the Bank and the borrower which imposes conventional loan terms, conditions and other normal credit disciplines upon the borrower.

system and to provide guidance to their boards and management as to how they could qualify for financial assistance. This, of course, took a great deal of time, plus the fact that CDLF had limited funds to lend, gradually led to changing attitudes toward this new lending system. While significant progress has been made in overcoming the negative attitudes, it will need continuing emphasis.

4.02 As a result, financial assistance has been granted to only five (5) AICs as of September 30, 1982 as follows:

<u>AIC</u>	<u>Loans Closed</u>	<u>Term/ Special Term Loans</u> (000's omitted)	<u>Commodity/ Seasonal Loans</u>	<u>Trust Fund Investments</u>	<u>Totals</u>
North Cotabato	Jul 80	₱ 427(T)	₱1,250(C)	₱ 200	₱1,877
Agusan del Sur	Mar 81	624(T)	750(C)	465	1,839
First Iloilo	Mar 81	-	200(C)	-	200
Central Nueva Ecija	Apr 82	2,250(T)	1,000(C)	950	4,200
North Cotabato*	Jun 82	-	1,000(C)	-	1,000
Southern Iloilo	Jun 82	300(ST)	-	-	300
First Iloilo*	Jun 82	500(ST)	-	-	500
Totals		<u>₱ 4,101</u>	<u>₱4,200</u>	<u>₱1,615</u>	<u>₱9,916</u>

* Reborrowings or additional loans.

These same borrowers have so far invested a total of ₱150,000 in the Guarantee Fund described in 3.03 above.

4.03 It is too early to draw any clearcut conclusions on repayment performance. The first loans to North Cotabato and First Iloilo have been fully repaid or are being repaid on schedule. The loans to Agusan Del Sur are presently delinquent due largely to ineffective management but also to some crop failures and lack of membership support. The CFG is recently completed negotiating a rehabilitation program involving loan restructuring, raising additional member capital, providing some additional financing under a custodianship arrangement and the imposition of specific management and financial controls. None of the recently granted loans to the other AICs shown above have as yet reached any loan maturities. The capabilities of the CFG staff to maintain an effective loan servicing program will be critical to future repayment performance and the quality of the loan portfolio.

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in the total amount of approximately P5,400,000.

While the principal workload for this program is being decentralized to the respective CRBs, it will nonetheless further tax the limited manpower available to the CFC.

5.03 In viewing the longer term market potential, there are a relatively large number of other cooperatives in the Philippines in need of financial assistance. For example, there are some 840 credit cooperatives/unions, 394 consumer cooperatives and a number of other types of cooperatives. While these are classified as non-agricultural, many are located in rural areas and are in fact serving farmers, fishermen and agri-business. And for the most part, these cooperatives are in a much sounder financial condition and a much more advanced stage of development than are the agricultural cooperatives to which the CMP is directed.

6. SOME CONSTRAINTS TO THE FURTHER DEVELOPMENT OF COOPERATIVES AND THE COOPERATIVE FINANCE SYSTEM:

6.01 As was evident to the architects of the CMP, one of the serious constraints to the development of cooperatives is the rather general lack of knowledge and experience on the part of cooperative management and boards of directors. This is why one of the major thrusts of the CMP centered around the development of management/director skills. From the outset of the CMP, the BCOB has actively conducted seminars however, only limited success has so far been noted. It is assumed that the BCOB will continue this important activity when the CMP is terminated. It has long been felt by this consultant as well as others that in order to improve the effectiveness of the formal seminar training, it needs to be supplemented with a concentrated program of on-site, one-on-one technical assistance in order to assist the cooperative personnel in applying the "classroom" knowledge to their own situations. This is particularly true in relation to dealing with specific operating problems many of which are unique to each cooperative. This one-on-one training concept was recently tested by the CFPI with reasonably good results. Actually, the need for training and education will probably be never ending as the cooperatives progress through various stages in their development. And, since not all cooperatives are in the same stage at the same time it will call for a considerable amount of individualized or tailor-made training. At this point, the question is, which agency or entity should be responsible for this critical component in cooperative development.

6.04 This Consultant feels, based upon personal observations, that CRBs are in desperate need of technical assistance and training in basic lending and other bank operations. Many CRBs are having operating difficulties and since the CFS/CFG is relying on them as its vital link in providing financial assistance to cooperatives, and if the CRBs are to become an integral part of a future apex bank for cooperatives as well as continue to provide financial assistance to farmers, it is imperative that CRBs be developed into strong financial institutions. The CR through its CBI appears to be providing CPB directors and key personnel with adequate and on-going training relative to banking laws, regulations, accounting/reporting requirements, planning, board/management relationships, etc. However, as is the case with APCs and SNs, there appears to be a great lack of assistance in helping the CPB directors and staff apply the classroom concepts to their everyday operations and especially in helping them develop basic operating procedures and techniques which respond to their unique local circumstances. Because the key CFG staff is being drawn from the DRBSLA and because they will be in frequent contact with CRBs in the field, it is felt that the CFG will be in a much better position to assist CRBs in strengthening their operations than any other group.

7. CURRENT AVAILABILITY OF FUNDS TO CFG:

7.01 As previously indicated, the U.S. Government through USAID has made available, until March 31, 1983 a total loan to the Philippine Government of \$6,000,000. Of that amount, \$702,000 was set aside to support the necessary technical assistance and to provide certain commodities to recipient APCs leaving \$5,298,000 for loan, trust and guarantee funds or a total amount of ₱39,735,000 (at 7.5 to 1). Additionally, the Philippine Government through the RCOD has provided CFG with ₱16,372,000 of loan funds as a portion of its counterpart funding of the Project.

7.02 Following is a summary of the status of funds presently available to CFG:

7.03 As is evident from the foregoing, the major portion of the funds currently available to CFG are expected to be utilized in the near future. In addition to the A/C loan recipients presently anticipated, there will be a market in the very near future for loans to some other A/Cs particularly as new ones are formed. Further, experience reveals that once an A/C receives its initial loans, and assuming its operations are reasonably successful, its needs for additional financing usually accelerate very rapidly. Additionally, the initial phase of lending to about 155 SMs is expected to reach only a small proportion of the market. It is estimated that a total of at least 1,500 SMs (out of 21,000) could qualify for financial assistance. Therefore, the balance of funds available may be adequate through 1983 since the existing funds are on a revolving basis and will remain in the CFS. However, if the CFS is to continue as a reliable and continuous source of borrowed funds for credit-worthy cooperatives and if the CFS is to evolve into a national or apex cooperative banking institution as originally contemplated, the CFG will need to explore sources of additional funding in the immediate future. Some potential sources are the Philippine Government, USAID, Asian Development Bank, World Bank or other similar development agencies.

8. FEASIBILITY OF A NATIONAL BANK FOR COOPERATIVES:

- 8.01 One of the principal objectives of the Philippine Government in undertaking the CMP was to attempt to develop, on a pilot basis, a sound, constructive, reliable and cooperatively owned banking institution for developing cooperatives. Under the CMP, the CFS/CFG was created to test the credibility and potential viability of such an institution and it was initially directed at a limited number of A/Cs and CRBs since these were fledgling organizations with the greatest need for financial and management assistance. The CMP architects envisioned that if successful this embryonic, CFS/CFG would eventually evolve into a National Bank for Cooperatives (NBC).
- 8.02 In furtherance of this objective, this consultant instigated, in a recommendation to the Project Manager in June 1981, the undertaking of an in-depth study into not only the feasibility of developing an NBC but if determined to be feasible what should be the necessary interim development strategies to be undertaken by the CFG that should be prerequisites to the creation of an NBC on a sound and viable basis. This recommendation was favorably received by all sectors and the study commenced in October 1981 by the Technical Board for Agricultural

- d. Establishment of an NBC at this time is clearly premature. The TRAC feasibility study is expected to provide an appropriate long-term strategy which goes beyond the intent of this paper.
- e. Since the CFG is developing the basis and experience for a sound cooperative finance system, it is the most logical interim vehicle and nucleus from which an NBC can develop.

9. LIMITATIONS OF THE PRESENT CFG STRUCTURE:

- 9.01 Very judiciously, the CFG was placed under the tutelage and supervision of the Director, CB/DRBSLA during its initial stages of development who also provided its staffing requirements. Now, that a reasonable amount of experience has been gained and a future direction can be more clearly defined, some adjustments seem appropriate so that the CFG can more adequately gear itself to meet the rapidly growing changes and needs of cooperatives. A further compelling factor is the fact that the superstructure around the CFG which was set up under the CMP, including the services of this consultant, are all scheduled to expire on March 31, 1983, while the CFG is expected to survive and hopefully mature into an NBC. The stage for this development therefore needs to be set now.
- 9.02 It should also be recognized that the kinds of operations and needs of the CFG are somewhat unique and foreign to the normal bank supervisory and regulatory functions of the CB. Trying to incorporate the CFG activity into the normal functions of the CB could easily cause difficulties for both entities. It would therefore seem desirable to gradually extract the CFG from the CB. This process should in my opinion be evolutionary because the CFG is clearly not yet capable of standing on its own. For some time to come, it will continue to need the assistance and guidance of the CB together with its prestige and clout as the CFG continues to establish its own credibility. These, I feel, will also be vital ingredients to the success of the CFG.
- 9.03 One of the most serious impediments to the future development of the CFG, in my opinion, is the lack of full-time management and inadequate staffing. This statement is not made in a critical vein since until very recently, the level of activity of CFG could not justify anything different. The quality of

10. SUMMARY AND RECOMMENDATIONS:

10.01 The CFS and CFG appear to be on the threshold of being propelled in a very meaningful way toward the ultimate objective of firmly establishing a cooperatively owned reliable, sound and constructive lending institution through which financial and technical assistance can be effectively provided to the developing cooperatives in the Philippines. This is not simply an intervention. Hopefully, a positive and constructive environment can be maintained to permit the CFG to pursue that objective in an aggressive but carefully planned and executed manner. An important part of that environment is the ability and willingness to make necessary changes to meet its growing and changing needs. At the present time, there are two basic needs which should be addressed:

- a. There appears to be a need to restructure the Committee for Cooperative Finance (CCF) and its responsibilities in view of impending expiration of the CMP and its Inter-Agency Coordinating Committee (ICC) on March 31, 1983. As programmed in the CMP Implementation Plan, the CFS will be the only surviving "institution" of the CMP at the national level. Therefore, the CCF will need to elevate itself to a more active body and to be able to respond to the perceived needs of the CFG.
- b. With the growing and changing needs of the developing cooperatives and the developing CFS, the CFG needs to be restructured and repositioned within the Central Bank in order to more adequately meet those needs.

10.02 In view of the foregoing, this consultant presents the following recommendations for consideration:

- a. The overall supervision and coordination of the CFS should be placed under a Special Assistant to the Governor of the CB under the Deputy Governor, Supervision and Examination Sector.
- b. The CCF Guidelines appearing as Attachment I to the CMP Implementation Plan should be revised to establish the CCF in a more formal manner as the policy making body (to act like a board of directors) of the CFS/CFG. Among other things, the CCF should be vested with the authority, subject to Monetary Board approval as appropriate, at least for the following:

- d. In order for the CFG to begin to develop its own character, image, policies, procedures, practices, etc. to meet the needs of this evolving cooperative finance system it should, at this stage, be repositioned as a more autonomous unit within the CB reporting directly to the CCF and its Chairman, a Special Assistant to the Governor, CR. It is obviously too early to have the CFS strike out on its own. The CB should continue to play a very vital role in guiding the development of the CFS and the CB connection can give the CFG a high degree of credibility in dealing with others. Further, some CB support in the form of office facilities, legal, accounting and other staff support and in providing a limited number of its staff to the CFG will be desirable for at least the near future. However, one of the CFG's primary objectives should be to become self-sustaining within a reasonable period of time.
- e. Perhaps most critical to the CFG if it is going to successfully manage its growing business and at the same time build a sound financial institution to meet the needs of cooperatives is for the CFG to have most of its staff members on a full-time basis in the very near future, particularly its key management personnel. Further, the CFG staff needs to be consolidated in one office location in order for it to develop cohesiveness and effective coordination of its operations. Hopefully, the CB can continue to provide basic office furniture, telephones, supplies, etc. Other office equipment such as typewriters, calculators, filing cabinets, etc. can probably be purchased by CFG from its earnings.
- f. In terms of presently felt CFG staffing needs, it is highly recommended that if possible, these positions be filled by CFG staff members who are currently assigned on a part-time basis. These individuals with whom I have worked closely for the past three years are highly qualified and dedicated and could of course carry with them all of the experience of the CFG to date. Attached as Annex A, is a proposed organizational chart for the "new" CFS. If staffed as proposed, this would result in:

- (1) Assignment of the following part-time staff to a full-time basis:

Merio G. Vicente	- Chief Executive Officer
Renato C. Quinto	- Executive Officer
Oscar Longalong	- Legal Officer
Francisco Paule	- Business Analyst
Macario Rodriguez	- Engineer/Business Analyst

- h. In consonance with the foregoing and because of the critical linkage provided by the CPBs in the CFS, it is suggested that the CFG through the newly created Development and Technical Assistance Section be given the responsibility and authority to provide management and technical assistance to all CRBs. The term, all, is used advisedly. It refers only to those CRBs which are viable, including newly organized CPBs, as agreed upon between the CFG and the DPBSLA. It is not anticipated that CFG would be able to staff-up to salvage CRBs with serious problems. Neither is it contemplated that the CFG would assume any of the basic responsibilities of the CB in the areas of regulation, supervision, examination, training of CRB personnel on regulatory and accounting matters, etc. nor should CFG assume any of BCON's registration, regulatory or supervisory responsibilities for cooperatives. It is believed that the CRBs which have some unique characteristics when compared to private rural banks can best be assisted in their development by a similarly oriented entity such as CFG. Further, if the CRBs are to continue as vital links in the CFS or a successor NBC, successful development of CRBs will be in the System's own best interest.
- i. Presently, the CFS operates under a soundly conceived set of Rules and Regulations adopted by the ICC and the Monetary Board which are carefully attuned to the CFP. However, in order to make adjustments in the CFG operations as envisaged in this paper and in anticipation of the termination of the CFP, the following principal revisions to the Rules and Regulations should be considered for adoption by the CCF, ICC and Monetary Board:
- (1) Provide for removal of the fixed interest rates since interest rates in the future could be dictated by costs of funds not now existing. The present rates are fixed to borrowing cooperatives at 9% per annum on short-term loans and 8% per annum on long-term loans and the STDs to CPBs bear rates of 4% and 5% respectively. In the future, interest rates should be established from time to time by the CCF, subject to approval of the Monetary Board, and based upon cost of funds, financial needs of the CFG and conventional rates charged by other lenders for similar loans. Even if it is feasible to continue the existing interest rate structure, an objective of the CFS should be to gradually depart from these subsidized rates and move closer to rates charged by others. Such action would be in the long-term best interests of the CFS or a successor NBC.

Since the CFG funds are not CB funds per se this proposed expansion of authority for the CFG would not appear to violate any legal constraints of the CB. It should be a stated policy that whenever such authority is exercised that the CFG should turn over such loans to an eligible CRB at the earliest practical time. It is intended that this authority be utilized judiciously on a last resort basis subject to the approval of the CCF on a case-by-case basis. Experience to date has demonstrated where such authority could be useful in providing financial assistance to cooperatives in a more timely manner and/or providing needed additional loans to an AMC where the CRB has become ineligible.

- j. Since it appears that the CFS will be in need of additional funding in the near future and because of the long lead time necessary to explore, negotiate and receive such funding, it is suggested that the ICC/CCF aggressively address this matter at the earliest possible time. The CFS is being built as a continuous and reliable source of credit for cooperatives. In order to fulfill that commitment, it must be prepared to constantly pursue various sources of additional funds in order to satisfy not only the rapidly growing needs of existing borrowers but also for growth and expansion of the System.

10.03 Timing and implementation of the recommendations contained herein can be very important to the continuation of the CFS in a coordinated and successful manner. Assuming the foregoing recommendations are considered favorably by the ICC and CB, I would suggest the following timetable:

- (1) Recommendations 10.02 a., d., e., f., g., and h. relative to the restructuring and repositioning of the CFG should be implemented as soon as possible but hopefully no later than December 31, 1982. This timing would provide a reasonable amount of time for this consultant to provide assistance and guidance during this significant transition and reorganization phase.
- (2) The ICC/CCF should appoint a sub-committee to draft the revisions to the CCF Guidelines and structure proposed in recommendations 10.02 b. and c. above for consideration by the CCF, ICC and approval of the Monetary Board. The revised CCF Guidelines can hopefully be in place no later than December 31, 1982.

PROPOSED STRUCTURE OF CCF/CFC

Brief Description of Principal Responsibilities
of Each Major Function

1. **Committee for Cooperative Finance** - Responsible for the overall performance of the CFC including but not necessarily limited to the following:
 - a. Establishes lending and operating policies for CFC.
 - b. Monitors and evaluates the performance of the CFC and compliance with policies.
 - c. Establishes short and long-range plans for the development of the CFS toward the objective of establishing an apex bank for cooperatives.
 - d. Plans for and secures adequate funding to meet the needs of the CFC.
 - e. Approves operating budgets from the CFC.

2. **Chief Executive Officer** - Responsible for the overall management of the CFC including but not necessarily limited to the following:
 - a. Serves as Chairman of the Loan Committee.
 - b. Develops operating plans and budgets for approval by the CCF.
 - c. Establishes management policies and procedures to insure:
 - (1) Compliance with policies established by the CCF
 - (2) Adequate accounting and control of CFC funds and assets
 - (3) Staffing and coordination of all CFC functions
 - (4) Sound and constructive lending, servicing and collection functions sensitive to the needs of borrowers.
 - (5) Provision of needed credit related services directed at improving the operations of borrowers, CCBs, and credit cooperatives and providing them with needed services.
 - (6) Provides the CCF with adequate reports and assists them in carrying out their functions.
 - d. Makes recommendations to the CCF on new policies or changes to existing policies directed toward the further development and expansion of the CFS.

3. **Executive Officer** - Responsible for the day-to-day operations of the CFC including but not necessarily limited to the following:
 - a. Serves as vice-chairman of the Loan Committee
 - b. Acts for the Chief Executive Officer in his absence
 - c. Coordinates and supervises the activities of subordinate staff officers.

7. **Legal Section - Responsibilities include but are not necessarily limited to the following:**
- a. Legal Officer serves as legal counsel to the CCP, the CFG staff and the Loan Committee.
 - b. Certifies as to the eligibility or continued eligibility of borrowers, CRBs and credit cooperatives.
 - c. Prepares all legal documents for CFG including loan agreements, collateral security documents, other contracts/agreements, etc. or revisions thereto.
 - d. Assists in loan closing on loan collection functions as necessary.
 - e. Provides assistance and counsel on legal matters to borrowers, CRBs and credit cooperatives.
8. **Fiscal and Accounting Section - Responsible for all fiscal and accounting matters of the CFG including but not necessarily limited to the following:**
- a. Fiscal Officer serves as a member of the Loan Committee.
 - b. Develops and maintains an accounting and record-keeping system responsive to the needs of the CFG and CCP.
 - c. Manages the receipt and disbursement of all CFG funds and maintains appropriate checking or other accounts.
 - d. Provides accurate and timely financial statements reports, etc. for the CCP and the CFG management.
 - e. Invests CFG funds pursuant to policies or directives.
 - f. Recommends policies, procedures, etc. to maintain control (safety) of CFG funds and other assets.