

New Wave of Advocacy to Credit Union Regulators: The Philippine Experience

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Background

A little over half a century ago, the Philippines appeared ideally positioned to develop rapidly as the world recovered from the devastation of World War II. The country had high levels of education, literacy, and savings, as well as an export-oriented agricultural sector that generated significant foreign exchange. However, despite these positive factors, there continues to be a large number of poor Filipinos, which among other things, may be attributable to decades of political crisis, a high level of government debt, a growing polarization between the rich and the poor, and rapid population growth. Recently, the President of the Philippines, Gloria Macapagal-Arroyo, and her administration have increasingly emphasized that poverty reduction is at the core of their development plans and programs. The primary task of the Medium-Term Philippine Development Plan (MTPDP), 2004-2010, is poverty reduction through equitable growth, rural development and social sector investment. Microfinance is one of the ten-point agenda identified in the Medium – Term Philippine Development Plan (MTPDP) to reduce poverty. The plan indicated that 3 million entrepreneurs would be supported through microfinance, thus, contributing to the creation of 10 million jobs in 6 years. Therefore, microfinance is poised to remain at the forefront of the Arroyo strategies for poverty reduction for the foreseeable future. And cooperatives, particularly the 4,695 savings and credit cooperatives who are engaged in microfinance, are challenged to become major financial providers to help fight poverty and create wealth, especially in the rural areas.

The financial services cooperatives in the Philippines

There were many attempts of government to provide highly subsidized credit to the rural poor via private banks and government financial institutions with the hope to help ease poverty. And they mostly failed for many reasons ranging from mismanagement and corruption to subsidies cornered instead by big borrowers. The lessons learned in the implementation of various

government credit programs contributed greatly to developing new practices and operations of the next wave of microfinance by non-government organizations (NGOs). However, a vast majority of microfinance NGOs remained small and served few clients because of their structural difficulties in attracting capital being social organizations rather than commercial entities.

Meanwhile, cooperatives initiated by the private sector have been slowly, but steadily been growing to provide financial services. Using self-help approaches and community-driven organizing, many of these co-operatives developed systems of operations that would improve them as financial service co-operatives.

A study of National Confederation of Cooperatives (NATCCO) on savings and credit co-operatives (SCC) showed that many SCCs have established themselves and have earned credibility with their own members and community. They offer savings and loan products that are comparable, sometimes even superior to those of banks. Their savings products have interest rates competitive with banks.

The study also showed that about 36% of co-ops with savings and credit functions are millionaire co-operatives (assets PhP 1 Million to PhP 60 Million). Co-ops with assets of PhP 61 Million to PhP 100 Million are 6%. Those with assets ranging from PhP100 Million and above are much lesser, 1.4%.

It is estimated that the top 300 SCCs (NATCCO, 2002) had total assets amounting to PhP 16 Billion, total share capital of PhP 5.9 Billion and mobilized total deposits amounting to about PhP 2.85 Billion. This is however, far below the deposits in commercial banks which account for 90% of total banking system resources.

As to membership, many of the co-op members come from the lower income segment of the population. There are co-ops who now have hundreds, others thousands, of members. There are several which have reported having as many as 30,000 members. Overall, however, CDA estimates that co-ops have around 3.3 million individual members nationwide (CDA, 2005). The current population of the country is around 84 million.

Despite the success of different financial service programs, the National Anti-Poverty Commission (NAPC) 2004 report, *Status of Microfinance Outreach in 60 Poorest Provinces* states that more than two-thirds of poor households, or 17 million people, still do not have access to microfinance services. This is a testament to the amount of work yet to be done in increasing the availability of financial services for the poor and a challenge to savings and credit cooperatives in the country to reach out to these potential membership.

Apparently, co-ops have been doing their share in meeting the needs of their members for credit. However, figures reveal that the financial services cooperative sector performances in terms of membership and financial reach are still far below the Philippine banking industry. Partly, this can be attributed to a weak oversight function of government on cooperatives. To a large extent, an absence of an enabling law to strengthen and sustain the regulation and supervision of savings and credit cooperatives in the country.

To address flaws in the Cooperative Development Authority (CDA) charter and the lack of regulation on cooperatives with savings and credit functions, efforts have been made both in the legislature and executive level of the government to strengthen the regulation and supervision of deposit-taking cooperatives in the country.

Setting Standards for financial services co-ops at the Legislative Level

In June 2004, the Coop-NATCCO party-list, representing the Philippine cooperative sector in the Philippine Congress, filed and sponsored a bill to amend the 1990 Philippine Cooperative Code that would improve the 15-year old code to keep abreast with the times based on the learnings on self-reliance, subsidiarity and self-regulation concepts by the cooperative sector. The bill proposed significant changes in the chapter on “**Savings and Credit Cooperatives**” that would bridge the huge gap in the regulatory environment for savings and credit cooperatives provisions towards self-regulation.

Self-regulation concept in the proposed amendments allows qualified coop federations to be deputized by government to monitor and assess the performance of its affiliates under the rules and standards promulgated jointly the government and the financial services coop sector. Self-

reliance concept is evident in the proposed amendments which allow the financial services coop sector to establish its own deposit insurance and stabilization protection mechanisms and such other schemes (central wholesale financing, liquidity pool management, audit & inspection services) that will support and strengthen the business undertakings of these cooperatives within the legal framework of the country. Subsidiarity is the recognition by the government that partnership with the coop sector is the best tack to follow if the government wanted the development for the coop sector. There simply would be a huge bureaucracy to oversee the cooperative development if government has to do it alone.

After one and half year of debates and consultation, the measure was approved in the House of Representatives on third and final reading last October 2005. The proposed bill is now undergoing deliberations in the House of Senate.

Setting Standards for Financial Service Co-ops at the Executive Level

In 1998, the Co-operative Development Authority, in collaboration with the National Credit Council of the Department of Finance (NCC-DoF), Central Bank of the Philippines and the major co-operative federations developed a Standard Chart of Accounts (SCA) for credit co-operatives and other types of co-operatives with credit services. There were circulars issued mandating the adoption of the SCA. Later in 2004, the performance standards for credit co-operatives (COOP-PESOS) was developed and consequently, a circular was issued by the CDA, mandating its adoption.

In mid- 2004, the CDA again in partnership with the NCC-DoF and the other organizations, together with representatives from the national co-operative federations adopted a framework for effective regulation and supervision of credit co-operatives and other types of co-operatives with credit services. In 2005, a Manual of Rules and Regulations (MORR) for co-operatives with savings and credit functions was drafted. On-going consultations and public hearings throughout the country are still being conducted regarding the MORR to refine and build agreements on the provisions of the MORR.

Setting Global standards for Financial Services Coops in Asia

Parallel to local efforts towards standardization and professionalization of savings and credit cooperatives in the country is an important initiative of the credit unions under the umbrella of the Association of Asian Confederation of Credit Unions (ACCU) to set its own global standards to ensure the competitiveness and stability of credit unions not only in Asia but worldwide.

I believe the ACCU's **ACCESS Brand** (A-1 Competitive Choice for Excellence in Service and Soundness) do not only ensure efficiency, reliability, viability and uniqueness of credit unions in Asia but more than that, the brand will play a catalytic role to reach out and build a movement of cooperators and friends all over the world who would use and be proud to be part of the standardized inter-dependent ACCU credit unions as their financial institution anywhere and anytime. This will make the credit unions and the national federations globally linked to be competitive. This development will also influence legislative and policy advocacy work in favor of the credit unions in their respective countries.

Challenges to Coop Advocacy and Lobbying with Regulators:

Pushing the cooperative agenda to the government is not an easy task because of the differences in the working culture between the government and the cooperative sector as well as the misconception and misunderstanding of government on cooperatives. This is why the advocacy of bringing coop leaders in government is an important arena of lobbying work by the cooperative sector to strengthen partnership and program complementation. This is also why the National Confederation of Cooperatives (NATCCO) together with Philippine Federation of Credit Cooperatives (PFCCO) decided to form a political party, the **Coop NATCCO party-list**, as its sector's voice in the Philippine Congress to advocate for the legislative and policy agenda of the cooperative sector and to educate government on the importance, workings and requirements of the cooperative sector.

In setting the standards and regulation of financial services coops in the legislative and executive levels, debates were made on:

- The limits of discretionary power of regulatory institutions vis-a-vis the self-regulatory power of federations over their affiliates?
- Encouraging compliance to standards by more incentives rather than more sanctions?
- Setting performance standards for savings and credit cooperatives, and what about performance standards for federations for deputization?
- Which government agency to supervise and regulate savings and credit cooperatives—a cooperative government agency or a finance/banking government agency?

I believe these issues may also be relevant to other countries. And ACCU would be the most appropriate network to capture the experiences and learnings of the credit unions in the different countries in Asia and pursue a global policy agenda of pushing a minimum standard and framework for the regulation and supervision of credit unions or financial services cooperatives as a parallel effort to its present initiatives of pursuing a global branding of credit union thru the ACCESS brand of ACCU.

Another challenge is crafting an Asian Credit Union Code of Ethics that would promote good governance and the credit union's reputation of uniqueness and distinct from banks. A code of conduct for Directors and Managers in the Credit Unions, Federations for which ACCU aimed at promoting the highest ethical and professional standards in board of directors and in management. Such a code should define the standards of professional competence and conduct which credit unions, federations and ACCU must expect of their directors and management.

Presently, the growth of the savings and credit cooperatives in terms of assets, capital and membership is a source of pride and concern in the Philippine cooperative sector. They have grown and developed as the most advanced sector within the cooperative movement. Yet there continuing growth and viability is being hampered by the lack of legislative support and standards from where potential members, other stakeholders and the general public may gauge their performance and condition. Its advocacy towards the following are important steps for the mainstreaming of the savings and credit cooperative sector in the Philippine banking industry:

- **Push for passage into law of the Amended Co-op Code.** With provisions to strengthen the savings and credit co-ops and other types of co-ops to be included in the amendatory bill.
- **Work towards establishment of deposit insurance for financial service co-ops.** While the banks are covered by the Philippine Deposit Insurance Corporation, co-operatives are not. When a co-op goes bankrupt, it is difficult for member-depositors to recover their deposits with the co-op. What is heartbreaking is the fact that these are small depositors, some are retired employees who have placed their retirement funds with the co-ops.
- **Strengthen Liquidity Fund and Stabilization Fund of financial service co-ops.** The banks can go to Central Bank in case of liquidity problems. For co-ops, this facility is not available. Once faced with liquidity problems, the co-op cannot react properly. The stabilization fund will be a important protection mechanism to prevent the bankruptcy of credit unions.
- **Push for incentives and encouragement of co-ops to merge or consolidate.** Many financial service co-ops have remained small in terms of membership and volume of operations. To remain sustainable and competitive with other financial institutions, it is essential for co-ops (primary co-ops and federations) to seriously study and consider the possibilities and opportunities of mergers/or consolidation.
- **Push for legal powers of federations over savings and credit coops to comply with standards of performance.** To lessen the delinquency rate and to make co-ops competitive, encourage and require co-ops to improve on different operational systems (e.g., credit investigation, loan processing, collection, human resource-related systems, etc.).
- **Push for standard and appropriate information and communications technology (ICT) for savings and credit cooperatives.** Computerization of co-op's operations will enable co-ops to provide not only faster and better services to the co-op members but also allow branded co-ops to interlink with other branded co-ops and commercial banks nationally and eventually in Asia thru ACCU.

I believe that all the above issues for advocacy could be a collective efforts of the credit union movements in Asia thru ACCU in the interest of competitiveness and survival of the credit unions in Asia as “grassroots financial institutions” of the Asian people reaching even to the villages of the poorest of the poor in rural Asia.

Finally, I wish to say that “people helping people”, “Credit unions helping credit unions”, “Branding credit unions together” are the essence of the movement—and leadership is the source of its power. And in this forum, we gather the credit union leaders in Asia to take the challenges of leadership not only in credit union management but also in policy advocacy for reforms in Credit Unions.

Thank you and wishing you all the best!