PHILIPPINE INSTITUTE FOR DEVELOPMENT STUDIES
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Policy Notes

December 2003

No. 2003-16

Efficiency and Gender Concerns:
Issues Confronting the Philippine Credit Cooperatives

Ma. Chelo V. Manlagñit and Mario B. Lamberte[*]

The Philippine government has recently intensified its efforts to develop the microfinance market in the country. For one, the Bangko Sentral ng Pilipinas (BSP) has issued a series of circulars to implement the provisions of the General Banking Law of 2000 that aim to provide a regulatory environment conducive to the growth and development of the microfinance market. The government has also secured financial and technical assistance from donor agencies, i.e., Asian Development Bank (ADB), International Fund for Agriculture Development (IFAD), and the United Nations Development Programme (UNDP), among others, to further boost the development of the microfinance market.

Microfinance institutions (MFIs) in the country may take different organizational forms such as rural banks, including cooperative rural banks, credit-granting nongovernment organizations (NGOs), credit cooperatives and a few thrift banks. This *Policy Notes* focuses on the credit cooperative system as a subset of the MFI system and presents an analysis of the efficiency of its system through various factors, including the incorporation of the gender dimension. Hopefully, the results of the analysis can provide valuable information to policymakers and other stakeholders on the performance of the credit cooperative system given its potential contribution to the development of low-income communities.

Integrating a gender perspective in microfinance analysis

To determine if participation in microfinance programs has significantly changed household behavior, studies that dealt with group-based lending programs have examined the issue of whether having greater access to finance have empowered women.

The common finding of these studies is that the multiplier effect of women's access to capital and training programs mobilizes their productive capacity to alleviate poverty and maximize economic output. This thus implies that well-designed microfinance policies and programs can make an important contribution to women empowerment.

PIDS Policy Notes are observations/analyses written by PIDS researchers on certain policy issues. The treatise is holistic in approach and aims to provide useful inputs for decisionmaking.

This *Notes* is based on PIDS Discussion Paper Series No. 2003-06 entitled "Integrating gender perspectives in evaluating the efficiency of COFI: the case of credit cooperatives in the Philippines" by the same authors. The views expressed are those of the authors and do not necessarily reflect those of PIDS or any of the study's sponsors.

[*] The authors are Research Associate and President, respectively, Philippine Institute for Development Studies (PIDS).

However, none of the existing studies has ever tackled the implications of women participation on the performance of credit cooperatives. And this is what this *Policy Notes* focuses on. It points out that the incorporation of gender issues in microfinance does not always necessarily mean directing a program towards women as clients, like most of the existing microfinance programs do. Rather, it stresses the need to take a look instead at the crucial role of women as policymakers and managers of MFIs, and assess its contribution to the development of MFIs.

Credit cooperatives: a backgrounder

Considered a watershed in the development of the country's cooperative movement was the creation of the Cooperative Development Authority (CDA) through Republic Act (RA) No. 6939 in the 1990s. The CDA's mandate was to promote the viability and growth of cooperatives as instruments of equity, social justice and economic development. Along with its 14 regional extension offices distributed nationwide, the CDA takes care of the registration and supervision of cooperatives, including savings and credit cooperatives or credit unions.

The Cooperative Code classifies cooperatives into: (a) credit, (b) consumers, (c) producers, (d) marketing, (e) service, and (f) multipurpose. Despite their highly differentiated functions, there is no specific regulatory framework for each type of cooperative.

The credit cooperative system is the most significant and most organized subset in the entire cooperative movement, with assets totaling PhP23.2 billion as of December 2000. This is equivalent to 0.7 percent and 35.6 percent of the entire banking system's and of the rural banking system's assets, respectively.[1] It is interesting to note that some credit cooperatives even exceeded the assets of the largest rural bank and some thrift banks in the country. Unlike banks, though, credit cooperatives are unit institutions which means that they do not have branches.

Efficiency concerns: looking at cost and profit efficiencies

With such huge assets in its hands, it is important to determine how efficient these institutions manage them since this would have an impact on the system's sustainability and contribution to the development of MFIs as instruments of financing for the poorer sectors of society.

Using balance sheets and income statements of the 134 member-credit cooperatives of the National Confederation of Cooperatives (NATCCO)[2] for the period 1990-1999, therefore, these authors set to evaluate the efficiency of the cooperative credit system by looking at both the system's cost and profit efficiencies. These measures of efficiencies were based on two points of reference, namely, from the best-practice perspective and asset-size reference.

Figure 1 shows the efficiency estimates for 1990-1999 on the basis of the best-practice perspective. It shows that the average *cost efficiency* of the credit cooperatives was 1.09, which means that nine percent of the cooperative's costs were wasted. Meanwhile, the average *profit efficiency* estimate of the credit cooperative system was 0.86, implying that on the average, the credit cooperatives were using only 86 percent of their resources efficiently.

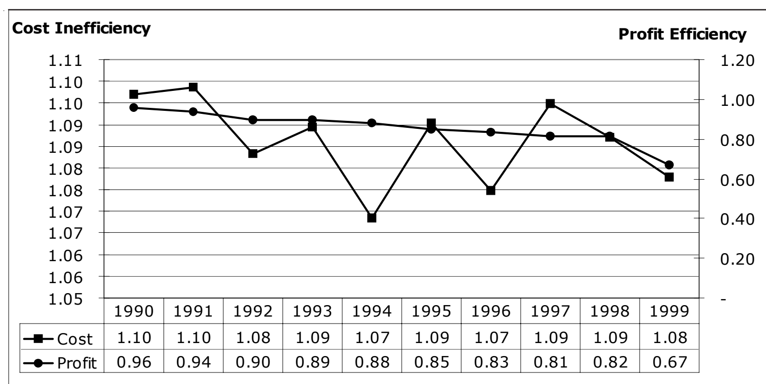
In general, the average cost inefficiency score of cooperatives has been moving erratically during the indicated period and tended to decline up to 1994. This implied that there was an improvement in cost efficiency but this trend was reversed afterwards. In contrast, the profit efficiency of credit cooperatives has consistently deteriorated from 96 percent in 1990 to 67 percent in 1999.

[1] This figure does not include delinquent cooperatives that failed to submit their financial statements.

[2] NATCCO is one of the federations/unions of cooperatives in the country. It is the largest national federation in terms of geographical reach, membership, financial capacity and array of services. The share of female members in NATCCO's credit unions rose from 39.8 percent in 1993 to 57.2 percent in 1999 while the proportion of women-employees had been consistently more than 60 percent during the same period.

In terms of asset size groups,[3] in the meantime, Figure 2 shows that the average *cost inefficiency* increases as the asset size of credit cooperatives increases then declines as asset size further increases. On the other hand, *profit efficiency* improves as asset size increases and then deteriorates as asset size further increases. This indicates that larger credit cooperatives appear to be more cost efficient than smaller ones. However, they also appear to be less profit efficient than smaller ones. It could be that credit cooperatives pay more attention to cost efficiency than to profit efficiency.

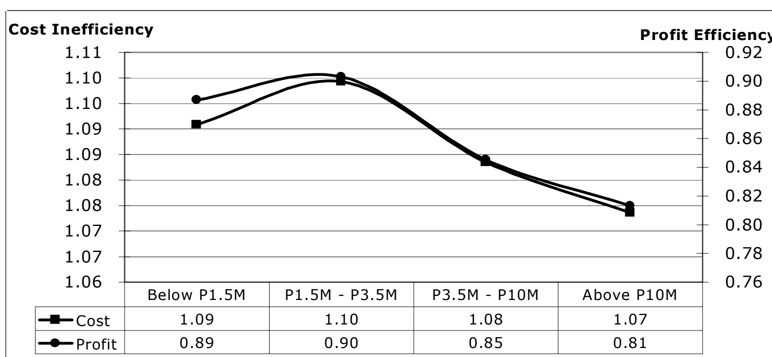
Figure 1. Efficiency estimates by best practice reference, 1990-1999



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Cost	1.10	1.10	1.08	1.09	1.07	1.09	1.07	1.09	1.09	1.08
Profit	0.96	0.94	0.90	0.89	0.88	0.85	0.83	0.81	0.82	0.67

Notes:
The left-hand scale is for cost efficiency which indicates that the higher the value of the estimate, the less cost efficient the cooperative is relative to the best practice cooperative. The cost efficiency takes the value of 1 or higher.
The right-hand scale is for profit efficiency which indicates that the higher the value of the estimate, the more profit efficient the cooperative is relative to the best practice cooperative. The profit efficiency takes the value of between 0 and 1.

Figure 2. Efficiency estimates by asset group, 1990-1999



	Below P1.5M	P1.5M - P3.5M	P3.5M - P10M	Above P10M
Cost	1.09	1.10	1.08	1.07
Profit	0.89	0.90	0.85	0.81

Dissecting the efficiency correlates for analysis

In order to determine the factors affecting these cost and profit efficiencies, three sets of correlates were examined. The first set deals with measures of market characteristics consisting of: (a) population density; (b) real gross regional domestic product; and (c) type of membership of credit cooperatives.

Among these indicators, the results show that only population density has a significant effect on both cost inefficiency and profit efficiency of credit cooperatives. This means that credit cooperatives operating in an area where there are fewer banks that serve the population feel less competitive pressure and therefore tend to be more cost inefficient and less profit efficient (this finding is similar to that pertaining to cooperative rural banks as discussed in *PIDS Policy Notes 2002-16* dated December 2002).

The second set of factors consists of correlates of agency costs. These include the following: (a) quantity of assets; (b) fixed assets to total assets ratio; (c) sufficiency of financial margin; and (d) ratio of deposits to loans. In this set, only the quantity of assets and fixed assets to total assets ratio have significant effects on the profit and cost efficiencies, respectively. This set of correlates shows that agency costs do not have a clear-cut effect on the efficiency of credit cooperatives which, in turn, implies that most credit cooperatives have not yet reached a certain size that can give rise to agency problems.

The final set of correlates refers to women and governance participation that includes the (a) proportion of women in the cooperative's total

[3]The credit cooperatives were categorized into four asset size groups: below PhP1.5 million; PhP1.5 million – PhP3.5 million; PhP3.5 million – PhP10 million; and above PhP10 million.

membership; and (b) ratio of the number of women to the total number of employees or staff of a cooperative. The specific hypotheses tested here were:

- A credit cooperative with a higher proportion of *women as members* tends to exhibit lower expense preference and, thus, incur lower costs and higher profitability; and
- A credit cooperative with a higher proportion of *women as employees* tends to exhibit lower expense preference and, thus, incur lower costs and higher profitability.

The results show that the first indicator has no significant effect on the *cost inefficiency* measure but it has a significant positive effect on the *profit efficiency* measure. The second indicator, on the other hand, is negatively correlated with *cost inefficiency* but exerts a negative influence on *profit efficiency*, which is contrary to what is expected. This suggests that credit cooperatives that are managed predominantly by women would likely concentrate on having greater cost efficiency than profit efficiency.

Conclusion and implications

What do all these results indicate?

The results suggest that in general, credit cooperatives are inefficient. Their cost and profit inefficiencies, however, are, on average, not too far from those of the cooperative rural banks in the Philippines.

In terms of the correlates, what was shown by the results as more significant is the effect on efficiency of women participation in the governance of credit cooperatives, especially in terms of cost efficiency. Given the preoccupation of credit cooperatives on cost efficiency, the dominance of women in the staff of credit cooperatives can help achieve that objective. However, in view of the need to shift emphasis to profit efficiency for long-run sustainability of credit cooperatives, new management skills would be required. In this regard, the training of the staff of credit cooperatives, including women, is in order.

It is worth emphasizing the role of women as employees and members of credit cooperatives since they create a significant impact on the performance of the organization. The most essential in terms of equal partnership within the credit cooperative system is the involvement of women, not just as beneficiaries of the lending programs, but more important, as partners in all aspects of decisionmaking at all levels—from policymaking to program planning to implementation and down to the evaluation process—in order to better appreciate their roles and contribution to the credit cooperative system.

At present, the CDA still lacks the capability to efficiently regulate the cooperatives in the country. Although it is performing well in its developmental role of encouraging the registration of cooperatives, a more pressing concern dwells on its efficiency in performing its regulatory function, which appears to run in conflict to its developmental responsibility. This therefore calls for an urgent resolution to said conflict that hinders the CDA's performance. It is either a choice between retaining its developmental function and transferring its supervisory and regulatory functions to another or new regulatory entity.

The functioning of the microfinance market depends on how effective the policy—legal, supervisory and regulatory framework—operates in the country. The other factor lies on the capabilities of the financial infrastructure, e.g., credit bureau, payment system, and others, present in the country which can help improve the efficiency of the microfinance market. Though microfinance is hardly a cure-all to poverty, it is nonetheless clear that it can contribute to poverty reduction.

For further information, please contact

The Research Information Staff
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street
Legaspi Village, 1229 Makati City
Telephone Nos: 892-4059 and 893-5705
Fax Nos: 893-9589 and 816-1091
E-mail: mchelo@pidsnet.pids.gov.ph; mlamberte@pidsnet.pids.gov.ph
jliguton@pidsnet.pids.gov.ph

The *Policy Notes* series is available online at
http://www.pids.gov.ph