

**2006 FFTC-NACF International Seminar on  
*Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21<sup>st</sup> Century,*  
Seoul, Korea, 11-15 September 2006**

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**Agricultural Cooperatives in the Philippines**

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**National Agricultural Cooperative Federation (NACF), Korea, and  
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# AGRICULTURAL COOPERATIVES IN THE PHILIPPINES

## Innovations and Opportunities in the 21<sup>st</sup> Century

### *ABSTRACT*

Philippine agriculture plays a vital role in the economy and is characterized by a mixture of small, medium and large farms. Rice, corn, coconut and many crops are principally produced by small farms. Prior to CARP (Comprehensive Agrarian Reform Program), there were large plantations in rubber, coffee, oil palm, cacao, banana, pineapple, etc. With the advent of the Agrarian Reform, there was a need to strengthen the individual small holder farmers and thus the need to organize themselves and form agricultural cooperatives. The history of Agricultural Cooperatives in the Philippines may be subdivided into four waves namely: during the American regime; the immediate post-war period; Martial Law regime and; under the restored democracy.

Generally, the Philippines adheres to the basic principles of cooperativism. Membership is maintained as voluntary. Related to this, cooperatives avoid destructive competition and undertake constant expansion. Tax incentive system for agricultural cooperatives is also in place.

The business activities and scope of the agricultural cooperatives in the Philippines cover the agribusiness functions including input supply, production, post-harvest, processing and marketing as well as credit and financing.

Innovations in the Philippine Cooperative Movement are in the areas of Registration, Regulation and Developmental. The Cooperative Development Authority takes the lead in implementing the following bold programs and innovations (1) **Registration:** development of an express cooperative registration system; (2) **Regulation:** more responsive credit program through the creation of a Credit Supervision Division in CDA; formation of a governance audit team; training Program for beneficiary cooperatives; value-chain marketing; (3) **Developmental:** Redirection of QUEDANCOR-CDA Financing Program for Cooperatives; financial assistance in the amount of P 78 million pesos to cooperative banks and; intensification of existing tri-media activities.

**KEYWORDS:** Philippine Agricultural Cooperatives, CDA Cooperative Development Authority, CARP Comprehensive Agrarian Reform Program, CCFS Centralized Cooperative Financial System, LIMCOMA

# **AGRICULTURAL COOPERATIVES IN THE PHILIPPINES**

## **Innovations and Opportunities in the 21<sup>st</sup> Century**

### **COUNTRY PAPER<sup>1</sup>**

#### **I. Role of Agricultural Cooperatives in the National Economy**

##### **A. Philippine Agricultural Structure and its Development**

Philippine agriculture is characterized by a mixture of small, medium and large farms. Majority of the farms in the country are all small farms averaging about 2 hectares. These are simple farms which are owned and managed by single families ranging from subsistence to commercial production.

Farming is generally undertaken on small farms. Almost two-thirds of all farms were no larger than three hectares. Eighty-five percent of all farms were no more than five hectares. Over a period of ten years ending in 1996, the proportion of small farms had been expanding. The Philippine Agrarian Reform Council Secretariat reported that the government had acquired and distributed about 4.1 million hectares of agricultural lands to agrarian reform beneficiaries. Under this Program implementing the comprehensive agrarian reform law, a farm household cannot own a farm larger than five hectares. A typical farming system consists of major crops, with rice, corn and coconut as common base crops, and a few heads of livestock and poultry.

Rice, corn, coconut and many crops are principally produced by small farms. Prior to CARP, there were large plantations in rubber, coffee, oil palm, cacao, banana, pineapple, etc. Contract growing schemes operate in corn seeds, banana, tomato, cucumber, oil palm, asparagus and broiler chicken.

Philippine agriculture plays a vital role in the economy. This attaches the high priority of transforming agriculture into a modern, dynamic and competitive sector. A sustained expansion of the national economy requires sustained growth in the agricultural sector.

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<sup>1</sup> Country Paper presented by Dennis B. Araullo, CESO IV, Executive Director, Department of Agriculture, Philippines, July 2006

Agriculture including forestry and fishery, plays a dominant role in the Philippine economy. The country's population is predominantly rural (70 percent of the total) and two-thirds of this population depends on farming for their livelihood. In terms of employment, about one-half of the labor force is engaged in agricultural activities.

Primarily, Philippine agriculture consisted of rice, corn, coconut, sugar, banana, livestock, poultry, other crops and fishery production activities.

The sector's contribution to the economy has been substantial. It registered a growth rate of 3.2%. The growth was mainly due to the expansion of the poultry, livestock, and palay sub sectors.

In 2005, the gross value of production of the crops sub sector was P406.8 billion at current prices or 5.98 percent more than the 2004 level. The relatively big gain in prices expanded gross earnings from palay production by 12.99 percent. In contrast, the gross value of corn production contracted by 14.97 percent as drop in production was coupled by a decline in prices this year.

The big gainers in terms of gross earnings among the major crops were coconut, by 3.28 percent, banana, by 22.36 percent, pineapple, by 4.60 percent, coffee, by 18.31 percent and mango, by 3.81 percent. Similarly, continuous increases in gross values of production were recorded for peanut, calamansi, rubber and mongo; these ranged from 13.46 percent to 20.76 percent. Because of higher prices, gross earnings from tobacco and abaca increased by 0.20 percent and 27.05 percent, respectively. The same situation held true for camote which posted an 11.49 percent increase and cabbage, with 14.25 percent. Garlic and onion farmers recovered from last year's slump due to higher prices; their gross receipts expanded by 11.69 percent and 33.90 percent, respectively. Meanwhile, gross value of tomato production grew by 14.35 percent due to increased volume of production and prices.

The gross value of sugarcane output continued its downward trend as another 4.36 percent decline was recorded this year. This was traced to reduced volume of production and prices. In the case of eggplant and cassava, gross earnings slid by 5.62 percent and 0.57 percent due to price depreciation, respectively.

The livestock sub sector grossed P154.2 billion at current prices. This was equivalent to a 6.49 percent gain from its year ago record. The biggest gainer was hog which grossed 7.24 percent more in 2005. This was attributed to increased volume of production and

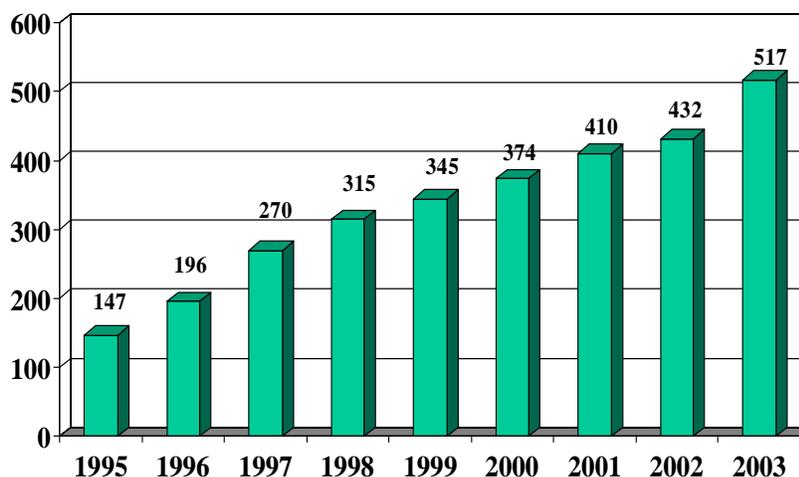
prices. For the same reason, dairy posted higher gross receipts of 21.45 percent this year. Gross earnings from cattle production also expanded by 5.14 percent. Gross value of goat output grew by 2.53 percent because of higher volume of production. The 1.34 percent decline in the gross value of carabao was due to lower volume of production in 2005.

The poultry sub sector generated gross earnings amounting to P107.8 billion at current prices and registered a 3.19 percent growth in 2005. Chicken came up with 2.88 percent expansion in gross value of output as both volume of production and prices increased. Chicken eggs posted 4.88 percent higher gross earnings in 2005 due to increment in volume of production. Duck raisers grossed 6.64 percent more as prices went up this year. On the other hand, a 2.60 percent reduction in the gross earnings from duck egg was recorded as a result of lower output.

The gross value of production in the fishery sub sector amounted to P146.8 billion at current prices, indicating a 5.71 percent gain in 2005. Aquaculture grossed 9.67 percent more this year due to increased production. With both volume of production and prices going up during the period, municipal fisheries grossed higher by 9.36 percent. Meanwhile, the gross value of commercial fisheries production contracted by 1.42 percent because of lower prices.

Cooperatives play a vital role in the Philippine economy. As may be gleaned below, the cooperative sector made significant contribution amounting to P 517 billion pesos.

**COOPERATIVE DEVELOPMENT AUTHORITY**  
**Co-op Sector Contribution to the National Economy**  
(In Billion Pesos)



The cooperative sector contributed about 12.5% (517 billion Pesos or US\$ 9.9 billion) of the Gross Domestic Product for the year 2003 and provided direct and indirect employment for more than 1.5 million Filipinos. It could be said that the cooperative movement is a dynamically alive, if not more than alive as it started in the country at the end of the 19<sup>th</sup> century when it grew, on the average, by only about 1.22% from that of 2002.

**B. History of Agricultural Cooperatives and its Legal Framework**

The history of Agricultural Cooperatives in the Philippines may be subdivided into four waves namely:

1. First Wave: During the American Regime
2. Second Wave: The immediate post-war period
3. Third Wave: Martial Law Regime
4. Fourth Wave: Under the Restored Democracy

During the First Wave, the Rural Cooperative Bill was introduced in 1907. In 1915, the Rural Credit Act was enacted. It was the first cooperative law in the country and was patterned after German cooperatives based on Raiffeisen experience. In 1927,

The Cooperative Marketing Law was passed, giving the Bureau of Commerce and Industry the responsibility of organizing farmers into marketing cooperatives. From 1942-1945 the cooperatives ceased to function because of the World War II.

During the Second Wave, Republic Act 583 Created the Small Farmers Cooperative Loan Fund. Two years after, Republic Act 821 created the Agricultural Credit Financing Administration (ACCFA). Through ACCFA, the government organized and financed Farmers' Cooperative Marketing Associations (FACOMAs) by providing collateral free loans funded by the US Agency for International Development (USAID). These state initiated FACOMAs failed due to corruption and incompetent management.

In 1953, the Federation of Free Farmers (FFF) was established. In 1960, the Agricultural Credit Cooperative Institute (ACCI) was then established. Three years later, the Agrarian Reform Code was enacted. The Land Bank of the Philippines was also established during the same year. In 1969, the Agrarian Reform Code was passed, mandating that coops be utilized as primary conduits for credit, supply and marketing services to agrarian reform beneficiaries.

During the Martial Law, the Agrarian Reform Decree declared the entire country as an agrarian reform area. Under the Land Reform Program, the tenant-farmers were obliged to compulsory join a pre-cooperative organization called Samahang Nayon. Benefits would include the right to borrow funds from government banks and the assurance of being supplied with farm inputs.

During the fourth wave, 1990, the Cooperative Code of the Philippines was enacted as well as the creation of the Cooperative Development Authority. In 1993, the National Cooperative Movement (NCM) was organized and then the organization of the Philippine Cooperative Center (PCC) the following year. In 1998, the Coop National Confederation of Cooperatives (NATCCO) Network Party formed by members of NATTCO landed a seat in the House of Representatives after garnering over 2% of the votes of party elections.

## **II. Current Situation of Agricultural Cooperatives**

### **B. Institutional Arrangement**

#### **1. Membership**

The Philippines adheres to the basic principle of cooperativism on membership which means that cooperatives are voluntary organizations, open to all persons able to use the coops' goods and services and willing to accept the responsibilities of membership.

Cooperatives are categorized according to membership and territorial consideration. In terms of membership, cooperatives are categorized as follows:

- Primary - the members of which are natural persons of legal age.
- Secondary - the members of which are primaries.
- Tertiary - the members of which are secondaries upward to one or more apex organizations.

Thus, those with cooperative memberships are considered federations or unions as the case may be. In terms of territory, cooperatives are categorized according to areas of operation, which may or may not coincide with the political subdivisions of the country but, those organized by minors are considered a laboratory cooperative and must be affiliated with a registered cooperative. It is governed by special guidelines promulgated by the CDA.

#### **2. Organizational Structure**

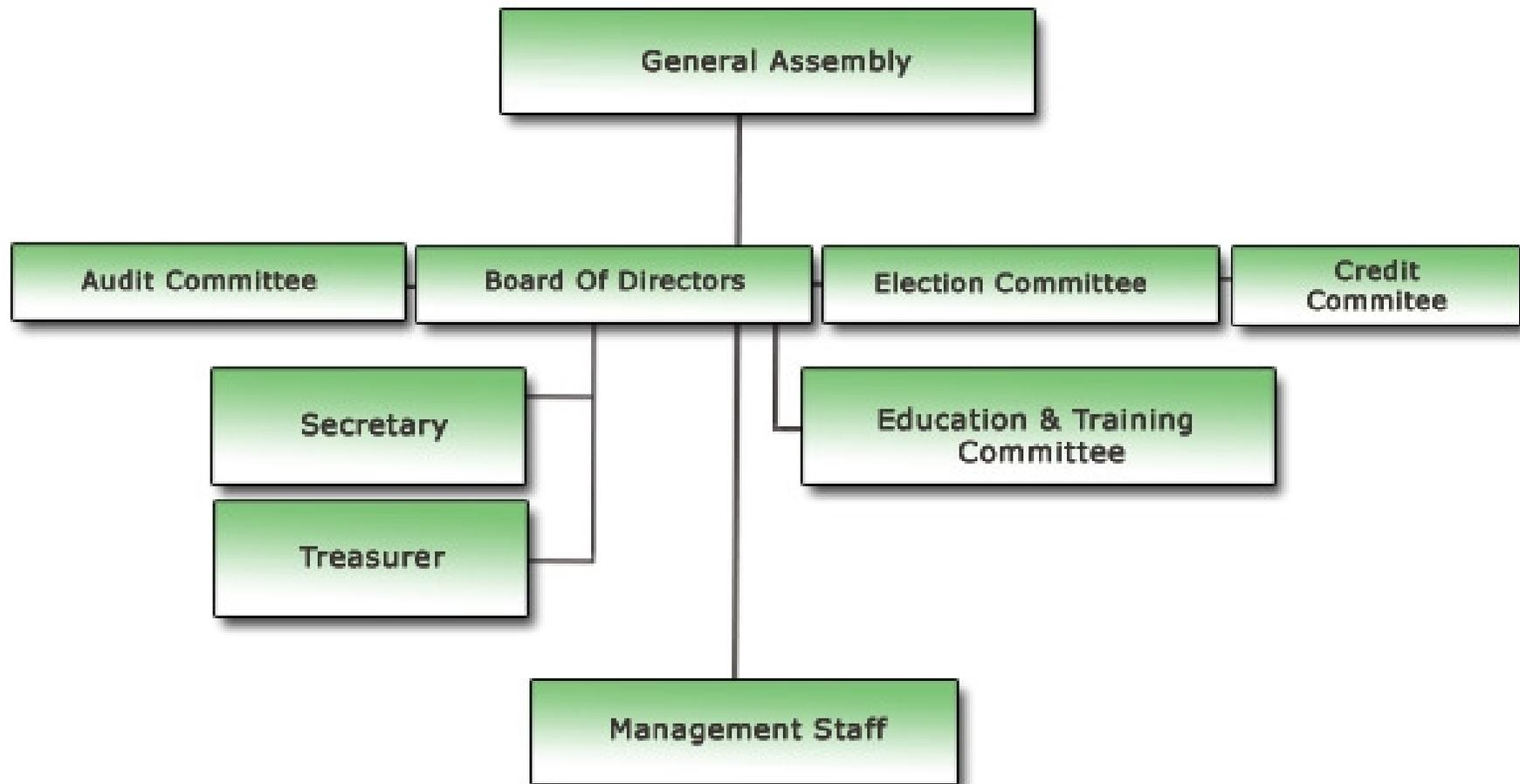
Cooperatives in the Philippines Avoid destructive competition - Fostering constructive competition among cooperatives safeguard the interests of consumers. Cooperatives are encouraged to cooperate in unison and bring their joint power in the market up to the level achieved by enterprises that are operated for the benefit of other stakeholders. They cooperate in order to get a fair deal from the large-scale buyers of

their products. Agricultural cooperatives cooperate to get a better deal from manufacturers and suppliers. Price fixing agreements and cartel methods are prevented.

Constant expansion - As organizations, cooperatives have to grow for community service. Expansion is a must. It is done intensively and extensively. New members are recruited to accumulate more capital and savings to support operation of the expanded business and services, which in the long run will provide more benefits for them. However, members in this regard undergo continuous education and training to learn various management practices/techniques and effective financial supervision.

The Philippine cooperative structure is best described as follows as illustrated below.

## Organizational Structure Of A Cooperative



A more detailed description of the prevailing institutional, business scope and cooperative governance systems that prevail in the Philippines is contained in Annex I hereof, *Primer on Producer Cooperatives* issued by the Cooperative Development Authority.

## **C. Business Scope and Performances**

### **1. Business Activities and Scopes**

From an agribusiness standpoint, the business activities and scope of the agricultural cooperatives in the Philippines cover the functions including input supply, production, post-harvest, processing and marketing. Credit and financing are also engaged in by the agricultural cooperatives inasmuch as most of the production cooperatives undertake re-lending to its members. This is the reason why most cooperative are registered as multi-purpose. Most of the agricultural cooperatives however are engaged into production. Input supply is likewise being undertaken by the multi-purpose cooperatives by providing the input requirements of its members. Very few cooperatives however engage in bulk purchase of input supply. Needless to say, most of the agricultural cooperatives in the Philippines are either too small or have not yet fully matured to take on agro-industrial activities such as processing.

Some of the more common activities being handled by the typical agricultural cooperative are as follows:

**Cash Trading** - This is business done on a cash and carry basis. The customer enjoys at least the use of the goods and services for cash payments he/she gives.

Cash trading promotes equality since anybody with cash can enjoy the service patronage. This practice can train members to observe the habit of balanced spending. Furthermore, the cooperative would be able to avoid bad debts and stabilize business operations. Finally, it is a way of increasing growth.

**Selling at Market Price** - Cooperatives offer goods and services at prevailing market prices. This promotes stability. It can cope with operational expenses and cover up the

negative effects of shrinkage, depreciation and losses. It helps maintain the prices of goods.

Quality standardized goods - Cooperatives are intended to develop communities through the production of high quality goods and provision of better services. Cooperatives could help by patronizing only standardized products and services of high quality. Hence, different types of cooperatives will strive to improve their goods and services to stand competition with business establishments. This, in turn, will be instrumental in improving life in the country.

Cooperative wholesale business or interlending (cooperative bank) - Cooperatives can be organized with enough people and capital. They respond to the needs of the community. The expansion of membership may result in wholesale business. In fact, to be effective, wholesale business, interlending (cooperative bank), could be done by primary societies. Defects from retail business could be avoided.

The benefits from the wholesale are considerable. Members can market and acquire the goods and services at the right price and quality. They can even lower and raise savings. They can also influence the production of badly needed goods and services;

Minimize expenditures - A significant factor favoring the growth of cooperative is its being a community project. Its officers do not receive remuneration. If they get compensation, it is only in the form of allowances, per diems, or honoraria. When audit shows that the cooperative is not capable can afford the minimum wage, only employees get paid regularly. The government can give exemption. Furthermore, laws may allow exemption from income and sales taxes. Minimizing expenses should not be taken as a remedy to cover-up the weaknesses of the system. It is not to be conceived as a form of dole-outs, but rather, it should be considered as motivation to make the movement stand on its own and soon attain its objectives. Once its objectives are achieved, the movement can take its rightful place in the development of the country.

## **D. Governance System and Management Performances**

### **1. Financing**

The main form of business organization in the countryside, other than individual proprietorships, is the cooperative. Of the total operating cooperatives in the Philippines, about 95% are non-National Capital Region (NCR) based. This would seem to indicate that lending to cooperatives is synonymous with countryside lending.

There has been a strong clamor for the establishment of a Centralized Financial System (CCFS) which would address the structural and systemic deficiencies in the current environment of lending to cooperatives, particularly agro-based cooperatives.

The Cooperative Centralized Financial System is seen as the backbone of a strong cooperative movement. It is designed to facilitate on a larger scale the sharing and pooling of financial resources, information, and risk across cooperatives, mobilize savings, and expand the capital base for improving access to financial services and for establishing performance standards among participating cooperatives.

### **2. Voting System**

Democratic Member Control - Cooperatives are democratic organizations where control is exercised through majority rule in a voting at annual assembly and membership meetings to ensure that enlightened decisions are made. Each member of a primary cooperative shall have only one vote regardless of the amount of equity they own or how much they patronize the organization. A secondary or tertiary cooperative shall have voting rights, as delegate of member-cooperatives, but such cooperatives shall have only five (5) votes. The votes cast by the delegates shall be deemed as votes cast by the members thereof.

### **3. Taxation and Government Supporting System**

Cooperative registered under RA 6938 shall, notwithstanding the provisions of any law to the contrary, be also accorded the following privileges:

Cooperatives shall enjoy the privilege of depositing their sealed cash boxes or containers, documents or any valuable papers in the safes of the municipal or city treasurers and other government offices free of charge, and the custodian of such articles shall issue a receipt acknowledging the articles received duly witnessed by another person;

Cooperatives organized among government employees, notwithstanding any law or regulation to the contrary, shall enjoy the free use of any available space in their agency, whether owned or rented by the Government;

Cooperatives rendering special types of services and facilities such as cold storage, ice plant, electricity, transportation, and similar services and facilities shall secure a franchise therefore, and such cooperatives shall open their membership to all persons qualified in their areas of operation;

In areas where appropriate cooperatives exist the preferential right to supply government institutions and agencies rice, corn and other grains, fish and other marine products, meat, eggs, milk, vegetables, tobacco and other agricultural commodities produced by their members shall be granted to the cooperatives concerned;

Preferential treatment in the allocation of fertilizers and in rice distribution shall be granted to cooperatives by the appropriate government agencies;

Preferential and equitable treatment in the allocation or control of bottomries of commercial shipping vessels in connection with the shipment of goods and products of cooperatives;

Cooperatives and their federations, such as market vendor cooperatives, shall have preferential rights in the management of public markets and/or lease of public market facilities, stall or spaces;

Credit cooperatives and/or federations shall be entitled to loans, credit lines, rediscounting of their loan notes, and other eligible papers with the Development Bank of the Philippines, the Philippine National Bank, the Land Bank of the Philippines and other financial institutions except the Central Bank of the Philippines;

Cooperatives transacting business with the Government of the Philippines or any of its political subdivisions or any of its agencies or instrumentalities, including

government-owned and controlled corporations shall be exempt from pre-qualification bidding requirements; and

Cooperatives shall enjoy the privilege of being represented by the provincial or city fiscal or the Office of the Solicitor General, free of charge, except when the adverse party is the Republic of the Philippines.

Duly registered cooperatives which do not transact any business with non-members or the general public shall not be subject to any government taxes or fees imposed under the internal revenue laws and other tax laws.

Cooperatives transacting business with both members and non-members shall not be subject to tax on their transaction to members. Notwithstanding the provisions of any law or regulation to the contrary such cooperatives dealing with non-members shall enjoy the following exemptions.

1. Cooperatives with accumulated reserves and undivided savings of not more than ten million pesos ( P10,000,000.00 ) shall be exempt from all national, city, provincial, municipal or barangay taxes of whatever name or nature. Such cooperatives shall be exempt from customs duties, advance sales and compensating taxes on their importation of machineries, equipment and spare parts used by them and which are not available locally as certified by the Department of Trade and Industry. All tax-free importations shall not be transferred to any person until five (5) years, otherwise, the cooperative and the transferee or assignee shall be solidarily liable to pay twice the amount of the tax and/or duties thereon.

2. Cooperatives with accumulated reserves and undivided net savings of more than ten million pesos (10,000,000.00) shall pay the following taxes at the full rate:

Income Tax - on the amount allocated for interest on capital: Provided, that the same tax is not consequently imposed on interested individually received by members;

Sales Tax - On sales to non-members: Provided, however, that all cooperatives, regardless of qualification, are exempt from the payment of income and sales taxes for a period of ten (10) years.

For cooperatives whose exemptions were removed by Executive Order No. 93, the ten-year period shall be reckoned from the affectivity date of said executive order.

Cooperatives created after the approval of the Code shall be granted the same exemptions, the period which shall be reckoned from the date of registration with the Authority: Provided, that at least twenty-five per centum (25%) of the net income of the cooperatives is returned to the members in the form of interest and/or patronage refunds.

### **III. Recent Developments: Innovations and Opportunities and their Effects**

#### **A. Factors that contributed to the Failure of Cooperatives in the Philippines**

Based on a study commissioned by the Food and Agriculture Organization in cooperation with the Department of Agrarian Reform and Cooperative Development Authority, 2003, the institutional deficiencies within and amongst the rural institutions and agricultural cooperatives are a result of weak enabling policy environment, lack of government support, weak capability building systems and, absence of strong centralized agricultural cooperative financial, production and marketing systems. These are manifested by:

1. proliferation of small and very small-scale weak cooperative organizations with narrow activity and membership base
2. lack of government funding support
3. the absence of a centralized coordinating or integrating institution on capacity building and continuing education and training as well as promotion of integrated cooperative marketing and production systems

There is indeed a need to strengthen or increase the membership size of cooperatives. Findings indicate that the agricultural cooperatives in the Philippines are too small to become viable. There are 34,203 agricultural cooperatives in the Philippines registered with the Philippines Cooperative Development Authority. During the same year total membership registered 1,628,714. Thus, the average number of members of agricultural cooperatives is only about 48.

While there are some successful agricultural cooperatives, sustained large scale marketing and production integration among cooperatives is hardly ever evident in the Philippines. This results in diseconomies of scale, weak access to finance, technology and market. Competitive advantage in terms of pricing, quality, innovativeness and delivery are therefore not optimized.

## **B. Innovations**

Innovations in the Philippine Cooperative Movement are in the areas of Registration, Regulation and Developmental. The Cooperative Development Authority takes the lead in implementing the following bold programs and innovations

### **1. Registration**

- a. Development of an express cooperative registration system

### **2. Regulation**

- a. A more responsive credit program through the creation of a Credit Supervision Division in CDA
- b. The formation of a Governance Audit Team
- c. Training Program for beneficiary cooperatives
- d. Value-chain marketing

### **3. Developmental**

- a. Redirection of QUEDANCOR-CDA Financing Program for Cooperatives
- b. Financial assistance in the amount of P 78 million pesos to cooperative banks
- c. Intensification of existing tri-media activities

#### **IV. Conclusion: Implication and Emerging Needs**

Clearly, the agricultural cooperatives play a vital role in the growth of the economy of the Philippines. While there are areas for improvement, the most recent innovations that exhaust opportunities for strengthening the agricultural cooperative movement are slowly being felt. These innovations are responsive to the need to strengthen the agricultural cooperatives and address the root causes such as weak enabling policy environment, lack of government support, weak capability building systems, absence of strong centralized agricultural cooperative financial, production and marketing systems.

These innovations as enumerated in the previous section are expected to enhance an environment that is conducive to cooperative dynamism and vitality in the areas of Registration, Regulation and Developmental. Nonetheless, governance is also considered as very important element for the success of these innovations that address the emerging need to strengthen the rural based agricultural cooperatives. As quoted from the Chairman of the Cooperative Development Authority: *“GOVERNANCE is the primary moving factor to sustainable cooperative development, all the rest are supportive factors.”*

## **SHOWCASING THE LIMCOMA MODEL**

Among the most successful agricultural cooperatives in the Philippines is the LIMCOMA Multi-Purpose Cooperative. LIMCOMA was funded in 1990, starting with paid-up capital of \$2,850 and assets of \$17,204 from original 77 incorporators. As of June 2000, LIMCOMA has a capital contribution of \$2.05 million, assets worth \$12.375 million, and a membership base of 4,200. With head quarters in Sabang, Lipa City, the cooperative has three branches and nine modified branches spread across cities and towns of three provinces of Batangas, Quezon and Laguna. Its workforce consists of an executive group and work pool of 242 regular employees. The success of LIMCOMA can be attributed to three things:

1. large membership base
2. professional management system
3. efficient production and marketing systems

Efficient feeds, hogs, poultry and cattle production systems are in place in LIMCOMA. It has an experiential breeding farm, located in sprawling six-hectare facility in Talisay, Lipa City. This experimental and breeding farm, which breeds 250 cows, is equipped with artificial insemination laboratory. LIMCOMA likewise operates a well-equipped meat processing facility in San Jose Batangas, a grains silo with 3,600 metric ton capacity, and an animal diagnostic laboratory with veterinary services. It has adopted a quality system for the production of feeds (for hogs and livestock). To further strengthen its production, it offers increases feeds subsidy, free construction of holding pens, and superior payment scheme than what the traders offers. This is to entice its members to enter into contract selling.

LIMCOMA has an efficient marketing network, as evidenced by its three branches and nine modified branches spread across the Batangas, Quezon and Laguna provinces. It also established the LIMCOMA Food Store in Calamba Laguna and new service outlets to deliver business products and supplies at members' doorsteps.

The following diagram depicts the innovative integrated production and marketing systems being adopted by LIMCOMA.



## **ANNEX 1 PRIMER ON PRODUCERS COOPERATIVE**

### **WHAT IS A PRODUCERS COOPERATIVE?**

A producers cooperative is a duly registered association organized, owned, controlled and patronized voluntarily by a group of persons who undertakes joint production whether agricultural or industrial.

It is organized for the purpose of assisting one another in the procurement and processing of raw materials as well as in the marketing of their finished products.

### **WHO MAY JOIN THE COOPERATIVE?**

Any natural person, who is a citizen of the Philippines, of at least 18 years of age who is engaged in the production of a certain commodity shall be eligible for membership in the cooperative if the applicant meets the qualification prescribed in the by-laws.

### **HOW CAN ONE BECOME A MEMBER?**

A person qualified to become a member must:

1. Submit a written application on a form provided for the purpose to the board of directors through the secretary of the cooperative;
2. Pay a membership fee, the amount of which is prescribed in the by-laws;
3. Subscribe to a minimum of shares of stock the amount of which is prescribed in the by-laws. This may be payable in lump sum or in regular installments.

However, the by-laws of the cooperative may prescribe a fine on unpaid subscribed share capital subject to the guidelines issued by the Cooperative Development Authority. In the absence of a provision in the by-laws or the membership or subscription agreement, the board of directors shall determine the percentage of the

due and unpaid subscription to be paid as the needs of the cooperative may require and shall issue a call therefore.

4. Pay for at least 25% of his/her subscribed share capital

An applicant shall be deemed a member after approval of his membership by the board of directors and shall exercise the rights of members after having made such payments to the cooperative in respect to membership or acquired interest to the cooperative as may be prescribed in the by-laws. In case membership is refused or denied by the Board of Directors, an appeal may be made to the general assembly and the latter's decision shall be final.

#### **WHAT ARE THE DUTIES OF A MEMBER?**

1. Pay the installment on capital stock subscription as it fall due and participate on the capital build-up of the cooperative;
2. Patronize regularly its business;
3. Adopt improved production technique and practices;
4. Participate in the parliamentary affairs;
5. Attend the regular or special membership meetings;
6. Obey the rules and regulations provided by R.A. 6938, the by-laws, the decision of the general assembly and the Board of Directors and the policies and decisions that may be promulgated by the Cooperative Development Authority (CDA); and
7. Promote the aims and purposes of the cooperative, the success of its business, the welfare of its members and the cooperative movement as a whole.

#### **WHAT ARE THE RIGHTS OF A MEMBER?**

1. Participate in the deliberation during membership meetings;
2. Vote on all matters brought before such meeting;

3. Seek any elective position, subject to the provisions of Section 11 and 19 of Article III of the by-laws;
4. Avail himself of the services of the cooperative without any discrimination whatsoever upon compliance with the conditions and requirements thereof; and
5. Inspects and examines the books of accounts, the minutes books, the share register and other records of the cooperative during office hours and to execute other rights and privileges of membership.

### **WHAT SERVICES ARE PROVIDED BY THE COOPERATIVE?**

#### **THE COOPERATIVE:**

1. facilitates the procurement in bulk of raw materials and other equipment for processing/production;
2. markets the finished products in bulk, thus, eliminating unnecessary middlemen and saving on transportation expenses;
3. uses existing skills, industry and creativity of the members or develop such resources for productive purposes;
4. secures adequate returns for members for their skills and labor;
5. improves method of production and adopts quality control with the end that members will produce only products of good quality;
6. eliminates destructive competition among members by selling through the cooperative;
7. explores better market for members' products;
8. informs members of the products that are in demand to give them the opportunity to concentrate on the production of most saleable items;
9. finances a more effective means of promoting members' products;
10. encourages members to participate in capital build-up;

11. undertakes cooperative education to enhance the welfare of the members, officers and employees; and
12. cooperates with other cooperatives for their mutual benefit.

## **WHO RUNS THE COOPERATIVE?**

### **1. The General Assembly**

The supreme authority resides in the general membership being the highest policy-making body of the cooperative and shall exercise such powers as are stated in the Code, in the Articles of cooperation and in the by-laws of the cooperative.

The general assembly of the cooperative shall be composed of members entitled to vote duly assembled and constituting a quorum. It has the power to:

- a. determine and approve amendment/s to the articles of cooperation and/or by-laws;
- b. elect or appoint directors, officers and committee members and to remove them for cause;
- c. approve developmental plans of the cooperatives;
- d. exercise all power expressly provided by law and the by-laws requiring a two-thirds vote of all the members of the general assembly;
- e. To exercise final authority on all matters vitally affecting the cooperative;
- f. Take the final decisions regarding any change in financial policies, subject to legal restrictions; and
- g. Hear and pass upon the reports of the board of directors and committees.

### **2. The Board of Directors**

The business of the cooperative shall be determined by the Board of Directors (the number of which shall be 5 or not more than 15), who shall be elected by secret

ballot by the members at the annual general assembly and shall hold office for a term of two (2) years unless earlier removed for cause, or have resigned or become incapacitated due to illness or death, or until their successors shall have been elected, qualified and have discharged the duties of office; provided, that during the election at the first annual general assembly after registration, one half plus one of the directors obtaining the highest number of votes shall serve for two (2) years; provided further that no director shall serve for more than three (3) consecutive terms. The term of the incorporating directors shall expire during the first annual general assembly after registration.

The Board of Directors, as a body has general supervision and control of the affairs of the cooperative. It shall prescribe policies consistent with law, these by-laws and resolutions of the general assembly for the management of its business and guidance of its members, officers and employees. It shall likewise determine the adequacy of the bonds of accountable officers to ensure faithful performance of duties and responsibilities. If such bond is other than cash/real property bond, it should be issued by entities licensed by the Insurance commission.

### **3. The Committees**

#### **a. Election Committee**

The Election Committee shall be composed of three (3) members elected by secret ballot by the members at the annual general assembly for a term of one (1) year or until their successors are elected and qualified. Within ten (10) days after their election, they shall elect from among themselves a Chairman and Secretary. No member of the committee shall serve in the board or in any other elective committees. The committee shall promulgate rules and regulations in the conduct of election, pass upon the qualification of candidates, supervise the

conduct of election, canvass and certify in writing the returns to the presiding officer, who shall proclaim the winning candidates. The Committee shall decide election protest. The decision of the Election Committee may be appealable within fifteen (15) days upon receipt thereof to the General Assembly whose decision shall be final. In appreciation of the ballots, cumulative voting shall be disregarded and a vote for a director or committee member shall be counted as one vote.

**b. Audit and Inventory Committee**

An Audit and Inventory Committee of three (3) members shall be elected by secret ballot by the members during the annual general assembly. In no case shall a member of the committee serve in the board or in any other elective committees. Within ten (10) days after their election, the members of the committee shall elect from among themselves a Chairman and a Secretary. The members of the committee shall hold office for one (1) year or until their successors shall have been elected and qualified. The committee shall provide internal audit service, maintain a complete record of its examination and inventory, and submit audited quarterly reports to the Board of Directors and audited financial reports to the general assembly.

**c. Education and Training Committee**

The Education and Training Committee shall be composed of such members as may be determined by the Board of Directors and appointed by it for a term of one year, without prejudice to their reappointment. The Vice-chairman of the Board shall serve as Ex-Officio Chairman of the committee. The committee shall be responsible in planning and implementing promotional and educational activities of the cooperative.

4. **Other Committees** – Other committees may be formed and/or created and their powers/functions defined by the Board as the business and operations of the cooperative may require. Said committees shall assist the Board of Directors in the implementation of the cooperative development program/s.

**a. Chairman**

- Preside over all meetings of the cooperative and of the Board of Directors;
- Perform any and all acts and duties usually performed by a presiding officer;
- Sign all share certificates, revolving fund certificates, contracts and such other papers of the cooperative which the Board may authorize or direct him to sign;
- Perform such other duties as the Board of Directors may prescribe.

**b. Vice-Chairman**

In the absence or disability of the Chairman, the Vice-chairman shall perform the duties of the Chairman; Provided, however that in case of death, resignation or removal of the Chairman, the Board of Directors may decide to elect his successor.

**c. Treasurer – The treasurer shall have the following duties:**

- Take custody of all monies, securities and papers of the cooperative;
- Keep complete records of its cash transactions for the establishment of proof of his cash position at any given time and date;
- Pay upon the recommendation of the manager and as authorized by the Board of Directors, all money transactions and certify to the correctness of the cash position of the cooperative in all financial statements and reports submitted to the Board of Directors, the General Assembly and the Cooperative Development Authority;

- Turn over all monies, securities, papers, books and other properties belonging to the cooperative that he may have in his possession upon election of his successor;
- Post an adequate bond to assure the faithful performance of his duties; and
- Perform the duties of the Secretary in the latter's absence or inability to perform his duties.

d. **Secretary - The Secretary shall have the following duties:**

- Keep a complete list of all the members and maintain a correct record of all the meetings of the Board of Directors and the General Assembly;
- Give notice of all the meetings called;
- Keep and maintain the Stock and Transfer book and serve as the custodian of the corporate seal of the cooperative;
- Turn over to his successor all books and properties in his possession belonging to the cooperative; and
- Perform the duties of the Treasurer in case of the latter's absence or inability to perform his duties.

5. **Management Staff** – The Board of Directors shall appoint the following members of the management staff , fix their compensation and tenure:

a. **General Manager** – No person shall be appointed to the position of general manager unless he possesses the following qualifications:

- He must be familiar with the business operation of the cooperative;
- He must at least be a college graduate or has finished the cooperative training program/s;
- He must have at least two (2) years experience in a cooperative or related business; He must be honest and must have a deep sense of responsibility;

- He must be willing to undergo pre-service or in-service training;
- He must not be engaged directly or indirectly in any business similar to that handled by the cooperative;
- He must not have been convicted of any administrative or criminal case involving moral turpitude, gross negligence or grave misconduct in the performance of his duties;
- He must not be facing any administrative or civil/criminal suit involving financial and/or property accountabilities; and
- He must not be addicted to any form of gambling, immoral or vicious habits.

**Duties of the General Manager:**

- The General Manager shall under policies set by the General Assembly and the Board of Directors has general charge of all the phases of the business operations of the cooperatives. Upon the appointment of his successor, he shall turn over to him all monies and properties belonging to the cooperative which he has in his possession or over which he has control;
- He shall maintain his records and accounts in such manner that the true and correct condition of the business of the cooperative may be ascertained therefrom at any time. He shall render annual and periodic statements and reports in the form and in the manner prescribed by the Board of Directors and preserve the books, documents, correspondence and records of whatever kind pertaining to the business which may come into his possession;
- Subject to the policies of the Board of Directors, he may employ, supervise and dismiss any agent or employee in the management force; and
- Post an adequate bond to assure faithful performance of his duties.

b. **Accountant** – No person shall be appointed to the position of accountant unless he possesses the following qualifications:

- He must be a Commerce graduate, major in accounting;
- He must have at least two (2) years experience in cooperative or related business;
- He must be honest and must have a deep sense of responsibility;
- He must be willing to undergo pre-service and/or in-service training;
- He must not be engaged directly or indirectly in any business similar to that handled by the cooperative;
- He must not have been convicted of any administrative or criminal case involving moral turpitude, gross negligence or grave misconduct in the performance of his duties; and
- He must not be addicted to any form of gambling, immoral or vicious habits.

**Duties of the Accountant:**

- He shall install adequate/effective accounting system in the coop;
- He shall render monthly reports to the Board of Directors on the financial condition and operations of the cooperative and annual reports to the general assembly or as may be required;
- He shall coordinate with the manager and the Audit and Inventory Committee in assisting the Board of Directors in the preparation of annual budget; and
- He shall assist the Chairman in the preservation of the books of accounts, documents, vouchers, contracts and records, of whatever kind pertaining to the business of the cooperative, which may come to his possession.

The accountant shall be under the manager for purposes of administrative supervision, but shall be directly responsible to the Board of Directors in the performance of his duties.

## **HOW IS THE COOPERATIVE CAPITALIZED?**

The cooperative may be capitalized through the following:

### **1. Direct membership capital**

Each members shall subscribe for at least twenty-five percent (25%) of his/her authorized share capital which may be payable in lump sum or in regular installments. Payment of at least twenty-five percent (25%) of his/her subscribed share capital is a requirement in the application for membership.

A member can increase his/her shareholdings through regular savings or by channeling into the share capital a certain amount of his annual interest on capital and patronage refund.

### **2. Revolving capital**

The general assembly of the cooperative may authorize the Board of Directors to raise a revolving capital to strengthen its capital structure by deferring the payment of patronage refunds and interest on share capital or by the authorized deduction of percentage from the proceeds of the product sold or per unit of product handled. The Board of Directors shall issue revolving capital certificates with serial number, name, amount and rate of interest to be paid and shall directly set forth that the time of retirement of such certificates and the amounts to be returned are at the discretion of the Board of Directors.

### **3. Capital Reserve Fund**

At least ten percent (10%) of the net surplus of the cooperative is set aside as reserve fund, which shall be used for the following:

- Stability of the cooperative and to meet net losses in its operation.
  - The sum of the reserve fund in excess of the share capital may be used at any time for any project that would expand the operations of the cooperative upon the resolution of the general assembly.
4. The cooperative may derive its capital from loans, borrowings and deposits to supplement the members' share capital.
  5. The cooperative is authorized by law to accept subsidies, aids, grants, donations and other assistance from foreign and domestic sources to supplement the members' share capital which shall be governed by the provisions of the Code and the rules and regulations issued by the Cooperative Development Authority.

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