[CDA RESOLUTION NO. 120, s. 1992, May 22, 1992]

COOPERATIVE MARKETING PROJECT FUND POLICIES IN LENDING, GUARANTEE AND TRUST FUND

Background

The Cooperative Marketing Project was created by virtue of a bilateral agreement between the GOP and the USAID on May 3, 1978 to improve and develop the cooperative marketing structure of the Philippines by providing agri-based marketing cooperatives with adequate financing, managerial capabilities and technical expertise in order that they might better serve the production, input supplies and marketing requirements of about 90,000 small farmers. The nature of CMP financing is not former financing or production credit but rather financing of cooperative institutions. It sought to be able develop a "sound and dependable finance system lending to (the eventual establishment of) an apex bank for cooperatives." A total of P57,941,500.00 was made available to the project, both for the USAID loan proceeds and GOP counterpart.

In line with Executive Order No. 113 and Executive Order No. 116 dated 24 December 1986 and 30 January 1987 respectively, the CMP loan fund was integrated to the Comprehensive Agricultural Loan Fund (CALF) and transferred to the Agricultural Credit Policy Council (ACPC) effective 18 April 1989.

The CMP funds were later transferred to the Cooperative Development Authority in compliance with Section 10 of RA 6939. Thus, the CMP funds are now under the administration of the CDA.

SECTION 1. The Cooperative Finance System is specifically designed to effectively lend and invest the CMP loan and trust fund with well managed and credit deserving eligible cooperative so that they could in turn efficiently serve the needs of their members.

The following rules and regulations are hereby promulgated to govern the operations of the Cooperative Finance Group (CFG) when it lends and invests the CMP funds to eligible cooperatives thru banks, primarily Cooperative Banks.

SECTION 2. Definition of Terms — Unless otherwise specified, the following terms used in these Rules and Regulations mean:

a) Cooperative — a duly registered association of persons, with a common bond of interests, who have voluntarily joined together to achieve a lawful common social or economic end, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles.

b. Cooperative Bank — A bank organized by cooperatives and federations of cooperatives, the majority shares of which are owned and controlled by cooperatives primarily to provide financial and credit services to cooperatives. The term "cooperative bank" shall include Cooperative Rural Banks.

c. Loan Fund — That portion of USAID loan and Philippine Government counterpart funds and other sources earmarked for lending to eligible cooperatives.

d. Trust Fund — That portion of GOP funds, USAID loan or funds from other sources earmarked for the purpose of expanding the equity base of eligible cooperatives.

e. Guarantee Fund — A fund established to cover possible losses arising from uncollected loans which cannot be covered by the liquidation of collaterals in accordance with pertinent provisions of these guidelines.

f. Cooperative Finance Group (CFG) — A special unit in the Cooperative Project Development and Assistance Division, Cooperative Development Authority (CPDAD/CDA) created for the purpose of providing specialized handling, monitoring, supervision and servicing of loans to cooperatives made through Cooperative Banks/lenders.

g. Debt Equity Ratio — Refers to the ratio of term liabilities to the networth of the borrowing cooperatives.

h. Special Time Deposit — Funds made available to eligible participating Cooperative Banks/Lender to finance the loan(s) applied for by the eligible cooperative.

i. Disposable Earnings — Refers to the balance of net income to its non-cash expense items less mandatory cash deductions or appropriations for education, training, general reserve, KB guarantee fund, etc.

j. Risk Asset Ratio — Refers to the ratio of a bank's networth to its risk assets. Risk asset is defined as to total assets minus non-risk assets such as cash on hand, due from Central Bank, evidence of indebtedness of the Republic of the Philippines and the Central Bank loans covered by holdout on an assignment of deposits, bank premises, furniture and fixtures and equipment (depreciated) and other as approved by the Monetary Board.

SECTION 3. General Credit Policies —

a. The extension of credit shall be consistent with sound lending and business principles so that the cooperatives may prosper and grow in size, scope and quality or service to their members.

b. A loan to an eligible cooperative shall be based upon sound credit factors. It should be in an amount sufficient to accomplish the purpose for which it is intended and provide terms and conditions which reasonably assure repayment and protect the cooperative's credit base.

c. Applicant cooperative must have capital contributions sufficient to meet the debt-equity ratio prescribed under these guidelines.

d. Term loans that may be granted to an eligible cooperative shall be such that its total outstanding term liabilities would not exceed a debt-equity ratio of two is to one (2:1).

e. The Cooperative Marketing Project Fund shall pursue a policy of providing a total financing package for eligible cooperatives subject to loan and capital package provided that:

1. The amortization of the term loan component must be repaid from disposable earnings of the cooperatives;

2. Seasonal and commodity loans shall be repaid as inventories of financed commodities and products are sold and proceeds collected, but in any event the loan shall be repaid within a period of twelve (12) months or less; and

3. The retirement of the capital assistance (Trust Fund) component must be paid from a capital build-up agreed to by the cooperative members and made part of the loan agreement.

f. Each borrower shall be required to invest a 5% out of advances on term loans and 3.75% out of advances on seasonal loans (except re-advance made within the year) in a Guarantee Fund established to cover losses arising from uncollected loans which cannot be covered by the liquidation of collaterals. Each borrower is to make investments at the above rates until such time as the amount of investments in the Guarantee Fund equals 10% of the borrower's combined loan outstanding.

The funds are to be invested in prime securities by the CDA and the interest income shall accrue to the benefit of each borrower.

Any net loss suffered from uncollected loans granted under this program shall be chargeable up to eighty five percent (85%) against the guarantee fund and the balance of fifteen percent (15%) against the Cooperative Bank/Bank. Losses shall first be charged against the investment of the delinquent borrower in the Guarantee Fund. Any remaining losses will be charged against (a) the earnings of the Guarantee Fund (b) USAID loan proceeds; and (c) the investment of other borrowers.

SECTION 4. Types of Financing — Cooperative Marketing Project (CMP) funds may be utilized for any or a combination of the following types of financing:

a. Loans, Purposes:

1. Seasonal operating capital and commodity loans may be extended to provide short term operating funds and to finance increase in inventories and receivables that shall be liquidated within a period of twelve (12) months or less.

2. Term Loans may be granted for long term or permanent working capital, for facilities and other non-current assets payable on amortization basis within a period of more than one (1) to ten (10) years.

b. Joint or Split Financing:

A number of cooperatives which have loans outstanding from the other cooperative financing programs may need additional credit. Loans may be made to these cooperatives provided satisfactory arrangements can be made with the other lenders; for dividing collaterals, deferrals where necessary, appropriate repayment programs, etc. so that loans made under this authority can be granted on a sound basis.

In some cases, cooperatives rent operating facilities owned by LBP. In the event that it is determined to be desirable, arrangements might be made whereby the borrower may acquire such facilities by issuing preferred stocks to the CMP for the purchase contract to be paid out of a separate program for repaying regular loans, or on a long term loan purchase contract. Split financing will be involved and should be allowed on the condition that satisfactory arrangements can be worked out with the LBP and/or CDA.

c. Trust Fund Investment:

Investment in preferred stocks of cooperatives not to exceed 100% of their paid-up capital or P1,000,000.00 may be made to supplement equity capital owned by members in order to provide an adequate capital base to support the regular term and seasonal loans that may be granted. Preferred stocks shall be preferred as to assets but not as to interest and shall earn interest only when interest is declared for common stocks and shall earn at a rate of 1/5 of the rate declared for common stocks.

The preferred shares representing Trust Fund Investment in the capital stock of a cooperative shall be retired within a period of ten (10) years in accordance with the capital build-up program of the eligible cooperative to be reckoned from the date of each release of capital assistance.

SECTION 5. Authorized Lenders — Any Cooperative Bank/Bank that meets all the following requirements may be allowed to participate under this program:

1. It must be certified by the appropriate Departments in the Central Bank supervising the same as operating substantially in accordance with laws, rules and regulations and directives of the Monetary Board;

2. Its ratio of past due loans to total loans outstanding does not exceed 50% at the time of application;

3. Its risk asset ratio should not fall below the 10% minimum requirement with the grant of the loan being applied for;

4. Must be up to date in the payment/remittance to CDA.

SECTION 6. Eligible Borrowers — Cooperatives eligible to avail of loans and capital assistance from the CMP through participating Cooperative Bank/Bank under this program are the following:

a. Cooperative which meet/agree to meet all the following requirements:

1. Those registered or confirmed with the Cooperative Development Authority under RA 6938.

2. The main business activities are:

a) The supply of certified seeds, fertilizers and other farm inputs to members;

b) The buying, storing, transporting, processing, and marketing of the produce of members;

c) A combination of the supply of farm inputs and the marketing of the produce of members;

d) Providing other economic services or on behalf of the members.

3. At least 50% of the total business of the cooperative must be with its members.

4. Keeps and maintains acceptable and adequate accounting records and provides financial and operating statements in approved form.

5 Share capitals shall earn interest at rates approved by the Cooperative Development Authority.

6 All declaration of cash interests on share capital and patronage refunds shall be made only after prior approval by the Cooperative Development Authority.

SECTION 7. Credit Requirements — The Cooperative Development Authority may grant credit on the basis of careful analysis of, but not limited to, the following major credit factors:

a. Management — A cooperative seeking or obtaining credit should have responsible, competent and cooperative management and board of directors.

b. Loan Purpose and Terms — The purpose shall be for a constructive use, as those defined in Section 4 to further improve the cooperative's services to its members and patrons. The terms shall be in accordance with sound credit policies.

c. Repayment Ability —

1. Term Loans — The determination of repayment ability requires thorough analysis of the adequacy of historic and projected cash flows arising from operating margins, or retains out of payment for products, or from scheduled investments by members or retains out of payment for products, or from scheduled investments by members that will be available to meet loan repayments and build networth.

2. Seasonal Loans — The determination of the repayment ability for seasonal loan requires an analysis of the cooperative's ability to properly utilize the loan and revolve its current assets. A seasonal loan should be related to the value of the current assets being financed or to the net working capital position margining or supporting the loan.