

[REPUBLIC ACT NO. 10744, February 26, 2016]

AN ACT PROVIDING FOR THE CREATION AND ORGANIZATION OF CREDIT SURETY FUND COOPERATIVES TO MANAGE AND ADMINISTER CREDIT SURETY FUNDS TO ENHANCE THE ACCESSIBILITY OF MICRO, SMALL AND MEDIUM ENTERPRISES, COOPERATIVES AND NONGOVERNMENT ORGANIZATIONS TO THE CREDIT FACILITY OF BANKS AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Title.* – This Act shall be known as the “Credit Surety Fund Cooperative Act of 2015”.

SEC. 2. *Declaration of Policy.* – The State hereby recognizes the need to foster national development, promote inclusive growth, and reduce poverty by promoting the growth of micro, small and medium enterprises (MSMEs) that facilitate local job creation, production and trade in the country. Moreover, the State affirms its declared policy to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance for the attainment of economic development and social justice. Further, it is the State’s policy to strengthen the cooperative movement in the Philippines by empowering the Cooperative Development Authority (CDA) and providing it with the necessary powers and resources to fulfill its mandate.

To attain these objectives, the State shall encourage and assist in the creation and organization of Credit Surety Fund Cooperatives (CSF Cooperatives) which shall be primarily tasked with administering their respective Credit Surety Fund (CSF). The CSF is designed to provide MSMEs, cooperatives, and nongovernment organizations (NGOs) with more inclusive access to bank credit, thereby enhancing their sustainability and growth.

SEC. 3. *Statement of Objectives.* – The purposes of this Act are as follows:

- (a) Encourage, promote and assist in the creation and organization of CSF Cooperatives, which shall be vested with juridical personality;
- (b) Enhance the creditworthiness of MSMEs, cooperatives, and NGOs, and broaden their access to the credit facilities of banks;
- (c) Sustain the continuous flow of credit in the countryside through the establishment of well and prudently managed CSFs which shall serve as surety covers;
- (d) Build up the capability of cooperatives and NGOs in the areas of credit

evaluation, loan and risk management, and good governance principles;

(e) Generate more employment and contribute to the poverty alleviation program of the government through increased investments and economic activities; and.

(f) Strengthen the CDA by providing it with powers and resources to enable it to effectively regulate cooperatives, including CSF Cooperatives.

SEC. 4. *Definition of Terms.* – As used in this Act, the following terms shall mean:

(a) *Articles of Cooperation* – the articles of cooperation registered with the CDA and includes any registered amendment thereof;

(b) *Bangko Sentral ng Pilipinas* – the Bangko Sentral ng Pilipinas (BSP) with powers and responsibilities as defined under Republic Act No. 7653, otherwise known as the New Central Bank Act;

(c) *Board of Directors* – the governing body of the CSF Cooperative. It is entrusted with the sound and prudent administration of the CSF Cooperative pursuant to this Act, its implementing rules and regulations, its articles of cooperation and bylaws;

(d) *Bylaws* – the bylaws registered with the CDA and include any registered amendment thereof;

(e) *Contributions* – investments or grants;

(f) *Cooperative* – an autonomous and duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and by accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles;

A cooperative as used in this Act, may either be:

(1) Primary – the members of which are natural persons;

(2) Secondary – the members of which are primary cooperatives; and

(3) Tertiary – the members of which are secondary cooperatives;

(g) *Cooperative Development Authority (CDA)* – the lead government agency implementing this Act and which is responsible for the registration, regulation, monitoring and supervision of CSF Cooperatives;

(h) *Credit Surety Fund (CSF)* – a fund generated from the contributions of well-capitalized and well-managed member-cooperatives/NGOs,- LGUs, GFIs and other institutions/government agencies. In lieu of hard collaterals, the CSF shall serve as security for the loans that will be obtained by qualified borrowers from lending banks by way of a surety cover issued by the Board of Directors of the CSF Cooperative;

(i) *Credit Surety Fund Cooperative or CSF Cooperative* – an LGU-partnered cooperative comprised of well-capitalized and well-managed member-cooperatives/NGOs that meet the criteria and qualifications prescribed by the CDA, LGUs, GFIs and other institutions/government agencies, all of which shall make contributions to the CSF as defined and prescribed by this Act;

A CSF Cooperative shall be established for the primary and exclusive purpose of administering the CSF as provided for in this Act and by its implementing rules and regulations;

(j) *Endorsers* – member-cooperatives/NGOs which attest to the CSF Cooperative the creditworthiness of its member-borrowers and binds themselves jointly and severally with the borrower in the event of the latter’s default;

(k) *Government Financial Institutions (GFIs)* – financial institutions or corporations in which the government directly or indirectly owns majority of the capital stock and which are registered with or directly supervised by the BSP. For purposes of this Act, these are, but not limited to, the Development Bank of the Philippines, Land Bank of the Philippines and the Industrial Guarantee and Loan Fund (IGLF). GFIs may contribute funds to the CSF either in the form of investment or contribution, thus, they shall be considered as members of the CSF Cooperative;

(l) *Lending bank* – any authorized banking institution with a rediscounting line with the BSP and other banking institutions;

(m) *Local government unit (LGU)* – the provincial or city government that is authorized under this Act to contribute to the CSF established by the CSF Cooperative in their locality either in the form of investment or contribution, in an amount at least equal to the total contribution of the member-cooperatives/NGOs: Provided, That a municipality may also contribute to a CSF which is administered and managed by a provincial CSF Cooperative, which contribution shall be deemed as part of the contribution of the province;

(n) *Members of the CSF Coop* – cooperatives, NGOs, LGUs, GFIs and other institutions/government agencies that contributed to the CSF and who have been admitted by the CSF Cooperative as its members;

(o) *Micro, Small and Medium Enterprise (MSME)* – any business activity or enterprise engaged in industry, agri-business and/or services, whether a single proprietorship, cooperative, or partnership whose total assets, inclusive of those arising from loans’ but exclusive of the land on which the particular business entity’s office, plant and equipment are situated, must have value falling under the following categories:

Category	Asset
Micro	Not more than P 3,000,000
Small	P3,000,001 – P15,000,000
Medium	P15,000,001 – P100,000,000

The classification shall be subject to review and adjustment by the Micro, Small and Medium Enterprises Development (MSMED) Council under Section 6 of Republic Act No. 6977, as amended, otherwise known as the "Magna Carta for Small Enterprises" or upon recommendation of sectoral organizations concerned, taking into account inflation and other economic indicators. The MSMED Council may use other variables such as the number of employees, equity capital and assets size;

(p) *Nongovernment organization (NGO)* – nonstock, nonprofit organization duly registered with the Securities and Exchange Commission (SEC), focusing on the upliftment of the basic or disadvantaged sectors of society by providing advocacy, training, community organizing, research, access to resources, provision of microfinance programs and services, or other similar activities;

(q) *Qualified borrowers* – refer to the following:

(1) An MSME-member of a cooperative-member of the CSF Cooperative;

(2) A cooperative that is a member of the CSF Cooperative; and

(3) An NGO that is a member of the CSF Cooperative;

(r) *Registration* – the operative act of granting juridical personality to a proposed CSF Cooperative and is evidenced by a certificate of registration;

(s) *Surety Agreement* – the agreement executed by the proper parties as defined by this Act and its implementing rules and regulations, in favor of the lending bank, whereby the surety obligates itself to be jointly and severally liable with a qualified borrower in the event that the latter defaults: *Provided*, That a surety agreement shall not be deemed to be an insurance contract and the issuance thereof pursuant to this Act, and those previously issued and to be issued by the Oversight Committees of existing CSFs, shall not be considered as doing an insurance business under Republic Act No. 10607, otherwise known as "The Insurance Code", or any applicable law;

A Surety Agreement, for purposes of this Act, shall be endorsed by the endorser to the CSF Cooperative. However, in cases where a cooperative has no endorser, the CSF Cooperative, subject to the implementing rules and regulations, may solely execute a Surety Agreement in favor of the lending bank; and

(t) *Trustee bank/s* – the bank/s designated by the Board of Directors to manage the CSF. Such bank/s must be authorized by the BSP to engage in trust and other fiduciary business under Republic Act No. 8791, otherwise known as "The General Banking Law of 2000". The implementing rules and regulations shall also provide additional eligibility requirements for trustee banks.

SEC. 5. *Credit Surety Fund Cooperative or CSF Cooperative.* – The CSF Cooperative shall be organized as an LGU-partnered cooperative in accordance with the implementing rules and regulations to be promulgated by the CDA.

A CSF Cooperative may be established in a province or in a city.

SEC. 6. *Articles of Cooperation.* – A CSF Cooperative shall file its articles of

cooperation and bylaws for registration, and any amendments of the same, with the CDA. Its articles of cooperation shall be signed by the shareholders acknowledged by them before a notary public.

The articles of cooperation shall set forth the items required by the implementing rules and regulations.

SEC. 7. *Bylaws.* – A CSF Cooperative formed and organized under this Act shall adopt bylaws not inconsistent with the provisions of this Act and its implementing rules and regulations. The bylaws shall be filed at the same time as the articles of cooperation and shall contain items required by the implementing rules and regulations.

SEC. 8. *Registration.* – A CSF Cooperative formed and organized under this Act acquires juridical personality from the moment the CDA issues a certificate of registration under its official seal. A certificate of registration issued by the CDA under its official seal shall be conclusive evidence that the CSF Cooperative is duly registered unless it is proven that the registration thereof has been cancelled.

SEC. 9. *Tax Treatment of CSF Cooperatives.* – A CSF Cooperative registered with the CDA shall enjoy the tax privileges of cooperatives under Republic Act No. 9520, otherwise known as the "Philippine Cooperative Code of 2008": *Provided,* That the members of the CSF Cooperative which are not cooperatives shall be subject to regular taxes under the National Internal Revenue Code, as amended, and other tax laws.

SEC. 10. *Board of Directors.* – The members of the Board of Directors shall consist of the representatives of the member-cooperatives/NGOs, GFIs and other government agencies in accordance with the bylaws of the CSF Cooperative, Republic Act No. 9520, this Act and its implementing rules and regulations.

The LGU representative shall sit as an ex officio member without voting rights.

SEC. 11. *Powers and Responsibilities of the Board of Directors.* – The Board of Directors shall have the following powers and responsibilities:

(a) Determine and formulate the general policies and guidelines on the proper administration of the CSF Cooperative;

(b) Act as Manager of the CSF until such time that trustee banks are designated or appointed as manager;

(c) Designate bank/s duly licensed by the BSP to perform trust and other fiduciary functions as trustee bank/s or investment manager/s, which will, among others, manage the investment, reinvestment and disposition of the fund as provided under Republic Act No. 8791, otherwise known as "The General Banking Law of 2000";

(d) Promulgate such rules and guidelines governing the infusion of additional contributions to the CSF, admission of new members and acceptance of additional contributions, in the form of investments or contributions;

(e) Enter into contracts and transactions involving, affecting or relating to the CSF,