COOPERATIVE FINANCE IN THE PHILIPPINES: POLICIES AND PROGRAMS

by
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The presentation is divided into seven (7) parts:

1. Role of cooperatives in food production amidst climate change;
2. Brief history of Philippine cooperative movement;
3. Challenges cooperatives face;
4. Overview of policy environment for cooperative financing;
5. Credit, capacity building, guarantee and insurance programs for cooperatives;
6. Success stories of a cooperative and cooperative bank; and
7. Recommendations.

1. Agricultural Cooperatives: Key to Feeding the World

Agriculture and food production affected by:

- Industrialization – conversion of agri lands into commercial areas
- Some food commodities as sources of energy
- Global warming/climate change

1. Agricultural Cooperatives: Key to Feeding the World

- Cooperatives serve as a vehicle for delivering services to marginalized farmers and fishers.
- World Food Day 2012 has the theme "Agricultural Cooperatives: Key to Feeding the World" to highlight the role of cooperatives in improving food security and eradicating hunger.
- United Nations General Assembly designated 2012 as "International Year of Cooperatives."

2. Brief History of the Philippine Cooperative Movement

- 1896: Dr. Jose Rizal initiated formation of one of the earliest cooperatives, an agricultural marketing cooperative.
- 1908: University of the Philippines in Los Baños organized the first rural credit cooperative.
- 1927: Cooperative Marketing Law was passed; state-initiated cooperatives started to proliferate.

2. Brief History of the Philippine Cooperative Movement

- 2009: Republic Act 9520 or the 'Philippine Cooperative Code of 2008' was enacted into law, amending the 'Philippine Cooperative Code of 1990.'
- Presently, cooperative federations such NATCCO and BANGKOOP have been able to secure seats in the Philippine Congress as party list representatives.

3. Challenges

Many agriculture-based cooperatives are:

- financially challenged
- have narrow activity (e.g. production-centered) and membership-base
- 76% classified as 'micro', with assets of less than P3 million

3. Challenges

According to CDA, micro cooperatives are:

- Prone to financial difficulties
- have little or no capacity to expand
- Could not meet demands of their clientele

3. Challenges

The challenge lies in strengthening the micro and small scale cooperatives.

The CDA has been espousing the merger of cooperatives to form better-organized and larger cooperatives with the capacity to access financing and other critical support services.

The DA, through the ACPC, has been advocating policies and developing programs that utilize cooperatives as providers of credit to small farmers and fisherfolk.

4. Policy Environment on Rural Finance

Republic Act 8435: The Agriculture and Fisheries Modernization Act of 1997

- Greater role of private sector (rural banks, cooperative rural banks, cooperatives and NGOs) and GFIs in the provision of financial services
- Government non-financial agencies (GNFAs) to focus on providing a conducive policy environment, critical support and capability-building services

4. Policy Environment on Rural Finance

Republic Act 8435: Agriculture and Fisheries Modernization Act of 1997

- Adoption of market-determined interest rates
- Phase-out of all government directed credit programs (DCPs) on agriculture and collection/consolidation of loanable funds and loan receivables into the Agro-Industry Modernization Credit and Financing Program (AMCFP)

4. Policy Environment on Rural Finance

Agro-Industry Modernization Credit and Financing Program (AMCFP)

- ☑ DA's umbrella credit program for agriculture and fisheries
- ☑ Efficient, responsive and sustainable credit delivery system for small farmers and fisherfolk
- ☑ Covers entire supply chain of DA priority commodities

4. Policy Environment on Rural Finance

ACPC'S Role Under the AFMA

- As Oversight Body of the AMCFP, ACPC is tasked to steer program implementation, address policy issues, and monitor and evaluate fund utilization and program performance
- Undertake related policy and action research studies
- Collect and consolidate DCP funds into the AMCFP

4. Policy Environment on Rural Finance

ACPC'S Role Under the AFMA

- Implement institutional capacity building (ICB) activities for its partner RFIs including cooperatives and farmer organizations
- Design and pilot-test innovative financing schemes (IFS)

4. Policy Environment on Rural Finance

Republic Act 10000: The Agri-Agra Reform Credit Act of 2009

- Enacted on February 23, 2010, RA 10000 is the amended version of Presidential Decree 717 or the "original" Agri-Agra Law.
- Requires banks to allocate 25% of their loan portfolio to agricultural and agrarian reform credit.

4. Policy Environment on Rural Finance

Under RA 10000, modes of compliance have been rationalized to include only those that will benefit the agri-agra sector:

- ✓ Loans or investments in activities identified under the AMCFP
- ✓ Wholesale lending to non-bank RFIs such as cooperatives and farmer organizations providing credit to small farmers and fishers

4. Policy Environment on Rural Finance

Under RA 10000, modes of compliance have been rationalized to include only those that will benefit the agri-agra sector:

- ✓ Investment in preferred shares of stock of RFIs like rural banks, cooperative banks, farmer's cooperatives, cooperative insurance or mutual benefit associations
- ✓ Investment in debt securities, the proceeds of which will be used exclusively for lending to the agriculture, fisheries and agrarian reform sectors.

5. Current Programs on Cooperative Financing

With the AFMA and the Agri-Agra Reform Credit Act providing an enabling environment for rural finance, the DA, LANDBANK, and Bangko Sentral ng Pilipinas (BSP) are working in a concerted effort to develop and implement financing programs for cooperatives.

5. Current Programs on Cooperative Financing

1. DA Financing Programs for Cooperatives

- DA-ACPC Cooperative Banks Agri-Lending Program (CBAP)
- DA-ACPC Cooperatives Agricultural Lending Program (CALP)
- DA-ACPC Agricultural Microfinance Program (AMP)
- DA-ACPC Institutional Capacity Building (ICB) programs
- DA-LANDBANK Agricultural Guarantee Fund Pool (AGFP)
- DA-PCIC crop insurance programs

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5. Current Programs on Cooperative Financing

2. LANDBANK Financing Programs for Cooperatives

- Lending Window for Cooperatives
- Lending Window for Countryside Financing Institutions
- Accelerating Change in the Countryside through Equity Sharing Strategy (ACCESS)
- Total Development Options – Unified LANDBANK Approach to Development (TODO UNLAD) Program
- Development Advocacy Program (DEVAD)
- Food Supply Chain Program

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5. Current Programs on Cooperative Financing

3. Bangko Sentral ng Pilipinas Credit Surety Fund (CSF) Program

4. Private sector-led microinsurance programs for cooperatives

- Cooperative Life Insurance and Mutual Benefit Services (CLIMBS)
- Cooperative Insurance System of the Philippines (CISP)

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6. Success Stories: Cooperativism at its Best

Lamac Multi Purpose Cooperative

- ✓ Started in 1973 in Lamac, Cebu with 70 farmer members and capital build-up of P3,500.00
- ✓ A recipient of LANDBANK'S *Ginintuang Gawad Pitak* Award, Lamac MPC has 51,000 members, 18 branches, and P570 million worth of assets including:
  - a three-story building/office
  - bakery
  - pharmacy
  - rice, corn mill
  - water refilling station
  - grocery store
  - a famous resort

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6. Success Stories: Cooperativism at its Best

What makes for a successful coop? According to Lamac MPC:

- Understanding and alignment to the Coop's Vision and Mission
- Leadership by example
- Sound and effective management
- Transparent governance
- Dynamic, active and empowered membership
- Entrepreneurial spirit

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6. Success Stories: Cooperativism at its Best

Cooperative Bank of Misamis Oriental

- ☑ A long time partner of ACPC and currently one of its depository banks under CBAP, the Coopbank of Misamis Oriental was likewise awarded the Ginintuang Gawad Pitak by LANDBANK for the cooperative rural bank category in 2010.
- ☑ The bank now has a total of 10 branches – 6 in Misamis Oriental and 4 outside of the province but within Mindanao.

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6. Success Stories: Cooperativism at its Best

Cooperative Bank of Misamis Oriental

- ☑ According to the bank, there is no great secret to their success other than their strong desire, determination and commitment to uphold the guiding principles by which their bank was established – cooperation, honesty, integrity, professionalism, and social responsibility.

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6. Success Stories: Cooperativism at its Best

Cooperative Bank of Misamis Oriental

Right now, the driving force behind the bank's aspiration to reach even greater heights is its vision of becoming:

- a billionaire bank
- a premier investment banker and wholesaler
- the 'Cooperative Bank of Mindanao'

The bank also envisions to establish a Foundation that will manage the bank's social responsibilities.

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7. Recommendations

- Increase membership and capital base of cooperatives.
- Provide opportunities for production-driven cooperatives to evolve into cooperatives engaged in agro-industrial activities such as processing.
- Provide support and incentives for the merger of small and micro cooperatives into bigger primary cooperatives, and eventually into secondary and tertiary cooperative federations.
- Expand ACPC's capacity building and credit programs for cooperatives

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