

[REPUBLIC ACT NO. **10744**]

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	
Micro	
Small	
Medium	

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, including, but not limited to, the issuance of the Surety Agreement in favor of lending banks;

(f) Sue and be sued in cases involving the CSF;

(g) Periodically review the CSF and be responsible for taking appropriate action on the audit of the financial condition and operations of the CSF;

(h) Create committees and appoint other officers subject to the qualifications provided by the CSF Cooperative's Board of Directors and bylaws;

(i) Delegate to the Chairman, Vice Chairman, or any member of the Board of Directors, any of its powers whenever deemed necessary for the best interest of the CSF and as allowed by law;

(j) Exercise general supervision of all the affairs of the CSF Cooperatives including the issuance of policies, rules and regulations governing the operations of the CSF and be directly accountable to the general membership of the CSF Cooperatives;

(k) Issue the Surety Agreement jointly and severally with the endorsing entity in favor of the lending bank to secure the loans of qualified borrowers; and

(l) Perform such acts and exercise such powers and duties as may be necessary and proper in order to achieve the purpose for which the CSF was created or for any purpose which will redound to the benefit of the members of the CSF Cooperatives.

*SEC. 12. Authorized, Subscribed and Paid-Up Capital of CSF Cooperatives.* – At least twenty-five percent (25%) of the

authorized capital share as stated in the articles of cooperation must be subscribed at the time of registration, and at least twenty-five percent (25%) of the total subscription must be paid upon subscription. In no case shall the paid-up capital share be less than five thousand pesos (P5,000.00): *Provided, That* the required paid-up capital share for CSF Cooperatives may be increased every five (5) years, when necessary, upon determination by the CDA.

For purposes of this Act, the CSF shall not be deemed as part of the authorized capital stock.

*SEC. 13. Establishment of a CSF.* – A CSF Cooperative shall set up one CSF which shall be created to provide alternative means of collateral cover for the loans or credit accommodations obtained by qualified borrowers from lending banks. The initial contributions to the CSF shall come from participating member-cooperatives/NGOs, GFIs and other institutions/government agencies in a province and/or city.

Pursuant to the Cooperative Code of 2008 which provides that the government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, financial assistance and other services to enable cooperatives to develop into viable and responsive economic enterprises, an LGU may contribute to the CSF in the form of an investment or grant, in an amount at least equal to the total contributions of the member-cooperatives/NGOs.

GFIs and other institutions/government agencies may also contribute to the CSF in the form of investment or grant which may or may not be equal to the total contributions of the member-cooperatives/NGOs.

*SEC. 14. Composition of the CSF.* –

(a) The CSF shall primarily consist of contributions of the member-cooperatives/NGOs in each province and/or city.

(b) It includes the counterpart contribution of the LGU in an amount at least equal to the initial total contributions of the member-cooperatives/NGOs.

(c) It also includes the contribution of the GFIs and other institutions/government agencies which may or may not be equal to the total contributions of the member-cooperatives/NGOs.

Any increase in the contribution of existing or new member-cooperatives/NGOs, LGUs, GFIs and other qualified investors or donors shall likewise form part of the CSF.

SEC. 15. *Usage of the Fund.* – The contributions pooled from the abovementioned parties shall constitute the CSF, to be used as surety for the loans of qualified borrowers from lending banks. The CSF shall be deposited in trustee bank/s as herein defined, and shall only be invested or placed in safe and high-yielding instruments such as government securities.

SEC. 16. *Maximum Loan Availment.* – The maximum amount that may be borrowed by qualified borrowers under the program shall not exceed ten (10) times its contributions to the Fund at any given time.

SEC. 17. *Administration of the Fund.* – The CSF operation shall be administered by the CSF Cooperatives which is governed by the Board of Directors. The Board of Directors shall designate bank/s, 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”, to act as trustee bank/s and manage the CSF subject to additional eligibility requirements as may be provided for in the implementing rules and regulations.

SEC. 18. *Withdrawal of Contributions.* – Subject to the procedures and requirements stated in the implementing rules and regulations, a member-cooperative/NGO and other private institutions may withdraw all or part of its contributions: *Provided*, That it has no outstanding obligation on account of the surety agreements issued and subject to such reasonable terms and conditions such as, among others, the liquidity of the Fund. LGUs, GFIs and other government agencies may only withdraw their contribution upon dissolution of the CSF Cooperative.

SEC. 19. *Cooperative Development Authority.* – Pursuant to its constitutional mandate to promote the viability and growth of cooperatives as instruments of equity, social justice and economic development under Republic Act -No. 6939 creating the CDA, the CDA shall be the government entity in charge of registration, regulation and supervision of CSF Cooperatives. In order to implement the provisions of this Act, authority is hereby granted to the CDA to create an additional department specifically designated for CSF Cooperatives.

(a) Regulation

(1) The CDA shall formulate policies on the registration of CSF Cooperatives, including the setting of criteria and qualifications for cooperatives and NGOs that are interested to join the CSF; and

(2) The CDA shall issue, with the assistance of the BSP, the implementing rules and regulations implementing the provisions of this Act.

(b) Supervision and Monitoring

The CDA shall enforce and monitor compliance of CSF Cooperatives with this Act and its implementing rules and

regulations to promote the stability and sustainability of the CSF Fund. Thus, the CDA shall:

- (1) Supervise the activities of the CSF Cooperatives to ensure compliance with this Act.
- (2) Investigate and impose sanctions, including the suspension of operations of erring CSF Cooperatives, for violation of laws, rules and orders.
- (3) Require the annual, semi-annual or quarterly submission, as the case may be, of reports, financial statements, board resolutions and such other documents as may be deemed necessary by the CDA to ensure compliance with this Act, its implementing rules and regulations and other rules.
- (4) Conduct regular examination or inspection of the above documents to check the validity of reports submitted.
- (5) Set the performance standards for the proper operation of all CSF Cooperatives.
- (6) Submit an annual status report of each CSF Cooperative to the Department of Finance (DOF) and the BSP.

*SEC. 20. Role of the Bangko Sentral.* – Pursuant to its mandate to provide policy direction in the areas of money, banking and credit under Republic Act No. 7653, otherwise known as the New Central Bank Act, and to enhance credit creation in the rural areas, and achieve a more inclusive financial system, the Bangko Sentral shall have the following powers:

- (a) Spearhead the promotion, encouragement, creation and organizational development of CSF Cooperatives all over the country;

- (b) Facilitate the acquisition by CSF Cooperatives of technical assistance such as trainings and seminars in coordination with other public or private stakeholders for purposes of the CSF; and

- (c) Assist the CDA in setting the criteria and qualifications for CSF Cooperatives, and provide such other forms of assistance as may be determined by the Monetary Board to be consistent with its mandate.

*SEC. 21. Books of Accounts, Records, Reportorial Requirements and Administrative Fees.* – Subject to the requirements stated in the implementing rules and regulations, the CSF Cooperative shall set and keep accurate and internal financial controls.

The reportorial requirements and administrative fees required from CSF Cooperatives, taking into consideration their unique character and purposes, shall be provided in the implementing rules and regulations.

*SEC. 22. Implementing Rules and Regulations.* – Within sixty (60) days from the effectivity of this Act, the CDA, the DOF, and the BSP shall promulgate the implementing rules and regulations for the effective implementation of this Act.

*SEC. 23. Governing Law.* – The provisions of this Act and its implementing rules and regulations shall primarily govern the organization, establishment, governance and operation of CSF Cooperatives. The provisions of the Cooperative Code of 2008 shall apply only insofar as they are not inconsistent herewith.

*SEC. 24. Interpretation and Construction.* – In case of doubt as to the meaning of any provision of this Act or the regulations issued in pursuance thereof, the same shall be liberally construed and resolved in favor of the establishment of the CSF Cooperatives.

*SEC. 25. Transitory Provisions.* – All existing CSF agreements established prior to the effectivity of this Act, pursuant to the

BSP's CSF Program are hereby deemed eligible to be registered at the CDA as CSF Cooperatives, subject to the rules of registration as provided by this Act and its implementing rules and regulations.

SEC. 26. *Amendatory Clause.* – The pertinent provisions of Republic Act No. 6938, as amended by Republic Acts Numbered 9520, 8523, 3844, 7160, as well as all other laws, presidential decrees, rules and regulations, executive orders, or parts thereof that are inconsistent with the provisions of this Act shall be deemed amended accordingly.

SEC. 27. *Separability Clause.* – Should any provision of this Act be declared unconstitutional, the other provisions not affected thereby shall continue to be in full force and effect.

SEC. 28. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in two (2) newspapers of general circulation.