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AN EVALUATION OF THE COOPERATIVE SYSTEM IN THE PHILIPPINES

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I. INTRODUCTION

The cooperative system in the Philippines has been characterized by stories of success and failure. While the system has been a recipient of all-out government support, it seems that it has remained meek and docile.

This paper looks into the reasons for such situation. It examines the problems and their implications on the cooperative movement as a whole. It also looks into other rural-based organizations and their performance. The study also attempts to be as comprehensive as possible, by way of reviewing the various studies in existence regarding the subject matter.

A compilation of recommendations and the writer's own views are likewise included here. The state of things at present indicates that the cooperative structure in the Philippines deserves a shot in the arm in some instances and a blow in others if only to promote the development of the more deserving cooperatives.

II. MAJOR FINDINGS

A. *Studies on the Rural Credit System*

1. *The Rural and Farm Credit System*

The rapid growth of the rural population has put pressure on the

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land-man ratio and has given rise to burgeoning food needs. The country's development plan has addressed this concern and has articulated the objectives of increased food production, the expansion and creation of employment opportunities, enhanced rural incomes and nutritional level, increased agricultural exports, the development of agro-based energy sources, and conservation of natural resources.

In trying to achieve these objectives, several rural credit programs were launched which were meant primarily for the small producers. These programs cover a host of commodities and activities that include rice, corn, feedgrains, livestock and poultry, fruits and vegetables, cotton, fisheries and cottage industries. They also include on-farm capital investments and integrated agricultural financing.

Despite these programs, though, there has not been much flow of rural credit into the countryside. Most of the current credit supply in the countryside is provided by the private nonformal moneylenders. This was true in the late 1970s when informal sources rose to prominence as fund suppliers, contributing some 64-78 percent of all farm credit during the period. The formal sources of rural credit showed their importance only in the mid-1970s with their 64-67 percent contribution as a result of the emergence of the government's massive supervised credit programs. But this later petered out due to high loan arrearages which compelled financial institutions to be selective in their lending to agricultural and rural business undertakings (TBAC 1980).

Loan biases in agricultural lending are evident among formal institutions in favor of export and commercial crops. Loans are mostly short term and concentrated in developed regions. This has resulted in a "vacuum" among other agricultural products and underdeveloped regions (TBAC 1981).

Aside from these biases, there is a seeming institutional bias against lending to the rural sector due to risk-return considerations involving uncertainties in physical output as well as in the market value of the output. The output risks include the weather, land and man productivity. While the weather risks are essentially beyond man's control and can be considered as constraints, man and land productivity could be managed through breakthroughs in research and extension programs.

Financial institutions could help in intermediating between groups of farmers and other segments of the rural population who have excess liquidity. The seasonal nature of the farm production process causes varying supplies and shortages of cash. Through intermediation, financial institutions could assist in managing the cash flow of several disjointed operations in the rural areas. The credit functions of financial institutions are necessary not only to smooth seasonal liquidity but also to increase the rate of capital investments in the rural sector.

It is fair to assume that there might be indivisibilities in the factor proportions between capital and labor in agriculture. Irrigation and fertilizers could fall under this category. No amount of extra man-days could increase production if irrigation and fertilizers are not provided. Small farmers, however, think otherwise, as evidenced by the fact that they keep a large household size for the purpose of providing additional labor which the farm may need to increase productivity.

The rural credit system is a dichotomy between large fund producers and small fund producers. Based on this structure, small producers are only able to get loans from small fund suppliers due to the former's credit absorptive capacity. Small funders, however, usually end up with low repayment problems, and their loanable funds are eaten up by operational expenses. Moreover, most small funders' loan portfolio is concentrated on special borrower groups, and when these groups default on their loans, the small funders' viability and profitability position becomes precarious (TBAC 1979).

The farm and rural credit system, therefore, has become dysfunctional in carrying out its objectives such as the enhancement of the transfer of technology through the provision of funds for increased demand for borrowed funds; the facilitation of commodity flows, through the market mechanism, from the producers down to the final consumers: and the allocation of funds, through financial intermediation, to individuals and institutions that could use these funds productively. The low volume of credit trickling down to the rural sector is reflective of the flows in the rural credit system.

2. *Agricultural Credit Policies*

The major underlying objectives of the agricultural credit policy are anchored on the progressive institutionalization of credit and the allocation of an increasingly larger share for the small farmer producers and weaker sections of the peasantry. These aims are reflected in the government's strategy of establishing financial institutions in the countryside such as rural banks, the Land Bank of the Philippines, and the like, with the end in view of influencing the flow of credit to the rural sector, in general, and to the small-scale producers, in particular.

The agricultural lending policies on small farmer lending programs can be categorized into: (a) general policies on small farmer lending programs; (b) Central Bank policies affecting rural bank loans to small farmers and entrepreneurs; and (c) Central Bank policies on rediscounting of rural banks' eligible papers.

(a) *General Policies*

The general policies on small farmer lending programs include: (1) supervised credit schemes which introduce three important features, namely, farm plan and budget, Package of Technology (POT), and extension services; (2) group lending; (3) guarantee coverage wherein guarantee fees of 1 percent and 2 percent for short-term and medium/long-term loans, respectively, are charged to the rural banks so as to cover the unsecured portions of loans caused by nonpayment due to reasons of *force majeure*; (4) accelerated fund assistance which provides for a fund of some ₱450 million to enable rural banks to avail themselves anew of rediscounting privileges; (5) crop insurance which assures the farmer of some funds to finance his next production expenses if his previous crop is destroyed, through a 2.0 percent premium payment contribution by the farmer, 1.5 percent by the lending institution, and 7.5 percent by the government in case the farmer is the borrower; (6) rediscounting at preferential rates where the loan value is equivalent to 90 percent of the outstanding balance on the unpaid portion of eligible instruments at the time of rediscounting for supervised credits, and 80 percent of the outstanding balance for nonsupervised credits; (7) collateral requirements relaxation in conformity with Presidential Decree 315 promulgated on 22 October 1973 that asked all financial institutions participating in agricultural credit programs to accept a certificate of land transfer (CLT) as a collateral for loan with a maximum loan value of 60 percent of the value of the farm holding; (8) marketing arrangements wherein the farmer-borrower agrees to deliver a portion of his produce to the marketing agent equivalent to the amount of his loan inclusive of the interest rate and the marketing agent purchases the farmer-borrower's produce and pays the said borrower's loan directly to the lending institution within a specified number of days, and where the lending institution accepts the loan payment made by the marketing agent in behalf of the borrower and credits any excess amount to the borrower's savings account; (9) restructuring of past due loans whereby the Central Bank may allow the rural banks to restructure their rediscounting arrears for a period of one year if these arrears are due to *force majeure* and for a maximum period of three years for its meritorious cases. For their part, rural banks may also allow the restructuring of the farmer-borrower's past due loans for similar periods for similar reasons; (10) decentralization schemes for Special Time Deposits (STD) availment wherein the Central Bank empowers the Regional Loan Teams in Central Bank Regional Offices and the Department of Loans and Credit (DLC) units in the regions to accept and process STD applications and release the proceeds immediately; (11) agricultural credit quota policy which requires all banks, either private or public, to allocate 25 percent of their loanable funds for agricultural credit (15 percent for agriculture in general and 10 percent for agrarian reform credit): (12) integrated approach in agricultural financing whereby the Central Bank redesigns its lending scheme by simplifying lending procedures to benefit both borrowers and lenders, dovetailing it to the concept of Integrated Agricultural Financing initiated by the National Food and Agriculture Council; and (13) integrated rural financing, which is a supervised rural credit program characterized by the adoption of an area-based comprehensive financing scheme and area management approach, and whose major thrust focuses on the selective site-specific implementation approach and on participative area planning, among others.

(b) *Central Bank Policies Affecting Rural Bank Loans to Small Farmers and Entrepreneurs*

Central Bank policies affecting rural bank loans to small farmers and entrepreneurs touch on the eligibility of borrowers, the purpose of the loan, loan ceiling, terms of loan, loan releases, interest rates, service fees and other charges, collateral requirement and loan repayment.

On the question of eligibility, the qualifications depend on the duration of the loan, whether short-, medium-, or long-term. For short-term loans, the qualified borrowers are small farmers/operators who own or till less than seven hectares of viable agricultural land; agrarian reform beneficiaries who own no more than three irrigated and five unirrigated hectares; previous borrowers under any of the supervised credit programs whose experience, background and facilities have been proven as effective; residents of the locality as certified by the barangay captain or the municipal government; those whose repayment rate records warrant eligibility for another project; vocational students whose parents are willing to co-sign as loan guarantors and whose teachers are amenable to being supervised credit technicians; municipal fishermen who operate no more than 3-ton motorized or nonmotorized bancas; and members of agricultural cooperatives who are qualified for financing.

For medium- and long-term financing, the qualified borrowers are (1) farmers who own or till not more than 50 hectares; (2) operators who are engaged or intend to engage in a cottage or agro-industry with a capital investment not exceeding ₱300,000 excluding land; (3) operators who are engaged or intend to engage in transporation enterprises for cargo or mixed cargo and passengers; (4) persons who are engaged or intend to engage in poultry, swine or cattle breeding/fattening projects; and (5) persons who are engaged in the development of fishpond/fishpens or in coastal fishing with a capital investment not exceeding ₱300,000 excluding land.

Short-term loans are usually for (1) the purchase of seeds, fertilizer, chemicals, work animals, and implements/equipment used in farm operations or for the hiring of such animals, implements/ equipment, and the purchase of stocks such as cattle, poultry swine and fingerlings; (2) farm expenses such as labor in relation to land preparation, planting, plant care and harvesting, minor repairs, construction or improvements in the farm/fishpond/fishpen for increased productivity purposes; and payments for current taxes/ irrigation fees. For medium- and long-term loans, the loan purposes cover all activities related to agriculture, cottage or agro-industry whose production cycles are more than one year and which require the acquisition of machinery/tools/equipment needed in their undertakings.

Meanwhile, the loan ceiling of the project depends on the type of the project and on the implementing guidelines of the credit program, as well as on the viability and actual needs of the project, the borrower's creditwothiness and repayment capacity, and the collaterals offered.

Regarding loan terms, for short-term loans, the loan maturity does not exceed 360 days while for medium- and long-term loans, the maturity period varies in accordance with the economic life of the project and the projected cash flows. However, in each case, it should not exceed the specified maturity period stipulated in the implementing guidelines.

Loan proceeds under the ordinary lending scheme are released to the borrower in full. The loan amount under the supervised credit program is deposited in the special savings deposit account of the borrower. Amounts are then released by the depository bank in accordance with the farm plan and budget. This usually holds for short-term loans. For medium- and long-term loans, the loan amounts released depend on the project plan.

On the matter of interest rate, for short-term loans, it depends on the prevailing interest rate as determined by market forces. For ordinary loans with a maturity period of 730 days or less, the interest rate is placed as 16 percent per annum if secured, and 18 percent per annum if unsecured. For loans which mature in more than 730 days, the interest rate is 21 percent per annum, excluding commissions and other charges.

Service fees and other charges depend on the discretion of the lending institution. Up to 2 percent per annum may be assessed by the borrower on the loan pr'ncipal or outstanding balance, whichever is lower, under the ordinary loans and 3 percent on the loan balance of CB-IBRD loans. Nevertheless, for a loan not exceeding ₱2,000, a ₱20.00 service charge is collected. For Agrarian Reform beneficiaries borrowers, the minimum charge shall not exceed 2 percent or ₱150.00 per annum, whichever is lower.

Initially, no collateral is required for short-term loans under the supervised credit programs. Recently, however, lending institutions were allowed to impose a collateral requirement in the form of unencumbered real/personal property, chattel mortgage on standing crops or object of financing, pledge of bonded warehouse receipts, acceptable co-makers and joint liability or guarantee coverage.

For ordinary and supervised medium- and long-term loans, the collateral may assume the form of first mortgage on titled and untitled immovable property and bonds securities. However, loans of agrarian reform beneficiaries and small fishing boat operators may be secured with a guarantee by the "Agricultural Guarantee Fund" to the extent that their loans are not secured.

Repayment of short-term loans usually is made at a time when the borrower has the highest income or when the principal income of the borrower is available. Payment of loans may be in cash or in kind as in the case of Masagana 99 loans.

For medium- and long-term loans, repayment is scheduled in equal installments inclusive of principal and interest on an annual, semiannual or shorter-period basis except in cases where deferred payments have been granted by the lending institutions.

(c) *Central Bank Policies on Rediscounting of Rural Banks Eligible Papers*

Central Bank policies on the rediscounting of rural banks' eligible papers involve at least three major aspects, namely: credit ceiling, arrearages ratio, and risk-asset ratio.

The ceiling for rediscounting is set at 500 percent of net worth and 300 percent of monthly average savings-cum-time deposit liabilities during the four months immediately preceding the date of loan application. Rural Banks (RBs) may avail themselves of rediscounts from the Central Bank for any number of years during the year subject, however, to the RBs' operating capital.

The arrearages ratio, meanwhile, which enables the rural banks to rediscount with the Central Bank and to participate in special financing programs is set at 25 percent. Exceptions, however, apply to certain special credit programs, provided that the financial assistance granted by the Central Bank is to be utilized solely for the particular program for which such assistance is provided. If the rediscounting appears were incurred due to natural calamities, the rural banks may submit to the Central Bank a capital buildup program and conversion scheme.

For banks to be able to rediscount with the Central Bank and to participate in special financing programs, the ratio of capital accounts to their total risk assets should not be less than 10 percent.

Numerous problems accompany the agricultural credit policies.

Despite the positive salient features of the supervised credit schemes, the beneficiaries appear not to have improved their economic lot. This may be due to the many risks in agriculture brought about by the vagaries of weather, uncertain package of technology and inadequate price support. The situation has created another unlikely situation where the loan absorptive capacity of borrowers is low and arrears are high, compounded further by the seemingly acceptable loan default syndrome and poor collection mechanism on the part of lending institutions.

Group lendings through such groups as the *seldas* or *damayans* have been failures. The lack of discipline among members and the "to each his own" attitude has substantially eroded the groups' confidence in each other.

To protect the interest rate spread from being eaten up under the supervised credit program, the Agricultural Guarantee Fund (AGF) was put up, but so far, statistics reveal that it has not lived up to its role due to factors beyond the Fund's liability.

Meanwhile, Presidential Decree No. 717 expressly provides priority to agrarian reform beneficiaries. While financial institutions have overcomplied with the 25 percent of loanable funds, compliance with the agrarian reform credit subquota through direct lending has been minimal. Despite general overcompliance, the decree has had a negligible effect on banks' investment portfolio as evidenced by very slight positive, if not negative, changes in the ratios of agricultural loans to total loans outstanding as well as of agricultural loans to net loanable funds outstanding after the decree took effect. Nor did compliance have any significant impact on bank profitability levels because the conditions for the effective implementation of the decree are not, in the first place, adequately present. First, there are no Agrarian Reform Beneficiaries (ARBs) to provide loans to in particular areas. Second, many financial institutions are urban-based and are not oriented towards lending to the rural sector or to the ARBs, for that matter. Third, there is a lack of identified viable projects for potential borrowers. Fourth, financial institutions rarely find support and encouragement to lend directly to loan beneficiaries due to the presence of alternative compliance vehicles through the purchase of Central Bank Certificates of Indebtedness (CBCI). Fifth, other bond instruments and government protection measures and incentives are inadequate. Sixth, there is a lack of verification of compliance at the field level. And finally, sanctions for noncompliance are rarely carried out.

Central bank's policies affecting rural banks' loan to small farms and the policies affecting the rediscounting of eligible papers of the rural banks are stringent and some are also unrealistic. For instance, the fundability of loans once these are in the hands of the rural banks poses one big problem of verification, rendering the purpose for the loan academic. Many rural banks have been found guilty of diversion of funds while their investment activities in allied services are largely constricted or limited.

3. *Review of Institutions/Lenders*

At the forefront of the rural and agricultural credit system which provides loans to small producers and entrepreneurs are the rural banks. But they, too, have to contend with several problems.

Under the Masagana 99 program alone, it is estimated that the critical repayment level, below which profits would assume a negative figure, is 98.2 percent. For rural banks, an average repayment rate of 98.2 percent is a tall order, considering that agricultural lending is a costly proposition.

The rural banking system is also confronted with the following: (1) most rural banks operate on an uneconomic size: (2) their growth in resources is impressive at first glance, but a closer look at the growth structure reveals that resource accretions are due to the addition of new rural banks rather than to internally generated resources; (3) rural banks can hardly mobilize savings. The bulk of their resources come from government equity counterpart and borrowings from the government; (4) delinquent accounts and poor loan and investment quality portfolios have substantially eroded the system's profitability and viability; (5) mismanagement, inadequate personnel capability and poor salary structure have also contributed to the rural banks' unprofitable state: (6) Central Bank's paternalistic approach by pampering and overprotection also did much to make the rural banks too dependent on the CB; and (7) engaging in too many supervised credit programs has resulted in overexposure, poor quality portfolio and, thus, poor repayment.

Government banks such as the Land Bank of the Philippines, the Development Bank of the Philippines and the Philippine National Bank lend to small farmers only intermittently. The bulk of their lending portfolio is focused on plantation type farms, large farmers/

traders and commercial loans.

Private commercial banks and other types of banks lend either on a commercial basis or to large borrowers, nonfarmers and big producers.

Several bottlenecks plague rural and agricultural lenders, among which are the following: (a) the high specialization of banks leads to a dearth of medium- and long-term funds for agriculture, and to compartmentalized services and segmentation of the agricultural clientele. The latter segments, among others, big and small peasant-farmers, agrarian reform farmers and sugar farmers, and big and small traders: (b) bank government funding agencies cannot sustain the noncredit needs of the less privileged sector of the borrower-spectrum. Nonbank government financing agencies which form part of the rural financial system include the Farm Systems Development Corporation (FSDC), Philippine Tobacco Association (PTA), Ministry of Agrarian Reform (MAR), and Cooperative Development Loan Fund (CDLF). The CDLF lends directly to small marginal farmers, resettlers, landless rural workers and agricultural cooperatives. However, it only provides a negligible share (less than one-half of a percent) of total loans, with most of these government funding institutions depending on government sources and funds which are mostly treated as dole-outs; (c) Apparently, there is no coordination among financial institutions at the grassroots level, resulting in multiple financing for the same borrower; (c) since several financing institutions are persuaded to lend to the rural and agricultural sectors, there exists no link among them to promote loan syndication for reasons of lack of identified bankable projects and the absence of a lead bank for loan consortium purposes; (e) informal lenders who charge high interest rates also lend loans to small producers to the latter's disadvantage. Most of these lenders, who are also traders, own adequate facilities to service the marketing needs of the small producers at depressed prices. Some government marketing outfits such as the National Food Authority (NFA) and the Agricultural Marketing Cooperatives (AMCs) absorb the marketing needs of the small farmer producers, but the former absorbs only up to 15 percent of the market while the latter are saddled with several problems, such as the lack of capital.

Recently, informal lenders also became selective in their loaning operations. They have followed the lending strategy of institutional lending institutions, ruling out the possibility of loaning to marginal and submarginal producers.

4. *Review of Borrowers*

Most farmers and food producers are small, and most (61 percent) farm holdings are less than three hectares. Due to the smallness of farmers and to high production risks and insufficient marketing support, farmers are faced with cash flow problems as income competes with funds for production and household upkeep purposes.

Several studies support the notion that rural credit borrowers are hardly bankable and hardly get loans. Tan (1978), for instance, analyzed the cash flow balances of a typical agrarian reform beneficiary under various assumptions of land size, family size, household expenditures, type of labor utilization, sources and amount of loans, etc.

Permutations of source of loans and type of labor used in the farm were combined with the usual socioeconomic conditions and framework of operations of an ordinary rice farmer to create six models to determine his cash flow position at the end of each month and year. One-year cash flows were simulated from these models and the monthly and year-end cash balances were noted. The effect of variations in factors such as land size, loan size and effect of typhoon damage were analyzed through sensitivity analysis. Simulation results revealed that, in almost all cases, months with negative cash balances outnumber months with positive cash flow balances and that the various assumptions and conditions under which a farmer can have a positive year-end balance seem rare and infeasible. A farmer owning one hectare of irrigated land should have no loans other than ₱1,200 from a formal source per cropping season and should not utilize labor outside the family while following the Masagana 99 recommended package of technology. One who uses labor both from within and outside the family and has the same credit positions as above should own at least 1.25 hectares of irrigated land to be able to have a positive cash balance. One who avails himself of loans from informal sources should have bigger landholdings to end up with favorable cash balances. Such findings reveal that, despite the success of government agricultural credit programs in increasing food production, they had little beneficial effects on the socioeconomic status of the producers.

A survey on the socioeconomic profile of landless agricultural workers in three selected barangay was aimed at documenting their socioeconomic profile. It determined the basic needs and credit requirements of this particular group and gave insignts into this group's perception of credit, banks, the government and their condition.

The study, which covered the barangays of Abangay, Iloilo, Bahaypare, Pampanga, and Tinawagan, Camarines Sur, found that the rural workers are a very disadvantaged group in the agricultural sector. The group is very impoverished, with income levels that are low and seasonal. The group's major activities are mainly personal services, making these landless rural workers uncompetitive in the highly competitive agricultural labor market. Interview results revealed that the government showed less attention by not creating problems addressed to their problem. In fact, the agrarian reform program has had a negative effect on them (TBAC 1978).

In a survey made by the TBAC in 1982, field results indicated that about a third borrowed during the survey year. Paddy irrigated farmers, large farm operators, and agrarian reform beneficiaries had a relatively high level of indebtedness. Informal sources, mostly palay traders, accounted for close to two-thirds of the total number of loans while formal sources dominated the lending arena in terms of lending, with about three-fifths of total loan volume.

A finding of the study that one out of ten farmers was a formal borrower and three out of ten farmers borrowed from either the formal or informal sources is a clear indication that the flow of credit to the agricultural sector is assuming miniscule proportions in relation to the required rural credit needs.

The study concluded that the main bottlenecks in rural credit are the bankability of small farmers/producers, the secondary role of credit in improving farm productivity and income, and the limited access of farmers to formal credit.

TBAC (1981), using a sample of 34 farmer respondents (leaseholders, full amortizing owners and CLT holding tenurial classes) in Nueva Ecija in 1981 observed that, without the use of loans, almost all sample respondents would have had deficit runs from the planting to the maturing phase of the crop. Without loans, there would be a probable decline in harvest and farm income because of the lack of proper inputs, the reduction in the scale of operations, and the lack of financial resources. Other results were an improvement through land ownership in the equity position of farmers, an improvement through multiple cropping of the income flow and repayment capacity of farmers, and the inability of sample farmers to settle their total current and carryover obligations.

Other reasons why small producers were not able to pay their loans were the inadequate loan amounts, the lack of discipline, and the lack of a conscious effort to save to finance farm activities.

Farmers who obtained loans in proportion to their farm size or whose loans were the actual amounts allowed did not fare well because the amounts were not the funds needed or required. In other instances, many farmers had borrowed funds in excess of what they needed or required, letting them accumulate some "savings" which they spent elsewhere. In the meantime, they had some hard time repaying their loan (Castillo 1982). This reinforces the general impression that credit ceilings are not based on required needs of the borrowers, stymying the opportunities of the producers to attain maximum productivity. Meanwhile, farmers who overborrow do not religiously apply the recommended package of technology due to inadequate extension and verification services.

The average propensity to save has been found to be a low 7 percent among sample respondents in Iloilo, Nueva Ecija and Davao del Sur (Ibañez 1978). The marginal propensity to save which is higher at 13 percent implies that increasing incomes will result in further increases in the average proportion of income saved. About 80 percent of asset accumulation is in the form of capital formation, livestock and poultry and farm implements. Assets held in financial instruments constitute a negligible 3 percent. The primary determinant of savings is income, with the latter influenced by size of cultivated land area, level of liquid assets, land ownership and average education. Rural households appear to be generally responsive to the opportunity cost of high consumption levels. Most of the rural households surveyed were not aware of the functions of financial institutions. The general perception was that banks were acting as conduits for leading and not for savings. For forced savings programs, however, the BSF and BGF have been growing at relatively high rates. Nevertheless, voluntary savings have rarely set in the rural areas except among school children through the "school savings campaign program." Perhaps the lack of savings consciousness among rural households may be ascribed to the lack of incentives to save and to the absence of a vigorous campaign to tap rural savings capacity.

5. Summary of Recommendations

1. A recommendation for the institutional credit delivery system and lending institutions is to continue the present multiagency approach to rural financing and also to adopt an effective information exchange network among such institutions at the field level to eliminate overlapping of lending services. This was done during the launching of the Kilusang Kabuhayan sa Kaunlaran (KKK) program wherein past-duers were not allowed to borrow from the KKK-designated banks. Another recommendation is for them to continue functioning as conduits for real financial intermediation and to allow a viable loan program along with a social loan program. The latter can be addressed to the nonbank government entities especially since they are capable of reaching marginal farmers and other nonbankable rural projects. To abate lending operation inefficiencies, training programs, upgrading of personnel and a regular monitoring and evaluation of these social loan programs should be conducted. The rural banking system should also encourage mergers and consolidation on a provincewide or regionwide basis to make the new groupings more competitive and efficient, and to improve their economic size stature. The provincial or regional rural bank may rediscount with the CB, thus eliminating the retail nature of individual rural bank rediscounting. As soon as the system matures, it can subsequently change into a national bank. For cooperative rural banks, merger or consolidation is also suggested. The consolidated CRB should assume the posture of a purely private commercial bank with existing CRBs as branches with expanded service networks in the rural areas. Land Bank could buy into the equity shares of the rural banks and make these banks its own branches.

   Many rural banks have in fact consolidated, such as the 14 rural banks in Bohol, equitizing many CRBs and RBs at ₱1 million each. Another suggestion in formulating an effective institutional credit delivery system is by upgrading the criteria for the opening of new rural banks, putting more emphasis on capital requirements by way of raising the minimum capital to ₱1 million, developing bank management expertise, and checking the potential of the area where the rural bank is to be located. Another option is to encourage the putting up of branches in the rural areas for every two branches opened in urban areas by stronger banks such as the large commercial banks. Incentives should be provided, and these include a reduction in the 5 percent gross margin tax, a reduction in the tax on interest income of depositors serviced by the branch, or tax exemption on the operations of the particular branch during the first three to five years of existence. Since rural informal lenders have been found to be more efficient and to have developed a strong clientele base in the countryside, they may be institutionalized, subject to certain conditions.

2. A retention of the quota policy is suggested to lessen the ineffectiveness of the agricultural credit quota policy and the unresponsiveness of banks to the weaker section of the peaantry. However, it should be modified to make it more effective, so that the small farmer will not find himself at the losing end due to high risk and the high cost of lending to him. The quota policy could cushion this fear; there is thus a necessity for the moral suasion effects of the quota system. Sufficient guarantees such as a 50 percent all-risk guarantee may also be enforced to attract high-risk loans.

3. For agricultural credit programs to proliferate an integrated and development approach to agricultural financing is recommended. The experience gained in commodity-specific program formulation and implementation should serve as building blocks for integrated area development planning. The integrated Rural Financing (IRF), which is an ongoing project that features the operationalization of the area management interagency approach and area-specific, comprehensive area development, and many activity financing schemes, could be considered. So far, a total of twelve development sites have been identified in 1984.

4. Activities addressing client-related problems such as small-scale farmers' cash flow problems, unavailability and bankability, improvement of small-scale farming system, farm technology, infrastructure, and markets and favorable prices for farmers' produce to increase their absorptive capacity for credit and repayment capability; access to or provision of other

employment opportunities either within or outside agriculture such as rural home industries and other home-based undertakings to buoy up the farm households' income levels, enhance repayment capability, and subsequently reduce risks of lending to small-scale farmers; and the provision of skills training, better access to educational facilities for the children of farmers especially those who till at the margin. It is also suggested that, in relation to the farmers' capacity to pay, the farms and farmers should be categorized and differentiated according to productivity size, location, availability of irrigation, term status including sharing arrangement or lease rental, capital and labor resource availability, credit utilization, family size, access to favorable market price, etc.

5. Some recommendations for the less privileged groups such as the agrarian reform beneficiaries are: (1) intensify and speed up land transfer operations under the agrarian reform program in order to strengthen the financial makeup of the farm leasehold; (2) promote growth in farm leasehold equity and furnish the small farmers with an endowment level from which long-term farm development may proceed; (3) encourage the adoption of multi-cropping activities to provide small farmers with additional sources of income and improve their cash flow structure; (4) evaluate the debt burden and financial capacity of potential farmer-borrowers rather than basing credit lending decisions on the cost of the package of technology or the financial need of the farmer to enable him to diversify his farm and non-farm undertakings; and (5) introduce farmer self-help programs or village-level mutual benefit schemes for small farmer credit programs. There is a need to expand the credit delivery system by expanding the existing institutional network.

B. *Cooperative Performance*

Samahang Nayons

Studies on the performance and problems of Samahang Nayons abound in Philippine literature. Foremost of these is the study by Castillo (1982) which elicited the following comments from farmers, implementors, program participants and others on the SN's features:

SN Features	Comments	
	Positive	Negative
1. General prospects	SN is of great socio-economic benefit to farmers	SN is not likely to succeed due to people's bad experiences with cooperatives in the past; poor BGF and BSF collection; education materials not arriving in time; field workers' lack of dedication; government and agency personnel's lack of knowledge of the SN program; and some government agencies do not coordinate with local officials.
2. Success of SN in locality	Success of SN can only be achieved if members and officers show interest in their SN.	Same as above
3. BGF	BGF is good and being implemented because it would be beneficial to SN members especially; it is in accordance with the rules of the Board of Directors; and it is accepted by both members and non-members.	BGF is difficult to implement because members cannot afford it; there is no immediate benefit; past bad experiences; poor harvest; wait-and-see attitude of farmers; and members are small landowners.
4. BSF	BSF is being implemented and accepted because it would be beneficial to members; it will be used in forming AMC/CRB or for emergency; it teaches saving; and it is refundable.	BSF is difficult to implement because it is too burdensome; there is no cooperation among members and officers; it is difficult to understand; there is lack of supervision; it is not enforced

SN Features	Comments	
	Positive	Negative
		by officers, resulting in noncollection of loan; and there is no immediate benefit for SN members.
5. Disciplinary	Disciplinary measures must be imposed on erring members to ensure the SN's objectives, and penalties must be imposed by the military.	Disciplinary measures should not be implemented because they are inapplicable or too harsh/drastic and drive away members and prospective members.
6. SN as channel of farm inputs and products	It makes possible lower prices for farm-inputs and higher prices for farm products, and middlemen will be eliminated.	SN does not function as a channel for farm inputs and products because technicians are against such practice; besides, it is impractical.
7. SN as channel of government services	SN is a measure for getting technical and financial assistance from the government and private agencies and facilities outreach of government programs to rural people.	No government services were channeled through the SN because it is not functional: it would be in conflict with the functions of the barrio council: other government agencies do not coordinate with the SN; and not all barrio people are SN members.
8. SN as instrument of land reform	SN complements agrarian reform, bringing about technical changes and making farmers owners of the land they till.	SN, as a facilitating instrument of land reform, is not applicable because many SN areas are not covered by land reform.

Actual conduct was abbreviated and only more than a half of SNs completed their training courses. Agrarian reform message was better absorbed than SN principles, and concept learning was not actually translated into actual behavior. In the area of capital build-up, despite some level of compliance with the saving program, practically 90 percent of SNs regarded BSF and BGF collection as a problem. Despite the trend in capital mobilization, SN is the only program which has succeeded in generating funds from farmers. For ₱20 per annum, with almost a million members, it had been possible to raise nearly ₱100 million in five years. Among the other SN features, discipline was the least implemented, followed by learning and saving.

Assessing the SNs in general, 40 percent of SN members believed that the SN movement was a success, 11 percent thought it a failure while almost half were unsure. For those who said that the SN movement was a success, about one-third reasoned that the external input from the government such as the efficiency of the Municipal Development Officer (MDO), Bureau of Cooperative Development (BCOD) workers and the technician and the inspiring government attention and incentives for rural development contributed much to the movement's success. About 70 percent attributed the success to themselves, to the wholehearted cooperation of members, and to the efficiency of officers and their honesty and integrity. About 82 percent of the respondents blamed the failure on the unwillingness and low capacity of members to settle their financial obligations, on nonattendance in meetings, and on the inefficiency and dishonesty of SN officers. In general, an assessment by local officials and field workers showed that only a little over one-half of them were definitely positive about the SN project's success in the localities.

One successful cooperative is the Quinlogan Samahang Nayon. According to a study made by the Special Task Force Division, Bureau of Cooperative Development of the Ministry of Local Government and Community Development, the success of the group (composed of 94 farmers) was due to the active role played by the leaders of the SN; the participation of the members in every stage of program planning and implementation; the self-reliant spirit of the group members; and the timely extension assistance provided by the government. The latter factor has been recognized as an indispensable component of a development program and a dominating factor in the successful operations of some Samahang Nayons (Special Task Force Division, 1978).

Development Specialists International, Inc. (1981) found that the majority (72 percent) of the M-99 SN-farmers considered the technicians indispensable to the program. More than 80 percent of M-99 and non M-99 farmers believed in the technicians because of their credibility in providing advice on the choice of input and farming techniques. Moreover, about 60 percent thought that farmers should get production loans only when there is a technician to supervise the use of the loan.

The presence of live-in technicians also contributed to the success of the Malatgao Samahan Nayon of Malatgao, Narra, Palawan. It was noted that one of its success factors was the development of the cooperative spirit among the farmers (Quiñones Jr. and Acasio 1981). In consultation with the live-in technician, farmers agreed on what crop to raise in a given season, set the schedule of farm activities from land preparation to harvesting, and implemented their common plan through group farming. Production on the 75-hectare farm was quite impressive. Rice stalks grew at a uniform rate, pests were effectively controlled, water was efficiently managed, fertilizer application was uniform and harvests were bountiful. Because of this, this was the only SN among the seven SNs that was able to fully repay its loan for production inputs of ₱6,630.00 which it got from the Palawan National Agricultural College Personnel Cooperative Credit Union, Inc. (PNACPCCUI) while the other six which got loans from the same source had total arrears of over ₱60,000.0U.

Perhaps it is assumed that successful SNs utilize or need a combination of inputs: credit, extension, participation by members in any aspect of SN activity, and a self-reliant spirit.

The Agricultural Marketing Cooperative (AMCs). The AMCs serve as the marketing arm of the Samahang Nayons but have not sufficiently participated in marketing activities to sustain the marketing needs of their SN constituents. The reasons frequently cited include the lack of capital, inadequate discipline and training, the lack of patronage by SNs, stiff competition posed by private traders, and the lack of competent personnel. Cegarial (1978), who studied extensively the performance of AMCs, asserted that the level of performance of AMCs depended on five (5) major factors: (a) *location* wherein most AMCs were located along or near the main high-way and away from commercial centers. While location is considered strategic, AMCs are not able to put up outlets to service members in far-away places due to business uncertainty and lack of capital; (b) *total amount of capital,* in which the lack of capital could mean the small contribution of members and lack of responsibility of the members in paying their loans and for the goods they acquired from the AMC on credit. Capital inadequacy could force the AMCs to specialize in the sale of inputs, thus neglecting the marketing of the members' produce. Fund insufficiency could also force the AMCs to borrow at usually high interest rates; (c) *profitability of the business,* wherein nonprofitability could mean the offering of AMCs at a price sale of farm inputs lower than that of their competitors. This situation is further aggravated by high administrative expense; (d) *members' participation,* in which nonparticipation of some AMC members is due to stringent operating policies of the AMCs and the lack of coordination of the different agricultural programs. AMC's lack of capital could be a result of the small membership contributions; (e) *qualification* of the manager and members of the Board of Directors. Some 10 percent of the membership of the Board of Director's had not finished intermediate education. Considering the duties and responsibilities they are supposed to perform, their education did not give them a stamp of managerial competence and ability.

A study of 15 AMCs and eight CRBs in 1980 revealed that five problems beset the AMCs despite their locational advantages, their promising arrangement profile and conventional business practices and procedures (ACCI 1980). These problems were the lack of operating capital, inadequate discipline and education among farmer-members, the generally weak support of SN members, inadequate training and processing facilities, and the lack of extension personnel.

The Cooperative Rural Banks (CRBs). The CRBs are the lending arm of the SNs and the AMCs. Like the AMCs, however, the CRBs find themselves in difficult financial straits. According to TBAC (1981), the uncertainty of the CRBs is brought on by their characteristics as follows: (a) small resources and uneconomic size of operations; (b) paid-up capital, which comprises only about 20 percent of authorized capital and half of the CRBs, is still without counterpart equity from the government; (c) high borrowing costs constituting 64 percent of total resources; (d) generally profitable operations, wherein return on evenues is negative at 2 percent, rendering eight of 28 in a precarious liquidity situation: (a) only 40 percent of CRBs generated a net income during the period 1978-80 and almost all incurred excessive expenses; (f) a half of the CRBs had past due ratios exceeding 25 percent, and the systemwide collection rate was a low 57 percent; (g) insufficient loanable resources such as deposits, capital and borrowings; (h) inability to effectively compete: (i) high incidence of mismanagement problems and conflicts, and lack of professionalism in managing most CRBs; and (j) lack of strong cooperative base and institutional linkages, lukewarm attitude of SN members in patronizing CRBs, and improper concept of role as owners and as borrowers.

Problems centered on the inadequate number of staff, the inadequate loanable funds due to generally weak investment support given to member-SNs; increasing past-due loans due to difficulty in obtaining a closer coordination with full support from SNs and AMCs in effecting a systematized collection scheme, and the dole-out mentality of SN members-borrowers; and the lack of farmers' general knowledge or negative attitude towards normal loaning policies and procedures of the bank so much so that these farmers resist normal procedures of submitting basic documents, question the CRB's system of appraising collaterals, and get impatient when loan releases are delayed.

Other Types of Cooperatives. Mixed trends characterize the performance of the other farmer-based or rural-based cooperatives. Some have miserably failed while others succeeded.

Among the cooperatives that failed is the moshav-type General Ricarte Agricultural Cooperative, Inc. (GRACI) in Nueva Ecija. Started in 1975 with the technical assistance of Israeli consultants and massive government management and credit support, it focused on rice and poultry production. It fared well in its first few years but began to taper off a few years later. Failure could be attributed to the following factors; (a) the Ricarte farmers were not able to respond well to the sudden inflow of wealth. With savings awareness unknown to them, household appliances and unnecessary items were bought during their buying sprees, (b) with the initial success of the poultry business, the farmers poured their resources into this activity at the expense of their crops. As a result, when the poultry business failed due to poor quality of feeds, disease and poor marketing, the farmers had no way of bailing themselves out; (c) the government, in its effort to aid the farmers, unwittingly introduced to them the "dole-out" mentality; (d) due to the multiplicity of agencies in the area, the source of the problem could not be pinpointed; (e) funds were reportedly diverted to other purposes by the cooperative's officers, leading to a complete lack of interest on the farmers' side; (f) the technology brought by the Israelis was not completely absorbed by the farmers such that, when the former left, most of the projects had to be abandoned; (g) there was a basic conflict between the Barangay Council and the cooperative officers, resulting in mutual distrust; and (h) there was no binding force among members such that the cooperatives were organized only during good times and by-passed during bad times within the cooperative cycle.

Montemayor studied the Kalasungay Free Farmers' Cooperative, Inc., located in Malaybalay Bukidnon. It is a credit cooperative which later on branched into other activities by establishing a consumer cooperative store and a marketing section to service the input and output marketing needs of its members. It was founded as a small credit union of 16 members in 1969 but after three years became a registered cooperative with ₱13,800 in fixed savings deposits to start with and 75 members in its fold. It was during the period 1973-82 that the cooperative grew at a considerable pace in terms of its volume of loans granted and repayment and marketing and cooperative store sales.

In early 1983, however, the cooperative slowly failed. Member contributions dwindled to low levels, marketing and store sales volume dipped substantially and the repayment rate was a measly 49 percent. Montemayor attributed the failure to the following reasons: *Fund mismanagement.* When two of the top cooperative officers were sent to Manila to conduct training on financial and business management, they failed to formally relegate their functions to appropriate persons. During their absence, there was rampant fund misuse by those at the helm of operations. Although the two eventually turned the operations around on their return, the damage had been done and could not be rectified in a short period of time; *Shrinking land size.* As early as 1980, a large coffee-based food company started leasing the lands of farmer-members. By 1982, almost 60 percent of farmer-members' total landholdings already were in the hands of the food firm, leaving the farmers with no more than a homelot to plant something on. With no more lands to till, there was no steady source of income to rely on; *Fund issue.* Farmers are entitled to a large sum of money payable every five years as payment for the lease of their lands by the food company. The farmers, however, lured by the illusion of money, began a wanton spending spree upon receipt of the first payment in 1980 with the hope that their jobs as casual workers in the coffee company would tide them over. It was too late because after they had spent their lease proceeds, they suddenly felt that their wages from the food outfit were barely enough for them. In the meantime, nothing was added to their contributions. In fact, they became net borrowers; *Thin distribution of time and efforts by cooperative officers.* During the 1981 barangay elections, many of the cooperative officers ran and won as barangay captains and councilmen or Kagawad. This, however, was ultimately inimical to the cooperative as the officers became busy with their new posts and neglected the cooperatives; *Drought.* The protracted eight-month brought from October 1982 to May 1983 exacted a heavy toll on the farmers' produce. There was no corn harvested and abaca wilted away, thus leaving the farmers with no other recourse but to borrow from the union which by then was itself running out of funds.

Other cooperatives that failed were the farmer-based cooperatives in the towns of Narra and Aborlan, Palawan. TBAC (1981) conducted several case studies of some of these cooperatives in two towns in 1981.

The Car-Gum Credit Cooperative was set up in 1969 starting with three members only. In early 1975, its members grew to 1972, and they believed that they were about to scale greater heights. The union expanded its business by enagaging in the sari-sari store business with wares provided by the PNAC Cooperative Store, and by acquiring a solar and mechanical drier, a warehouse, a rice mill and a thresher. Suddenly in mid-1975, the cooperative's membership thinned out and lanquished in painful failure. It all started with one deal involving a ₱15,000 loan from the Palawan National Agricultural College (PNAC) for the purchase of farm inputs. A similar deal for ₱11,000 was hatched earlier in 1974 but was fully paid in early 1975; hence the second loaning line. The full amount of ₱15,000 was used for fertilizers, and the transaction was proper except that the fertilizers were fake. This was a self-destructing endeavor as farm crops began to wilt, feeling the catastrophic impact of the bogus fertilizers. Because of these, the farmer-members lost interest in their cooperative and the latter was never the same again.

The Narra Proper Cooperative Credit Union (NPCCU) seems to be an adjunct failure of the Car-Gum Credit Cooperative. Established in 1972, it operated briefly before it disintegrated in 1975. Since then, membership meetings became scarce and far between until, in 1980, the union was nothing more than a skeleton haunted by an outstanding debt of over ₱15,000 in favor of PNAC from an original loan of ₱12,880 in 1972. The cooperative union failed to re-register in 1975, for reasons of lack of interest among its members and loss of confidence in the leadership arising from the dissipation of funds without thorough explanation. Some of the reasons why this cooperative failed were: (1) *dishonesty of incorporators and board members/officers.* The monthly amortizations or contributions of members were channeled to personal use by incorporators and union officers; (2) *lack of cooperative training among cooperative members.* Most farmer-members had not kept tabs on their role as cooperative members either because they were ill-trained, lacked trainors or were simply indifferent. Farmers join to get a chance to make a loan; (3) *inadequate loan capacity and funds mismanagement; ineffectivity of extension.* Extension workers were not full-time workers since most of them had business concerns of their own. (4) *overselling of the cooperative movement.* Champions of PNAC-motivated cooperative movements allegedly promised a lot to would-be union members only to renege during hard times. However, not all cooperatives were failures. Many nonagricultral and even agricultural cooperatives attained some measure of success.

Montemayor (1983) conducted a case study on the Davao del Norte Free Farmers' Cooperative, Inc., which is situated in a small town in Tubod, Davao del Norte. The study attributed the success of the DFFCI cash bond program to the following: timely credit accessibility, implementors' credibility, effective repayment scheme, provision of allied services, staff support, and continuous membership education and organization. From a limited participation of only 18 depositors and 20 borrowers in 1980, the program grew to accommodate 148 members and 103 borrowers in 1982. Loans increased significantly from only ₱8,000 in 1980 to a high ₱224,000 in 1982 with a respectable repayment rate of 95.0 percent during the three-year period. The DFFCI cash bond program, while only about three years old, promised to be a reliable source of credit in the countryside. The program could have become a showcase of farmer-contrived lending and of a savings scheme had the DFFCI been able to compete with private traders on the purchase of members' produce. Lack of marketing facilities and services hindered the cooperative in its marketing operations.

2. Summary of Recommendations

1. One of the major lessons which can be learned from the failures of SNs and other cooperative is that, in areas where there is little economic activity, cooperatives engaged in trade are not likely to succeed due to the smallness of the economic base. Thus, before embarking on a cooperative development scheme, an assessment of the influence area, as well as of the feasibility of the business proposed to be established, should first be made. Another lesson is the lack of preparation of cooperative members to assume responsibility. Lack of discipline and training has also hampered their operation. Thus, an honest-to-goodness discipline-oriented program should be faithfully undertaken before even forming a cooperative.
2. Suggestions for the AMCs and CRBs are: minimization of red tape in program implementation and aid to cooperatives; reduction in the extension of credit to members and regular auditing of the accounts; less government control on the internal affairs of the cooperative; continuous education on the part of the members as well as personnel of the cooperative; continuous financial and technical aid; and government action on erring officials and the creation of the Ministry of Cooperatives.
3. Villamin (1982) believes that the cooperatives will generate capital from the government sector for its implementation. He noted that funds for cooperatives are accumulating in bank accounts and have reached substantial proportions.
4. Another recommendation is the integration of the nonagricultural cooperatives in the government lending scheme for cooperatives.

It would seem that, on the basis of longer-term market potential, there are a number of other cooperatives classified as nonagricultural which are in need of financial assistance. These also serve farmers, fishermen and agri-business projects, have a sounder financial condition, and are in a more advanced stage of development than are agricultural cooperatives to which the CMP is directed.

C. Studies on Other Rural-Based Organizations

1. *Focus or Credit and Credit-Related Aspects*

Some rural-based organizations are farming well while others could not perform creditably.

The United States Agency for International Development (1983) and the Bicol River Basin Development Project did an extensive evaluation of three irrigation projects within the Bicol River Basin Development Project influence area. These are the Libmanan-Cabusao, Bula-Minalabac and Rinconada-Buhi/Lalo irrigation projects.

The study was on (1) the capability of the various farmer groups to eventually, take over the management of the water systems, (2) the viability of farmer organizations, and (3) bottom-up participatory planning and credit use. The three irrigation projects started at different times – the Libmanan-Cabusao in 1975, the Bula-Minalabac in 1978, and the Rinconada-Buhi/Lalo in 1979. Despite an early lead, the Libmanan-Cabusao is trailing behind the other two in many respects. The Libmanan-Cabusao project also has the highest cost overrun from the originally approved costing confirmation. The estimate is that it will incur a cost overrun of 84.97 percent when finally completed. Bula-Minalabac's overrun will be at a lower 65.28 percent while Rinconada-Buhi/Lalo's would be negligible at 12.15 percent.

The major objective of the three projects was to increase production and the income of farmers through efficient delivery of water, improved crop production techniques and timely application of inputs and credit and the sufficient availability of extension services and marketing facilities. Some positive and negative impacts have been noted due to the projects including: (a) increased collection rates for both property and business taxes in the municipalities affected by the projects. The records show that these increases coincided with the introduction of the irrigation systems: (b) readily apparent housing improvements in the areas. In addition, there was evidence of increased backyard farming, mainly in livestock production, including a proliferation of ducks; (c) land values appear to have increased, e.g., from an estimated preproject value in Libmanan-Cabusao of ₱3,500 per ha. to a current value of ₱12,000 per ha.; (d) increased, business and employment opportunities, both in terms of farm employment and supporting services, with small private enterprises sprouting; (e) greater variety and amounts of consumer durables and capital investment in stores and homes; (f) strengthened transport structure with more vehicles and a much reduced transport cost; (g) greater availability of water for bathing, drinking, watering, livestock, and the like; and (h) improved fish supplies and less problems of flooding, drainage, soil erosion and salinization.

The farmer-group badly needed more credit support to further diversify farm activities. The evaluation also noted that the farmers' incomes outside the project areas declined in real terms vis-à-vis the consumer price index. While the evaluation did not mention the real incomes vis-à-vis the consumer price index inside the project areas, it may be assumed that the problem was also true inside these project areas although to a lesser degree. This setback shows that the price system did not improve the farmers' incomes from rice production. It should be noted that, due to the project, some private enterprises sprouted. Given the right planning and management, the project site may yet become a showcase for successful integrated area-specific financing and development. Cases of conflicts among beneficiaries and lack of discipline and leadership are well highlighted in a case study conducted by Plana (1983). She observed that the low irrigation fee collection in the Walang Tanggihan Integrated Service Association Service area was due to the poor discipline among farmers. The problem of poor cooperation and lack of discipline by farmers was aggravated by the lack of strong leadership and inadequate NIA supervision. Because of this, the tractor for communal use that was being amortized was foreclosed by the bank since it could not be paid due to low fund levels generated by the group. Many were not willing to pay due to conflicts in interest rate in the use of irrigation.

Experiences of the Philippine Business for Social Progress (PBSP) financing rural-based groups are worth mentioning (Paz Cruz, Valera 1979). The PBSP has given financial and technical management assistance to more than 25 agribusiness projects, one of which is the group made up of 44 farmer-members of the Bisig ng Magsasaka in Biñan, Laguna. In addition to a financial advance of ₱87,000, the PBSP would initially manage the project. The project involves the organization and operation of a "Farm Service Center" to be managed by the farmers themselves. The center envisions to promote improved farm practices, input and output marketing, and incresed agribusiness knowledge. After one and a half years of operations, the average family income of farm-households increased from ₱5,289 to ₱7,764.00 per year and savings increased from ₱24.30 to ₱67.07 per month.

Another project worth noting is the Sta. Cruz, Davao del Sur small fishermen development project, which was successfully implemented in 1973 with the construction and sale of 24 fishing boats to 24 fishermen through a ₱20,000 PBSP financial assistance. This loan was completely repaid in April 1978. Also in the area of fishing, eighteen fishermen in General Santos City, South Cotabato, got some ₱31,200 from the PBSP for the purchase of six fishing boats plus ₱20,000 in grant for educational program purposes. Fishing operations commenced in October 1974. From September 1975 to February 1976, fishing boat operations improved, resulting in a 51.3 percent increase in gross production and a 23.0 percent increase in sales compared to 1974. The following year, however, saw a steep drop in production due to bad weather piracy. Fishermen were constrained to amortize the boats which they bought. In the meantime, they launched a massive capital buildup campaign by deducting 5 percent of the net sales of fishermen through the fixed and savings deposits made by the fishermen with the associations until they can pay off their amortization.

Other informal farm-based groups are the compact farms which are the handiwork of the Agricultural Credit Administration (ACA). Studies show that the compact farm program suffers from several weaknesses and constraints (TBAC 1981). The volume of operations is not large enough to enable farm management to generate economies of scale for the members' benefit. Diversification through forward and backward linkages is not feasible due to limited resources. Production yield, however, has improved considerably, ranging from 74 cavans/ha. to 113 cavans/ha. This is due primarily to efficient farm management, provision of extension services by the MA and ACA technicians, and timely release of loans. Despite this, nonetheless, farmers at times suffer low returns due to rising input prices, inadequate postharvest facilities, low output prices, and sometimes even lack of markets.

Castillo (1978) also studied compact farms, and observed that there was evidence of group participation among compact farm members when it came time to obtain loans. The most frequently mentioned reasons for joining the compact farm were: availability of low interest loans and farm supplies, the desire to increase production, the chance to learn modern methods of farming, and the availability of technical assistance. Decision of members to stay on depended on the continuing availability of these advantages of credit, efficient farm management, technical assistance and desire to increase production. Another reason cited was the pleasant company of other members. Disagreement among members, inefficient management and compulsion to pay loans and buy unnecessary inputs were some reasons for quitting.

For seldas which are loosely-organized small farmer groups, Montemayor comparatively studied five compact farms in Nueva Ecija, Bulacan and Iloilo and five seldas in Infanta, Quezon. In his study, most farmer-members in compact farms experienced decreases rather than increases in harvests due to high costs of production and natural calamities. Farmers belonging to the seldas increased their net income levels unlike before, suggesting that inadequate price support negatively affected compact farm operations and that the selda's production levels may have offset increases in farm inputs.

2. *Summary of Recommendations*

With respect to other rural-based groups, the following are suggested: (a) project implementation should include the project beneficiaries even during the project planning stage, implying that the beneficiaries themselves should be aware of what the project hopes to achieve. Discipline and identification of a strong leader to be chosen by the farmers themselves should be instilled; (b) follow-up of the project, educational and skills training and the provision of technical and credit assistance could play a major role in the project, as in the experience of the PBSP; (c) credit alone is not "the" main factor in project development. Production may increase and management capability may have improved but the members' socio-economic status may remain the same or deteriorate due to the project. Pricing and marketing support and their importation, again, cannot be overemphasized. The compact farm experience should be an eye-opener; (d) a savings campaign should be an integral part of the project especially in cases where credit is not forthcoming, as in the case of the PBSP-funded fishing boat project in Davao del Sur.

III. CONCLUSION

Evidences suggest that cooperatives and other rural-based organizations can still become a potent set of small producer associations capable of developing income-generating activities for the benefit of their members, provided they get assistance and benefit from an appropriate policy mix.

The new dispensation has continued to show concern for the development of rural-based cooperatives and farmers' organizations. This is underscored in the country's national development plan (1987-1992) where the cooperatives will remain to play a major role in the advancement of their members' interests.

Government policies to promote cooperatives have proven to be viable. As a result, various cooperative development programs, notably the Cooperative Development Loan Fund (CDLF), were a suspended due to low repayment rate on loans and to insufficient viability of the cooperatives' economic activities. One factor that stands out after a review and analysis of cooperatives' failures is the need for extensive training among cooperative members on the nuances on how to get a cooperative system going. Thus, the government thrust in this regard is to make certain such training needs are met.

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