

# ICAEM2015 ICOOP2015

## The Joint International Conference on Agribusiness and Cooperatives

*THEME: The Future of Agribusiness and Cooperative Enterprises: Examining Local and Global Contexts*

### CITATION

Alcantara, Reymark T., and Ma. Eden S. Piadozo\*. 2015. "Assessment of the Capability of Hog Raisers' Cooperatives as Conduits of Agricultural Loans in Laguna, 2014." Paper presented at the Joint International Conference on Agribusiness and Cooperatives, Davao City, Philippines, 14–16 October.

### OPEN ACCESS POLICY

This material was presented during a conference organized by the Institute of Cooperatives and Bio-Enterprise Development (ICOPED), College of Economics and Management, University of the Philippines Los Baños, and the Office of Research of the University of the Philippines Mindanao. In support of the open access initiative, the organizers provide unrestricted access to these materials to foment wider dissemination and exchange of ideas. Authors are encouraged to practice self-archiving of their presentations for public use in a noncommercial repository. Copyright of this uploaded material remains with its author. For more downloadable materials, visit <http://ojs.upmin.edu.ph/index.php/supplements>

# Assessment of the Capability of Hog Raisers' Cooperatives as Conduits of Agricultural Loans in Laguna, 2014



**REYMARK T. ALCANTARA**  
**DR. MA. EDEN S. PIADOZO**

*College of Economics and Management*  
*University of the Philippines Los Baños*

# Introduction

- ✧ In the Philippines, the hogs industry is considered as the second largest contributor to the country's agriculture coming in second to rice.
- ✧ In 2012 the country's total swine inventory was estimated at 11.7 million heads
- ✧ Top producing regions: CALABARZON (13.1%), Western Visayas (11.6%), Central Luzon (10.7%), Bicol Region (7.8%) and Eastern Visayas (7.3%) (PCAARD-DOST 2013)
- ✧ At present, 64% of the total populations are raised in backyard while 36% are raised commercially.

# Introduction

- ✎ With the preponderance of backyard hog raisers in the country it is viewed that growth in this sector can be best achieved with the use of credit.
- ✎ Despite government efforts, the Philippine livestock subsector, hog raisers are still characterized as having limited absorptive capacity and bankability.
- ✎ At present, majority of them obtained only a small portion of credit.
- ✎ To increase agricultural credit to resource-poor hog raisers, it perceived that cooperatives with credit services should be formed and strengthened as conduits of credits.

# Introduction

- ❧ Hog raisers' cooperatives have long been criticized for their inefficient decision-making process and their capital constraints which are largely due to
  - the lack of technical skills and
  - capability to adopt and implement a sound financial management
- ❧ The importance of cooperatives functioning as conduits of agricultural loans specifically for the hog subsector is even more pronounced for developing areas in the Philippines with largely subsistence farming systems such as Laguna.

# Objectives

- ✧ The general objective of this paper was to assess the capability of hog raisers' cooperatives as conduits of agricultural loans in Laguna. Specifically, the study aimed to:
  1. assess the financial and non-financial performance of the hog raisers' cooperatives;
  2. determine the association between the cooperative's financial performance vis-à-vis the member-borrower's capability to pay on time;
  3. recommend strategies and policy directions to address the issues and concerns affecting the cooperative's capability as conduits of credit.

# Methodology

## ∞ Types/Methods of data collection

- ❖ **Secondary data-** Cooperative Annual Performance Report from Cooperative Development Authority Region IV-A
- ❖ **Primary data**
  - ✓ Respondents- 9 managers from different hog raisers' cooperatives
  - ✓ Cooperatives- all hog raisers' cooperatives
  - ✓ Key Informant Interviews for all cooperative managers and/or cooperative officials



# Methodology

## Methods of Data Analysis

- ❖ Descriptive Analysis- tables and graphs
- ❖ Standard Performance Rating Approach (SPRA)- used to assess the financial and non-financial status of the cooperatives in performing lending services

Table 1. Rating System for the Overall Performance of the cooperatives with Credit and Savings Services in the Philippines

ADJECTIVAL RATING	MEDIUM & SMALL LARGE		MICRO
Excellent Performance	91-100%	81%-100%	75%-100%
Very Satisfactory Performance	81-90%	71%-80%	61%-74%
Satisfactory Performance	71-80%	61%-70%	51%-60%
Fair Performance	61-70%	51%-60%	41%-50%
Needs Improvement	60% & below	50% and below	40% and Below

Source: Attachment in CDA Memorandum Circular No. 2013-15 dated February 25, 2013



# Methodology

- **Overall Rating.** The raw score for each of the components is given an equivalent rating. The resulting rating for each of the component is given the appropriate weight to arrive at the overall rating. The following rating scale is used (CDA MC No. 2013-15):

Adjectival Rating	Description
Rating 1– EXCELLENT	The SCC has strong performance that consistently provides safe and sound operations. SCCs in this group comply with cooperative rules and regulations and are resistant to external shocks and financial disturbances. They are also able to withstand unexpected adverse changes in business environment. These institutions do not need supervisory concern.
Rating 2– VERY SATISFACTORY	The SCC shows satisfactory performance that consistently provides safe and sound operations. SCCs in this group are able to withstand business fluctuations well. However, there are some areas of concern that require important attention which if unchecked, can potentially develop into conditions of greater concern. Supervisory response is limited to minor adjustments to ensure that operations continue to be satisfactory and sustainable.

# Methodology

## Ratings for SPRA

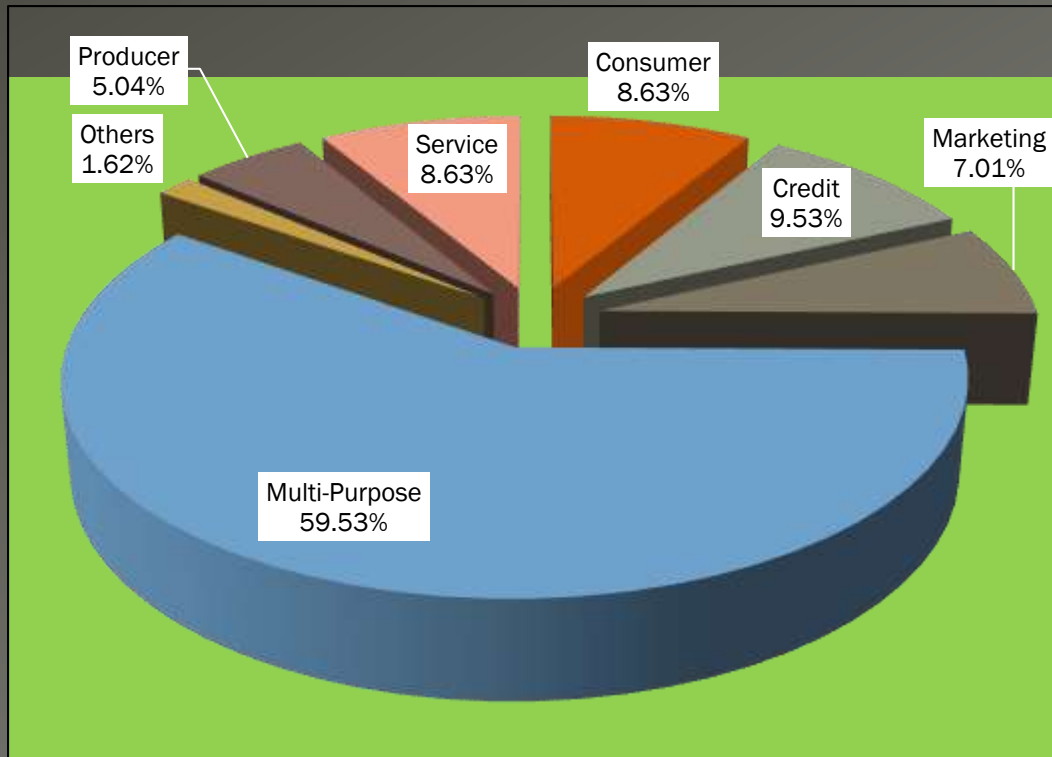
Adjectival Rating	Description
Rating 3– SATISFACTORY	The SCC's performance is flawed to some degree and is a supervisory concern. Results of key performance measures indicate that safe and sound operations may be adversely affected. SCCs in this group are only nominally resistant to adverse business conditions and may deteriorate if identifiable areas of weakness are not corrected immediately.
Rating 4 – FAIR	The SCC is of serious supervisory concern. The SCC's performance if left unchecked would lead to conditions that could threaten its viability. A high potential for failure is present but is not yet imminent. SCCs in this group require very close supervisory attention.
Rating 5– POOR/NEEDS IMPROVEMENT	The SCC has unsatisfactory performance and is in need of immediate remedial attention. SCCs in this group have a very high probability of failure and will likely require liquidation.

# Methodology

## Methods of Data Analysis

- ❖ **Correlation Analysis-** Spearman and Pearson; used to determine the association between the financial performance of the cooperative and the capability of the cooperatives' hog raiser-borrowers to pay on time

# Status of Cooperatives in Laguna



Distribution of cooperatives by type, Laguna, 2014

- ✓ 556 registered cooperatives in Laguna (Cooperative Development Authority Report 2014).
- ✓ 60% are multi-purpose cooperatives while 9.53% are credit cooperatives

# Hog Raisers Cooperatives as Conduits of Credits

Table 2. Sources of funds of hog raisers' cooperatives, Laguna, Philippines, 2014

Cooperatives	Land Bank of the Philippines	Amount					
Adia MPC		0.00					
Barangay II-F MPC		5,200,000					
Famy Community Transport Services & MPC		2,184,000					
KAP-WESL MPC	74,000	66.62	25,500	2	1,572.10	10.42	
Laguan MPC	1,360,000	42.37	996,115		53,885	26.60	
Luisiana Livestock MPC	0.00	0.00	1,056,498	5	848,680	44.55	
NIA Region IV Employees MPC	29,117,000	47.01	32,826,900	52.99	0.00	0.00	
Samahan ng Magsasaka ng Gatid (SAMAGA) MPC	490,000	68.38	117,300	16.37	109,310	15.25	
Sandigan ng Mamamayan MPC	224,000	6.39	2,306,200	65.80	974,800	27.81	

Source of basic data: Analysis of Cooperative Annual Performance Reports and Financial Statements 2013

Majority of the cooperatives are not large enough to resort to their capital. This can be seen in NIA Region IV Employees MPC with almost half of the loanable funds coming from LBP.

almost all the cooperatives have been sourcing their funds from the Land Bank of the Philippines (LBP) except ADIA MPC and Luisiana Livestock MPC.

# SPRA: Institutional Strength

**Table 3. Institutional strength of the selected hog-raisers cooperatives in Laguna, 2014**

Institutional Strength	Cooperatives		
	Laguan Multi-purpose Cooperative (%)	Adia Multi-purpose Cooperative (%)	Samaga Multi-purpose Cooperative (%)
Net Institutional Capital	69.42	7.00	7.26
Adequacy of Provisioning (more than 1 year)	126.77	1.54	4.79
Adequacy of Provisioning (31 days to 1 year)	302.29	2.00	2.88
Source of data: Analysis of Cooperative Annual Performance Report 2013			

- ✓ To ensure that the cooperative deliver financial services in a sustained manner the following strategies were practiced by LMPC:
- Increasing institutional capital
  - Increasing the cooperatives' reserves/part of net surplus
  - Increasing receivables through incentives and privileges

# SPRA: Structure of Assets

**Table 4. Structure of assets of the selected hog-raisers cooperatives in Laguna, 2014**

Structure of Assets	Cooperatives		
	Laguan Multi-Purpose Cooperative	Adia Multi-Purpose Cooperative	Samaga Multi-Purpose Cooperative
Percentage of Non-Earning Assets to Total Assets	2.67	19.78	12.34
Members' Equity to Total Assets	29.40	55	8.63
Deposit Liabilities to Total Assets	7.58	0.91	23.58
External Borrowings to Total Assets	40.54	0	64.76
Receivable to Total Assets	59.45	12.10	52.65
Source of data: Analysis of Cooperative Annual Performance Report 2013			

- ❖ Structure of assets could be increased by the ability of the cooperatives to properly evaluate their allocation and use of assets and investments using correct financial valuation tools such NPV, IRR, and payback period.



# SPRA: Operational Strength

**Table 5. Operational strength of the selected hog-raisers cooperatives in Laguna, 2014**

Operational Strength	Cooperatives		
	Laguan Multi-Purpose Cooperative	Adia Multi-Purpose Cooperative	Samaga Multi-Purpose Cooperative
Volume of Business to Total Assets	133.59	60.92	66.53
Solvency	285.54	140.49	80.35
Liquidity	31.53	190.09	62.52
Cost per Volume of Business	6.87	1.40	3.13
Administrative Efficiency	5.96	2.65	8.65
Turn-over ratio	4.56	5.00	2.34
Source of data: Analysis of Cooperative Annual Performance Report 2013			

- ✓ Samaga and ADIA MPC need to intensify their efforts in increasing the share capital of their members to augment their cash requirements.
- ✓ This enables them to improve liquidity and pay off maturing loans

# SPRA: Profitability

**Table 6. Profitability performance of the selected hog-raisers cooperatives in Laguna, 2014**

Profitability Performance	Cooperatives		
	Laguan Multi-purpose Cooperative (%)	Adia Multi-purpose Cooperative (%)	Samaga Multi-purpose Cooperative (%)
Profitability Ratio	36.69	63.80	42.91
Earnings per share Ratio	16.07	45.99	2.23
Profitability Growth Rate	13.00	10.00	1.30
Asset Efficiency Rate	3.50	13.71	9.61
Rate on Interest on Share Capital	16.07	17.28	78.02

Source of data: Analysis of Cooperative Annual Performance Report 2013

✓ Profitability performance could be improved by strengthening its institutional strength, structure of assets, and operational strength.

- Adia Multi-purpose Cooperative had attained the highest profitability performance due to their strong loan collectibles.

# Overall Capability Rating

COOPERATIVES	NON-FINANCIAL COMPONENT							FINANCIAL COMPONENT				TOTAL RATING (%)	ADJECTIVAL RATING
	L <sup>1</sup>	HR.&M <sup>2</sup>	MEM <sup>3</sup>	STRUC <sup>4</sup>	S&M <sup>5</sup>	SOCIAL ASPECT	ECONOMIC ASPECT	P <sup>6</sup>	I <sup>7</sup>	S <sup>8</sup>	O <sup>9</sup>		
Adia Multi-Purpose Cooperative	24	12	11	4	18	4	20	19	6	8	25	70.25	Satisfactory Performance
Barangay II-F Multi-Purpose Cooperative	20	10	9	4	16	4	20	15	9	19	21	70.65	Satisfactory Performance
Laguan Multi-Purpose Cooperative	24	13	10	4	14	3	14.5	20	18	19		65.43	Fair Performance
Luisiana Livestock Multi-Purpose Cooperative	19	13	9	4	7	4		5	6			36.10	Needs Improvement
NIA Region IV Employees Multi-Purpose Cooperative	24	13	11	4				17	20	14	30	85.90	Very Satisfactory Performance
Samahan ng Magsasaka ng Gatid (SAMAGA) Multi-Purpose Cooperative	24	8	9	4	14	4	22	14	8	16	19	66.80	Fair Performance
Sandigan ng Mamamayan Multi-Purpose (SMMPC)	17	8	8	4	15	0	20	14	11	21	15	64.85	Satisfactory Performance

Note: <sup>1</sup>Leadership, <sup>2</sup>Human Resources and Management, <sup>3</sup>Members, <sup>4</sup>Structure, <sup>5</sup>System and Mechanism, <sup>6</sup>Profitability Performance, <sup>7</sup>Institutional Strength, <sup>8</sup>Structure of Assets, <sup>9</sup>Operational Strength (Staying Power)

Source of Data: Analysis of Cooperative Annual Performance Report 2013

Only Laguan MPC had attained a very satisfactory rating

1- Needs Improvement  
4- Fair Performance  
3- Satisfactory Performance  
1- Very Satisfactory

# Association of the Capability of Hog Raiser's Cooperatives as Conduits of Agricultural Loans with the Capability of the Hog Raiser-member-borrowers to make timely payments

Due to diversions of the cooperative's assets, the accumulated assets decreases causing a weak positive linear relationship between the member-borrower's capability in making timely payments to the capability of the cooperatives in retailing credits.

To increase the profitability of the cooperatives as conduits of loans, it is important that member-borrowers must make timely payments of their loans

**Table 8. Results of Pearson's Correlation Analysis**

Correlation of Capability of	Coefficient	Interpretation
Asset	0.1930	Positive, very weak
Profitability	0.8148	Positive, very strong
Operational Strength	0.3453	Positive, weak

# Association of the Capability of Hog Raiser's Cooperatives as Conduits of Agricultural Loans with the Capability of the Hog Raiser-member-borrowers to make timely payments

- Operational strength had a positive linear relationship with the proportion of the cooperatives' capable member-borrowers to its total member-borrowers. This due to factors outside the influence of the loan repayment performance of the member borrowers particularly the management.

**Table 8. Results of Pearson's Correlation**

Correlation of Capability of	Coefficient	Interpretation
Asset	0.1930	<i>Positive, very weak</i>
Profitability	0.8148	<i>Positive, very strong</i>
Operational Strength	0.3453	<i>Positive, weak</i>

# Association of the Capability of Hog Raiser's Cooperatives as Conduits of Agricultural Loans with the Capability of the Hog Raiser-member-borrowers to make timely payments

- Cooperatives with borrowers who pay on time had the ability to generate cash beyond one-year period to meet their current and future financial obligations.
- The underperformance of the member-borrowers in paying their loans forces the cooperative to borrow from external source.

**Table 8. Results of Spearman's Correlation Analysis**

Correlation of Capability with	Coefficient	Interpretation
Solvency	0.3286	Positive, weak
Net Institutional Capital	-0.3334	Negative, weak



# Conclusions

- ✎ In sum, the cooperative are still viable conduits of credit as long as the capability of the member-borrower's performance is enhanced.
- ✎ However, at present only 4 out of 9 cooperatives had achieved Satisfactory to Very Satisfactory Rating. These are
  - ❑ Adia Multi-purpose cooperative,
  - ❑ Barangay Il-F Multi-purpose Cooperative,
  - ❑ Laguean Multi-purpose Cooperative, and
  - ❑ Sandigan ng Mamayan Multipurpose Cooperative.
- ✎ Therefore, the contribution of members is deemed important to make the cooperative more profitable and viable.



# Policy Implications and Strategies

- ☞ Promote programs that build small hog raisers' creditworthiness and bankability
  - ✓ Endorse to CDA recommendation to enhance training, technical assistance, and other related activities on farm technology, farm management, entrepreneurship, preparation of business plan, and other training that would help build farmers loan absorptive capacity and bankability.
- ☞ Coordinate with academic and scientific research community, national and sub-national government agencies working in agriculture, public and private financial institutions, international development agencies, other development practitioners and rural economic entities to craft guidelines/rules and guiding principles/modules for best practices to allow the cooperatives to achieve a better management on the ground as well as to transform them into a more resilient business from any types of business and financial crisis and risks.

# Policy Implications and Strategies

- ✎ Enhance the capacity of small farmers (hog raisers) and their cooperatives and organizations
  - ✓ by intensifying the implementation of Institutional Capacity Building Program and
  - ✓ coordinate with legislators/ the Authorities for the approval of an increase in the capitalization of the aforementioned program for the betterment/improvement of the capabilities of the coop in delivering financial services and strong linkage between coop and partner financial institutions of ACPC.
  - ✓ ICB activities such as training and coaching or through outsourcing via training institutions, and state colleges and universities in targeted areas may be provided grants to conduct the said activities.

# Policy Implications and Strategies

- ❧ Implement more stringent reviews of the audited financial statements submitted by the credit cooperatives for the Cooperative Development Authority's supervising and examining purposes

**Thank you very much!**

---