World Council of Credit Unions, Inc.

Strengthening the Philippine Model Credit Union Network Private Deposit Insurance Facility (DIF)

USAID Cooperative Agreement No: 492-A-00-05-00028-00

Final Report

Mr. Adrian Rodriguez, Project Director
Mr. David C. Richardson, Project Manager

January 27, 2011

WOCCU

World Council of Credit Unions, Inc. • 5710 Mineral Point Road • Madison, WI 53705-4493
Phone: (608) 395-2000 • Fax: (608) 395-2001 • mail@woccu.org • www.woccu.org

TABLE OF CONTENTS

ACRONYM LIST

ACCRA	Angara, Abello, Concepcion, Regala, & Cruz law firm based in Davao City, Mindanao.
APPEAL ratios	Selected group of PEARLS ratios used as standards for the Deposit Insurance Facility (DIF) participation (A1, P2, P6, E9, A2, L1).
ASR	Accounting System Review
BDMPC	Bukidnon Development Multi-Purpose Cooperative
BIR	Bureau of Internal Revenue
CDA	Cooperative Development Authority
CDS	Cooperative Development Specialist
CPIP	Credit Policy Improvement Program
CUES	Credit Union Empowerment and Strengthening
DIF	Deposit Insurance Fund
DGF	Deposit Guarantee Fund
LPAT	Loan Portfolio Analysis Tool.
MASS- SPECC	Mindanao Alliance of Self- Help Societies- Southern Philippines Educational Cooperative Center
MCUB	Model Credit Union Building
MEDco	Mindanao Economic Development Council.
MORR	Manual of Rules and Regulations (MORR) for Savings and Credit Cooperatives.
PAR	Portfolio at Risk
PEARLS	WOCCU's credit union monitoring system, made up of Protection, Effective financial structure, Asset quality, Rates of return and costs, Liquidity, and Signs of growth.
PFCCO	Philippine Federation of Credit Cooperatives
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions, Inc.

I. BACKGROUND

The WOCCU Credit Union Empowerment and Strengthening (CUES 3) Project "Strengthening the Philippine Model Credit Union Network & Private Deposit Insurance Facility (DIF)" was approved in October 2005 with an original end date of November 30, 2008. The rationale for the approval of the CUES 3 Project was based on several factors:

1. The impact of the CUES 1 and CUES 2 projects was significant in terms of helping strengthen weak credit unions by promoting financial discipline and improving the quality of products and service to their membership. It was considered to be important to continue to supporting this endeavor to consolidate the gains made.
2. At the time of the project approval, there was no legal regulatory framework for credit unions in the Philippines. Self-regulation was the modus operandi, which was shown to be ineffective.
3. It was anticipated that the creation of a savings guarantee fund and private legislative framework would provide incentives for the credit unions to maintain their financial disciplines while at the same time, offering a similar guarantee on deposit savings as the banking sector.

The original CUES 3 Project had the following objectives and deliverables:

1. Create a private legislative framework with prudential standards that all DIF members must follow.
2. Transfer a revised MCUB restructuring/modernization technical assistance program to the partner federations to support their capacity to prepare the affiliated members for entrance into the DIF and supervise and regulate those cooperative members who are not DIF participants.
3. Assess the feasibility and design a deposit protection fund, including fund management, access, handling and security that will be owned by the participating savings and credit cooperatives.
4. Purchase a standardized and computerized accounting system software that will facilitate the transfer of financial information to the DGF in order to detect risks before they become serious.
5. Ensure the existence of accounting and reporting systems that permit monitoring and evaluation of the DGF implementing organization.
6. Maintain two project offices in Cagayan de Oro and Davao cities and through theses offices restructure/modernize up to 7 additional credit unions that will increase the number of DIF credit unions up to 30.

Even though the CUES 3 Project was approved in October, 2005, the project approval was based on the pre-condition of getting a written confirmation from each participating credit union that they would support the creation of the deposit guarantee fund, and that they would agree to follow the rules and regulations of the private legislative framework that would govern the operation of the fund.

The original CUES 3 Project also proposed an injection of $500,000 of grant money from USAID to help capitalize the fund. Due to the size of the donation, the local contracts officer wanted to get approval from the regional contracts officer, prior to any disbursement of funds. This approval process lasted for over two years. The final approval for the creation of the Deposit Guarantee Fund (DGF) did not occur until December, 2007.

During the elapsed time, a significant piece of credit union legislation was approved in October, 2007 by the Philippine Government called the Manual of Rules and Regulations (MORR). This legislation empowered the CDA to regulate credit unions and deputize their federations. Suddenly, it became apparent that there would be overlap and duplication of effort and cost between the DGF and the CDA. This was one of the main factors why the credit unions failed to approve the final proposal in September, 2008.

After that time, the project was restructured to help provide technical support and training to the Cooperative Development Authority (CDA) in order to prepare them for their new regulatory role. The project was extended from November 2008 to March 2010 to help accomplish this purpose.

When the project was modified in November, 2008 to support CDA, the deliverables were changed as follows:

1. Help the CDA in Region X, Cagayan de Oro City implement the Manual of Rules and Regulations for Savings and Credit Cooperatives.
2. Help MASS-SPECC develop a Supervisory Unit with the necessary technical tools to guarantee an effective regulation and supervision of Savings and Credit Cooperatives based on the MORR.
3. Test the Supervision System in at least four (4) pilot Cooperatives in Region X; two (2) MASS-SPECC-affiliated cooperatives and two (2) independent cooperatives supervised directly by CDA.

II. PROJECT IMPLEMENTATION STATUS

A. Project's work plan.

Annex 1 shows the work plan for the first phase of CUES 3 from October 2005 to October 2009. This work plan describes all planned activities in order to comply with the creation of the DGF.

Annex 2 describes designed activities in order to build technical capacities at CDA. More details are presented in the next sections.

B. Project review by objectives

A brief review of the history of CUES 3 by objectives will provide a concise summary of the impact that the project had, and the challenges that were faced.

1. Phase October 2005 to October 2008

a. **Objective: Create a private legislative framework with prudential standards that all DIF members must follow.**

Prior to the start of CUES 3, USAID had funded a Credit Policy Improvement Program (CPIP) that included an initiative to develop a legal and regulatory framework for cooperatives with savings and credit services. From the beginning of this initiative, the CUES staff played a significant role in its development, and heavily influenced the design of the Manual of Rules Regulations for Savings and Credit Cooperatives (MORR). project staff were involved in numerous meetings and workshops, and helped to provide ideas and share the indicators of the PEARLS Monitoring and Control system used by WOCCU to monitor the financial performance of credit unions worldwide.

The final version of the MORR, approved by the Philippine government in October, 2007, includes a monitoring and rating system called COOP-PESOS, which is comprised of qualitative ratios (COOP) and quantitative ratios (PESOS). The quantitative ratios of PESOS are based on WOCCU's PEARLS system. Sixteen of the eighteen PESOS ratios are the exact same indicators used in PEARLS.

By incorporating PEARLS into their monitoring system, CDA was able to utilize WOCCU's experience around the world, especially regarding the ratios related to institutional capital, non-earning assets, loan portfolio and savings structure, liquidity and delinquency.

Additionally, the CUES 3 Project selected some key PEARLS ratios in order to assess and qualify the cooperatives willing to join the Deposit Guarantee Fund (DGF). A set of six (6) ratios referred to as *APPEAL,* was used as the tool for the preliminary financial assessments of the twenty-three (23) cooperative beneficiaries of the project. For a full list of those cooperatives please refer to the **Annex 3**.

In addition to the PEARLS ratios, WOCCU had developed an additional set of quantitative and qualitative indicators as part of a comprehensive risk management tool. This tool was to be implemented by the DGF as its official system for the qualification and monitoring of its members.

b. **Objective: Transfer a revised MCUB restructuring/modernization technical assistance program to the partner federations to support their capacity to prepare the affiliated members for entrance into the DIF and supervise and regulate those cooperatives members who are not DIF participants**.

The Model Credit Network (MCN) was created in December, 2004, as part of a comprehensive strategy to bring together credit unions who were using the Model Credit Union Building (MCUB) technology and who had significantly strengthened their organizations. Its membership was made up of fourteen partner savings and credit cooperatives from southern Mindanao who were involved in the CUES 1 and CUES 2 projects. The federation was created to fill a void in the market for those who wanted to follow the international standards provided by WOCCU.

During the period from 2004 to 2010, WOCCU provided on-going technical assistance to MCN by allowing it to use all of the MCUB methodologies, tools, and software. At the close of the project, WOCCU transferred to MCUB the legal right to continue using the FOCCUS Brand (Finance Organizations Achieving Certified Credit Union Standards) that was developed as a marketing brand to provide incentives for the CUES partners to maintain the financial disciplines and promote their safety and soundness to the public.

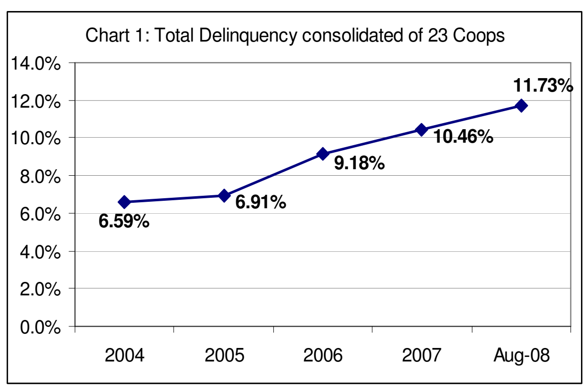
In order to expand the use of the MCUB methodology, WOCCU decided to invite two other federations in addition to MCN, to participate in the project, in June, 2006. The Mindanao Alliance of Self- Help Societies - Southern Philippines Educational Cooperative Center (MASS-SPECC) and the Mindanao League of the Philippine Federation of Credit Cooperatives (PFCCO) both accepted the offer to participate since they were very interested in receiving the MCUB model credit union building technologies.

MASS-SPECC is one of the largest cooperative federations based in Cagayan de Oro City. The staff from MASS-SPECC technical unit also attended several workshops and training sessions in the field. Personnel from both federations sent staff to be trained on the MCUB technology. In order to develop a better understanding of the PEARLS system, the project designed a manual to help the Partner Federations learn how to reclassify their accounting records from the Standard Chart of Accounts to the PEARLS equivalent accounts.

c. **Objective: Assess the feasibility and design a Deposit Protection Fund, including fund management, access, handling and security that will be owned by the participating savings and credit cooperatives.**

The feasibility of the Deposit Guarantee Fund was analyzed at two levels. First, the technical capacity of the primary level cooperatives to join the fund; and, second, the technical and financial feasibility of the fund itself.

One of the difficulties encountered in the training programs was that many credit unions belonged to more than one federation and there was a conflict of interest for these federations when applying the technical tools to their primary level cooperative members. In many cases the boards of directors, at the individual cooperative level, were also the same members of board of directors at the federation level.



The project was able to temporarily resolve this conflict by creating an independent examination unit within the project. By having technical and political independence from the federations and the credit unions, the project examination unit was able to uncover many internal weaknesses in the credit unions. Most of the problems were related to correctly reporting the true delinquency rate. It was found that some multi-purpose cooperatives would remove their delinquent loans from the loan portfolio, and transfer them to other departments of their multi-purpose activities, and thus, understand the severity of the problem. Without the legal framework to obligate the credit unions to change their policies, the project could not force them to change.

The project first started conducting on-site reviews of the financial progress of all beneficiary cooperatives in 2005, and later, developed the Accounting System Review (ASR) methodology which was used to calculate the APPEAL ratios during 2007 and 2008. The APPEAL ratios were taken from six PEARLS ratios and were selected as the most appropriate indicators of financial solvency, safety, and protection. The APPEAL ratios were all quantitative, easy to calculate, and very relevant in the design of the Deposit Guarantee Fund. These APPEAL ratios were used by the project in order to rank the cooperatives based on their financial performance.

As per the chart on the previous page it is clear that delinquency significantly increased in 2006 and 2007 and even in 2008. In some cases that increase was due to external factors such as tight market conditions or an increase in competition. In other cases, it was due to internal factors like a relaxation on financial disciplines and greater flexibility in achieving compliance with credit policies and procedures. Finally, in other cases, the increase in delinquency was due to the reclassification of loan portfolio after the preliminary assessment made by the CUES project.

The ASR was carried out in the 23 partner cooperatives during 2007 and 2008. The final reports that were produced suggested a list of necessary adjustments in the accounting records to correct errors or questionable accounting practices, especially in the loan portfolio. By August 31, 2008 only thirteen cooperatives had the potential to become members of the DGF and, among them, only five were in compliance with the minimum standards, as indicated in the table on the next page.

Chart 2
WOCCU-CUES Philippines Inc.
CUES 3 Project
RANKING OF BENEFICIARY INSTITUTIONS
31-Aug-08

COOP NAMES	A1<=10%	P2=35%	P6>=106 %	E9>=6%	A2<=10%	L1>=15%	Score
Micro-Entreprenuers MPC	0.77%	755.51%	128.37%	14.12%	6.64%	77.23%	6
MOEMCO	0.58%	64.47%	112.55%	9.05%	4.29%	20.81%	6
SAMAL	3.32%	37.50%	114.15%	10.52%	8.76%	36.32%	6
SILANGAN MPC	6.12%	35.00%	116.94%	8.20%	3.74%	23.25%	6
USPD Savings & Credit Coop	3.57%	52.81%	113.56%	9.79%	4.15%	21.81%	6
ABUYOG ST. FRANCIS XAVIER	18.81%	35.00%	122.01%	12.89%	4.70%	15.31%	5
Agdao MPC	20.72%	40.57%	113.54%	8.32%	6.46%	41.05%	5
BANSALAN COOP. SOCIETY ***	18.41%	42.84%	115.50%	10.66%	6.91%	20.89%	5
BAUG CARP BENEFICIARIES MPC	8.88%	53.99%	123.26%	11.54%	13.32%	42.35%	5
MEDIATRIX MPC	14.98%	41.91%	126.18%	15.74%	9.20%	21.60%	5
MSU IIT MPC **	9.17%	42.96%	112.97%	8.28%	14.84%	26.88%	5
PAGLAUM MPC	5.55%	43.67%	124.75%	9.67%	16.31%	32.60%	5
XUCCCO	10.19%	35.00%	112.23%	8.71%	2.88%	74.89%	5
BONTOC MPC	13.35%	35.00%	114.61%	10.69%	15.02%	19.70%	4
LARBECO	21.39%	33.56%	118.51%	11.01%	6.80%	39.45%	4
ORO INTEGRATED COOP	11.03%	36.35%	111.50%	6.62%	9.61%	10.51%	4
ANTRECCO	18.28%	33.06%	116.18%	11.41%	10.87%	31.55%	3
AURORA INTEGRATED MPC	10.96%	22.11%	109.33%	6.53%	13.07%	22.92%	3
ICTUS	5.25%	23.42%	110.67%	4.52%	10.12%	54.96%	3
KANGARA MPC	27.13%	0.00%	116.78%	11.51%	21.65%	32.27%	3
OCCCI	14.61%	35.12%	107.39%	4.27%	19.47%	26.99%	3
BASEY 1 DISTRICT MPC *	44.75%	0.00%	97.85%	-2.71%	3.73%	45.76%	2
TIBUD SA KATIBAWASAN MPC	18.90%	43.29%	103.82%	2.62%	19.78%	77.79%	2

*** Data as of February 2008**
**** Data as of July 31, 2008**
***** Data as of May 31, 2008**

Most of the changes that were made resulted in a substantial change in the financial condition of the cooperatives and their feasibility to enter to the fund. Bansalan Cooperative Society (BCS) was an example of one of the worst cases. This Cooperative showed 18.41% of delinquency as of March 31, 2008, but during the project assessment CUES 3 examiners discovered that the cooperative had the intention of misleading CUES and MCN staff with the reports they were submitting. Several BCS staff members admitted that they had been preparing different reports for CUES, MCN and their external creditors, in order to make their Financial Statements appear more appealing. After making the suggested adjustments, the delinquency rate increased to 22.8% and the net institutional capital was negative, which dropped its ranking from 5pts to 1pt.

During this time, another factor that heavily influenced such behavior at the cooperative level was the FOCCUS Brand that many cooperatives had received during CUES 1 & CUES 2. FOCCUS is an acronym that stands for "Finance Organizations Achieving Certified Credit Union Standards" with three levels: Bronze, Gold, and Platinum. This FOCCUS brand had achieved strong name recognition in the local marketplace that attracted new members into the cooperatives. Curiously, many boards and managers did not want to loose their brand identification, so they preferred to cover up their real delinquency rates so they could retain their brand. The fact that only 10 to 12 cooperatives could qualify for inclusion in the DGF created a lack of feasibility for the whole group and made the goal of thirty (30) cooperatives an unrealistic target.

With the advent of the new MORR, these problems will be resolved because all credit unions will have to maintain a standardized chart of accounts and will not be able to hide their delinquency. Furthermore, the on-site supervision associated with the MORR will make it much more difficult for the Boards of Directors and management to cover up their problems. The CUES 3 examination teams showed the true value of having regular, on site visits and follow-up.

A final factor that made the cooperatives reconsider their participation in the DGF was the fees that were to be paid to the supervisor (CDA or federation). The new MORR legal framework required that all cooperatives pay for the supervision services and the participation in the DGF would have resulted in a duplication of examination costs that these cooperatives were not willing or able to cover. Without a viable examination component, the original DGF proposal suddenly became invalid.

The cooperatives could have selected the DGF examination team to do the supervisory work, but under the MORR, a federation could become deputized by CDA and be responsible for the supervision of its affiliate members, and the enforcement of the MORR. The possibility of "deputization" created competition between the DGF and the federations. The project had already created an examination unit and was planning on transferring the unit to the DGF, once it was created. However, since the federation would also be able to carry out these same activities for their membership, many people viewed this function as redundant and costly. The federations viewed the supervisory function as an income-generating service, and a means to help cover the increased costs of the federation. They were also not willing to transfer this role to the DGF which was another reason why the DGF was never approved.

In summary, the project was unable to achieve this objective because the participating cooperatives in CUES 3 were experiencing an increase in delinquency and a worsening of their key financial areas. Additionally, they were worried about the MORR supervisory fees and the duplication of efforts between the DGF and the CDA.

The second part of the feasibility analysis was the technical and financial feasibility of the fund itself. The project spent a great deal of time and effort trying to involve all of the potential DFG beneficiaries in this important phase. In order to determine the feasibility of the deposit guarantee fund, the project separated the assessment into three areas and assigned their affiliated members to one of the following three specialized committees:

1) Strategic areas (Mission and Vision) and legal structure;
2) By-laws and regulations; and
3) Financial projections and budget.

By end of July of 2008, all three committees finished their assignments and presented the results of their work to the plenary group. In summary the results are as follows:

- DGF Mission and Vision and the legal structure.

The first committee reviewed the alternatives and the analysis of the legal advice given by a local law firm. The first alternative was the creation of an insurance company. However, given the local laws and regulations that govern the insurance activities in the Philippines, this option was discarded due to the high capital requirements and the need to comply with burdensome regulations.

The next alternative option that was considered was to create a deposit guarantee fund and to use the structure of a cooperative federation, because most of the cooperatives' partners were interested in preserving the "cooperative nature" of the project. However, for reasons related to the separation of governance functions and the risk of managing the investments of the members (protection fund) in a totally new entity, the committee finally recommended the formation of a trust fund and a separate federation that would monitor and supervise compliance with the requirement of participation in the guarantee fund. The mission of the trust fund was to manage and protect the investments. It would not have a separate board of directors but would have a General Assembly that would determine the policies to be followed for the fund management and supervisory activities. This structure maximized the involvement of all the participating cooperatives in the key decision-making activities while at the same time, protecting the individual investments of each cooperative in a trust fund. The role of the federation was to manage the trust fund and to verify compliance through the examination activities.

- By-laws and regulations.

In this area the committee designed by-laws that specify all of the governing principles for the federation and its interaction with the DGF. The by-laws named the federation as a trustee of the DGF and delegated the authority of delineating the duties as trustee to the General Assembly of the federation.

- Financial projections and budget.

In August, 2008 the project had evaluated different scenarios to determine the financial feasibility of the DGF and had finalized the financial projections and budget. Based on these projections, the DGF-Fund was fully sustainable. As a trust, this fund was profitable and it could grow according to the growth of the cooperatives' savings deposits and its projected net income. The net income over the three first years was positive, but one negative factor was the low interest rates paid on the cooperative investments in order to maintain that profitability in coming years. The DGF-Fund assumptions and financial projections may be seen in **Annex 4**.

The financial projections of the DGF-Federation, however, showed that it was not sustainable. Due to weak accounting systems and reporting capacities of the local partner cooperatives, the Examination Unit would be costly because the examiners would need to visit the cooperatives several times a year in order to extract the right financial information and statistics needed. This could only be possible if the cooperatives paid for the additional travel costs and personnel fees.

Based on the experience of the CUES Project and information from other federations, it is difficult to make cooperatives pay travel costs, and other real costs. This is why other federations have very low per diem and accommodation rates for their staff and their technicians use public transport for visiting cooperatives. This scenario is not the best one to follow if the fund is to keep high quality examination staff who are technically independent.

According to the financial projections done by the working group, the DGF-Federation would need be subsidized by WOCCU during the first two years by USD$78,000[1] in order to guarantee a sustainable positive net income. But even with this subsidy, the net income, would decrease over the first three years and after the third year of operation its profitability would not be guaranteed. These results were based on the assumption that the 23 partner cooperatives would join the new federation and this was highly unlikely due to the reasons explained in the previous section. The DGF-Federation assumptions and financial projections may be seen in **Annex 5**.

Finally, a general meeting of Partner Cooperatives was held on August 22, 2008 in Cagayan de Oro City, in order to discuss the DGF financial projections and budget. At the end of the meeting, the project requested that the board of directors of each Partner Cooperative issue a resolution expressing their final decision regarding the creation of a new federation (DGF-Federation) and the Guarantee Fund (DGF-Fund). The deadline to send the resolution was September 30, 2008. By October 31, 2008, only twelve cooperatives had responded, with ten (10) of them indicating their interest in participating in the federation as associate members (to receive additional follow-up to help them comply with the standards for inclusion in the DGF) and only six (6) cooperatives expressing interest in participating directly in the DGF-Fund.

The timid response from the cooperatives in committing to participate in the federation and the DGF-Fund was not surprising considering that the participating cooperatives would have had to cover the costs of supervision by the regulatory authority (MORR), in addition to a fixed examination fee and the costs of capitalization to the DGF Federation.

Once it became apparent that the DGF was no longer feasible, an alternative strategy was proposed to USAID to support and strengthen the Cooperative Development Authority. Under the new law, the CDA was charged with the responsibility to supervise and regulate the cooperative sector, and to work with the cooperative federations to develop a model examination unit. USAID agreed to modify the existing agreement and support the institutional development of CDA for the remaining life of the project. A no-cost extension through March 31, 2010 was granted in 2009.

d. **Objective: Purchase a standardized and computerized accounting system software that will facilitate the transfer of financial information to the DGF in order to detect risks before they become serious**.

[1] The idea of this subsidy presupposes an extension of the Project's implementation period beyond the project's official termination date of March 2010.

The original idea behind this component was to focus on two main objectives. First would be to purchase the software needed in order to gather accurate financial information from the partner cooperatives. Second would be to create the software that the DGF wanted to use in order to process that data and monitor the financial performances of their members. CUES 3 made some significant contributions regarding the first objective, but the second, objective was eliminated because the DGF was never organized.

In terms of the accounting software needed to accomplish the first objective, the project had a great opportunity to work together the partner federations MASS-SPECC, in providing technical support, most of the CUES 3 partner cooperatives in Northern Mindanao were also MASS-SPECC members and some of them were using a modified FAO MicroBanker software provided to them by MASS SPECC (MSRTE). While this software was helpful in having the operations automated to a somewhat limited extent, it was the DOS-based operating platform that was severely lacking in inter-branch connectivity as well as other challenges. These issues stymied the implementation of modern electronic banking services such as ATM's and credit and debit cards. In addition, the software had significant security issues that put at risk the integrity of the database.

Given these problems, CUES 3 helped MASS-SPECC by providing a specialized consultancy during 2007 and 2008 to assess the current situation and the challenges facing the credit unions. The software evaluation was carried out by Mr. Peter Zeltins, a WOCCU IT officer and specialist in software evaluation. The final recommendation of Mr. Zeltins was to change to the MicroBanker windows software product as soon as possible, because of the serious deficiencies noted above.

As a result, MASS-SPECC committed to switch from the DOS version to the more modern version of MicroBanker, MBWin. By November 2007 MASS-SPECC had purchased the MBWin licenses for a Windows version developed by FAO / GTZ.

According to the MASS-SPECC original work plan, they wanted to fully implement MBWin in 10-15 sites by the end of 2008, but unfortunately, the customizations took longer than anticipated. The project stopped working with MASS-SPECC in the IT area at the end of August 2008 when the DGF was not created.

e. **Objective: Ensure the existence of accounting and reporting systems that permit monitoring and evaluation of the DGF implementing organization.**

At the beginning of CUES 3, it quickly became apparent that there were significant challenges relating to the transparency of the cooperatives' financial statements and, the PEARLS reports that were generated. Several deficiencies were detected and reported during the 2007 quarterly reports. Most of those cooperatives experiencing reporting deficiencies were part of CUES 1 and CUES 2, and most of them had a hard time reporting because of not having good accounting software and branch connectivity. The new cooperatives from northern Mindanao that had not been a part of CUES 1 or CUES 2 were encouraged to participate in the project, but many of these new cooperatives were not familiar with the MCUB methodologies and financial disciplines. Instead of being part of the solution, some of them became part of the problem.

It was therefore necessary to implement a methodology for reviewing the accounting in the cooperatives and to assist them in standardizing the use of the chart of accounts and the application of account equivalencies in the PEARLS format. To this end, the project developed a Financial Statement Technical Guide for use by project technicians and cooperative staff in re-classifying accounts within PEARLS. The project technicians in this case became part of a team known as the Examination Unit (EU). The EU was charged with implementing the financial statement reclassification process by means of an Accounting System Review (ASR).

During the last two years of the project, the ASR was implemented in 24 cooperatives and 4 new potential partners and generated satisfactory results in improving the transparency and reliability of the cooperatives' accounting and PEARLS reports.

One of the main difficulties encountered was the lack of adequate technology to allow for more in-depth monitoring without having to rely strictly on the manual generation of statistical and other financial information for monitoring purposes by the project.

d. **Objective: Maintain two project offices in Cagayan de Oro and Davao cities and through these offices restructure/modernize up to 7 additional credit unions that will increase the number of DIF credit unions up to 30.**

Both project offices were maintained and the technical assistance was provided as described in the previous sections. However, when the project sought to include more cooperatives for inclusion in the overall process of modernization, it was confronted with the reality that the remaining cooperatives were, for the most part, not financially viable. As such, only three[2] more cooperatives were incorporated in the process. But, at the same time, from the original group other cooperatives left the project for a final group of 23 cooperatives.

2. Phase November 2008 to March 2010

In October 2008, both WOCCU and USAID agreed on modifying the objectives and project targets, abandoning the idea of creating the DGF and focusing on helping the CDA on the implementation of the new regulations for savings and credit cooperatives. After the formal approval, most of the activities for this second phase started in February 2009 and were finished at the end of February 2010.

Most of the operations were concentrated in Cagayan de Oro City and the office in Davao City was closed down on December 31, 2008.

a. **Objective: To help the CDA in Region 10, Cagayan de Oro City implement the Manual of Rules and Regulations for Savings and Credit Cooperatives.**

[2] XUCCCO, MEDIATRIX MPC, MSU-IIT MPC

During this period of time the technical support to CDA was focused on two main areas. The first part was focused on building institutional capacity for risk-based supervision and examination in a group of at least fifteen (15) examiners and supervisors from CDA and MASS-SPECC through a training program. The second part was based on the formulation of effective tools to facilitate the uniform reporting requirements enumerated in the MORR.

The theme for the five-month training program was "Building Capacities for an Effective Regulatory & Supervisory System". Seven training modules were designed with a total of 12 workshop sessions from March to July. Training participants were potential examiners (those with accounting background with or without experience in supervision) as well as potential cooperative technicians; 60 participants were trained from CDA and 20 from MASS-SPECC. Specialized trainings were designed and implemented in the later part of the program for potential examiners only.

The bulk of the CUES 3 training program modules were implemented during the second quarter of 2009 participated by the Cooperative Development Specialists (CDS) of the Cooperative Development Authority (CDA) as well as technicians from MASS-SPECC. The workshops were conducted according to the planned date except for Module 6.0 Examination Procedures – International Experience, and Module 6.2 CDA Supervision Procedures, which were cancelled due to the unavailability of the Supervision Manual, procedures and guidelines from CDA. Concerns about the educational background and technical level of CDA technicians compelled CUES staff to suspend these two trainings as well.

Modules conducted during this first part of the year included:

(1) Standard Chart of Accounts & P.E.S.O.S Training. The objective of which was to supplement the knowledge and understanding of the Standard Chart of Accounts and the Performance Standard which is the PESOS ratios as well as to enhance mastery and computational skills of the participants. During this workshop, some of the common errors and misinterpretations in the different regions of the CDA were resolved.

(2) Financial Statement Reclassification Training for PEARLS. This training was designed in response to CDA's request of learning PEARLS reclassification and concepts and packets of the Model Credit Union Building methodology (MCUB);

(3) Loan Portfolio Analysis Tool (LPAT) Training. The focus of this module was to teach loan aging and provisioning concepts using the LPAT software tool as well as to share tips and experiences of CUES examiners in the examination of the loan portfolio. During the training, participants were exposed to the LPAT software through individual hands-on computer exercises. Originally, it was designed for CDS only since MASS-SPECC has already had their MicroBanking software with loan aging and has been exposed to LPAT while working with Cooperatives that are former CUES partners. However, some MASS-SPECC technicians, especially the newly hired, voluntarily joined the training.

(4) Financial Analysis Workshop. This activity was facilitated by reviewing sample cooperative case studies with financial statements and PESOS ratios. Participants had to analyze the case in working groups and apply the previous modules/topics they learned in previous training programs such as Financial Disciplines, Performance Standards, provisioning concepts, etc.

(5) Accounting System Review Overview. This training was conducted to share with the participants the CUES experience in the review of the cooperatives' accounting system. Participants came from a group of CDA & MASS-SPECC potential examiners and they were exposed to common and unique findings that the CUES staff had discovered while working with the partner cooperatives.

(6) Business Planning Methodology. In this module the conceptual framework of the WOCCU business planning methodology was shared with the participants. This will be helpful when supervisors require the cooperatives to prepare a rehabilitation plan in response to the examination findings.

The total number of participants per module was as follows:

Training Modules	Attendance		
	CDA	Mass-specc	Total
1 MORR Overview/Clarifications	8	20	28
2 Phases in SCC's Development Financial Disciplines	61	12	73
3 SCA/COOP-PESOS Training & PEARLS Recalss Training	61	9	70
4 Loan Portfolio Analysis Tool	58	6	64
5 Financial Analysis (PESOS-PEARLS)	49	4	53
6 Accounting System Review Overview	30	4	34
7 Business Plan Methodology	30	6	36

Although the training experience during the first semester was very positive, the diverse technical skill-levels and lack of familiarity with computers were major challenges during the implementation of the training program.

The training program was concluded by the end of June 2009, but two workshops dealing with examination procedures and the supervision procedures from CDA were canceled because of two major concerns. The first concern was that the Supervision Manual and examination procedures and guidelines from CDA were not available at that time. The second reason was that there were concerns about the educational background and technical level of CDA technicians.

During the drafting of the training modules, it was clear that each module had specific minimum requirements in terms of educational background and module pre-requisites. MASS-SPECC participants met those requirements since they were already structured accordingly in their consultancy and loans department, aside from having some advance trainings from the project in the early part of CUES 3.

However, at CDA the technical capacity of its staff is lower than the technical capacity of MASS-SPECC staff. As revealed in the table below, among sixty-two (62) participants from CDA only 20 (32%) have educational background in accounting including three CPAs.

Educational Background	Number of Training Participants			
	CDA	%	MASS-SPECC	%
CPA	3	4.8%	3	14.3%
Accounting	17	27.4%	11	52.4%
Economics	2	3.2%	0	0.0%
Management/Banking	4	6.5%	3	14.3%
Agriculture	17	27.4%	1	4.8%
Engineering	6	9.7%	0	0.0%
Law/Political Science	4	6.5%	0	0.0%
Social Work/Sociology	1	1.6%	1	4.8%
IT/Computer courses	1	1.6%	1	4.8%
Biology	1	1.6%	0	0.0%
Educ/Math/English	4	6.5%	0	0.0%
Other Fields*	2	3.2%	1	4.8%
Total	62	100%	21	100%

* Not disclosed

Out of the sixty-two (62) enlisted participants from CDA for the whole training program, 32 participants were identified as potential examiners. From this group of 32 participants, only 19 had an accounting background (59%) which included three Certified Public Accountants (CPA). Only twelve (12) participants from this group of 19, claimed to have basic experience in auditing. The other participants had backgrounds in agriculture, management, engineering and education.

Educational Background of Potential Examiner from CDA		
CPA	3	9.4%
Accounting	16	50.0%
Economics	1	3.1%
Management/Banking	2	6.3%
Agriculture	5	15.6%
Engineering	2	6.3%
Law/Political Science	1	3.1%
Educ/Math/English	1	3.1%
Other Fields*	1	3.1%
Total	32	100%

* Not disclosed

The second challenge was the level of computer literacy among CDA participants. Most of the CDS had difficulty in using basic Microsoft Office applications, and also, using WOCCU tools (e.g. LPAT-Loan Portfolio Analysis Tool). Because of these challenges, the course content was diluted to include basic Excel usage and other Office applications.

Finally, another factor regarding the long-term sustainability of the supervision activities was the age of CDA technicians. The average age of the potential examiners was 47 years old, and 16 of 32 of them (50%) were above 50 years old. While the Labor Code provides retirement based on the employment contract or retirement plan, it imposes a compulsory retirement at age 65. So basically, CDA-Mindanao has currently an undersized group of potential and qualified examiners to carry out supervision in the coming years. To answer this challenge, the project proposed that the current training program redesign its focus on potential examiners with actual accounting experience. The project suspended the pilot testing scheduled for the second semester in order to extend the training activities through to December 2009. CDA agreed to these changes in July 2009.

Once the changes were approved by both parties, a revised training program was conducted focusing on only three (3) modules: the PEARLS monitoring system; Loan Portfolio Analysis Tool (LPAT) and the Business Planning methodology.

The PEARLS module included the following components:

(1) Financial Statement reclassification using actual Financial Statements of the assigned cooperative;

(2) PEARLS Software Usage, with hands-on exercises;

(3) PEARLS analysis. The group was then required to present their own output for comments and improvement critiques. For homework, they were also required (individually) to apply the same methodology to another cooperative of their choice, using all of the concepts of PEARLS, and with additional consultation from the WOCCU technicians, present their analysis to the group for evaluation.

The LPAT Module included the following components:

(1) LPAT usage;

(2) LPAT Analysis;

(3) LPAT as a supervision tool. If LPAT were implemented by the cooperatives, it would be beneficial in helping to produce the aging reports required by CDA.

The training participants were taught how to use the tool to validate the loan data they received from the cooperative. Techniques on analyzing loan portfolio quality were likewise imparted to the participants. Finally, the participants were exposed to using LPAT not just as a monitoring tool but also as an examination tool which could assist them in determining the real delinquency ratio of the cooperative.

The WOCCU-CUES team also conducted its closing activities for the 2009 Training Program on December 17, 2009 at Mallberry Suites, Cagayan de Oro City. The program recognized seven graduates of the WOCCU Technical Tools and methodology, specifically PEARLS and Loan Portfolio Analysis Tool (LPAT). Part of the closing activities included an individual presentation (case-study) of a, selected local cooperative to a panel composed of the WOCCU team, CDA Chairperson Ms. Lecira V. Juarez; CDA Administrator Ms. Rosalinda Villaseca; CDA Regional Directors from Kidapawan, Pagadian, Davao and Misamis Oriental Extension Offices, and USAID represented by Ms. Teresita Espenilla. Comments, critiques and questions were shared with each presenter while reinforcement of the analysis and conclusions by the WOCCU team were also made available. The second part of the technical support to CDA during 2009 was the formulation of effective tools to facilitate uniform reporting requirements enumerated in the MORR.

During this last phase, the project successfully developed ten technical tools for use in a Supervisory Unit situated in MASS-SPECC or CDA (in relation to the feasibility study conducted). There was also a CD developed to facilitate effective regulation and supervision of Savings and Credit Cooperatives based on the MORR. These tools were supposed to complement CDA's Supervision Manual which was scheduled to be made available by 2009 but, unfortunately, the manual was still under development by the project end date. Nevertheless, the following tools were officially submitted to the CDA during the first quarter of 2010.

Name of Tools / Procedures	Nature and Description
1. Compliance Check-list (Coop Level)	A checklist of various areas that cooperatives need to comply as provided for by Coop Code of 2008, MORR, and other applicable regulations.
2. Compliance Check-list (Supervisor Level)	A checklist of various areas that coop examiners need to verify with the coop if the latter comply with various applicable laws such as Coop Code of 2008 & MORR.
3. Aging of Loans Receivable Report Template	A template that will age the loans receivable portfolio of the coop, computes for the delinquency ratio and the required loan loss allowance amount.
4. Statement of Utilization of Statutory Fund Template	A template that will determine the amount and nature of changes in the coop's various statutory funds for a given period of time as well as the level of separate funds or assets which the coop allocates.
5. PESOS tool in MS Excel for SCC & Supervisor	A tool that will automatically computes on a comparative basis for the PESOS ratios and ratings of a coop either for a particular month, quarter or year.
6. Tools and/or Procedures to verify COOP indicators	A list of procedures to perform and relevant documents to inspect in the conduct of compliance verification of the COOP Indicators.
7. Report templates for Savings Deposit distribution	A template that shows the distribution and concentration of the coop's savings products with a separate schedule for the time/term deposits.
8. Report templates for Membership data	A template useful in the collection of appropriate membership data based on govening laws & regulations.
9. Procedures for on-site inspection and review of coop's Accounting System	A list of procedures to do and documents to examine in order to assess the status of the accounting system of
10. Business Plan Manual	A manual on PEARLS Business Planning tool that explains the conceptual framework and the procedures useful for coop's planning process.

b. Objective: To help MASS-SPECC develop a Supervisory Unit with the necessary technical tools to guarantee an effective regulation and supervision of Savings and Credit Cooperatives based on the MORR.

During the first semester of 2009 the CUES 3 team worked on the feasibility study of a Supervision Unit in MASS-SPECC. The study included the feasibility analysis of the Supervision Unit focusing on the organizational structure study, market analysis, and financial projections, and a proposal of organizational structure, job descriptions, and budget. The study was officially submitted to MASS-SPECC on July 4, 2009.

Late in 2009 during a regular meeting between USAID, the CUES project staff and MEDCO, it was decided to conduct a technical assessment of the CDA in order to identify the institutional gaps between the new regulatory functions and responsibilities of CDA, as detailed in the recently approved Cooperative Code (RA-9520), and the existing technical, administrative and financial capacity of CDA to perform its new role. Another important purpose of the study was to help the CDA attract new cooperation program partners that could support them while implementing the new regulations.

The first part of the report provided an assessment of the CDA in general (supervision and regulation components; finance and budget; administration and information technology). In the recommendations section, the consultants proposed that CDA establish a separate region-at-large supervisory unit within CDA. A proposed organizational chart along with all of the relevant job descriptions was also developed. An initial group of 50 cooperatives in the metro Manila area was identified as the first target group of cooperatives that could be supervised and an implementation diagram of Off and On-Site Supervision was also suggested so that CDA could start preparing for the supervisory process.

C. Report in quantifiable progress on targets

The following tables show the progress made towards the established targets:

1. Phase October 2005 to October 2008

Milestones	2007				2008				2009		
as of August 31, 2008	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30
Number of CUs in CUES 3	20	20	20	20	24	24	26	26	28	29	30
Actual	20	20	20	21	20	23	23				

	2007				2008				2009		
I. MCUB	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30
a. Membership	231,000	250,000	275,000	300,000	310,000	325,000	335,000	350,000	365,000	375,000	400,000
Actual	339,484	369,678	413,020	476,121	421,170	459,768					
b. Total Savings and Shares	$18.7M	$20.0M	$24M	$27M	$30M	$35M	$40M	$45M	$50M	$55M	$60M
Actual	30.4	34.9	41.0	55.4	56.4	65.6					
c. Net Loans Outstanding	$20.5M	$23M	$24M	$25M	$27M	$29M	$31M	$35M	$37M	$45M	$50M
Actual	30.8	33.7	40.6	52.4	56.6	65.8					

	2007				2008				2009		
II. COMPUTERIZATION	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30
a. CUs with MASS-SPECC software updated						5	5	10	12	12	14
Actual						0	0				
b. CUs using automated accounting software	10	10	10	10	18	18	20	20	28	29	30
Actual	11	11	11	11	11	0	0				
c. CUs sending Electronic Monthly Financial Information to WOCCU/DIF						6	7	13	14	22	30
Actual						0	0				

	2007				2008				2009		
III. DIF	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30
a. CUs under DIF Contract (MOA)						12	16	18	22	28	30
Actual						0	0				
b. CUs in qualification process					4	6	10	13	17	22	30
Actual					0	0	0				
c. % Capital of Guaranteed Deposits						0.5%	0.5%	1.0%	1.5%	1.5%	2.0%
Actual						0	0				

	2007				2008				2009		
IV. EXAMINATION	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30	Dec-31	Mar-31	Jun-30	Sep-30
a. CUs Examined	5	7	8	12	13	15	17	20	24	26	30
Actual	20	20	20	22	23	23	23				
b. % of CUs paying Exam Fees							40%	50%	70%	80%	100%
Actual							0				
c. % Sustainability of Exam Unit							40%	50%	70%	80%	100%
Actual							0				

2. Phase November 2008 to March 2010

Deliverables	Progress
1. Building institutional capacity for risk-based supervision and examination in a group of at least fifteen (15) examiners and supervisors from CDA and MASS-SPECC through a training program.	• A total of 83 participants from CDA and MASS-SPECC attended this program, which is an average of 51 participants per session from March – June 2009. • A special group of eight technicians from CDA was created and received advanced and specialized training in PEARLS, LPAT and Business Planning methodology. • Five out of the eight from the special group underwent the accounting system review field training in January – February 2010. This group was composed purely of technicians with accounting background or Certified Public Accountants. • Ten technicians from MASS-SPECC attended an Accounting System Review (ASR) training-workshop, in two batches; one in December 2009 and the other in January 2010.
2. Formulation of effective tools to facilitate uniform reporting requirements enumerated in the MORR.	• 100% of proposed tools were designed based on WOCCU-CUES' experience and technical knowledge, completed on 2009 and transmitted to the CDA in January 2010.
3. Design of the Supervision Unit	• Feasibility analysis of the Supervision Unit for MASS-SPECC was concluded. Presentation meeting was conducted on July 4th, 2009.
4. Test the Supervision Tools and Manuals in at least four (4) pilot Cooperatives.	• Pilot testing was canceled, and replaced with a special training program for CDA potential examiners from July to December 2009. Additional training on Accounting System Review was also conducted on January – February 2010 in lieu of the pilot testing.

D. Project's closure work plan

The project started the dissolution of the WOCCU-CUES Inc. and the close down of operations in October 2009 in order to finish by March 31, 2010. The following work plan was followed in the close down phase of the project:

	Activity	2009			2010		
		Oct	Nov	Dec	Jan	Feb	Mar
WOCCU's close-out procedure							
1	Review project contract and appropriate regulations for any specific close-out procedures	1-7					
2	Review Field Project Financial Report (Total Expenses/flexibility/etc.).	1-7					
3	Update Life of Project Budget for actual expenses to-date and estimated expenditures to project end.	1-7			4-8		
4	Review legal opinion on local hires	5-9					
5	Review employee contracts	5-9					
6	Review housing and office leases	5-9					
7	Review procedure to clear any housing and/or office deposits	5-9					
8	Review status of WOCCU-CUES' brands.	5-9					
9	Verification of equipment / commodities inventory	19-23		1-10			
10	Determine market value of any equipment with a purchase price >$5,000	19-23					
11	Letter sent to request WOCCU's approval of disposition of equipment <$5,000		16-20				
12	Letter sent to request USAID's approval of disposition of equipment >$5,000		16-20				
13	Review requirements for relocation of Project Director			7-10			
14	Approval received from WOCCU for disposition of equipment/commodities			11			
15	Approval received from USAID for disposition of equipment/commodities				8		
16	Closure of Acct Books.			31			
17	WOCCU to update relocation letter				11-15		
18	Payment of severance to local hires				4-15		
19	Exit Audit of Accounting - Amy Lemberger				4-15		
20	Temporary employment contracts for adm staff				1-31	1-28	
21	Items with WOCCU logo destroyed				4-15	1-15	
22	Project files sent to Madison for record retention purposes					15	
23	Three Estimates for PD's Relocation				15		
24	Office/staff house cleaned, keys back to landlords.					28	
25	CGY Office/staff house rent deposits cleared						19
26	CGY Bank account closed. Funds transferred to DVO						22
27	PD Relocation: Shipment of Household Goods					22-26	
28	CUES Corporate Credit card returned and canceled					26	
29	PD Housing cleaned, keys back to landlords.					28	
30	Project Director's temporary lodging					28	1-30
31	BPI bank Term Deposit transferred to check acct.						1
32	PD Housing rent deposit cleared						22
33	DVO funds transferred to WOCCU-Madison, keeping petty-cash.						25
34	DVO Bank account closed.						26
35	Departure of Project Director						30

Activity		2009			2010		
		Oct	Nov	Dec	Jan	Feb	Mar
Dissolution of the corporation							
1	Board meeting to adopt a resolution to shorten the corporate term and dissolve the corporation (WOCCU-CUES Inc.)		31				
2	Written notice to the employees			1			
3	Notice to the DOLE (Dept of Labor).			4			
4	Payment of Separation Pay			8			
5	Audited Financial Statements as of December 8, 2009.			15			
6	Notice Publication of dissolution of the corporation		1-27				
7	Publisher's affidavit of the publication of the notice dissolution of the corporation.			15			
8	Notification of business partners about dissolution of corporation.				1-15		
9	Starting process for retirement from BIR. Revenue District Office (RDO)				4		
10	Retirement of Office Business Permit					15	
11	Disposition equipment/commodities					15	
12	Deed of Donation transferring equipment/commodities					26	
13	Letter sent to Partners about WOCCU's tools copyrights.					26	
14	Filing of Application for Dissolution with the SEC (Securities and Exchange Commission). After finish #9					15	
15	Cancel registration SSS (Social Security System)						1-15
16	Cancel registration HDMF (HOME DEVELOPMENT MUTUAL FUND)						1-15
17	Cancel registration PhilHealth						1-15

During the first quarter of 2010 most of the local activities related to the administrative and accounting closure of the project were completed except the closure of the bank account in Davao City.

To help facilitate the efficient close down, Ms. Nicole Bice from the WOCCU main office visited both the Cagayan de Oro and Davao Offices for an operational audit and carried out the destruction of the trivial project documents, and photocopies were made of vital documents (such as contracts and financial reports) and documents with WOCCU logos. Inventories of the project furniture and equipment were also prepared for the transfer to CDA and MASS-SPECC, the project's beneficiaries.

The Cagayan de Oro Office and the staff house were cleaned and keys were returned to the owner on February 26, 2010. While CDO bank accounts were closed, after all bills were settled and paid on March 16, 2010.

WOCCU-CUES documents were burnt. These include training manuals, cooperative project's financial report, photocopies of contracts, backup copies of financial reports and other documents.

Persons in charge of the city garbage burnt the WOCCU documents in Cagayan de Oro City.

The only administrative activity not concluded during this quarter was the closure of the bank account in Davao City. In order to complete this last activity, WOCCU-CUES instructed the Bank BPI to proceed transferring the remaining bank account balance to the WOCCU headquarters office in the U.S. and to close the bank account once they received the clearance from BPI-Credit Card service. All other local administrative activities were completed according to the plan.

Regarding the dissolution of the juridical entity, WOCCU-CUES Inc., a problem that surfaced with the Bureau of Internal Revenue BIR remains unsettled. Upon presenting to the BIR the documents needed for a tax clearance related to the dissolution of WOCCU-CUES, Inc. the BIR informed WOCCU that back taxes of Php. 4.4 million were due, because all of the necessary paperwork for a tax exemption was never finalized, notwithstanding the fact that WOCCU-CUES, Inc. was organized as a non-stock, non-profit corporation

The tax clearance from the BIR is a requirement in order to get the certificate of dissolution from the SEC. WOCCU-CUES Inc. made contact with the BIR in Davao City, the first week of January, 2010 and since then the project has presented all of the documents requested. In order to expedite the process of gaining the appropriate clearances, WOCCU engaged the services of the law firm, Angara, Abello, Concepcion, Regala & Cruz (ACCRA) in Davao City. The law firm prepared a legal brief, explaining why WOCCU-CUES is a non-taxable entity and submitted it to the BIR on March 24, 2010, requesting a reconsideration of the matter.

Upon receipt of the legal correspondence, the BIR forwarded all of the documentation to its legal department, asking that they render a legal opinion regarding the issue. On July 3, 2010, WOCCU requested assistance from the legal department of USAID/Philippines to try and expedite the matter, however USAID responded on July 6, 2010, that they were unable to provide any legal assistance in the matter.

The BIR legal department had not yet responded to the ACCRA law firm as requested, in spite of repeated attempts by ACCRA to bring closure to the matter. This issue remains pending, as of the date of this final report. All other activities related to the dissolution of the corporation were completed on time.

III. FINAL CONCLUSIONS

As this project comes to an end, it is important to recognize that even though a deposit guarantee fund was not created, there were many positive events that took place to help strengthen the savings and credit cooperative sector in the Philippines. Many of those events are outlined in this final report.

Ironically, one of the main reasons why the Deposit Guarantee Fund was not successful was because of the passage of the MORR, a legal regulatory framework which incorporated all of the key elements of the Private Legislative Framework that were promoted by WOCCU-CUES.

The MORR was a significant piece of legislation that established the legal framework for regulation, supervision and eventually, a savings deposit guarantee fund. In retrospect, the legal framework and supervisory process are two fundamental pieces that need to be in place and functioning, in order to have a viable deposit insurance scheme. When the MORR established the possibility of "deputized" federations, it placed the federations in direct competition with the Deposit Guarantee Fund to carry out the supervision of its members. When presented with the choice, the cooperatives preferred their own federations.

Even though this significant piece of legislation changed the outcome of the project, WOCCU-CUES was successful in adapting its MCUB technology to the Philippines environment. The impact of this technology in Northern and Southern Mindanao is readily apparent. The strongest and the best cooperatives were partners of the WOCCU-CUES project.

In the last phase of the project, the strengthening of CDA also had an important impact. Several months after the project closed, WOCCU received notification from CDA that it had won a Presidential Citation Award from former President Gloria Macapagal-Arroyo for its work with CDA (**See Annex 6**). Now that the MORR legislation has passed, CDA will require further strengthening and institutional support in order to prepare itself to effectively supervise the cooperative sector. The consulting report prepared by WOCCU identifies some key strategies that should be followed in order for CDA to carry out its supervisory role.

Finally, the World Council of Credit Unions wishes to thank the United States Agency for International Development in the Philippines for its faithful support of the savings and credit cooperative sector since 1997. In the next ten years, it will be important to revisit the cooperative sector and measure the impact and outreach of the CUES 1, 2, & 3 project beneficiaries, as compared with other non-project cooperatives and rural banks. WOCCU is confident that such a measure will show the lasting impact that the Model Credit Union Building methodology has had on the lives of thousands of people in the Philippines.

IV. ANNEXES

Annex 1: Work Plan 2005-2009

Year / Activity	2006		2007				2008				2009		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
I. PROJECT START-UP													
a. USAID/WOCCU agreement	X												
b. Placement of project advisor	X												
c. Recruitment of local-hire staff	X												
d. Establishment of project management/MCN DIF office	X												
e. Project accounting	X												
f. Administrative policies	X												
g. Project work plan	X												
h. Project monitoring and information system	X												
i. Purchase of equipment/materials	X												
II. MCUB													
a. Hire Federation Staff for MCUB	X												
b. Train Federation Staff in MCUB	X	X	X	X	X	X	X	X	X	X			
c. CU Field Visits	X	X	X	X	X	X	X	X	X	X	X	X	
d. Conduct MCUB Workshops	X	X	X	X	X	X	X	X	X	X	X	X	
III. COMPUTERIZATION													
a. Organize Software Committee					X								
b. Evaluate MASS-SPECC Software			X	X									
c. Update MASS-SPECC Software							X	X	X	X			
d. Updating Software in CUs								X	X	X	X	X	
IV. DIF													
a. Design DIF Fund			X	X	X	X	X	X					
b. Draft/Sign Final DIF Contract Agreement								X	X				
c. Capitalization of DIF								X	X	X	X	X	
d. Payment of DIF Fees									X	X	X	X	
V. EXAMINATION													
a. Conduct CU Examinations			X	X	X	X	X	X	X	X	X	X	
b. Draft Improvement Plans			X	X	X	X	X	X	X	X	X	X	
c. Monitor Performance							X	X	X	X	X	X	
VI. POLICY DIALOGUE													
a. Credit union legislative framework - DOF	X	X	X	X	X	X							
b. Provide CDA Training							X	X	X	X			

Annex 2: Work Plan 2009-2010

Year / Activity	2008	2009				2010
	Q4	Q1	Q2	Q3	Q4	Q1
I. Traning Program						
a. Financial disciplines for SCCs		x				
b. Leveling off of MORR interpretations and CDA's Supervision Manual		x				
c. Financial standards and ratios for SCCs		x				
d. Monitoring tools			x			
e. Business Plan methodology			x			
f. Accounting System Review procedures			x			
II. Formulation of TOOLS						
a. Tools to aid in the MORR implementation						
• MORR compliance check-list		x	x			
• Report templates		x	x			
• Rehabilitation Plan template		x	x			
b. Tools to support Supervisors in the examination						
• PESOS tool in MS Excel		x	x			
• Procedures to verify COOP indicators		x	x			
• Procedures for on-site inspection		x	x			
• Report templates		x	x			
• Business Plan Manual		x				
III. 3. Design of the Supervision Unit						
a. Feasibility analysis of the Supervision Unit		x	x			
b. Proposal of organizational structure, job descriptions, and budget			x			
IV. Pilot Testing						
a. Pilot Cooperatives selected			x			
b. Testing period				x	x	
c. Present recommendations and feedback to CDA						x
V. Project Closure						
a. Davao Office closing	x					
b. Davao Office Disposition Plan presented to USAID	x					
c. Davao Office furniture be sold in auction or donated	x					
d. Cagayan de Oro Office Disposition Plan presented to USAID						x
e. Project furniture and equipments to be sold in auction or donated						x
f. CDO Office closing and Bank Accounts closed.						x
g. Project Director relocation						x

Annex 3: List of beneficiary cooperatives of CUES 3.

1. ABUYOG ST. FRANCIS XAVIER
2. Agdao MPC
3. ANTRECCO
4. AURORA INTEGRATED MPC
5. BANSALAN COOP. SOCIETY
6. BASEY 1 DISTRICT MPC
7. BAUG CARP BENEFICIARIES MPC
8. BONTOC MPC
9. ICTUS
10. KANGARA MPC
11. LARBECO
12. MEDIATRIX MPC
13. Micro-Entreprenuers MPC
14. MOEMCO
15. MSU IIT MPC
16. OCCCI
17. ORO INTEGRATED COOP
18. PAGLAUM MPC
19. SAMAL
20. SILANGAN MPC
21. TIBUD SA KATIBAWASAN MPC
22. USPD Savings & Credit Coop
23. XUCCCO

Annex 4: DGF-Fund assumptions and financial projections.

DGF-Fund - Assumptions

1	Percentage of Coop's deposits invested in the fund	2%	
2	Year 1, add Coops with 5-6 appeal ratios	21,301,451	
	Year 2, add Coops with actual 4 appeal ratios if they get 5-6 ratios	10,065,626	
	Year 3, add Coops with actual 3 appeal ratios if they get 5-6 ratios	21,184,358	
3	% annual increase in Coops' deposits		
	Year 2	35%	
	Year 3	45%	
	* Average growth in Savings from 2004 to 2007 is 44.77%		
5	Investment portfolio	Distribution	Int. Rate
	1. Treasury Bill	100%	
	91-Day Treasury Bill Rates	20%	3.5%
	182-Day Treasury Bill Rates	35%	4.0%
	364-Day Treasury Bill Rates	45%	4.5%
	2. CDs in Other Banks	0%	
	Bank A	0%	3.0%
	Bank B	0%	3.5%
	Bank C	0%	4.0%
6	Fund Management Fee based on Fund's assets		
	Year 1	1.50%	
	Year 2	1.50%	
	Year 3	1.50%	
7	Interest rate on investments from Coops		
	Year 1	0.0%	
	Year 2	0.0%	
	Year 3	0.0%	

DGF-Fund			
Financial Projections			
Assets	***Year 1***	***Year 2***	***Year 3***
Deposits from Coops	21,301,451	38,822,584	77,477,105
Other Investments	-	-	-
Income from previous years		119,821	778,214
Total Assets	**21,301,451**	**38,942,405**	**78,255,319**
Income	***Year 1***	***Year 2***	***Year 3***
91-Day Treasury Bill Rates	74,555	210,853	410,192
182-Day Treasury Bill Rates	149,110	421,707	820,384
364-Day Treasury Bill Rates	215,677	609,969	1,186,627
Bank A	-	-	-
Bank B	-	-	-
Bank C	-	-	-
Total Income	**439,342**	**1,242,530**	**2,417,203**
Expenses			
Management Fee	319,522	584,136	1,173,830
Financial Costs on investments	-	-	-
Total Expenses	**319,522**	**584,136**	**1,173,830**
Income before taxes	**119,821**	**658,393**	**1,243,373**
Taxes	0	0	0
Net Income	**119,821**	**658,393**	**1,243,373**

Annex 5: DGF-Federation assumptions and financial projections.

DGF-Federation - Assumptions

1	Share capital amount	50,000		
2	Number of Regular and Associated members			
	Year 1	23		
	Year 2	23		
	Year 3	23		
3	DGF Examination Fee (% of Total Assets)			
	Year 1	0.045%		
	Year 2	0.045%		
	Year 3	0.045%		
	Minimum rate	50,000		
4	% annual growth in Coops' Total Assets			
	Year 2	25%		
	Year 3	35%		
	* Average growth in Savings from 2004 to 2007 is 27.70%			
5	Personnel Salaries	Qty	Monthly Salary	Benefits
	Executive Director	1	30,000	2,920
	Examiner Sr	2	24,000	2,625
	Examiner Jr	2	22,000	2,560
	Database and IT Technician	1	15,000	2,430
	Administrative Assistant	1	15,000	2,200
	Driver	1	7,000	1,512
6	Annual increase in salaries			
	Year 2	5.0%		
	Year 3	5.0%		
7	Office Expenses	Mnthly		
	Office rent/utilities	35,000		
	Telecommunications	10,000		
	Delivery Service/Postage	3,000		
	Office/computer supplies	10,000		
	Professional/legal fees			
	Marketing	-		
	Equipment maintenance/Insurance	10,000		
	Bank fees, resource materials, other	5,000		
	Miscellaneous			
		73,000		

8	Annual increase in Office Expenses		
	Year 2	5.0%	
	Year 3	5.0%	
9	Travel Expenses		
	Perdiem and miscellneous travel costs	Qty	Rate
	Hotel per travel	4	2,000
	Perdiem per travel	6	600
	Examiners	4	
	Travels per month	4	
			185,600
	Vehicule Expenses/Transport		40,000
			225,600
10	Annual increase in Travel Expenses		
	Year 2	5.0%	
	Year 3	5.0%	
11	Other Servicies		
	Accountant	20,000	
	Security	20,000	
	Janitorial	5,000	
		45,000	
12	Annual increase in Other Servicies		
	Year 2	5.0%	
	Year 3	5.0%	
13	Governance Expenses		
	General meeting	150,000	
	Meetings/fees/travels		
		150,000	
14	Annual increase in Governance Expenses		
	Year 2	5.0%	
	Year 3	5.0%	
15	Other Costs	-	
16	WOCCU Salary Subsidy		
	Year 1	100%	
	Year 2	50%	
17	DGF Travel cost fee		
	Year 1	100%	
	Year 2	100%	
	Year 3	100%	

DGF-Federation
Financial Projections

Capital	***Year 1***	***Year 2***	***Year 3***
Share Capital	1,150,000	1,150,000	1,150,000
Other			
Total Capital	**1,150,000**	**1,150,000**	**1,150,000**
Income			
Fund Management Fee	319,522	584,136	1,173,830
DGF Examination Fee	2,056,879	2,455,177	3,187,727
DGF Travel cost fee	2,707,200	2,842,560	2,984,688
WOCCU subsidy	2,300,184	1,207,597	
Total Income	**7,383,784**	**7,089,470**	**7,346,244**
Operating Expenses			
Personnel Salaries	2,067,000	2,170,350	2,278,868
Personnel Benefits	233,184	244,843	257,085
Office Expenses	876,000	919,800	965,790
Travel Expenses	2,707,200	2,842,560	2,984,688
Other Servicies	540,000	567,000	595,350
Total Operating Expenses	**6,423,384**	**6,744,553**	**7,081,781**
Governance Expenses			
Meetings/fees/travels	150,000	157,500	165,375
Others	-		
Total Governance Expenses	**150,000**	**157,500**	**165,375**
Net Income before taxes	**810,400**	**187,417**	**99,089**

Annex 6: Presidential Citation Award

Republic of the Philippines
OFFICE OF THE PRESIDENT
Department of Finance
COOPERATIVE DEVELOPMENT AUTHORITY

20 September 2010

Mr. PETE CREAR
President and CEO
World Council of Credit Unions (WOCCU)
WOCCU-Headquarters
5710 Mineral Point Road, P.O. Box 2982
Madison, WI 53705-4493, USA

Dear **Mr. Crear:**

Warm Greetings!

We are pleased to present to you this Presidential Citation Award from former President Gloria Macapagal-Arroyo, Republic of the Philippines. This award is given to partner organizations, individuals and other developmental institutions, both local and international, in recognition of their vital role in the realization of the Arroyo Administration's Beat the Odds Program.

In particular, this is in grateful appreciation of the technical support and funding assistance provided by the World Council of Credit Unions (WOCCU) in the institutional development of the Cooperative Development Authority (CDA). Specifically, WOCCU has dispatched experts to the CDA to study and identify the institutional gaps between its new regulatory functions and responsibilities under the Philippine Cooperative Code of 2008 (Republic Act No. 9520) as amended, including its existing technical, administrative and financial capacity to perform its new role. WOCCU also assisted the CDA in the development and enhancement of new tools, systems and mechanisms allowing us to better provide quality service to the cooperative sector in the Philippines.

The CDA is a government agency under the Department of Finance (DOF) that registers, regulates and supervises all cooperatives in the Philippines.

Our deepest gratitude to each and every one of you at WOCCU and we hope to partner with you again in your future programs and projects.

Thank you very much and best regards.

Very truly yours,

LECIRA V. JUAREZ
Chairperson

MALACAÑAN PALACE
MANILA

THIS PRESIDENTIAL CITATION

IS AWARDED TO

WORLD COUNCIL OF CREDIT UNIONS

IN RECOGNITION OF ITS STEADFAST SUPPORT, VITAL PARTNERSHIP AND FULL COOPERATION WITH THE PHILIPPINE GOVERNMENT UNDER THE ARROYO ADMINISTRATION, WHICH CONTRIBUTED SIGNIFICANTLY TO THE SUCCESSFUL IMPLEMENTATION OF ITS POLICIES AND PRIORITIES, PARTICULARLY THE BEAT THE ODDS PROGRAM, AND TO THE UPLIFTMENT OF THE LIVES AND WELFARE OF THE FILIPINO PEOPLE.

GIVEN IN THE CITY OF MANILA, ON THIS 28th JUNE IN THE YEAR OF OUR LORD TWO THOUSAND AND TEN.

Gloria M. Arroyo

GLORIA MACAPAGAL ARROYO
PRESIDENT OF THE PHILIPPINES

58133

PGMA Hologram # **58133**