INFORMAL SAVINGS AND CREDIT INSTITUTIONS IN THE URBAN AREAS THE CASE OF COOPERATIVE CREDIT UNIONS

by

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INFORMAL SAVINGS AND CREDIT INSTITUTIONS IN THE URBAN AREAS: THE CASE OF COOPERATIVE CREDIT UNIONS

by

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I. INTRODUCTION

A. THE COOPERATIVE CREDIT UNION AS AN INFORMAL CREDIT AND SAVINGS INSTITUTION

The Cooperative Credit Union (CCU) is the most important segment in the entire cooperative movement. Records show that among the different types of cooperatives, the CCU has been the most successful. Like rural banks, CCUs have appeared in almost every parish in the country. There was a time when parish priests promoted the CCU movement vigorously. Now it has spread into private and government offices as well as public markets.

The whole movement is indeed large, but nobody knows the exact number of CCUs, their membership and their assets. At present, the National Confederation of Cooperatives, Inc. (NATCCO) is conducting a census of all cooperatives in the

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*Respectively, Vice-President, Philippine Institute for Development Studies and Graduate Student, University of the Philippines' School of Economics.

country, including credit unions. Unknown to many, however, CCUs belong to the informal credit markets. The succeeding paragraphs will try to clarify this argument.

It has been fashionable to say that LDCs are characterized by a dualistic financial system. On one hand, there exist the formal credit markets (FCMs) which are regulated by the government. On the other hand, there exist the informal credit markets (ICMs) which perform certain financial functions but operate "outside the orbit of institutional and officially regulated finance" (Chandavarkar [1987]). This characterization of the financial market leaves the impression that one has to make a big jump in order to go from one segmented sector to the other.

This is not the case in the Philippines. What we have instead is a continuum, with participants in the financial market regulated at varying degrees. Some are less regulated than others, thereby achieving a greater degree of flexibility almost similar to that of completely unregulated participants. The problem now is where to draw the line so that we can really determine where the CCU belongs.

The most important hallmark of ICMs is flexibility. ICMs are flexible because they function "outside the purview of regulations imposed on the formal sector with respect to capital, reserves and liquidity requirements, ceilings on lending and deposit rates, mandatory credit targets, and audit and reporting requirements" (Ghate [1986]). In the Philippines, only the

Central Bank imposes such regulations on financial intermediaries directly under its supervision. We may then say that financial intermediaries which do not fall under the direct supervision of the Central Bank belong to the ICMs.

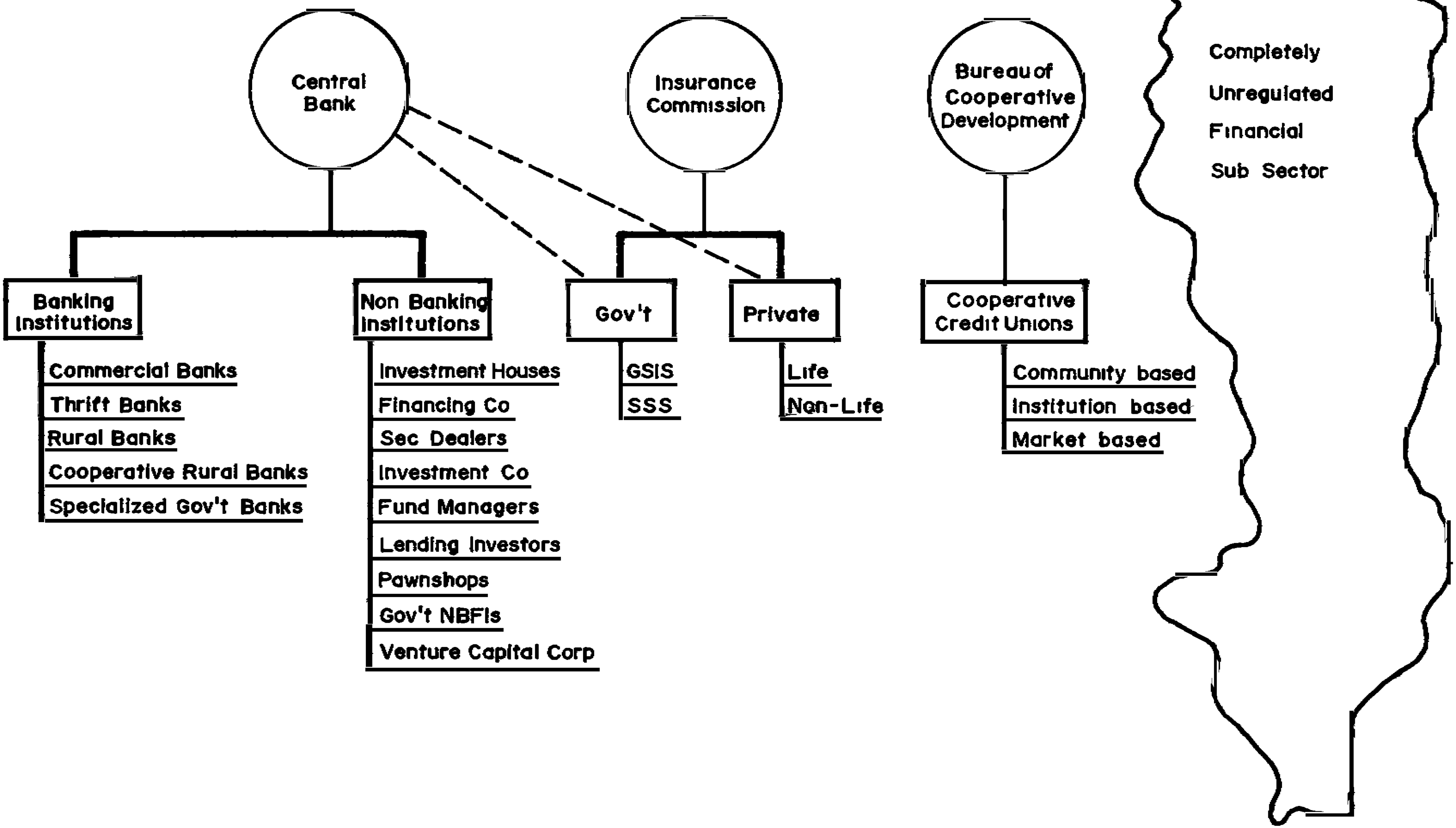
Given this definition, we can classify two groups of participants in the ICMs. The first group consists of those which are registered with a particular government agency but are exempted by law from regulations imposed by the Central Bank. The second group is composed of financial intermediaries which are not registered with any government agency. If they would be registered, they will then have to be subjected to Central Bank regulations because of the very nature of their operations. Note, however, that they are not necessarily illegal in the sense that sanctions can be applied to them once they become known to authorities. Central Bank regulations and sanctions, after all, can only be extended only to officially registered institutions.

In the Philippines, quite a number of regulatory changes have been effected through the years. It is worth noting that financial intermediaries which once operated outside Central Bank regulations are now registered and supervised.

A description of the Philippine financial system and a brief review of its regulatory environment can help clarify these issues. The financial system can best be described by grouping financial intermediaries under the regulatory agency(ies) directly supervising them (see Figure 1).

FIGURE I

THE PHILIPPINE FINANCIAL SECTOR



The Central Bank was explicitly given the mandate to oversee all banking institutions. Its control over banking institutions was meant to ensure the effectiveness of the monetary policy instruments. The usual regulations, such as minimum capital and reserve requirements, interest rate ceilings, etc., were applied to these institutions. As the economy grew, however, the financial system became more sophisticated and bolder in experimenting with new instruments outside the umbrella of Central Bank supervision. Thus, in the 1960s, many companies/entities registered with specific government agencies and participated in the credit markets without being regulated by the Central Bank. Likewise, in response to the repression of the financial system, new financial instruments, called deposit substitutes, started to emerge in the market.

On the basis of the nature of their operations, the registered financial institutions may be grouped into three broad categories: (1) institutions which regularly engage in the lending of funds obtained from the public in the form of deposits; (2) institutions which regularly engage in the lending of funds obtained from the public through the issuance of their own debt instruments other than deposits, such as acceptances, promissory notes, participations, etc; and (3) institutions which regularly engage in the lending of funds but do not obtain funds from the public (either as deposits or their own debt instruments). The second and third groups are called non-bank financial intermediaries (NBFIs). Of the three groups, only the first was under the supervision of the Central Bank. The rest were not regulated by the Central Bank, although they were registered with other government agencies (e.g. Securities and Exchange Commission, Department of Trade and Industry), and as such could then be considered as segments of the ICMs.

The phenomenal growth of the NBFIs, especially in the 1960s, generated a corresponding decline in the volume of total resources of the financial system subject to the direct control of the Central Bank. This threatened the effectiveness of monetary policy. The 1972 financial reforms corrected this weakness by putting all banking institutions and NBFIs under the control and supervision of the Central Bank. This is more or less along the lines suggested by Gurley and Shaw.

According to the Central Bank definition, NBFIs include:

(a) A person or entity licensed and/or registered with any government regulatory body as a non-bank financial intermediary, such as an investment house, investment company, financing company, securities dealer/broker, lending investor, pawnshop, money broker, funds manager, cooperative, insurance company, non-stock savings and loan association, and building and loan association.

(b) A person or entity which holds itself out as a non-banking financial intermediary, such as by the use of a business name, which includes the term "financing", "finance", "investment", "lending" and/or any word/phrase of similar import connoting financial intermediation, or an entity which advertises itself as a financial intermediary, and is engaged in a function(s) where financial intermediation is implied.

In general, NBFIs are not allowed to borrow from the public. The term "public" refers to twenty or more creditors at any one time. However, NBFIs may obtain a license to have "quasi-banking" functions, in which case they are allowed to borrow from the public provided that deposits are not among the debt instruments they issue.

All the financial institutions which are under the supervision of the Central Bank belong to the formal credit markets (FCMs). They are all subject to the minimum capital requirement, although this varies across different types of financial entities. For example, banks have higher capital requirements than non-banking institutions. Their debt instruments are subject to a specific reserve requirement ratio. Their borrowings and loan portfolio, particularly DOSRI accounts, are frequently monitored by the Central Bank. Supervision includes not only the mere issuance of rules, but visitorial powers as well so that regulations can be fully implemented, and if violated, sanctions can be effectively imposed on violators.

From the above, it is then clear that in the Philippines, finance companies, pawnshops and lending investors belong to the FCMs, unlike in other countries. There was a time when several finance companies succeeded in borrowing from the public without getting an authorization from the Central Bank. These were, of course, illegal. It was known to the authorities and the public only when a crisis hit the financial system in 1981. The Central Bank acted swiftly by revoking the license of the violators.

Insurance companies, both government and public, have never been under the supervision of the Central Bank. The Insurance Commission, which is an independent body, is empowered to regulate insurance companies. It is to be noted that insurance companies also engage in direct lending, although still limited to their own members. Their funds come mainly from the sale of insurance policies, not from the issuance of debt instruments similar to those issued by NBFIs. However, insurance companies are required to submit financial statistics to the Central Bank, the purpose of which is not necessarily to supervise them but to ascertain the effects of their operations on the monetary, credit and exchange situation of the country. Since this allows the Central Bank to maintain its control over total liquidity of the system, insurance companies maybe considered part of the FCMs.

Another group of financial institutions are the cooperative credit unions. They operate like mutual savings and loan associations, raising deposits from their members at one end and, at the other end, providing loans to their members only. Except for the cooperative rural banks which are registered as rural banks under the Rural Banking Act, cooperative credit unions are not under the supervision of the Central Bank. Nor are they required to submit financial reports to the Central Bank. The Bureau of Cooperatives Development, which is attached to the Department of

Agriculture, is empowered to regulate the cooperative credit unions. However, its regulatory functions are minimal and do not include a monitoring of the loan portfolio or the imposition of reserve requirements and other intermediation taxes. Thus, cooperative credit unions operate virtually free of any regulations imposed by the Central Bank on the financial intermediaries under its jurisdiction. Neither are they monitored by the Central Bank, thus giving them greater flexibility compared to financial intermediaries operating under Central Bank's rules. As such, they maybe considered as a segment of the ICMs.

Apart from cooperative credit unions, there are also many other institutions/individuals who perform financial intermediation functions. To the extent that they are also not subject to Central Bank regulations, they may likewise be considered as part of the ICMs. These include the ROSCAs, landlord-lenders, traders/input suppliers, trader/miller lenders; farmer-lenders and professional moneylenders, among others. Some of them raise deposits for on-lending while others use their own funds.

Interestingly enough, some of these ICMs, specifically the cooperative credit unions, are even larger than the largest rural bank and some thrift banks. Yet up to this time, no in-depth study of the Philippine cooperative credit unions has been undertaken.

B. OBJECTIVES OF THE STUDY

This study has two general objectives. The first is to examine the role and performance of Cooperative Credit Unions (CCUs) as informal credit and savings institutions. Under this are the following specific objectives:

1. To trace the origin of CCUs;
2. To examine the growth and stability of CCUs;
3. To evaluate the degree of flexibility of CCUs;
4. To examine how interest rates on deposits and loans of CCUs are determined and their trends over time;
5. To determine possible linkages of CCUs with formal financial institutions; and
6. To examine the degree of competition between CCUs and other savings and credit institutions.

The second general objective is to determine the degree of participation of CCU members in the formal and informal credit markets. Under this are the following specific objectives:

1. To examine the saving behavior of CCU members;
2. To examine the borrowing behavior of CCU members; and
3. To examine the lending behavior of CCU members.

C. SCOPE AND LIMITATIONS OF THE STUDY

Recently, a number of studies on informal credit markets have emerged in the literature (see Lamberte and Lim [1987]). However, most of them have focused on the rural sector and only very few on the urban sector. This study tries to partly fill this gap.

The study limits itself to the Cooperative Credit Unions (CCUs) as a segment of the informal credit markets in the urban sector. CCUs may be classified into three groups according to where they are based, namely: (1) community-based CCUs which operate in a specific community and are usually spearheaded by civic and religious leaders; (2) institution-based CCUs which can be found in government and private offices where employees voluntarily organize themselves into a savings and loan association; and (3) market-based CCUs which operate in public markets. The first group is an open-type credit union, while the second and third groups are a closed-type credit union.

In urban areas, the institution-based and market-based CCUs are dominant. This is understandable since urban areas are industrial and commercial centers. Community-based credit unions hardly flourish at all in urban areas due to the lack of close interpersonal relationships among community members. In view of this, the study therefore focuses on institution-based and market-based CCUs.

D. METHODS OF DATA COLLECTION

Due to budgetary constraint, only ten CCUs are included in the sample. Six are market-based and four are institution-based CCUs operating in Metro Manila. We have limited ourselves to the six largest market-based CCUs and the four largest institution-based CCUs since they have been operating for a substantial period of time. This gives the study the benefit of a historical growth perspective.

We identified our sample of institution-based CCUs through financial records of CCUs submitted to the Bureau of Cooperatives Development (BCOD). For market-based CCUs, we sought the assistance of Mr. James Roberson, the Executive Officer of the National Market Vendors Cooperative Service Federation, Inc. (NAMVESCO), who identified for us the six largest market-based CCUs in Metro Manila from among CCUs belonging to NAMVESCO.

Preliminary interviews were conducted and the bits of information gathered were used as inputs in the construction of the structured interview schedule.

The study utilized two sets of structured interview schedules. One was administered to the CCU members, and the other to the CCU managers. Unstructured interviews were also carried out with founding members/officers primarily to gather information about the history of the CCU. Aside from the interviews, financial records and other relevant documents of the CCUs were also gathered.

Before undertaking the formal interviews, letters were sent to the ten selected CCUs to inform them of the nature of the study and to solicit their cooperation. Approval by the board of directors of each CCU was first obtained before the formal interview began. The formal interview with the sample respondents was conducted during the period 1 October - 15 November 1987.

A total of 82 CCU members were interviewed. Thirty-two (32) come from the institution-based CCUs. The sample was equally allocated to the four institution-based CCUs due to the relatively more homogeneous characteristics of its membership. Fifty (50) CCU members come from the market-based CCUs. They were allocated proportionately to the size in terms of membership of the six (6) market-based CCUs. Simple random sampling was utilized in the selection of the respondents.

The following is the list of CCUs included in the study, their addresses, and the number of member-respondents for each CCU:

Name of CCU	Address	No. of CCU member-respondent
Baclaran Vendors Development Cooperative, Inc. (BVDCI)	BVDCI Bldg. Taft Avenue, Baclaran, Paranaque, M.M.	10
Paco-Soriano-Pandacan Development Cooperative, Inc. (PSPDCI)	1155 J. L. Escoda St. Paco, Manila	10
Central Market Development Cooperative, Inc. (CMDCI)	1215 P. Guevarra St. Sta. Cruz, Manila	8
Divisoria Traders Development Cooperative, Inc. (DTDCI)	Rm.2, 2nd Floor, New Sampaguita Building, C. M. Recto Avenue, Divisoria, Manila	5
Malabon Central Market Credit Cooperative, Inc. (MCMCCI)	Malabon, Metro Manila	8
Marikina Vendors Development Cooperative, Inc. (MVDCI)	Sta. Elena, Marikina Metro Manila	9
U.P. Credit Cooperative, Inc. (UPCCI)	U.P. Campus, Diliman Q.C.	8
FEU Credit Cooperative, Inc. (FEUCCI)	FEU Compound, Manila	8
DSE (CBP) Kilusang Bayan for Credit, Inc. (DSE (CBP) KBCI)	EDPC Building, Central Bank of the Phils. A. Mabini St. Manila	8
PLDT Employees Credit Cooperative, Inc. (PECCI)	4th Floor, Universal-Re Bldg., Paseo de Roxas Cr. Perea St., Makati, MM	8
		82

II. DESCRIPTION OF A COOPERATIVE CREDIT UNION AND BRIEF HISTORY OF THE TEN SAMPLE COOPERATIVE UNIONS

This chapter is divided into two sections. The first gives a general description of the operations of a cooperative credit union (CCU), while the second briefly describes the history of the ten sample urban-based CCUs.

A. GENERAL DESCRIPTION OF THE OPERATIONS OF A CCU

The Bureau of Cooperatives Development (BCOD) defines a cooperative credit union (CCU) as:

> "... a voluntary association of at least 25 persons, having a common bond of interest (common bond is that pre-existing condition which causes the members of a group to associate together, to know each other, to have common interests and purposes, and to enable to work together to accomplish group objectives), organized primarily for the purpose of mutual assistance in generating capital from among themselves through a systematic and continuous savings program in order to grant loans to each other at reasonable rates of interests, and duly registered with the Bureau of Cooperatives Development pursuant to Presidential Decree No. 175."1/

The general objectives of a CCU are as follows:

1. To increase the income and purchasing power of members through an efficient and effective utilization of their skills, manpower, and facilities;
2. To stimulate capital formation through systematic and continuous savings for developmental activities; and
3. To institutionalize cooperation as a technique for improving the social and economic status of members.

1/ MAF-BCOD (1986), "The Five Regular Types of Kilusang Bayan their Similarities and Differences."

Organizing a CCU

Usually, the organization of a CCU starts from a core group of dedicated individuals who are willing to spend time, money, and effort to mold and develop a stable CCU organization. Sometimes, the core group begins as a Paluwagan (Rotating Savings and Credit Association) or as an informal association like in the case of market-based CCUs. First of all, the core group and the prospective members must have a thorough understanding of the nature of a CCU including the principles and practices of cooperatives. The prospective founding members may need the assistance of some entities/individuals to help them in the organization of the new CCU and in training members. For market-based CCUs, the National Market Vendors Cooperative Service Federation, Inc. (NAMVESCO) provides free seminars and training to newly-installed CCUs. The trainors of NAMVESCO are members of already established market-based CCUs who are willing to share their experience and expertise to the newly-organized CCUs. For the institution-based CCUs, the BCOD provides technical personnel to assist in the organization of the new CCU. As part of the cooperative principle, membership in a CCU is voluntary. Institutions do not require their employees to become members of a CCU.

The first five years of operation usually test the perseverance and patience of the officers and staff to achieve a stable CCU organization. The officers and staff may find themselves without remuneration for their services during the initial stages. Usually, the officers and staff work part-time in the CCU since they have their own businesses or they are employed. Only their free time is devoted to the CCU.

The Organizational Structure

The organizational structure of a CCU consists of the following: the General Assembly, Board of Directors, Management Staff, Elective Committees, and the Appointive Committees. The General Assembly consists of all members in good standing. Subject to the provisions of P.D. 175 and L.O.I. 23, it has the supreme and final authority in the administration and management of the affairs of the CCU. The Board of Directors, as a body, is entrusted with the function of formulating policies for the management of the business operation of the CCU and the administration of its affairs. The board is one of the bodies created by the General Assembly. The Management Staff, headed by a manager, is entrusted with the day to day affairs of the CCU. It implements the policies set by the Board. The board appoints the members of the Management Staff and fixes their compensation and tenure.

The Elective Committees are the following: Credit Committee, Supervisory Committee or the Audit and Inventory Committee, and the Election Committee. The Credit Committee processes, evaluates, and acts upon loan applications and withdrawals of deposits except when the applicant is a member of the committee, in which case the application shall be acted upon by the Board of Directors. The Supervisory Committee performs four main functions, namely: 1) to install an adequate and effective accounting system; 2) to conduct internal audit, inventory of assets and properties of the CCU; 3) to serve as financial consultant of the Board; and 4) to prepare regular reports to the Board and the General Assembly. Finally, the Election Committee supervises the conduct of all elections. One can observe that among the Elective Committees, the Credit Committee members are the officers most closely involved in the day to day operations of the CCU.

An appointive committee is the Education and Training Committee. The primary function of this committee is to promote the knowledge of cooperative principles and methods among members of the CCU and the general public and enhance their understanding of the objectives and philosophy of the Cooperative movement. This committee is usually headed by the Vice-President of the CCU. Aside from the Education Committee, the Board of Directors may create other committees as it may deem necessary for the smooth operation of the CCU.

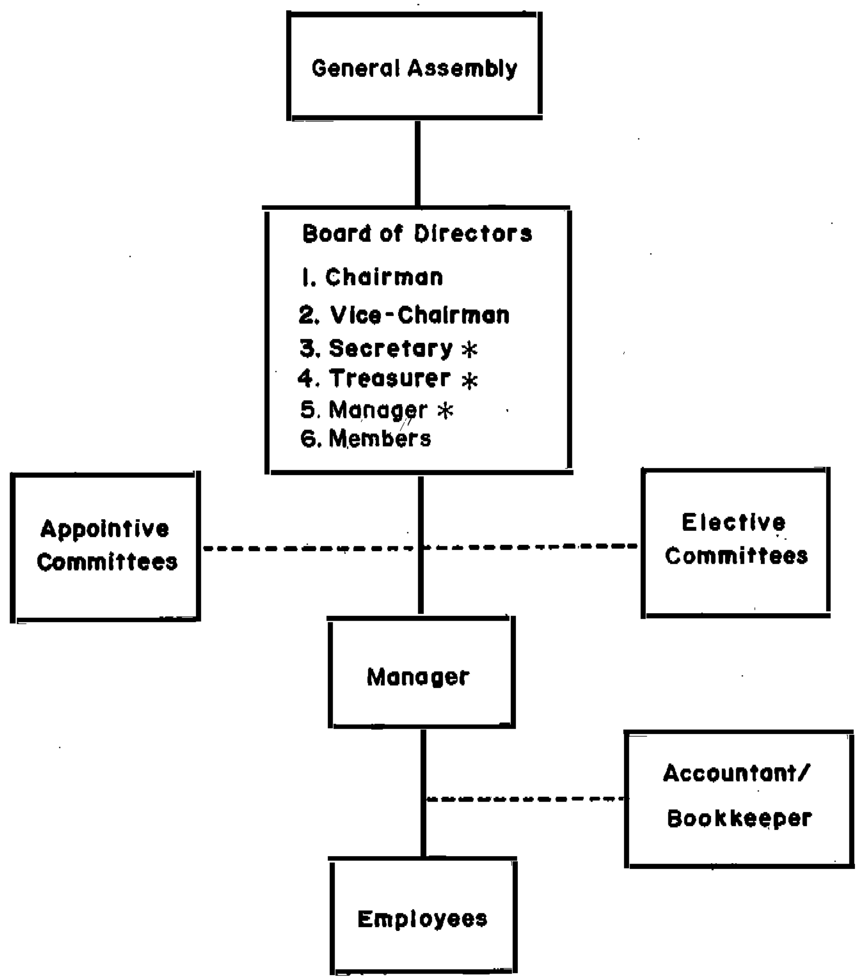
Diagram 1 shows a typical organizational structure of a CCU.

Savings Facilities

The CCU may offer three types of savings facilities, namely: fixed deposits, savings deposits, and time deposits. It should be noted though that not all CCUs offer the three types of deposits mentioned above. Some CCUs offer only the first two types of deposits.

DIAGRAM I

THE ORGANIZATIONAL STRUCTURE
OF A TYPICAL CCU



Note:

---- Staff Authorities (function is advisory in nature)

—— Line Authorities (directly engaged in the planning and operation of the CCU)

* Need not be members of the Board

The fixed deposit which serves as share capital of members is a primary feature in all CCUs. Some CCUs distinguish between holders of fixed deposit with voting power (e.g., the common share holders) and those holders of fixed deposit without voting power (e.g., the preferred share holders). As is usually the case, members agree on a minimum fixed deposit. It is only when one fulfills the minimum fixed deposit that he becomes a full-pledged member of the CCU. Any member may voluntarily increase his fixed deposit over this minimum amount. Some CCUs set a ceiling on fixed deposits.

Fixed deposits earn interest. However, the interest rate is determined at the end of the fiscal year depending on the profits realized by the CCU. The fixed deposit is not subject to withdrawal during the depositor's period of membership. It can be withdrawn only when the member becomes finally separated from the CCU. As is usually practised, the fixed deposit is the primary determinant of the maximum amount a member may borrow from his CCU. Usually, the maximum amount a member may borrow is a certain multiple of the existing fixed deposit. Some CCUs include savings deposits.

Unlike fixed deposits, savings deposits may be withdrawn by members subject to the rules and regulation of the CCU. The time deposit offered by some CCUs usually has a maturity of one year. The savings and time deposits offered by the CCU have similar features with those offered by ordinary banks.

What is of interest here is the way these deposits are transacted with the CCU. Except for time deposits, a member need not go to his CCU to make a deposit. For market-based CCUs, they employ collectors to collect savings and fixed deposits of members right at the latter's place of work. For institution-based CCUs, deposits can be done through monthly or bi-monthly payroll deduction. This practice significantly lowers the transactions costs incurred by depositors in making deposits as opposed to depositing in a bank.

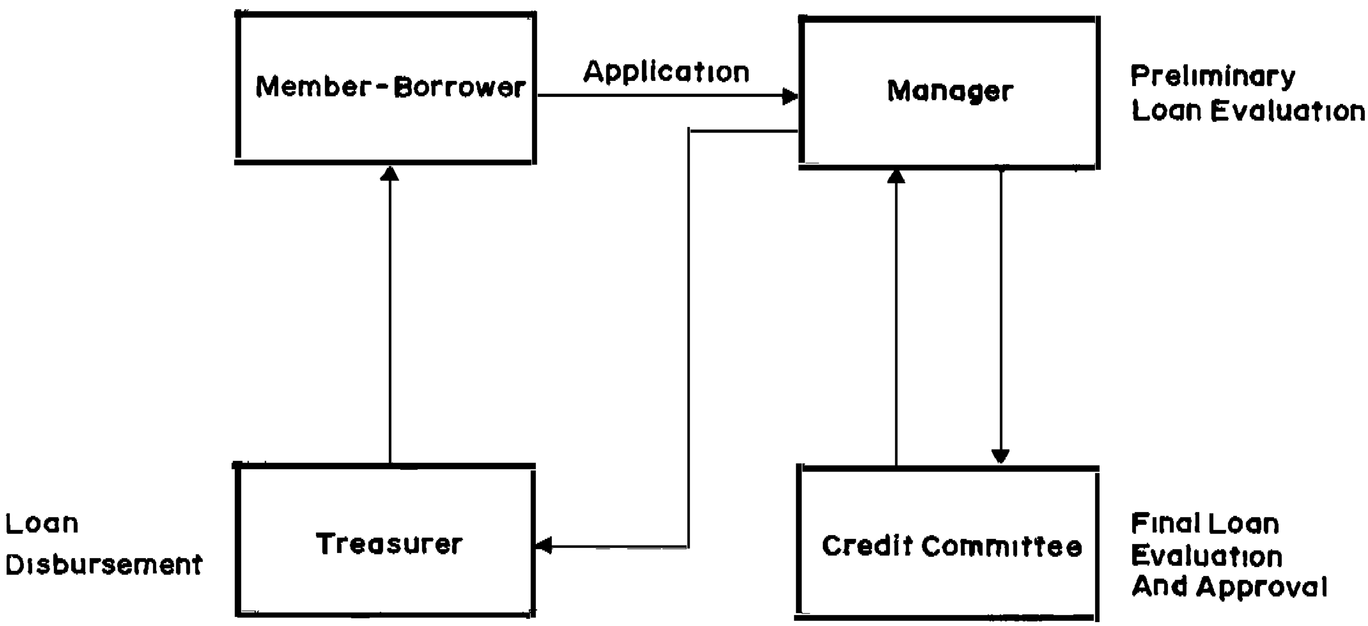
Credit Facilities

The processing of loans is as follows: First, the member-borrower completes the loan application form. The application form specifically asks for the purpose(s) of the loan, the amount, the maturity period, and the signatures of the co-makers or guarantors of the loan. The manager reviews the application and, in some cases, conducts preliminary investigation or interviews. After the forms are properly filled-out, the Credit Committee evaluates the loan application and determines the amount a member can borrow and the terms of the loan. After the evaluation of the Credit Committee, the loan application is sent to the manager for further documentation. Then the loan application is forwarded to the treasurer for the disbursement of the loan. Diagram 2 shows this process.

CCUs give loans only to their members. The loan can either be for productive or consumption purposes. Usually, the interest rate on loans and other charges are discounted in advance

DIAGRAM 2

THE PROCESSING OF LOAN



from the loan amount, making the effective interest rates on the loan higher than the quoted lending rates.

As in the savings facilities, loan repayment is also very convenient. For market-based CCUs, collectors collect loan repayments, while institution-based CCUs' loan repayment is made through payroll deduction.

In the case of market-based CCUs, malpractices may be committed by the collectors. Diversion of collected funds occurred in some cases. In fact, some malpractices had been documented by this study. To prevent or minimize the occurrence of such malpractices, the manager must be thorough and extra careful in checking the daily transaction of the CCU.

Generally, CCU loans have no collateral (i.e., physical assets). Some CCUs demand collateral only on loans exceeding a certain amount. What commonly serves as security on loans are the deposits of the member-borrower and the co-makers' guarantee assigning part of the unencumbered fixed deposits as collateral.

Borrowing patterns of CCU members can also be discerned through the various credit transactions. For institution-based CCUs, borrowing is usually heavy during the opening of classes and during Christmas season. For market-based CCUs, heavy borrowing usually occurs whenever an increase in market demand is anticipated. This seasonality in credit demand creates huge pressure on the resources of a CCU. Credit rationing in the form of lowering the amount one can borrow is often resorted to whenever credit demand exceeds the supply of loanable funds. CCUs do not have access to the rediscounting window of the Central Bank nor to the formal banking system for additional liquidity.

Other Services

Aside from savings and lending services, the CCU also offers other services for the benefit of its members, namely: Damayan Fund or the Death Assistance Benefit, Retirement Benefit Plan, Free Medical and Dental Services, Appliance Loan Programs, and Rice Loan Programs. However, not all of these are present in a CCU. It depends upon a particular CCU's availability of funds and the demand of its members for such services. In the case of institution-based CCUs, these services are over and above what the institution is giving to all their regular employees.

The Damayan Fund provides financial assistance in times of death in the family of a member, while the Retirement Benefit Plan provides financial assistance when the member retires from the institution in which his CCU belongs. The Damayan fund is common in all CCUs studied, while the Retirement Benefit Plan exists only in some institution-based CCUs.

The medical and dental services offered by the CCU are provided free to members. The provision of these free services is looked upon as a way of strengthening the ties between management and members of the CCU to enhance the spirit of cooperativism between them.

In the case of Appliance Loan Program and Rice Loan Program, the CCU purchases goods from suppliers and/or manufacturers to be sold on credit to members on easy repayment schemes. However, not all CCUs provide this kind of service.

B. BRIEF HISTORY OF THE SAMPLE CCUs

1. Baclaran Vendors Development Cooperative, Inc. (BVDCI)

Parañaque, a town famous for its embroidered clothing materials, is located south of Manila. It is highly urbanized due to its proximity to Metro Manila. It is bounded by Pasay City (on the North) by Makati and Taguig (Northeast), by Manila Bay (West) and by Manila (South). It has a total land area of 3,832 hectares.

Parañaque is divided into seven districts: Baclaran, Dongalo, Ibayo, La Huerta, Poblacion, San Dionisio, and Tambo.

The public market of Baclaran is the center of commerce in Parañaque. This place is frequented by people from different parts of the country for the low prices of its goods and services. Products of different towns and cities find their way into this place like shoes and slippers from Marikina and ready-made dresses and other wearing apparel from Taytay.

The BVDCI began as an organization of market vendors named Mariano Nucum Market Vendors Association. As in any other market vendors association, the objective was to advance the business interest of vendors as members. In October 1976, the association was confronted with a big problem. The plan of the owners of the market to build a department store would cause the expulsion of the stallholders in the area. The officers of the association protested against this plan but found themselves lacking a strong political lobby to oppose the owners. Losing no time, the officers solicited the help of the then Assemblyman Luis Taruc. The Assemblyman in turn referred the group to Mr. James N. Roberson and Johnny Lorenzo of the Central Market Development Cooperative, Inc. (CMDCI). The objective was to form a credit cooperative because they believed that the association or credit cooperative is at least stronger politically than their previous vendors' organization. Hence, with 10 incorporators and 250 members, the BVDCI was formed in January 1977 with an initial capitalization of ₱34,000.

Despite the effort exerted by the officers and members in opposing the plan of the Nucum Market owners, the expulsion of the stallholders was unfortunately carried out. This was indeed a big set-back to the newly organized Cooperative. It prompted the members of the Cooperative to seek other areas to sell their goods. Because the members were not under one roof as in the case of the previous association, the officers found it hard to instill the principles of the Cooperative in the consciousness of the members. Very often, the manager, Mrs. Leonora Avante, had to campaign on a stall-to-stall basis for members' support. For three years since its inception, the growth of the Cooperative had been very slow and, to some extent, even stagnant. During this period, business was transacted in the residence of the manager, who persevered in the job without remuneration. From 1977 to 1980, the source of funds for lending was only based on fixed deposits and income from operations, such as interest income, service fees, etc. No savings deposit was offered yet. The manager was assisted by clerks/assistants on a part-time basis who were receiving low remuneration. It was really trying times for the officers at this time when they had to keep the Cooperative from total collapse. What the manager lamented was the fact that the Bureau of Cooperatives Development (BCOD) and other government institutions were never of help to them during those times.

It was only in 1980 that the Cooperative rented a small space in Baclaran and thus transferred their operation to the center of Baclaran from Mrs. Avante's residence. Because of the accessibility of the small office, the Cooperative was able to attract more members. It was in 1982 that the Cooperative began accepting savings deposits from members.

In 1986, the Cooperative was able to purchase a lot and building in Baclaran near the LRT terminal from the pooled resources of the members and from those members who gave financial contribution on the condition that they would occupy the first and second floors of the building for their own business operations with a fee. The cost of the lot and building is self-liquidating since it earns monthly income from the member-occupants. The acquisition of the building is considered by the officers as a reminder of their perseverance in keeping the Cooperative together despite the odds working against them.

Aside from lending and saving services, the Cooperative provides appliance loans, rice loans, death benefits, and free medical consultation and treatment. The manager believes that these services can enhance the unity and camaraderie between officers and members and could, in a way, help in solving delinquency problems because of the effectiveness of moral suasion.

The recent computerization of the Cooperative further enhanced the services that the Cooperative gives to its members.

The Damayan Fund is a program designed to help the family of the deceased member. The fund for this purpose is taken either from the annual patronage refund of the members, or from the voluntarily annual contribution of ₱60.00 from the members. The deceased member's family receives ₱5,000 from this fund.

The management of the BVDCI plans to purchase a market place in Baclaran where they can house their members under one roof.

2. <u>Paco-Soriano-Pandacan Development Cooperative, Inc. (PSPDCI)</u>

The present Paco-Soriano-Pandacan Development Cooperative, Inc. began its formal operations in September 1977 with 15 incorporators and the help of Mr. James Roberson, now the executive officer of the National Market Vendors Cooperatives Service Federation, Inc. (NAMVESCO). It was then named the Paco-Soriano Credit Cooperative and Community Development, Inc. It was only in 1980 that the Pandacan Market vendors located at the corner of Quirino Highway and Zamora St. joined the Cooperative.

The Paco market, a public market, and Soriano market, a private market, are two adjacent markets while the Pandacan market at Zamora St. is just a 5- to 10-minute ride from Paco and Soriano markets.

Like other market-based credit cooperatives, the PSPDCI started as a market vendors association wanting to advance their interest in the market place.

The designated area of operation are the neighbouring barangays within the Paco and Pandacan districts and some areas in Malate and Ermita, specifically those areas bounded by President Elpidio Quirino Avenue, Roxas Boulevard, T. M. Kalaw Street, Taft Avenue, and United Nations Avenue. Its principal office is located at 1155 Josefa Llanes Escoda Street, Paco, Metro Manila.

Membership does not only include market vendors but also employees and any member of the community as well, provided that they pass the requirements for membership as set by the Cooperative.

Owing to the diversity of the membership, it was thought best to have a board of directors representing various sectors. Thus, the fifteen members of the board are representatives elected from Paco market, Soriano market, Pandacan market and the community - representing four (4) sectors of the Cooperative.

During its first year of operation, there was a problem of lack of funds. Hence, the officials decided to impose a uniform loan ceiling of ₱500. In 1978, the Cooperative opened savings deposits and time deposits for members. The building up of trust and goodwill, and the favorable relationship between members and officers of the Cooperative led to the steady growth of the Cooperative.

The year 1979-1980 was the period when the Cooperative faced significant problems among its officers. Factionalism between the Paco and Soriano market groups intensified. The struggle for Cooperative leadership culminated in a threat of mass resignation from the Soriano market group. The officers feared that the division of the two groups might lead to the establishment of an exclusive Soriano Market Credit Cooperative which could eventually compete with the PSPDCI and affect all the more the operation of the present

Cooperative. Arrangements for reconciliation were then planned. The reconciliation was successful but the problem of factionalism was still hanging in the background. It was in this atmosphere that the officers of the Cooperative invited the Pandacan market vendors, at Zamora Street, to become members of the Cooperative. This was done in the hope of diffusing the tension between the Paco and Soriano Group, and also because of the bid of the Cooperative for larger membership.

Another problem hit the Cooperative in 1984 when the audit committee unearthed some anomalies committed by a collector. The collector was able to divert about ₱137,000 for a period of almost two years. Fortunately, one of the relatives of the collector promised to pay the amount lost on a staggered basis. This incident resulted in the loss of members' trust in their officers which led to a significant withdrawal of deposits. This incident may have led to the establishment of a Pandacan Market Credit Cooperative in September 1985. What is noteworthy, though, is that most of the Pandacan cooperative members are also members of the PSPDCI.

As of the present, the composition of membership are as follows:

		No.	%
Employees and Community based members	-	24	2%
Paco vendors	-	720	60%
Soriano vendors	-	240	20%
Pandacan vendors	-	216	18%
		1,200	100%

Note that the community-based members comprise only 2 percent of the total membership. This is because the Cooperative discourages membership from this sector due to the difficulty in loan collection.

Aside from lending and saving facilities, the Cooperative also offers appliance-on-credit services and free medical consultation. In the near future, it hopes to extend educational scholarships to deserving children of members.

3. Central Market Development Cooperative, Inc. (CMDCI)

The Central Market Development Cooperative, Inc. (CMDCI) is one of the pioneering market-based credit cooperatives organized in the Philippines. In fact, some officials of the cooperative claimed that their credit cooperative is the first market-based credit cooperative ever to be organized in the country. At present, the Cooperative holds office at 1215 P. Guevarra Street, Sta. Cruz, Manila. With their own office building and total resources of about ₱13.5

million, the officers and staff take pride in showing their role in the development of the Sta. Cruz district of Manila, particularly in the Central Market area.

The history of the CMDCI can be traced back to 1968 when a handful of officers of the United Central Market Vendors Association (UCMVA) thought of forming a credit union out of the vendors' association to strengthen the membership bond of the association and to provide a better alternative to the market loan sharks popular at that time. With 15 incorporators and 50 founding members who were mostly members of UCMVA, the Cooperative, known then as the Central Market Credit Union, was registered with the Cooperative Administration Office (CAO) on June 12, 1968, with an initial capitalization of ₱3,050.

Unfortunately, when the Cooperative was about to embark on its first operation, the market vendors were confronted with a problem that needed immediate attention. The issue was the planned increase in stall fees in the Central Market. The preoccupation with this issue left the Cooperative virtually inactive from 1968 to 1972. Instead, a paluwagan type of operation was arranged by some members of the Cooperative. This was indeed a retrogression.

It was only in 1973 that the credit cooperative was revitalized and was able to function as a credit cooperative. It was only then, too, that the cooperative was able to lend to its members. With dedicated officers and staff who readily rendered their services to the Cooperative without any remuneration, the Cooperative steadily progressed.

On 19 March 1975, the Cooperative was re-registered with the Bureau of Cooperatives Development (BCOD) as the Central Market Credit Cooperative, Inc. It then changed its name to Central Market Development Cooperative, Inc. to comply with the agreement among the affiliates of the National Market Vendors Cooperative Service Federation (NAMVESCO).

From 1968 to 1975, the designated area of operation was only within the Central Market area. But starting in 1976, the designated area of operation was expanded to include the area bounded by Quezon Boulevard, C. M. Recto Avenue, Oroquieta Street, Bambang Street, and Andalucia Street. This was intended to widen the scope of operation and to expand membership of the Cooperative.

However, despite of the bigger area of operation, the Cooperative seems to be ineffective in attracting vendors outside the Central Market area. Out of 800 members, 96 percent come from the Central Market, 1 percent from those along Quezon Boulevard, and 3 percent from other areas.

The Cooperative accepts membership application only for those engaged in business within the designated area of operation.

At present, the Cooperative finds itself with excess funds. It hopes to fully lend such funds out in the near future by offering more diverse types of loan with longer maturities. The Cooperative also intends to expand its Appliance Loan Program by channeling more capital into it.

4. Divisoria Traders Development Cooperative, Inc. (DTDCI)

The Divisoria market is one of the markets in Metro Manila actively engaged in wholesaling as well as retailing. Fruits, vegetables, and other commodities are being supplied by different provinces of Luzon as well as the Visayas and Mindanao through the North Harbor and the port of Manila Bay where Divisoria is closely located.

Originally located near the Estero de Binondo, it was established as a major wholesale market in 1925, but it is known to have existed since Spanish days. At that time, it was the only government-owned public market servicing Manila and its suburbs.

When Divisoria reached its capacity to absorb the increase in business transactions, the Divisoria market complex was expanded to include three additional markets, namely: Rada, Assuncion, and Bilbao. Unlike Divisoria, these three markets are privately owned and were established after World War II.

Along C. M. Rector Avenue lies the Sampaguita Textile Market building. It is a two-storey concrete but dilapidated building. Occupying the ground floor are generally textile/garment stalls, some groceries, general merchandise, and small fast-food snack bars. The second floor occupants are mostly practicing professionals such as Dentists, Physicians, and Lawyers. A beauty shop also occupies a room in the second floor. It is in this building that the DTDCI was formed and has grown through the years. The DTDCI has been occupying a room on the second floor since it began its operation.

The DTDCI has its traces of early existence in an association composed of Sampaguita building occupants, known as the "Samahan ng mga Mangungupahan sa Pamilihan ng Sampaguita." The primary objective of the association was to forge unity among Sampaguita building occupants for the purpose of working hand in hand in advancing their individual business interests.

The unity of the association was tested when in 1974 the owner of the building proposed to increase the rents by 100 percent. In view of the consequence of such an increase to their business operations, the association sought the help of a legal council to oppose the proposed increase in rental fees. With much dedication and active support by the members, the planned increase in rents was successfully opposed. After that came to pass, the association became dormant for lack of concrete issues to bind the group together. Aware of the potentials of the group that would be put to waste if disbanded, Atty. Jose Santos, Jr. thought of forming a cooperative composed of the association's members. Unfortunately, during that time, no one with the expertise could guide them in forming a cooperative.

It was only in 1978 that the association headed by Mr. Aproniano Cruz, and with the help of Mr. Johnny Lorenzo of the CMDCI, was able to concretize the idea of Atty. Santos. With about 40 members, the DTDCI registered with BCOD and began formal operation in 1979.

The first year of operation saw the officers of the Cooperative vigorously campaigning for membership on a stall-to-stall basis starting with occupants of the Sampaguita building. In their campaign, they did not discriminate between professionals and stallholders. Their membership was open to everybody within the Divisoria area.

Even if their campaign for membership was received with skepticism, the officers persevered in their quest for a larger membership. At present, the composition of its membership is as follows: 80 percent, fixed stallholders (mostly engaged in RTW/ Textile), 15 percent, ambulant vendors, 3 percent, Grocery, and 2 percent, professionals, bank employees, etc. Total membership is only about 4 percent of the total stallholders, vendors, and professionals in the designated area of operation of the Cooperative.

In order to disseminate information about the Cooperative in the area, the officers put up posters and published newsletters highlighting the principles of cooperativism and how this can be harnessed to further their business interests. During its early years of operation, pre-membership seminars were made frequent and raffles with attractive prizes were given away to members during the general assembly meeting done once a year.

Although the designated area of operation of the Cooperative is the whole Divisoria area, it is not quite effective in getting members from areas far from the vicinity of the Sampaguita Building where it is located. This is perhaps due to the presence of other sources of credit other than the Cooperative. In particular, wealthy Chinese businessmen are offering cash credit and others are extending trade credits to small stallholders in the area.

Currently, the officers seem to be satisfied with the performance of their Cooperative. Their immediate plan is to pool enough resources to purchase a building or office space that the Cooperative can call its own.

5. <u>Malabon Central Market Credit Cooperative, Inc. (MCMCCI)</u>

The municipality of Malabon is located north of the City of Manila. It is bounded on the west and southwest by the town of Navotas and by the city of Caloocan on the southeast. The town of Valenzuela limits its northern and northeastern side.

Malabon is a coastal area located at a river mouth with a total land area of 1,730.55 hectares. The estimated annual income of the municipality for 1983 was ₱28,987,061.00, ranking it as number five among the towns within the Metro Manila area in terms of revenue. Although known for its fish trading activity, only eight percent (8%) of its labor force are actually engaged in the fishing industry, while the majority are in manufacturing, canning and processing. The rest are in the service sector (6%), transportation, storage and communication (6%), and financing, real estate and business. Of the total economic activity in Malabon, the wholesale and retail trade account for fifty-eight percent (58%), followed by manufacturing with twenty-two percent (22%).

Malabon has three (3) public markets and (3) three private markets.

The Malabon Central Market Credit Cooperative, Inc. (MCMCCI) began as an association of market vendors whose purpose was to promote the business interest of its members. The association was named Malabon Central Market Retailers Association. With the hope of strengthening the association, the officials thought of forming a credit cooperative. Thus, with the help of Mr. James Roberson, the MCMCCI was formed and formally started its operation in September 1977 with 15 incorporators and 250 members.

The cooperative started with a paid-in capital of ₱25,000. The incorporators were stallholders and some were employees of the municipal government of Malabon. The designated area of operation of the cooperative is the whole municipality of Malabon. However, most of their members come from Hulong Duhat, Concepcion, and the Central Market of Malabon, while a few are employees of the municipal hall of Malabon.

For the first year of operation, the Cooperative heavily relied on the voluntary services extended by the officers and staff.

The operation of the Cooperative went on smoothly. But in 1985, it was discovered that some collectors of the Cooperative colluded with some officers in diverting funds in the amount of about ₱980,000. A full investigation was done which resulted in the confession of all the accused. About one- half of the diverted funds was recovered while the other half could no longer be redeemed and therefore was declared as losses incurred during the year.

The anomaly resulted in massive withdrawals of savings deposit and mass resignation of members. The officers and staff decided to suspend operations for three days to arrest the run on deposits and to have ample time to explain to the members the whole situation. The mass resignation significantly depleted the funds of the Cooperative, leading them to borrow from the National Market Vendors Cooperatives Service Federation, Inc. (NAMVESCO) to augment their working capital.

With patience and hard work, the officers and staff were able to win back the trust of their members mainly through a spirited information drive meant to clarify the anomaly and the hiring of a competent accounting firm to fully evaluate the books of accounts of the Cooperative.

Early 1987 saw the steady increase in savings deposits of the Cooperative owing to the renewed trust of members for their new set of officers. The Cooperative is planning to expand its operations, perhaps by increasing capitalization on its appliance loan program.

The Cooperative grants productive loans for the business needs of its members; providential loans for consumption and other needs of members; and emergency loans for members who need cash immediately for hospitalization and medical expenses. The ceiling for emergency loan is ₱5,000.

6. <u>Marikina Vendors Development Cooperative, Inc. (MVDCI)</u>

Fourteen districts constitute the town of Marikina. These districts are bounded by the Sierra Madre mountains on the East, Quezon City on the West, the town of San Mateo on the North and the towns of Cainta and Pasig on the South.

Marikina covers a total land area of 3,397 hectares, majority of which consist of residential areas. Industrial and commercial areas also account for a considerable portion of the total land area.

Sta. Elena, the district where the MVDCI is located, ranks third in population size among the fourteen districts with 24,950 inhabitants. Parang ranks first with 35,115 inhabitants, while Concepcion ranks second with 21,124.

Manufacturing, particularly shoemaking, is the major industry of the entire town. Marikina is well known as the "Shoe Capital of the Philippines." Forty-four (44) percent of the town's total labor force are employed in the footwear industry.

However, manufacturing is not predominant in Sta. Elena as its industry profile indicates. It is commerce rather than industry that dominates the economic activity of Sta. Elena, it being the center where consumers buy their basic needs.

The Sta. Elena Public Market is the only existing public market in the entire Marikina area. It consists basically of three major buildings subdivided into the following sections: (1) wet section, (2) grocery, (3) dry goods, (4) fruits and vegetables, (5) rice, and (6) the currently inoperative slaughterhouse.

The physical condition of the market, as a whole, is very poor. The three major buildings and its surrounding vicinities are old and dilapidated. The ventilation inside the market is very poor. Sewage and water systems are inadequate, and the buildings' corner foundation, walls and ceilings badly need repair, thus looking unsafe to market goers. Also, the market area, being relatively low, is not spared from floods during the rainy season.

Vendors in the market are classified either as fixed stallowners or ambulant vendors. According to a study conducted by the municipal government in 1986, there are about 636 registered stallowners and 1400 ambulant vendors in the public market.

The Marikina Vendors Development Cooperative, Inc. (MVDCI) started out as a small market vendors association whose sole purpose was to strengthen the bond among vendors so as to come up with a unified voice for any grievances they want to air to local government officials. From that small group, the credit cooperative was formed out of the desire of vendors to have an organization that can provide financial assistance as well as handle day-to-day problems in their place of work which members individually cannot tackle. The Cooperative was organized in May 1975 with 250 full-pledged members. The Department of Local Government and Community Development (DLGCD) lent valuable support to the Cooperative's early organization.

The Cooperative was registered on December 10, 1975 and started its formal operation the following year. Initial capitalization was ₱17,000. The Cooperative began its operation in a store owned by Mrs. Calilung, who herself acted as the Manager and Treasurer of the Cooperative. It was only in 1984 that the Cooperative was transferred to its present location.

During its early years of operation, the capital build-up was quite slow and hence loan releases were limited and had to be scheduled and synchronized with loan repayment collection. This problem was primarily due to the lack of enthusiasm of members to meet their minimum fixed deposit obligation and to open savings deposit with the Cooperative. This lack of enthusiasm was partially traced to the poor knowledge of members about the functions of the Cooperative and its potential benefits, and also to the initial perception of members that the Cooperative was unstable, and was doomed to fail. This perception was based upon previous failures in setting up a credit cooperative in the area.

With the perseverance and patience of the officers and staff to win the trust and confidence of the people in the area, even without proper remuneration, the Cooperative was able to pull through and registered a favorable growth through the years. The manager, in winning the trust and confidence of the market vendors, cited the following as primary factors contributing to its success: 1) an intensive education program to make potential members as well as existing members aware of the benefits that a Cooperative can offer; and 2) a detailed book of accounts on its operation made readily available to members to eliminate any doubts by members on the financial operation of the Cooperative.

At present, the manager sees no major problem in the operation of the Cooperative. What can be considered a possible threat, though, is the proposed conversion of the market to an Agora-type complex by private developers. This may lead to a possible displacement of member-stallholders in the area and/or to a raising of stall fees unaffordable to vendors. The officers and staff of the Cooperative expect that their views on the matter will soon be heard by the local government officials concerned so as to arrive at a possible solution beneficial to all.

7. U.P. Credit Cooperative, Inc. (UPCCI)

The U.P. Credit Cooperative, Inc. began its formal operation in U.P. Diliman Campus on August 17, 1949. It was registered with the Securities and Exchange Commission under R.A. 2023 known as the Non-Agricultural Cooperative Act. The organization was known then as the U.P. Credit Union, Inc. The subscribed capital shares in its incorporation was ₱6,000 at ₱5.00 per share. The paid-in capital amount was ₱1,500.00.

Fifteen persons composed the incorporators of the credit union. Five (5) of them were Professors from the College of Medicine at Padre Faura and ten (10) were from U.P. Diliman.

Before its formal organization as a credit union, the organization began as a Paluwagan. Members of the Paluwagan were mostly professors and personnel of the Mathematics and Chemistry Department in U.P. Diliman, and professors of the College of Medicine at Padre Faura St., Manila who happened to teach some subjects in Diliman at that time. It was said that the idea of a credit union came from the professors themselves who felt the need for a more organized institution to cope with the strong demand for credit as evident from the Paluwagan experience. The professors felt that an organized group, such as a credit union, is more capable of channeling resources of savers to ultimate borrowers and would lessen the risk of default through a centralized information system. The primary objective was to help low-salaried workers of U.P. in their times of need. The professors were willing to invest their excess funds in the credit union, even with insignificant returns, in order to systematically help low-salaried employees who usually turned to the professors in times of need for immediate cash.

The credit union was able to service its members effectively even with the limited funds it had. At first, it accepted only savings deposit. Only in the 1970s did it start offering time deposits to its members.

During its early years of operation, the foremost problem encountered was the lack of operating capital to service the strong demand for credit. In some instances, borrowers granted a loan lower than the amount requested. Moreover, withdrawal on savings deposit must be made with prior notice and took one to two days. This was a big inconvenience to depositors.

The problem brought about by a borrower-dominated credit union could be traced to the failure of the organization to mobilize the savings of the affluent groups in the community. This was due to the following:

1. Management's poor pursuance of a vigorous and effective capital build-up scheme. For example, in the 1960s, the minimum required deposit was only ₱60.00 at ₱10.00 per share, and the retention amount (i.e., deduction on loans granted) for fixed deposit on every loan granted was very insignificant.

2. The low savings deposit rates, as a consequence of an artificially low loan rates, effectively discouraged potential savers of the credit union.

3. The inconvenience of withdrawing savings deposit further discouraged potential savers of the credit union.

In the 1970s, management tried to correct the savings mobilization problem through a vigorous capital build-up scheme. The minimum required fixed deposit and the retention for fixed deposit were raised to boost capital. Also, the deposit rates were adjusted to make it competitive with bank rates.

The credit union was able to survive during those times through the hard work of officers and staffs who were determined to serve the community even without proper remuneration for their services.

On April 11, 1975, the organization was registered with the Bureau of Cooperative Development (BCOD) under P. D. 175. It was then that it changed its name to U.P. Credit Cooperative, Inc.

Because of active support from its members and the dedication of its officers and staff, the Cooperative was able to build its own building. The U.P. Administration was also supportive enough to donate the land where the present office building stands.

Aside from savings and borrowing services to the members, the Cooperative provides other services such as the Death Assistance Benefit, the Retirement Benefit Plan, the Mutual Aid Plan, and the Appliance Loan Program. The Appliance Loan Program, which was started in December 1986, was a reaction to the excess liquidity experienced by the

Cooperative. The impact of the Angara administration's salary increases to U.P. employees was felt by the Cooperative through a significant increase in savings by their members, thus, increasing the costs of servicing deposits. Hence, the need to diversify the Cooperative's loan portfolio was felt.

The latest addition to the services offered by the Cooperative is the Cost-of-Living-Allowance Cash Advance Program which began on the first week of September 1987. Confident that there is more than enough funds to service the program, the management launched the program to help members who, because of the need for immediate cash, "sold" their salary cheques to moneylenders at a discount.

Today, the Cooperative has about 1,956 members comprising about half of the total U.P. employees in Diliman. The present membership includes not only U.P. employees but also non-U.P. employees operating within the U.P. community in Diliman, such as the PNB and RPB (Republic Planters Bank) employees, Bureau of Posts employees, and others. The conditions for membership of non-U.P. employees are: (1) an endorsement by their respective office head; and (2) their base of operation must be within the U.P. Diliman campus. Some officers of the Cooperative felt that non-U.P. members may pose a problem of monitoring in the long-run. Non-U.P. members may be reassigned to branches outside of U.P. Diliman campus. Thus, this policy is being seriously reviewed by the present Cooperative administration.

On the whole, the UPCCI has been running smoothly. The only problem encountered at present is the excess of savings mobilized over loans granted, thus increasing the burden of servicing deposits. Hence, the officials planned to expand their operations and diversify their loan portfolio. Some plans include the initiation of an educational scholarship program, increasing the maturity period for loans, and the expansion of existing benefit programs such as the Retirement Benefit Plan and the Death Benefit Plan.

8. Far Eastern University Credit Cooperative, Inc. (FEUCCI)

The Far Eastern University is a non-sectarian university for men and women located in Quezon Boulevard, Manila. The school was founded in 1919 as a college. It was only in 1933 when it was incorporated as a university. The university offers standard educational programs in three levels, namely: college, high school, and grade school.

Prior to the establishment of the FEU Credit Cooperative, Inc., many of the FEU faculty and employees had difficulty in meeting their financial problems which came in varied forms, such as medical bills, death in the family, tuition fees, and other school needs of their children and dependents, downpayments for purchases of appliances, etc. Salary advances were usually resorted to. Some succumbed to the lure of the moneylenders. Majority of those who were frequently in financial trouble were those coming from the rank and file.

Aware of the plight of his constituents, perhaps due to the frequency of the salary advances he had to sign, Mr. Reyes, then President of FEU, consulted several individuals as to the possibility of putting up a credit and savings corporation with savings, earnings, and lending as its main functions. Thus, with about 50 founding members, the FEU Credit Cooperative, Inc. was established on August 28, 1963.

Under the stewardship of Mr. Reyes, who actively took the task of managing the Cooperative by serving as its Chairman for some terms, the Cooperative made substantial progress. As some founding members put it: "What the President wants he gets" and so some officers and faculties of FEU lent their expertise wholeheartedly to the Cooperative. Indeed, Mr. Reyes was very supportive of the Cooperative so much so that at times, when the Cooperative lacked funds, he readily supplemented it with his personal funds. Also, he directed the FEU Mutual Assistance Group to be members of the Cooperative to boost the capitalization of the latter.

The area of operation of the Cooperative is the FEU and Dr. Nicanor Reyes, Sr. Medical Foundation. The office of the FEUCCI is at the ground floor of the administrative building.

With the help of the President, who proved to be the staunchest supporter of the Cooperative, and the dedication of the officers and staff, the Cooperative expanded from a handful of members to its present membership of about 980 which includes four member associations namely: 1) FEU Consumers Cooperative, Inc.; 2) FEU Housing Cooperative, Inc. 3) FEU Medical Foundation; and 4) FEU Mutual Assistance. As to the percentage distribution of membership, 12 percent come from management and administrative personnel; 43 percent, faculty members; and 45 percent, rank and file personnel.

9. DSE (CBP) Kilusang Bayan For Credit, Inc. (DSE (CBP) KBCI)

In a nutshell, the Central Bank of the Philippines, located at Mabini Street, Manila, is considered a banker, fiscal agent, and financial advicer of the Government. It manages and keeps custody of the country's international reserves as well as currency issues. It supervises and administers the financial system and regulates credit according to the needs of the economy.

In order to facilitate planning, coordination and execution of programs with greater efficiency, economy, and effectiveness, the CBP has five functional sectors: International Operation, Domestic operation, Supervision and Examination, Research, and Administrative management.

Within each sector, all closely related services and activities are identified and regrouped by major functional categories and integrated into specialized departments and offices to eliminate duplication and overlapping, and to simplify operations.

The Supervision and Examination Sector (SES), the sector where the DSE (CBP) KBCI originated, is charged with the supervision and periodic examination of all banking institutions, including government credit institutions in order to assure observance of pertinent laws, and the rules and regulations promulgated by the Monetary Board.

Because the sector's primary function is the supervision and examination of banking institutions, bank examiners and other personnel of the SES are under strict limitations not to borrow from banks under their supervision primarily because of ethical reasons. This restriction is found in Article IV, Section 27 of Republic Act No. 265 creating the CBP Charter. In view of this, the personnel of the SES organized themselves to fill the need of a convenient source of credit. It is in this spirit that the DSE (CBP) KB for Credit, Inc. came about. The aim set by the incorporators was not only to satisfy the credit needs of but also to encourage savings among members. In December 1965, the Cooperative began its operations with only ₱2,250 as start-up capital put up by the incorporators.

Foremost during its early operations were the problems of organization and operations. At the start, the DSE officials were unsympathetic to the movement. There was cynicism and indifference among DSE staff who doubted the feasibility of the cooperative goals. Involving top management and encouraging other personnel to join the cooperative were in themselves formidable tasks.

There were also problems of keeping books and records, maintaining system and procedures, and performing duties -- all needing extra efforts in order not to conflict with official duties. Despite the problems that the officers and staff had encountered, the cooperative's policies took shape and were strengthened and made more effective through the years.

With the expansion of loans granted came the problem of collection, specifically on how to make an arrangement with management for a more organized and smooth collection process. While at first, the Cooperative failed to get the nod of the CB management to make collection part of the IBM programmed payroll deduction, it nevertheless got concession in the form of the pay-envelope deduction, an arrangement with the cash department which had the approval of the Central Bank Governor. It was a tedious process that involved the weekly preparation of receipts averaging no less than 600 to 800 receipts.

For more than a decade, the collection method went on smoothly until 1979 when the CB Auditor put a stop to such deduction after noting some flaws and effects on the overall internal control system of the CB.

The action of the CB Auditor resulted in a snag in the operations. It was a problem that threw into disarray the cash flows and fund management of the cooperative. The President of the Cooperative considered it as the biggest single threat to the existence of the cooperative. They reiterated their earlier request to the Central Bank Governor for payroll deduction. This time, the Governor gave his immediate approval and directed its implementation -- thru linkage with the Electronic Data Processing Center (EDPC) system. The approval by then Governor Licaros formalized the tie-up of the cooperative with the EDPC system of the CB. The computerization of collection procedures has revolutionized the operations, and has made possible the efficient collection of loan receivables, enabling the cooperative to expand membership not only in other departments but in regional offices as well.

Aside from the usual committees specified in the by-laws of the cooperative, namely: credit, supervisory, election, and education committee, the Board created six other committees to make the operations of the cooperative more efficient, and to fully service the need of its rapidly expanding membership. The additional committees are as follows: Credit Policy Committee, Samahang Damayan, special Committee on Personnel Affairs, Committee on Legal Affairs, Committee on External Affairs; and the Committee on Internal Affairs, Accounting and Complaints. What is noteworthy is the creation of the Credit Policy Committee whose primary function is to make a study and recommend to the Board appropriate policies on interest rates, taking into consideration the Cooperative's competitive position vis-a-vis banks, and viability of the cooperative as an organization.

The Cooperative made a distinction in its By-Laws between members with voting rights and those with no voting rights which states that:

"For purposes of these by-laws, the term "member" shall refer to an employee whose application for membership has been duly approved and who has subscribed and paid for common stock. Holders of preferred shares shall be considered as investors: Provided, that they shall assume the same duties and responsibilities and enjoy the same rights and privileges as those of members, except the right to vote and be voted upon."

Holders of preferred shares are mainly from sectors outside SES while those with common stock are from the SES. This is done to maintain SES personnel's control of the management of the Cooperative. Also, there is an "unwritten policy" to limit or discourage applications for membership from sectors other than SES. A rough estimate on the composition of membership indicates that 70 percent are preferred share holders or investors, and 30 percent are common stock holders.

At present, the officers find the Cooperative generally sailing smoothly in its operation with, of course, the usual problem of loan delinquency. The problem of loan delinquency can be traced to three reasons:

1. Member-borrower is on leave without pay;
2. Insufficient take home pay; and
3. When members are out of the country.

With (1) and (2) above, the Cooperative cannot help but stop temporarily salary deductions or amortizations by the borrower to ease the financial burden on the borrower, provided that he/she promises to pay in the future any amount on arrears. With regard to the third reason, the Cooperative is trying to find ways to minimize the problem. One possible solution is to strengthen the Cooperative's monitoring arm by establishing linkages with the personnel department of the CBP.

In the immediate future, the Cooperative plans to expand its office space to accommodate the expanding volume of transaction it handles daily.

10. <u>PLDT Employees Credit Cooperative, Inc. (PECCI)</u>

The history of the Philippine Long Distance Telephone Company (PLDT) dates back to 1905 when telephone services started in Manila with about 400 subscribers. The control of the company came into Filipino hands in 1967 when the General Telephone and Electronics Corporation of New York, which had previously held the controlling stocks of the company, voluntarily relinquished control in favor of a group of Filipino industrialists and businessmen. Filipino management was fully initiated in 1968.

At present, the PLDT Co. is the largest among 58 entities rendering telephone services in the Philippines. It owns and operates more than 93 percent of all telephones in operation throughout the country. The company is the principal supplier of both domestic and international long distance telephone services in the Philippines, and provides communication links to various entities and institutions located in otherwise inaccessible places.

In terms of assets, the PLDT is one of the largest privately-owned corporations in the country. Its gross assets stood at ₱16.2 billion in December 1984. The entire PLDT system serves 160 cities and municipalities with a population of around 12.5 million, together with other systems linked to the PLDT network.

The beginnings of PECCI can be traced back to a handful of employees of PLDT in Intramuros, Manila. About 25 employees organized themselves into a "paluwagan" to promote among themselves the value of thrift and to have some funds in times of need. From a small group, the "paluwagan" rapidly increased its membership when other employees saw the benefits that it offered, and the smooth flow of operation of the existing "paluwagan". Later on, some PLDT officials got interested in it and persuaded its core group to formalize their association into a full-pledged credit union. So, with the help of PLDT management, the PECCI was organized in 1958 and started with ₱5.00 salary deduction from each member to build up its capital. From that modest beginning, the cooperative progressed to an organization with a present membership of about 21,000, each contributing about ₱50 to ₱700 per month through salary deduction. The monthly contribution of members to their fixed deposits is the single source of its rapid growth.

Recently, PECCI was able to purchase an office space at the Universal-Re Building, Perea Street, Makati, Metro Manila. As of the date of the interview, its employees were still busy organizing things in the new office space.

Throughout the years, the PECCI ran smoothly and progressed in a rapid rate. The cooperative became popular not only among PLDT-Makati employees but also among other PLDT branches in Metro Manila as well as regional branches. To service members outside of Makati, loan application may be sent through the mail. Although this takes more time compared to direct personal transactions in the office itself, it is still viable and efficient since it uses the communication facilities of the PLDT Co. For PLDT branches within Metro Manila, the practice is to send Cooperative employees to other branches twice a week to service the needs of the members. However, visiting schedules to other

PLDT branches are not regular and are usually done only when demanded by members. In this case, it is usual for a member working in the PLDT-España branch to spend some of his/her office time just to go to Makati to transact business with the cooperative. Hence, for members working in PLDT branches far from Makati, accessibility to the Cooperative is quite a problem. Fortunately, savings and fixed deposit services are coursed through the usual channel of salary deduction. Thus, there is no need for them to go to Makati just to deposit.

Aside from the benefits derived from the credit and saving facilities of the Cooperative, death and retirement benefits are also offered to its members. The death and retirement benefits are contained in the member's Comprehensive Benefit Plan. For a semi-monthly contribution of ₱12.00, a member is covered with a death benefit of ₱45,000.00.

A member who reaches his seventh year as PECCI member is entitled to a retirement benefit. This means that anytime after his/her seventh year of continuous PECCI membership, a member who resigns simultaneously from PLDT and PECCI, gets a retirement benefit ranging from ₱4,600.00 to ₱35,650.00 depending on the length of his membership. This scheme is principally the same as the Retirement Benefit Scheme introduced by the U.P. Credit Cooperative, Inc.

Aside from being very busy at the moment organizing the newly-occupied office, the officers plan to computerize services in the immediate future to facilitate the handling of the rapidly increasing volume of daily transactions. Also, the Cooperative is looking into the possibility of putting up branches in PLDT offices located in places far from Makati to improve its services.

III. ANALYSIS OF THE OPERATIONS AND PERFORMANCE OF THE SAMPLE COOPERATIVE CREDIT UNIONS

This chapter has two sections. The first discusses the operation of the sample cooperative credit unions (CCUs), while the second analyzes their performance for the past five years, i.e., 1982 to 1986.

A. OPERATIONS OF THE TEN COOPERATIVE CREDIT UNIONS

1. Membership Policy

The ten CCUs have more or less the same policies on membership. Conditions for membership are as follows:

(a) Any natural person who is a citizen of the Philippines of legal age, and with capacity to contract or act as a head of a family.

(b) Any person at least 15 years of age with visible means of income through his own independent work.

(c) A resident working in the area of operation of the CCU.

(d) Pledge to undertake the responsibilities of membership.

(e) Complete the prescribed pre-membership education program.

(f) Use or anticipate to use the services of the CCU.

In the case of market-based CCUs, membership is composed of market vendors residing within the area and a few who are employed in private and public institutions. Although majority of the market-based CCUs studied prefer to limit their membership to market vendors, especially fixed stallholders; some accept membership from institutions within their area of operation. For example, DTDCI accepts employees from private institutions; such as employees of banks and other business firms; while MCMCCI accepts membership from municipal government employees.

In the case of institution-based CCUs, membership is usually limited only to the employees of the institution in which the CCU is based. Employees of branches of institutions are usually included, as in the case of UPCCI and PECCI. It is interesting to note that among the sample CCUs, only DSE (CBP) KBCI distinguishes membership in terms of voting power. Common stock shareholders are those with voting power while preferred stock shareholders are considered investors with no voting power.

Membership applications must be made in writing subject to the approval of the Board of Directors. To be considered a bonafide member, a member-applicant must pay the membership fee (₱10.00 for all ten CCUs), at least an amount equal to one share capital, and other fees/contributions stipulated by the CCU, such as an initial contribution to the Death Benefit Plan and Mutual Aid Plan. Upon payment of the above dues, a member is already entitled to all the services offered by the CCU. However, some CCUs set several months before a new member can avail of the CCUs' lending facilities. This is to inculcate upon members the habit of saving.

A member is obliged to pay the installment on capital as it falls due and to participate in the capital build-up of the CCU. It is also the obligation of members to actively participate in the activities of the CCU, particularly attendance in CCU seminars, and to patronize its business.

2. Deposit Facilities

The CCUs offer three types of deposits, namely: fixed deposits or share capital, savings deposits, and time deposits. Savings and time deposits earn interest as stipulated by the CCU. The interest or return on fixed deposits is given at the end of the fiscal year and is dependent on the profits realized by the CCU. The primary sources of funds are the fixed deposits and savings deposits. As of 1986, 7 out of the 10 sample CCUs offer time deposits to members. The three CCUs not offering time deposits are MCMCCI, MVDCI, and FEUCCI.

For fixed deposit subscription, the CCUs set a minimum subscription ranging from ₱500.00 to ₱3,000.00. DSE (CBP) KBCI has the highest minimum fixed deposit requirement.

It should be noted that a member cannot open a savings account in his CCU if he has not fully paid the minimum fixed deposit requirement. Fixed deposits and savings deposits transactions are done through collectors, in the case of market-based CCUs, and through salary deduction, in the case of institution-based CCUs.

3. Lending Policies

Only members in good standing can avail of the lending facilities of the CCU. A member in good standing is one who:

(a) Has paid the required membership fee, paid at least an amount equal to one share capital, paid all other fees/contribution stipulated by the CCU;

(b) Participates in the capital build-up through regular savings;

(c) Is not delinquent in the payment of his/her fixed deposit and other obligations;

(d) Has not violated any provision of the CCU by-laws; and

(e) Has attended and completed the prescribed CCU seminar.

CCUs do not practise loan targeting. A member may borrow for any purpose. However, a loan application shall state specifically the purpose or purposes for which the money is to be used. Any false representation or statement made in the application shall be a ground for the cancellation of the loan. If the money has been used for something else, then the loan shall immediately become due and demandable. In practice, however, this policy is not enforced. CCUs do not include loan monitoring as part of their activities. Clearly, this is one advantage of credit unions over banks because they allow their borrowers to have greater flexibility with regard to the use of the loan proceeds.

Types of Loan

Basically, the ten CCUs have three types of loan, namely:

(a) Productive loans which are intended solely for business purposes;

(b) Providential loans which are loans intended for medical, consumption, or educational purposes; and

(c) Emergency loans which are loans intended for unanticipated needs such as accidents, calamities, typhoon damages, etc. The loan has maturity of less than a year and has a ceiling of ₱1,000.00 to ₱3,000.00.

Loan Refinancing

A member may apply for a new loan provided that he/she has paid a certain percentage (ranging from 50 percent to 80 percent among the 10 CCUs) of his old loan and that the member has been paying his loan amortization on time. The remaining balance on the old loan will be paid (or deducted) from the proceed of the new loan. It should be noted, however, that the manager has the prerogative to suspend this policy based on the availability of funds. Usually, loan applications for such purpose are given low priority. Moreover, loan refinancing is allowed only once. That is, a member who has refinanced his/her old loan has to pay the entire amount first before given a new loan.

Loan Restructuring

It has been observed that CCUs tend to be flexible and liberal in dealing with loan delinquency. A member-borrower may restructure his/her old loan on a new term of payment schedule provided that he/she has valid reasons to do so as attested to by the Credit Committee. This would make the books of CCUs appear less delinquent than it really is.

Determination of the Loan Capacity

The ten CCUs use different formulas in computing the maximum amount of loan to be granted to a member. This is referred to as the loan capacity of the member-borrower. However, there are some common criteria followed by all. A typical loan capacity in market-based CCUs is based on the fixed deposits of member-borrower, the savings and time deposits of borrower, and past loan records. The foregoing criteria are also followed by institution-based CCUs, but in addition, the monthly basic salary of the member-borrower is included in the computation of loan capacity.

A typical computation of loan capacity is as follows: (All values are hypothetical)

1. <u>For institution-based CCUs</u>

One (1) month basic salary	₱3,000.00
Add: Fixed deposit	2.000.00
Savings deposit (optional)	1,500.00
Time deposit (optional)	5,000.00
Total Borrowing Capacity	₱11,500.00
Add: A percentage of total borrowing capacity (e.g.30%)	3,450.00
MAXIMUM LOANABLE AMOUNT	₱14,950.00
	=========

2. <u>For market-based CCUs</u>

(Assume fixed deposits to be ₱7,000)

Thrice (3x) the first ₱5000 of fixed deposits	₱15,000.00
Add: Twice (2x) the remaining balance of fixed deposits	4,000.00
Savings deposit (optional)	1,500.00
Time deposit (optional)	5,000.00
MAXIMUM LOANABLE AMOUNT	₱25,500.00
	=========

Savings and time deposits of member-borrower may or may not be included in the computation. It is the option of the member-borrower to include or not his savings and time deposits in the computation of his loan capacity. If the member-borrower decides to include savings and time deposits in the computation of the loan capacity, then such deposits shall no longer be withdrawable until a portion of the loan is paid that is equivalent to the amount of their savings and time deposits. In this sense, the savings and time deposits serve as securities for the loan.

CCUs resort to using the split formula for fixed deposits to avoid concentrating loans in the hands of large depositors.

Loan Ceilings

Six (6) CCUs have set a uniform loan ceiling in all their loans, ranging from ₱30,000 to ₱200,000.00. Beyond such amount, the member-borrower must seek the approval of the board of directors and must offer collateral (e.g., physical assets). The CCUs which have no loan ceiling policy are DTDCI, UPCCI, and DSE (CBP) KBCI.

Maturity of Loans

In market-based CCUs, loan maturity ranges from 100 to 540 days on daily or weekly amortization. However, most, if not all, loans of market-based CCUs fall under 100 to 200 days maturity. On the other hand, for institution-based CCUs', loan maturity on regular loans ranges from one to four years. Only DSE (CBP) KBCI offers a four year loan. UPCCI and FEUCCI offer one-year term on their regular loan while PECCI offers a maximum loan maturity of three years. Amortization on these loans could be monthly or bi-monthly through salary deductions.

Interest and Other Charges

Aside from interest charges, collection and service charges are also collected. All charges including interest charges are collected in advance from the loan amount. This policy holds true for all the 10 CCUs. (See next chapter for a discussion on trends on interest rates.)

Co-Makers

The co-makers assume the debt and the fines levied on the delinquent maker only after all means to collect the debt from the maker are exhausted. All the 10 CCUs, except FEUCCI, require a co-maker on loans. The larger the loan amount, the greater the number of co-makers required. This is to ensure that the loan amount is fully covered by the deposits of the maker and co-maker. This in a way adds more pressure on the borrower to make good his commitment with the credit union. In the case of FEUCCI, the retirement benefit from the university (FEU) serves as security for the loan and thus co-makers are no longer necessary.

4. Other Services

Other services provided by the CCU are the Mutual Aid Plan, Death Benefit Plan (DAMAYAN FUND), Retirement Benefit Plan, free medical consultation, advisory assistance in the business ventures of members, and the Appliance Loan Program. In the case of the Mutual Aid Plan and the Death Benefit Plan, resources of members are pooled together to meet the financial needs of the family of members during certain events, such as death in the family. The Retirement Benefit Plan, which is offered only by institution-based CCUs, provides a member with additional financial assistance when he resigns or retires from the institution. Free medical consultation and advisory assistance in business ventures of members are common among market-based CCUs. These are programs meant to strengthen ties between members and officers of the CCU.

An innovative feature of CCU services is the Appliance Loan Program. CCUs buy appliances and in turn sell the appliances to members on easy installment terms. This is common among market-based CCUs.

5. Support Facilities

Among the ten sample CCUs, six already have their own office building; three are occupying a space designated by the management of the institutions in which they are based; and one is renting an office space. The managers who were interviewed believe that having a formal office of their own boosts the morale of members, which in turn leads to a more active participation of members.

All of the ten CCUs have fixed office time. Six of them are open on Saturdays, and one is open on Sundays. The rest follow the normal working days. Unlike banks, CCUs choose office hours that are most convenient to their members. In the case of market-based CCUs, their office hours are held at the time when business activities are at their peak. Members are usually around the market place this time. In the case of institution-based CCUs, their office hours are made to coincide with the free time of their members. For example, two institution-based CCUs are open during lunch break to service their members' needs. Most CCUs are willing to transact business outside of official time and outside of their office premises without extra charges. Booking of such transactions is done in the following day. This is one thing that banks cannot do because of regulations. For example, banks are prohibited from soliciting deposits outside of their premises.

Full-time staff/officers of the sample CCUs range from 5 to 40, depending on the number of members served and the size of the assets being managed. For market-based CCUs, collectors are included as full-time staff. The average number of collectors per CCU is 4. Indeed, the size of the full-time staff of CCUs approximates that of an average-sized thrift bank.

CCUs also have part-time staff/officers ranging from 10 to 23. The board of directors and members of the various committees, including the credit committee, are part-time staff/officers.

B. PERFORMANCE OF THE CCUs, 1982 - 1986

The following discussion focuses on the performance of the ten sample CCUs from 1982 - 1986. The discussion concentrates on trends in membership, real assets, sources and uses of funds, and linkages of CCUs with banks. The GNP deflator with 1972 as base year was used in computing for real values (see Appendix A).

1. Membership

Total membership for the ten sample CCUs had been increasing from 17,123 in 1982 to 24,068 in 1986 (see Table III.1). The growth in total membership ranges from 4 to 15 percent. The year 1986 saw the highest growth attained at 15.7 percent. The increase in membership in 1986 was led by DSE (CBP) KBCI which achieved a 116.03 percent growth rate.

Six CCUs consistently achieved positive growth rates in membership from 1982 to 1986. MCMCCI and FEUCCI suffered a decline in membership in 1984 and 1985, and UPCCI in 1986. CMDCI maintained the same number of members in all the years covered.

On the average, institution-based CCUs have a bigger membership compared to market-based CCUs. This is because it is easier for them to recruit and maintain members, especially among permanent employees.

TABLE III.1

MEMBERSHIP

CCU	1982	1983	1984	1985	1986
BVDCI	1001	1333 (33.2)	1498 (12.4)	1700 (13.5)	1965 (15.6)
PSPDCI	500	650 (30.0)	800 (23.1)	1000 (25.0)	1200 (20.0)
CMDCI	800	800 (0.0)	800 (0.0)	800 (0.0)	800 (0.0)
DTDCI	150	200 (33.3)	250 (25.0)	314 (25.6)	400 (27.4)
MCMCCI	703	724 (3.0)	614 (-15.2)	564 (-8.1)	580 (2.8)
MVDCI	680	750 (10.3)	780 (4.0)	800 (2.6)	856 (7.0)
UPCCI	2600	2735 (5.2)	2799 (2.3)	2898 (3.5)	2828 (-2.4)
FEUCCI	1068	1200 (12.4)	1079 (-10.1)	1033 (-4.3)	1215 (17.6)
DSE (CBP) KBCI	1340	1396 (4.2)	1423 (1.9)	1528 (7.4)	3301 (116.0)
PECCI	8281	9099 (9.9)	9812 (7.8)	10172 (3.7)	10923 (7.4)
TOTAL	17123	18887 (10.3)	19855 (5.1)	20809 (4.8)	24068 (15.7)

Note: Figures in parentheses are growth rates in percent.

2. Real Assets

Table III.2 shows the real assets of the ten CCUs during the period 1982 to 1986. The real assets of all the ten sample CCUs increased from ₱21.4 million in 1982 to ₱33.5 million in 1986. PECCI is the biggest CCU with real assets of ₱13.6 million as of 1986, followed by DSE (CBP) KBCI and BVDCI. The number of members determine to a large extent the size of real assets of CCUs.

The excessively high inflation rate in 1984 resulted in the sharp reduction in the real assets of almost all the CCUs. However, all of them rebounded in the subsequent years. The year 1986 was definitely a growth year for the CCUs. In particular, DSE (CBP) KBCI achieved an extraordinarily high growth rate in real assets of 249.2 percent for that year. Note, however, that four CCUs have not yet fully recovered in 1986 in the sense that their real assets for that year were still below the 1983 levels.

The growth in real assets of CCUs may not only be attributed to the expansion in membership but also to the increase in members' contribution to the resources of the CCUs. It may be observed from Table III.3 that real assets per member have been increasing rapidly after 1984.

Table III.4 compares the performance of the ten sample CCUs with that of the banking system. It is noteworthy that while the banking system's real assets had been shrinking

TABLE III.2

REAL TOTAL ASSETS
(In ₱000)

CCU	1982	1983	1984	1985	1986
BVDCI	1038.9	1386.2 (33.4)	1949.8 (40.7)	2735.6 (40.3)	3339.4 (22.1)
PSPDCI	1443.9	1446.5 (0.2)	1518.6 (5.0)	1636.3 (7.8)	1928.8 (17.9)
CMDCI	2065.9	2018.4 (-2.3)	1656.6 (-17.9)	1608.8 (-2.9)	1892.4 (17.6)
DTDCI	388.6	469.1 (20.7)	384.6 (-18.0)	469.3 (22.0)	620.9 (32.3)
MCMCCI	559.5	579.4 (3.6)	348.9 (-39.8)	282.2 (-19.1)	344.8 (22.2)
MVDCI	875.2	984.1 (12.4)	911.0 (-7.4)	1152.2 (26.5)	1370.8 (19.0)
UPCCI	1170.9	1168.8 (-0.2)	839.9 (-28.1)	819.8 (-2.4)	986.1 (20.3)
FEUCCI	1049.6	919.3 (-12.4)	638.5 (-30.6)	591.4 (-7.4)	617.8 (4.5)
DSE (CBP) KBCI	3027.9	3833.6 (26.6)	2239.3 (-41.6)	2533.2 (13.1)	8847.3 (249.2)
PECCI	8085.1	9641.4 (19.2)	8657.4 (-10.2)	10243.5 (18.3)	13564.9 (32.4)
TOTAL	21449.8	22446.7 (4.6)	19144.7 (-14.7)	22072.2 (15.3)	33513.2 (51.8)

Note: (1) GNP deflator is used in computing real values.

(2) Figures in parentheses are growth rates in percent.

TABLE III.3

REAL ASSETS PER MEMBER OF THE TEN SAMPLE CCUs

Year	Real Assets (₱000)	Membership	Real Assets/ Member (₱000)
1982	21,449.8	17,123	1.25
1983	22,446.7	18,887	1.19
1984	19,144.7	19,855	0.96
1985	22,072.2	20,809	1.06
1986	33,513.2	24,068	1.39

TABLE III.4

COMPARATIVE GROWTH RATES OF THE TEN SAMPLE CCUs AND THE BANKING SYSTEM

Year	Ten Sample CCUs		Banking System*	
	Real Assets (₱000)	Growth Rates (%)	Real Assets (₱M)	Growth Rate (%)
1982	21,449.8	-	75,061.5	11.5
1983	22,446.7	4.6	82,801.7	10.3
1984	19,144.7	-14.7	65,587.1	-20.8
1985	22,072.2	15.3	55,810.0	-14.9
1986	33,513.2	51.8	41,160.0	-26.2

*Source: Central Bank, Financial Fact Book (various years).

during the period 1984 to 1986, those of the CCUs had been rising at a faster pace. It seems that CCUs are less vulnerable to a general economic crisis. There are at least three reasons for this. One is that the savers of CCUs are also the borrowers themselves. This reciprocity, which is absent in banks, shields CCUs from any run on deposits. A member may withdraw his fixed deposits only if he resigns, and this is seldom done by members, especially those who are not moving to another place. In the case of banks, depositors may close their account at one time and later on may open an account with the same bank if they want to, with less difficulty. This lack of "loyalty" on the part of depositors makes banks vulnerable to a run on deposits. The second reason is that with the sudden reduction in the real incomes of small households and small entrepreneurs, they turned to the CCUs to meet their liquidity problems. However, for members, the only way to have access to larger loans is to increase their savings with CCUs. And for non-members, the only way to have access to loans is to become a member, which means that they have to contribute first to the resources of the CCUs before they can borrow. Thus, during the crisis period, the CCUs have provided small households and entrepreneurs with an alternative means of meeting their financial difficulties. The third reason is that before 1984, banks had been enjoying substantial subsidies from the Central Bank and government, whereas CCUs did not receive any of these subsidies. With the withdrawal of such subsidies starting in 1984, several banks especially rural banks which were heavily dependent on government subsidies, collapsed. Since CCUs were not dependent on Central Bank and government subsidies, they were spared of the "feast and famine" phenomenon.

3. <u>Sources and Uses of Funds</u>

Unlike banks which may borrow from the Central Bank and other banks, CCUs depend solely on savings mobilized from their members. As expected, fixed deposits are the primary source of funds comprising between 50 to 75 percent of the total resources of the sample CCUs in all the years considered in this study (see Table III.5). Savings deposits are gaining importance as a source of funds. About 15 percent of the total resources of the sample CCUs come from savings deposits. Mobilizing savings deposits from members is certainly one area where CCUs may exert more efforts to increase their resources.

Time deposits are not yet a popular source of funds for most CCUs. In fact, three CCUs were not yet offering time deposit instruments as of 1986. An exception to this is DSE (CBP) KBCI whose primary source of funds is time deposits. This source has contributed between 45 to 50 percent of its total resources. Fixed deposits are its second most important source of funds. It should be pointed out that DSE (CBP) KBCI offers the longest loan maturity among the

TABLE III.5

RATIO OF FIXED DEPOSITS (FD), SAVINGS DEPOSIT (SD), AND
TIME DEPOSITS (TD) TO TOTAL ASSETS (TA)
(In Percent)

CCUs	1982			1983			1984			1985			1986		
	FD/TA	SD/TA	TD/TA	FD/TA	SD/TA	TD/TA	FD/TA	SD/TA	TD/TA	FD/TA	SD/TA	TD/TA	FD/TA	SD/TA	TD/TA
BVDCI	74.67	7.24	0	71.72	8.89	0.81	56.50	16.56	0.91	52.86	17.97	1.91	53.31	16.03	3.51
PSPDCI	74.74	14.86	0	71.51	12.78	0	57.64	20.11	2.80	54.36	3.35	3.75	55.82	21.10	1.94
CMDCI	65.13	13.84	0	64.55	12.40	0	59.97	14.22	0	59.69	15.97	0	53.15	18.97	4.18
DIDCI	70.45	15.12	0.08	61.31	11.79	5.30	53.98	22.63	1.49	48.27	28.50	0.60	49.32	24.32	8.61
MCMCCI	63.70	20.86	0	63.79	15.29	0	67.76	7.31	0	70.25	8.21	0.52	60.52	28.95	0
MVDCI	60.57	18.24	0	56.93	21.67	0	53.56	22.03	0	51.55	15.77	0	49.77	23.11	0
UPCCI	54.28	6.63	15.88	55.90	7.56	13.73	58.27	9.13	9.35	57.86	11.05	7.69	54.15	9.75	9.60
FLUCCI	66.36	4.15	0	62.19	4.12	0	59.48	4.75	0	57.90	5.38	0	57.80	6.22	0
DSE(CBP)KBCI	23.78	17.69	47.50	22.88	13.33	51.91	31.23	12.53	45.84	29.54	13.65	46.93	21.44	10.32	58.68
PECCI	72.96	4.70	0.16	72.08	4.29	0.16	71.02	3.35	0.16	64.26	2.81	0.38	64.16	3.83	0.26
TOTAL	57.40	9.08	7.63	60.59	8.76	9.81	60.69	9.69	6.19	56.46	8.60	6.38	49.39	10.25	16.74

ten CCUs. Its ability to lend for longer periods may partly be explained by the fact that their major sources of funds are time and fixed deposits.

Being outside the control of the Central Bank, CCUs are not required to put up reserves against their deposit liabilities. This allows them to use a greater proportion of their funds for on-lending. Besides, they have to meet the credit demands of their members who join the CCU primarily to borrow. Thus, the ratio of loans outstanding to total assets has been very high for the sample CCUs ranging from 60 to 98 percent (see Table III.6).

The combined real loans outstanding of the ten sample CCUs had grown from ₱14.8 million in 1982 to ₱26.5 million in 1986 (see Table III.7), while the total loans granted had increased from ₱32.3 million in 1982 to ₱52.3 million in 1986(see Table III.8). This suggests a high turnover rate for loans. This is true especially among the market-based CCUs whose loan maturity is less than 200 days. Although the real loans granted by all the sample CCUs had been increasing during the period considered, the average real loan size granted, i.e., the ratio of real loans granted to the total number of loans, had been steadily declining from 1982 to 1985 (see Table III.9). It increased only in 1986 but still it was lower than the 1983 level. The tight situation during the height of the financial crisis, coupled with a rise in the demand for loans may have prompted CCUs

TABLE III.6

RATIO OF LOANS OUTSTANDING TO TOTAL ASSETS
(In Percent)

CCUs	1982	1983	1984	1985	1986
BVDCI	96.0	92.0	72.6	67.9	65.0
PSPDCI	96.2	93.2	80.2	75.6	81.7
CMDCI	N.A.	85.3	76.0	77.9	73.3
DTDCI	89.2	82.8	73.6	72.4	82.7
MCMCCI	97.8	91.3	92.8	92.2	69.5
MVDCI	83.7	76.7	76.7	78.6	78.0
UPCCI	78.3	82.1	81.3	84.5	72.2
FEUCCI	60.9	70.0	64.6	72.8	75.4
DSE(CBP)KBCI	80.4	84.4	88.8	61.4	72.4
PECCI	83.3	83.4	86.2	83.8	88.3
TOTAL	76.1	84.2	82.3	77.6	79.1

TABLE III.7

REAL LOANS OUTSTANDING
(In ₱)

CCUs	1982	1983	1984	1985	1986
BVDCI	997034.0	1275186.2	1415718.8	1858495.6	2168822.6
PSPDCI	1396566.6	1347633.7	1217502.6	1236775.3	1576369.4
CMDCI	n.a.	1721970.4	1259523.8	1252887.2	1368279.6
DTDCI	346530.7	388601.8	283119.2	339768.2	513607.7
MCMCCI	547177.1	528954.6	323855.4	260198.7	239659.5
MVDCI	732463.6	755236.3	699029.6	905901.6	1069571.5
UPCCI	917339.3	959190.8	682816.3	693021.3	712259.0
FEUCCI	639355.6	643952.0	412633.4	430362.3	465982.9
DSE(CBP)KBCI	2433400.0	3237091.7	1989688.3	1556695.9	6402510.6
PECCI	6736060.2	8044732.3	7466296.7	8589678.4	11981044.0
TOTAL	14754648.0	18902550.0	15750184.0	17123781.0	26497968.0

TABLE III.8

REAL LOANS GRANTED
(In ₱)

CCUs	1982	1983	1984	1985	1986
BVDCI	3608793.6	4119453.1	5856857.4	8485051.7	10192873.0
PSPDCI	2996395.3	2771349.0	2846600.0	3242584.9	4178809.9
CMDCI	5614220.3	5242934.1	3813320.3	3741943.3	4060750.4
DTDCI	1102907.0	1213098.1	1279113.0	1254457.9	1639912.9
MCMCCI	2228279.1	1513643.2	1074765.2	841381.1	811959.4
MVDCI	3257095.9	3402644.5	3092546.1	3679592.3	4556512.0
UPCCI	1712357.8	1978509.9	1424832.2	1426413.4	1594956.7
FEUCCI	1086447.5	969257.9	705617.4	754975.04	875229.7
DSE(CBP)KBCI	3020348.8	3236979.2	1989565.2	1930576.1	9201741.7
PECCI	7707229.7	9755268.5	9699610.1	11637440.0	15146598.0
TOTAL	32334012.0	34202865.0	31782783.0	36994239.0	52259216.0

TABLE III.9

RATIO OF TOTAL REAL LOANS GRANTED TO TOTAL NUMBER OF LOANS
(In ₱)

CCUs	1982	1983	1984	1985	1986
BVDCI	3004.8	3285.0	2565.4	2538.9	3106.6
PSPDCI	2337.3	2465.6	1904.1	1748.9	2011.9
CMDCI	3934.3	4023.7	3012.1	2739.3	3383.9
DTDCI	3816.3	3621.2	n.a.	1941.9	1796.2
MCMCCI	1827.9	1598.4	n.a.	1073.2	1034.3
MVDCI	2648.0	2577.8	1991.3	1991.1	2499.5
UPCCI	570.2	629.5	467.3	480.8	523.5
FEUCCI	506.5	n.a.	546.1	545.5	512.4
DSE(CBP)KBCI	1521.6	1208.7	697.1	483.9	1102.3
PECCI	866.1	782.2	743.4	601.8	716.5
TOTAL	1425.7	1391.8	1184.2	986.0	1179.1

to reduce the size of their loans in order to accommodate all credit demands rather than to completely ration out some borrowers. This is one thing that makes CCUs different from banks since the latter often resort to credit rationing during tight situations. As is usually the case, small borrowers are rationed out.

4. <u>Linkages with Banks</u>

Banks serve as a depository for CCU funds. As of 1986, about 6.23 percent of the total assets of the sample CCUs are deposits with banks.

Banks are also indirectly involved in the loan transactions of CCUs. For large loan amounts, the treasurer issues a check to the member-borrower to be encashed in their banks.

CCUs seldom, if at all, borrow from banks. Some CCUs view borrowing from banks as contrary to the principle of cooperativism. Others who wish to borrow from banks do not always pass the stringent conditions required by banks. None of the ten sample CCUs ever borrowed from a bank.

Among the ten CCUs, only two consider banks operating nearby as competitors. However, competition is deemed only in the deposits market, not in the loans market. The rest do not perceive banks as competitors because accordingly they are serving different clientele. One of the main reasons why credit unions are being organized is that many individuals, especially non-wealthy households and small entrepreneurs, are left out by the banking system.

IV. INTEREST RATE FORMATION AND TRENDS

This chapter discusses the determination of interest rates on savings deposits and loans of CCUs. It also examines the movements of these rates during the period 1982 to 1986 and compares them with the corresponding bank rates.

A. INTEREST RATE ON SAVINGS DEPOSITS

According to the managers who were interviewed, CCUs usually base their savings deposit rates on the prevailing bank rates. Some even claimed that they set the interest rates on savings deposits higher than those offered by banks to attract more deposits from members. None of them ever claimed to have offered rates lower than the bank rates.

The savings deposit rates of the ten sample CCUs from 1982 to 1986 are presented in Table IV.1. Four (4) CCUs have fixed their nominal savings deposit rates throughout the period considered. The other six CCUs did change their nominal savings deposit rates, but such changes were not done frequently. Also, there seems to be no uniform direction in the changes of the nominal savings deposit rates over time among the six CCUs. For instance, PECCI adjusted its nominal savings deposit rate upwards in 1984 and maintained it up to 1986, while DSE (CBP) KBCI reduced its nominal savings deposit rate in 1984 and in the subsequent years.

TABLE IV.1

SAVINGS DEPOSIT RATES
(In Percent Per Annum)

CCUs	1982		1983		1984		1985		1986	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
BVDCI	8.0	-2.25	8.0	-1.99	8.0	-42.34	10.0	-13.11	10.0	9.23
PSPDCI	9.0	-1.25	9.0	-0.99	9.0	-41.34	9.0	-14.11	7.0	6.23
CMDCI	7.5	-2.75	7.5	-2.49	7.5	-42.84	7.5	-15.61	7.5	6.73
DTDCI	12.0	1.75	12.0	2.01	12.0	-38.34	10.0	-13.11	9.0	8.23
MCMCCI	9.0	-1.25	9.0	-0.99	9.0	-41.34	9.0	-14.11	9.0	8.23
MVDCI	8.0	-2.25	8.0	-1.99	8.0	-42.34	8.0	-15.11	7.0	6.23
UPCCI	10.0	-0.25	10.0	0.01	10.0	-40.34	10.0	-13.11	10.0	9.23
FEUCCI	6.0	-4.25	6.0	-3.99	6.0	-44.34	6.0	-17.11	6.0	5.23
DSE(CBP)KBCI	11.0	0.75	11.0	1.01	10.0	-40.34	9.0	-14.11	7.0	6.23
PECCI	6.0	-4.25	6.0	-3.99	7.5	-42.84	7.5	-15.61	7.5	6.73
Average	8.65	-1.598	8.65	-1.338	8.7	-41.641	8.6	-14.515	8.0	7.23
Banks*	9.811	-0.44	9.73	-0.26	9.86	-40.48	10.84	-12.27	8.62	7.85

*Source: Central Bank.

There seems to be no truth to the claim that CCUs never offer deposit rates lower than bank rates. As of 1986, six CCUs offered deposit rates lower than the average bank rate, and the record for the previous years is not different from that of 1986. Note that the average nominal savings deposit rate for all CCUs had remained more or less the same during the period 1982 to 1986 and had been consistently lower than the average deposit rate given by banks.

Savers are penalized by both CCUs and banks. The real savings deposit rates had been negative from 1982 to 1985. A positive real savings deposit rate, which was extremely high by normal standards, was observed in 1986 for both CCUs and banks, not because they offered higher nominal rates, but because the inflation rate dropped sharply to about .8 percent. Savings deposit rates of both CCUs and banks seem to be insensitive to inflation rate.

B. LENDING RATES

The Board of the CCUs usually determines the lending rates. One CCU created a special committee for the purpose of determining the appropriate lending rates that it would charge. However, the final decision on the lending rates still rests on the Board.

According to the managers who were interviewed, CCUs base their lending rates on bank rates, and also on the cost of the operation of the cooperative. In general, CCUs are primarily guided by the principle of "service above profits." It is therefore the tendency of CCUs to charge rates lower than bank rates. Indeed, CCUs have claimed that their lending rates are lower than the lending rates charged by banks. So, in addition to providing members access to credit which banks do not offer to their depositors, especially the small depositors, CCUs also give better credit terms to their members.

CCUs charge different rates for loans of different maturities, sizes and repayment schemes (i.e., daily, weekly, etc.). On top of the basic lending rates are service fees and collection charges which also vary according to loan maturities, sizes and repayment schemes. Although the basic lending rates are low, as often claimed by CCUs, the additional charges could bring up the cost of credit to borrowers. Moreover, all CCUs collect the interest payment in advance which could further raise the effective lending rate.

The following is a rundown of some of the basic lending rates (assuming that interest payments are collected at maturity), along with their corresponding service fees and collection charges for different types of loans offered by the ten sample credit unions in 1986.

1. BVDCI

		Per annum
(a)	<u>100 days (daily payments)</u>	
	Interest Rate (i) = 1.8%	6.5%
	Service Fee (SF) = 0.5%	1.8%
	Collection Charges (CC) = 1.0%	3.6%
	Total	11.9%

		Per annum
(b) 150 days (daily payments)		
i = 2.7%		6.5%
SF = 1.5%		3.6%
CC = 2.0%		3.6%
	Total	13.7%
(c) 200 days (daily payments)		
i = 3.6%		6.5%
SF = 2.0%		3.6%
CC = 2.0%		3.6%
	Total	13.7%

Note that daily payments are intended for vendors selling daily, while weekly payments are for vendors selling less than 7 days a week in the market.

2. PSPDCI

(a) 100 days(daily payments)		
i = 1.95%		7.0%
SF = 0.75%		2.7%
CC = 2.50%		9.0%
	Total	18.7%
(b) 200 days(daily payments)		
i = 3.9%		7.0%
SF = 1.5%		2.7%
CC = 5.0%		9.0%
	Total	18.7%

		Per annum
(c) 300 days(daily payments)		
i = 5.85%		7.0%
SF = 2.5%		3.0%
CC = 7.5%		9.0%
	Total	19.0%

3. CMDCI

(a) 100 days (daily payments)		
i = 1.8%		6.5%
SF = 1.0%		3.6%
CC = 2.0%		7.2%
	Total	17.3%
(b) 200 days (daily payments)		
i = 3.6%		6.5%
SF = 1.0%		1.8%
CC = 2.0%		3.6%
	Total	11.9%

4. DTDCI

(a) 30 days(daily payments)		
i = 1.5%		18.0%
SF = 1.0%		12.0%
	Total	30.0%

		Per annum
(b) 100 days(daily payments)		
i = 3.0%		10.8%
SF = 1.0%		3.6%
C = 2.0%		7.2%
	Total	21.6%
(c) 200 days(daily payments)		
i = 4.0%		7.2%
SF = 1.0%		7.2%
CC = 2.0%		3.6%
	Total	18.0%

5. MCMCCI

(a) 100 days(daily payments)		
i = 2.2%		7.92%
SF = 1.0%		3.6%
C = 3.0%		10.8%
	Total	22.32%
(b) 150 days(daily payments)		
i = 3.3%		7.92%
SF = 1.5%		3.6%
CC = 4.5%		10.8%
	Total	22.32%

		Per annum
(c) 300 days(daily payments)		
i = 6.6%		7.92%
SF = 3.0%		3.6%
CC = 9.0%		10.8%
	Total	22.32%

6. MVDCI

(a) 100 days		
i = 1.8%		6.5%
SF = 1.5%		5.4%
CC = 2.5%		9.0%
	Total	20.9%

7. UPCCI

One (1) Year		
Interest Rate		10.0%
Loan Redemption Insurance		0.5%
Service Fee		2.0%
Filing Fee		0.16%
Fixed Deposit Retention		3.5%
	Total	16.16%

8. FEUCCI

(a) ₱500 in 5 months (semi-monthly payments)		
i = 5.5%		13.2%
SF = 3.0%		7.2%
Application Fee (AF) = 2.0%		4.8%
	Total	25.2%

	Per annum
(b) ₱1000 and above (12 months) (semi-monthly payments)	
i =	9.0%
SF =	3.0%
AF =	1.0%
Total	13.0%

9. DSE (CBP) KBCI) (semi-monthly payments)

(a) 12 months

i	9%
SC	1%
Loan Redemption Insurance (LRI)	1%
Total	11%

(b) 18 months

i	11%
SC	1%
LRI	1%
Total	13%

(c) 24 month

i	12.5%
SC	1%
LRI	1%
	14.5%

		Per annum
(d) 30 months		
i		14.5%
SC		1%
LRI		1%
	Total	16.5%
(e) 36/48 months		
i		16.5%
SC		1%
LRI		1%
	Total	18.5%

10. PECCI

(a) 6 months(semi-monthly payments)		
i		12%
SF		1%
	Total	13%
(b) 6 1/2 to 12 months		
i		12%
SF		2%
	Total	14%
(c) 12 1/2 to 18 months		
i		12%
SF		2.75%
	Total	14.75%

		Per annum
(d) <u>18 1/2 to 24 months</u>		
i		12%
SF		3.50%
	Total	15.50%
(e) <u>24 1/2 to 30 months</u>		
i		12%
SF		4.25%
	Total	16.25%
(f) <u>30 1/2 - 36 months</u>		
i		12%
SF		5%
	Total	17%

Note that for market-based CCUs, payments of the principal are made on a daily basis. This is because cash receipts of market vendors come on a daily basis. It is worth noting that this practice is similar to that followed by informal moneylenders.

The movements of the lending rates of the ten sample CCUs are shown in Table IV.2. There are four rates indicated in the table. The first refers to the nominal lending rate (NR) which is the one explicitly quoted by CCUs. Most people use this rate to argue that CCUs charge lower rates compared to banks. The

TABLE IV.2

LENDING RATES
(In Percent Per Annum)

CCUs	1982				1983				1984				1985				1986			
	NR	NRC	NER	RER	NR	NRC	NER	RER	NR	NRC	NER	RER	NR	NRC	NER	RER	NR	NRC	NER	RER
BVDCI	6.50	11.90	13.507	32.59	6.5	11.9	13.507	3.519	6.5	11.9	13.507	-36.834	6.5	11.9	13.507	-9.608	6.5	11.9	13.507	12.741
PSPDCI -	6.50	18.20	22.249	12.001	6.5	18.2	22.249	-28.092	6.5	18.2	22.249	-36.834	6.5	18.2	22.249	-0.866	7.0	18.7	23.001	22.235
CMDCI	6.50	17.30	20.919	10.671	6.5	17.3	20.919	10.931	6.5	17.3	20.919	-29.422	6.5	17.3	20.919	-2.196	6.5	17.3	20.919	20.153
DTDCI	12.60	23.40	30.548	20.300	12.6	23.40	30.548	20.560	12.6	23.4	30.548	-19.793	12.6	23.4	30.548	7.443	10.8	21.6	27.551	26.785
MCMCCI	7.92	22.32	28.733	18.485	7.92	22.32	28.733	18.745	7.92	22.32	28.733	-21.608	7.92	22.32	28.733	5.618	7.92	22.32	28.733	27.967
MVDCI	6.50	20.90	26.422	16.174	6.5	20.9	26.422	16.434	6.5	20.9	26.422	-23.919	6.5	20.9	26.422	33.07	6.5	20.9	26.422	25.656
UPCCI	10.00	12.16	13.843	35.95	10.0	12.16	13.843	3.855	10.0	12.16	13.843	-36.498	10.0	12.16	13.843	-9.272	10.0	12.16	13.843	13.077
FEUCCI	12.00	16.00	19.048	8.800	12.0	16.0	19.048	9.060	12.0	16.0	19.048	-31.293	12.0	16.0	19.048	-4.067	9.0	13.0	14.942	14.176
DSE(CBP)KBCI	14.50	15.50	18.343	8.095	14.5	15.5	18.343	8.355	12.5	13.5	15.607	-34.734	11.0	12.0	13.636	-9.479	9.0	10.0	11.111	10.345
PECCI	12.00	14.00	16.279	6.031	12.0	14.0	16.279	6.291	12.0	14.0	16.279	-34.062	12.0	14.0	16.279	-6.836	12.0	14.0	16.279	15.513
Average	9.504	17.17	20.989	10.741	9.502	17.168	20.989	11.001	9.302	16.968	20.716	-29.625	9.152	16.818	20.518	-2.597	8.522	16.188	19.631	18.865
Banks Secured Loans:	16.509	18.509	21.773	11.525	18.548	20.548	24.772	14.784	26.152	28.152	37.413	-12.928	26.865	28.865	38.733	15.618	13.952	15.952	18.214	17.448

NOTE:

1. NR = Nominal Lending Rates

   NRC = Nominal Lending Rates with other charges

   = NR + Collection Charges + Service Fee

   NER = Nominal Effective Lending Rates, discounted in advance.

   RER = Real Effective Rates = NER - Inflation Rate

2. Computation of NER

   Assume loan amount is P100 and Interest Payment is collected in advance.

$$NER = \left[\frac{100}{100 - \left(100 \times \frac{NRC}{100}\right)} - 1\right] \times 100\%$$

$$= \frac{100\ NRC}{100 - NRC}$$

3. Service fee and collection charges are based on 100 days maturity for market-based CCUs and 1-year maturity for institution-based CCUs.

second rate (NRC) includes all charges. As noted earlier, all CCUs deduct the interest payments in advance. This results in higher effective interest rates. Thus, the third rate reflects the nominal effective interest rate (NER) which includes the rate when interest is collected in advance and other charges. The fourth and last rate shown in the table is the real effective lending rate (RER) which is NER minus the inflation rate. Also shown in Table IV.2 are the average lending rates of banks on secured loans.

It can be observed from Table IV.2 that in 1986, six CCUs applied a nominal lending rate (NR) lower than their deposit rate. Earlier years also reflect the same situation for most CCUs. This is not sustainable since it means that CCUs are absorbing losses. The low NR is however compensated for by deducting the interest in advance and imposing additional charges. Taking into account only the NER, we observe that all CCUs are enjoying a wide spread in all the years considered.

The NER seems to be inflexible during the period considered for most CCUs. Thus, the movements of RER are largely determined by the inflation rate. When inflation rate went up to 50.3 percent in 1984, all CCUs experienced a severely negative real lending rate. Six of them continued to have a negative real lending rates in the following year.

In 1982 and 1986, the years when the economy was in relatively better shape compared to the intervening years, the average NER of the CCUs was close to that of banks. In fact, it was higher than the average NER of banks in 1986. However, during high inflationary periods, the average NER of CCUs diverged substantially from that of banks. The latter seem to respond more readily to price movements in order to protect the real value of their income and assets. The insensitivity of CCUs to the inflation rate may spring from their view that no member benefits from upward adjustment in the interest rates since the borrowers are also the savers themselves. However, the result of this policy is a decline in the real value of the CCUs' assets, and, consequently, a reduction in the real value of loans. In the long-run, their lending capacity might be weakened because of the decline in the value of their real assets.

What we have not taken into account is the patronage refund, which is equivalent to an interest rate rebate. This can definitely bring down the NER. However, it should be noted that part of the amount borrowed by CCU members comes from their own savings (fixed and savings deposits). This is equivalent to a deposit hold-out or compensatory balance which has the effect of increasing the lending rate.

Given the results above, it cannot therefore be said that CCUs charge lower lending rates than banks. Instead, our results suggest that during normal times, CCUs' lending rates approximates the lending rates of banks.

Caution must, however, be exercised in taking these results at face value. While CCUs accommodate small loans, banks do not. The bank lending rates referred to here must be those for big loans. If ever they make small loans, banks would most likely charge higher rates to compensate for the high transactions costs. The absence of data on bank lending rates by size of loans constrains us from further verifying this issue.

V. SAVING, BORROWING AND LENDING BEHAVIOR OF CCU MEMBERS

This chapter discusses the extent of the CCU members' participation in both the formal and informal credit markets. Specifically, it analyzes the saving, borrowing and lending behavior of CCU members. It is divided into four main sections. The first section discusses the socio-demographic and economic profile of CCU members. The next section analyzes the extent of participation of CCU members in their respective credit unions. The third section examines the alternative ways of saving and other sources of borrowing of CCU members. Finally, the last section discusses the lending behavior of CCU members.

A. SOCIO-DEMOGRAPHIC AND ECONOMIC PROFILE OF CCU MEMBERS

Table V.1 presents a summary of the socio-demographic profile of the CCU members. Of the 82 respondents, 62 percent are female. A great majority (74.4%) of them are married. The respondents' average age is 41.6 years. The average number of years spent in school is 11.8 years, which means that on the average, the respondents are high-school graduates. In fact, about 60 percent are college graduates. Most college graduates are members of the institution-based CCUs.

Three-fifths of the respondents belong to a single family, while one-fifth belong to two or more non-related members' type of household. The extended family system is not a predominant type of household among the respondents.

TABLE V.1

SOCIO-DEMOGRAPHIC PROFILE OF THE CCU MEMBERS

Characteristics	Average	Standard Deviation	Proportion (%)
1. Sex			
a. Male			37.8
b. Female			62.2
			100.0
2. Civil Status			
a. Single			19.5
b. Married			74.4
c. Widow/Widower			3.7
d. Separated			2.4
			100.0
3. Age (years)	41.6	10.2	
4. Highest Educational Attainment	11.8	3.9	
5. Type of Household			
a. Single Family			62.2
b. Extended Family			15.9
c. Two or More Non-related members			19.5
d. Living along			2.4
			100.0
6. Number of Family Members	6.2	3.1	
7. Number of Family Members enrolled in school	2.0	1.6	
8. Number of dependents	2.8	1.7	

The average family size is 6.2 members. This roughly approximates the national average. On the average, 2 members of the family were enrolled in school at the time of the interview. For every family, usually 3 members or 50 percent of the total family members are dependents.

Table V.2 summarizes the economic characteristics of the respondents. With regard to the main occupations, 56 percent are businessmen/businesswomen. This is not surprising since out of the 82 respondents, 50 are members of the market-based CCUs. About 18 percent are office secretaries/clerks, all members of the institution-based CCUs. This portrays the importance of CCUs to the rank and file.

On the average, one family member is employed for pay or profit, while 2.4 family members are self-employed. In this study, children who are helping the family business are considered as employed, while spouses who are co-owners and help in the family business are considered self-employed.

During the reference period, i.e., January to September 1987, the monthly family income averaged ₱14,471.50. In computing for the family income of those who have a family business, only the net income from the said business was taken into account. Indeed, the respondents are well-off compared to the rest of the population. Their annual per capita income is ₱26,943 which is more than twice the estimated national per

TABLE V.2

ECONOMIC PROFILE OF THE CCU MEMBERS

Characteristics	Average.	Standard Deviation	Proportion (%)
1. Main occupation			
a. Businessman/ Businesswoman			56.2
b. Office Secretary/ Clerk			18.3
c. Bank Examiner			6.1
d. Accountant			4.9
e. Medical Profession			2.4
f. Faculty Members			2.4
g. Supervisors			2.4
h. Others			7.3
			100.0
2. Number of family members employed for pay/profit	1.1	1.1	
3. Number of family members who are self-employed	2.4	3.0	
4. Monthly family income (₱)	14,471.5	19,492.0	
5. Monthly family expenditure (₱)	7,435.4	5,503.6	
6. Present market value of physical assets (₱)	769,158.6	1,283,936.0	

capita in 1987 evaluated at current price (see Medium-Term lippine Development Plan, 1987-1992).

The monthly family expenditure of the respondents is about half of their total monthly family income, suggesting CCU members are net savers. The market value of the phy assets owned by the family of CCU members average ₱769,158.6 this study, physical assets include house, lot, appliances, nitures and fixtures, motor vehicles, and business lice inventories and equipment. For members of market-based business licenses, inventories and equipment comprise a sig cant portion of their total physical assets.

B. PARTICIPATION OF CCU MEMBERS IN THEIR RESPECTIVE CREDIT UNIONS

1. Saving with the CCU

The respondents have already been members of respective CCU for quite sometime. The average numbe years of membership is 8.7 years. In joining their re tive CCUs, 76.7 percent of the respondents indicated they voluntarily applied for membership without recruited by any of the members/officers of the c union. These are the ones aggressively looking for c unions wherein they can join. About 19.5 percent said they were persuaded by a member/officer to join; and percent claimed that they joined the credit union as founding members.

There are several factors that motivate individuals to join a credit union. We listed at least five of them and asked the respondents to evaluate them according to the degree of importance (See Table V.3). To avoid borrowing from moneylenders is considered a very important factor by 74 percent of the respondents in joining a credit union. It should be noted that the market-based credit unions are formed to provide market vendors with an alternative source of credit. Admittedly, many of them used to be customers of professional moneylenders.

Access to credit for business and home consumption purposes is also considered an important reason by the majority of the respondents for joining a credit union. Formal financial institutions usually do not lend money for consumption purposes. The popularity of credit unions partly stems from the fact that it allows borrowers to borrow for consumption purposes.

Although saving and promotion of camaraderie among members have been emphasized by credit unions, these did not prove to be very popular reasons for joining a credit union. Members save with the credit union primarily to have access to credit, and they do not look upon the credit union as a social organization but rather as an economic organization.

Table V.4 and Table V.5, respectively, show the initial and outstanding fixed deposits of the respondents with the

TABLE V.3

FACTORS MOTIVATING MEMBERS TO JOIN THE CCU

Factors Considered	Degree of Importance*	Frequencey Abs.	%
1. To have access to credit primarily for home consumption purposes.	1	43	52.4
	2	32	39.0
	3	7	8.5
2. To have access to credit primarily for business purposes.	1	52	63.4
	2	10	12.2
	3	20	24.4
3. To save.	1	18	21.9
	2	57	69.5
	3	7	8.5
4. To socialize and foster camaraderie among the members.	1	9	11.0
	2	45	55.0
	3	28	34.0
5. To avoid borrowing from moneylenders.	1	61	74.0
	2	18	22.0
	3	3	4.0

Note:
* 1 - very important
  2 - important
  3 - not important at all

TABLE V.4

INITIAL FIXED DEPOSITS OF CCU MEMBERS

Initial Fixed Deposits (₱)	Frequency Abs.	Frequency %
Below 10	2	2.4
10 - 49	7	8.5
50 - 99	3	3.7
100 - 299	13	15.9
300 - 499	4	4.9
500 - 999	31	37.8
1000- 4000	22	26.8
Total	82	100.0

Mean : 732.07
S.D. : 906.78
Range : 5 - 4000

TABLE V.5

OUTSTANDING FIXED DEPOSITS OF CCU MEMBERS AS OF THE DATE OF THE INTERVIEW

Present Fixed Deposits (₱)	Frequency	
	Abs.	%
Below 1000	1	1.25
1000 - 3999	29	36.25
4000 - 6999	12	15.0
7000 - 9999	6	7.5
10000 - 19999	21	26.25
20000 - 29999	8	10.0
30000 - 50000	3	3.75
Total	80	100.0

Mean : 9144.75
S.D. : 9277.96

CCU as of the date of the interview. The initial fixed deposits averaged ₱732.07. As pointed out in the earlier chapter, the maximum and initial fixed deposit requirement differs among the ten sample credit unions. On the date of the interview, the average fixed deposit of the respondents stood at ₱9,144.75. This is about 12 times greater than the average initial fixed deposit. Considering that respondents have been members of their respective credit unions for an average of 8.7 years, it means that on the average, each member has been increasing his fixed deposit by ₱967.00 per year.

Of the 82 respondents, 40 (48.8%) are planning to increase further their fixed deposits; 33 (40.2%) have decided not to increase their fixed deposits anymore; and 9 (11.0%) are still undecided. The main reason given by the majority of those who are planning to increase their deposits is to be able to borrow more (See Table V.6), while the main reason given by the majority (75.8%) for not planning to increase their fixed deposits is that their loan capacity is already enough for their anticipated needs (see Table V.7). It should be recalled that the loan capacity of a member is largely determined by his size of fixed deposits. Again, this brings home the point that reciprocity is very important in motivating individuals to save.

Forty-six (46) or 56 percent of the respondents have savings deposits with their CCUs. As of the date of the

TABLE V.6

REASONS GIVEN FOR PLANNING TO INCREASE FIXED DEPOSITS

Reasons	Frequency	
	Abs.	%
1. The return or interest rate on fixed deposit is very attractive.	10	25.0
2. To be able to borrow more.	28	70.0
3. As a form of forced savings.	2	5.0
Total	40	100.0

TABLE V.7

REASONS GIVEN FOR NOT INCREASING FIXED DEPOSITS

	Reasons	Frequency Abs.	%
1.	Hard times, not enough money to increase fixed deposit	6	18.2
2.	Loan capacity enough for anticipated needs	25	75.8
3.	Worried about the political situation (e.g. coup d'etat, NPAs, etc.)	1	3.0
4.	Reached the ceiling set by the CCU	1	3.0
	Total	33	100.0

interview, the outstanding savings deposits averaged ₱13,301.60 (see Table V.8). This is not an insignificant amount of savings for an individual. Of the 46 respondents who have savings deposits, 30 (65%) claimed that their present savings deposits are higher than their initial deposits, while the rest have maintained their initial savings deposits. However, 35 (76%) of those who have savings deposits are planning to increase their savings deposits in the coming years. The most popular reason given is convenience and accessibility in depositing money with the credit union (see Table V.9). The use of collectors, in the case of market-based CCUs, and the salary deduction scheme, in the case of institution-based CCUs, significantly reduces the transactions costs in making a deposit. This is definitely an incentive for depositors to increase their deposits with the CCU. The second most popular reason given is the relative attractiveness of the deposit interest rates offered by the credit union compared with those given by banks. As was shown in the previous chapter, bank deposit rates were relatively higher than the CCU deposit rates during the period 1982 - 1986. However, in 1987, especially at the time when the interview was conducted, the nominal deposit rates for banks went down sharply to as low as 4 percent per annum, while the deposit rates for credit unions have remained the same as in the previous year, thus making them higher than those offered by banks.

TABLE V.8

OUTSTANDING SAVINGS DEPOSITS OF CCU MEMBERS AS OF THE DATE OF THE INTERVIEW

Amount of Savings Deposit (₱)	Frequency	
	Abs.	%
100 - 300	12	26.1
400 - 900	4	8.7
1000 - 3000	17	36.9
4000 - 10000	5	10.9
11000 - 20000	4	8.7
21000 - 40000	1	2.2
100000 and above	3	6.5
Total	46	100.0

Mean: ₱13,301.6
S.D.: 36,556.4

TABLE V.9

REASONS GIVEN IN PLANNING TO INCREASE SAVINGS DEPOSIT WITH THE CCU

Reasons	Frequency	
	Abs.	%
1. Interest rate is attractive compared to the rates offered by banks.	13	37.1
2. To be able to borrow more	1	2.9
3. Convenience and accessibility in depositing.	20	57.1
4. To help increase the fund of the CCU.	1	2.9
Total	35	100.0

All respondents were also asked to compare non-price incentives offered by CCUs and banks. With regard to accessibility, 73 percent of the total respondents claimed that the CCU is more accessible than the nearest bank they know of, while 17 percent said that CCU and the nearest bank are the same in terms of accessibility. With regards to safety of deposits, 62 percent indicated that their deposits are safer with CCU than with the banks, while 26 percent admitted that their deposits with CCU are as safe as with banks. It is to be noted that in the past few years, several banks collapsed, and it was publicly known that many bank depositors had a hard time collecting their deposits from closed banks. This was not experienced by credit union depositors.

The results seem to show that credit union members respond more to non-price incentives than to price incentives when it comes to savings mobilization.

2. Borrowing from the CCU

Of the 82 respondents, 80 borrowed from their credit union. The ten sample credit unions are borrower-dominated CCUs. About 56 percent of them borrowed between 1 to 3 months before the date of the interview. The average amount borrowed by CCU members is ₱21,760.30 (see Table V.10). This is about twice their average fixed deposits. The average loan maturity is 258.7 days (see Table V.11). Fifty-six percent (56%) of the respondents obtained loans

TABLE V.10

AMOUNT BORROWED BY MEMBERS FROM THEIR CCU

Amount	Frequency	
	Abs.	%
₱5,000 and less	18	22.5
₱5,001 - ₱10,000	18	22.5
₱10,001 - ₱15,000	10	12.5
₱15,001 - ₱20,000	7	8.8
₱20,001 - ₱25,000	3	3.8
₱25,001 - ₱30,000	6	7.5
₱30,001 - ₱35,000	1	1.2
₱35,001 - ₱40,000	3	3.8
₱40,001 - ₱45,000	3	3.8
₱45,001 - ₱50,000	2	2.5
₱50,001 and above	9	11.2
TOTAL	80	100.0

Mean : ₱21,760.30
S.D. : ₱23,615.20
Median: ₱13,500.00

TABLE V.11

MATURITY PERIOD OF LOANS BORROWED BY MEMBERS FROM CCU

Days		Frequency Abs.	Frequency %
100		42	52.5
105		1	1.2
120		1	1.2
150		1	1.2
180		1	1.2
200		8	10.0
300		1	1.2
360		15	18.6
540		1	1.2
720		6	7.5
900		1	1.2
1,140		2	2.5
	TOTAL	80	100.0

Mean : 258.69
S.D. : 272.36
Median: 100.0

with maturities of less than 150 days. These are mostly members of market-based credit unions who have high cash turn-over from their businesses. Most members of institution-based CCUs, on the other hand, obtained long-term loans.

The duration between loan application and release ranges from 1 to 30 days. On the average, it takes 5.9 days to process a loan at the CCUs (see Table V.12). However, about 41 percent of the respondents claimed that their loans were released 1 to 2 days after submission of their loan applications.

A member may cite several purposes for a loan secured from the CCU. Seventy-six percent (76%) of the total loan proceeds were used for business purposes (see Table V.13). This is not surprising since many of our respondents are market vendors. Some members of institution-based CCUs also borrowed to partly finance their own small family business. Of the total amount allocated for business purposes, 53 percent were used to augment working capital. The remaining amount were used either as initial capital for a new business, or for increasing/improving the fixed capital of an existing business. Most members of market-based CCUs borrowed to augment their working capital. The reason is that their loans have shorter maturities and need to be amortized on a daily or weekly basis. Using the loan proceeds for working capital ensures them of an immediate return.

TABLE V.12

DURATION BETWEEN LOAN APPLICATION AND RELEASE

Duration (days)	Frequency	
	Abs.	%
1 - 2	33	41.3
3 - 4	14	17.5
5 - 6	4	5.0
7 - 8	14	17.4
9 and above	15	18.8
TOTAL	80	100.0

Mean: 5.89
S.D.: 6.42

TABLE V.13

USES OF CCU LOAN PROCEEDS

	Uses of Loan Proceeds	As average percentage of total loan per borrower (in %)	S.D.
1.	Business	60.0	40.0
2.	Household appliances/ furniture	5.8	21.0
3.	House repairs/improvements	1.9	9.6
4.	Family consumption	6.4	18.0
5.	Payment of loans	2.1	8.5
6.	Restructuring of old loan from CCU	1.6	9.3
7.	Lending to others	1.7	9.6
8.	Saving in the bank	0.9	5.7
9.	Education	8.1	24.0
10.	Medical care	2.5	13.0
11.	House/Lot acquisition	1.2	11.0
12.	Jewelries	0.12	1.1
13.	Others	7.7	25.6

Table V.14 shows the nominal effective interest rate (NER) paid by CCU member-borrowers on their latest loans. As pointed out in the earlier chapter, the effective interest rate refers to the interest rate when interest payments are deducted in advance, plus all charges i.e., collection charges, service fee, insurance fees, etc. As shown in Table V.14, it greatly varies across respondents for two reasons. One is that CCUs included in our sample impose different nominal lending rates. The other reason is that they have different rates for the additional different charges. The average effective interest rate is 19.5 percent per annum.

As already mentioned earlier, credit unions usually claim that they charge interest much lower than what banks are charging. This is true if other charges are not included in the computation of the effective interest rate. In Table V.15, it is shown that the average interest rate is only 9.7 percent when other charges are not included. It means that other charges account for half of the effective interest rate. As shown in the earlier chapter and as will be pointed out later, the CCU average effective lending rate does not considerably differ from the bank lending rate.

Respondents gave a very high rating on the quality of services provided by their respective credit unions. Of the 82 respondents, 45 percent rated the services of CCU as

TABLE V.14

EFFECTIVE INTEREST RATE PER ANNUM ON CCU MEMBER LOANS

Effective Interest Rate/Annum (in %)	Frequency	
	Abs.	%
11.0 - 12.99	1	1.3
13.0 - 14.99	31	39.7
15.0 - 16.99	9	11.5
17.0 - 18.99	0	0
19.0 - 20.99	6	7.7
21.0 - 22.99	1	1.3
23.0 - 24.99	10	12.8
25.0 - 26.99	8	10.3
27.0 - 28.99	12	15.4
Total	78	100.0

Mean: 19.46
S.D.: 5.797
Range: 11.11 - 28.73

TABLE V.15

INTEREST RATE PER ANNUM EXCLUDING OTHER CHARGES ON CCU MEMBER LOANS*

Interest Rate/Annum (in %)	Frequency	
	Abs.	%
6.0 - 7.99	36	45.0
8.0 - 9.99	17	21.3
10.0 - 11.99	8	10.0
12.0 - 13.99	13	16.3
14.0 - 15.99	2	2.5
16.0 - 17.99	0	0
18.0 - 19.99	4	5.0
Total	80	100.0

*Refers to interest rate when interest payments are collected in advance.

Mean : 9.72
S.D. : 3.28
Range: 6.5 - 19.76

excellent, while 52 percent rated them as satisfactory. Only 3 percent deemed the services of CCU as unsatisfactory.

When respondents were asked what benefits they get from their CCUs, cheap and accessible credit emerged as the most popular response. To be free from the clutches of usurious moneylenders is also a popular response. For those who have a business, they believed that their CCUs' contribution to the growth of their business is quite significant, especially in the provision of the much needed extra working-capital. Other CCU members pointed out that the educational and consumption loans offered provided valuable assistance when family funds are low. Most of all, the emergency loans have provided security for the family of CCU members whenever unanticipated needs for cash emerges.

Among the measures that need to be reviewed, checking on the dishonesty of officers seems to be the most popular. Members claimed that the measures to lessen or eliminate dishonesty among officers and staff are inadequately addressed. Another problem expressed by members is the inadequate information on the day-to-day operation of their CCUs. The members pointed out that their degree of active involvement in their CCUs can be further enhanced through better knowledge on how their CCUs have been operating.

Some solutions offered by members to the problems indicated above are as follows: 1) strengthening of the audit/supervisory committee so that it can effectively check dishonesty among officers and staff; 2) improvement of the information program of the CCU by channeling more funds into it; 3) streamlining, simplification and use of office automation (e.g., computers) to process transactions; and finally, 4) doing away with the practice of deducting the interest payments in advance since it effectively increases the lending rate.

C. ALTERNATIVE WAYS OF SAVING AND OTHER SOURCES OF CREDIT FOR CCU MEMBERS

In this section, we examine CCU members' alternative ways of saving and other sources of credit.

1. Alternative Ways of Saving

Aside from the credit unions, CCU members have two alternative institutions in which they can place their savings. One is a bank, a formal financial institution, and the other is a "paluwagan", or ROSCAS, an informal financial association.

Table V.16 summarizes the saving behavior of CCU members. More than half of the total respondents have savings deposits in banks. As of the date of the interview, the outstanding savings deposits per member range from ₱600 to ₱900,000, with an average of ₱38,584. This is three times higher than the average savings deposits with the CCU. It means that relatively well-off CCU members use banks as a

TABLE V.16

SAVING BEHAVIOR OF CCU MEMBERS

	Fixed Deposits		Savings Deposits		Time Deposits	
	No.	Ave. Amt. (₱)	No.	Ave. Amt. (₱)	No.	Ave. Amt. (₱)
1. CCU	82*	9,144.25	46 (56.1)	13,301.60	-	-
2. Banks	-	-	45 (54.9)	38,584.10	12 (14.6)	32,287.54
3. Paluwagan	-	-	-	-	22 (26.8)	19,096.26

* Two respondents did not give the answer.

Note: Figures in parentheses are percent.

depository when it comes to larger deposits. The ceiling on their loan capacity, asset diversification, and absence of other services like checking account have prompted big depositors not to place all their funds with the CCU.

Out of the 82 respondents, only 15 percent have time deposits with banks. As of the date of the interview, the time deposits per member range from ₱5,000, which is the minimum lot currently accepted by banks, to ₱130,000. The outstanding time deposits averaged ₱32,280.

We listed some factors that could motivate savings in banks and asked CCU members to rank them as to whether they are "very important", "important", or "not important" at all in their decision to save in banks. Results show that accessibility of the bank, time spent in making the deposit, and safety of deposits were ranked "very important" by a great majority of the respondents (see Table V.17). Accessibility of the bank topped the list, with 88.9 percent of the respondents agreeing that it is very important in their decision to save in banks. The factors "interest rate on deposits" and "expenses incurred in making a deposit" were considered important by 51.1 percent and 46.7 percent of the respondents, respectively. Interestingly, enhanced access to borrowing facilities was not considered important at all by 75.6 percent of the respondents. This result sharply differs from the earlier results in which reciprocity is considered very important in motivating members to place

TABLE V.17

FACTORS MOTIVATING CCU MEMBERS TO SAVE IN BANKS

Factors	Degree of Importance*	Frequency Abs.	Frequency %
1. Interest rate on deposits.	1	8	17.8
	2	23	51.1
	3	14	31.1
2. Accessibility of the bank.	1	40	88.9
	2	5	11.1
	3	0	0
3. Time spent in making a deposit.	1	28	62.2
	2	15	33.3
	3	2	4.5
4. Expenses incurred in making a deposit.	1	20	44.4
	2	21	46.7
	3	4	8.9
5. Enhanced access to borrowing facilities.	1	5	11.1
	2	6	13.3
	3	34	75.6
6. Safety	1	30	67.4
	2	12	25.6
	3	3	7.0

*Note: 1 = very important; 2 = important; 3 = not important at all.

their savings in credit unions. As will be shown below, very few among the respondents borrowed from a bank.

It is interesting to find out how much time and out-of-pocket cost are spent by a depositor in depositing/withdrawing money from the bank. The time spent in making a deposit transaction with a bank can be broken down into two parts, namely: travelling time and waiting time at the bank. The travelling time averages 15.6 minutes (see Table V.18). Most of the respondents who have a deposit account with a bank prefer to have a bank very close to their place of work. In fact, 68 percent of them indicated that they go to their banks by walking (see Table V.19). The average waiting time at the bank is 23.6 minutes. Admittedly, this is a relatively long waiting time which is too costly, expecially to those who are running a business. For those who have to take a ride in going to the bank, the average transportation cost incurred is ₱2.25.

Twenty-two (26.8%) of the total respondents revealed that they joined a "paluwagan" between January and September 1987. The frequency of contribution in the "paluwagan" was weekly with an average contribution of ₱365.90 per week (see Table V.20). The average time per cycle was 6.4 months, and the average amount of the "sahod" (kitty) received per cycle was ₱19,096, which is not an insignificant amount. The average number of members per cycle was 31.

TABLE V.18

TRAVELLING AND WAITING TIME IN MAKING/WITHDRAWING DEPOSITS

Minutes	Frequency Abs.	Frequency %
A. <u>Travelling time</u>		
10 and less	15	35.7
11 - 20	21	50.0
21 - 30	5	11.9
31 and above	1	2.4
TOTAL	42	100.0
Mean : 15.62 S.D. : 8.75		
B. <u>Waiting time</u>		
10 and less	6	14.3
11 - 20	16	38.1
21 - 30	13	31.0
31 and above	7	16.7
TOTAL	42	100.0
Mean : 23.55 S.D. : 12.62		

TABLE V.19

TRANSPORTATION EXPENSES (ROUNDTRIP) INCURRED IN MAKING A DEPOSIT WITH A BANK

Transportation Expenses	Frequency	
	Abs.	%
Walking	17	68.0
Riding	8	32.0
₱2.0	7	
₱4.0	1	
Average: ₱2.25		

TABLE V.20

FREQUENCY OF CONTRIBUTION, AVERAGE AMOUNT OF CONTRIBUTION, AMOUNT RECEIVED PER CYCLE ("SAHOD"), AVERAGE LENGTH OF TIME OF ONE CYCLE, AND THE AVERAGE NUMBER OF MEMBERS PER CYCLE IN THE LAST PALUWAGAN

		Average	S.D.
1.	Frequency of contribution.	weekly	-
2.	Amount of contribution per share (in ₱)	365.9	752.15
3.	Average length of time per cycle (in months)	6.4	4.5
4.	Amount received per cycle (in ₱)	19,096.26	41,486.10
5.	Number of members per cycle	31	37.5

Note: Some members have more than one share.

For market-based CCU members, the "sahod" received from the "paluwagan" was used mainly to augment their working capital, while for institution-based CCU members, it was used mainly for education purposes and for buying home appliances.

In retrospect, results show that a significant proportion of CCU members have access to alternative savings institutions. The most important factor that motivates them to place their savings either with the credit union or with the bank is accessibility. The "paluwagan" also serves as an important vehicle for mobilizing deposits. (See Lamberte and Bunda[1988] for a related study).

2. Other Sources of Credit

This section discusses the extent of access of CCU members to other sources of credit other than the credit union. We have identified four other sources of borrowing, namely: banks, professional moneylenders, friends/neighbors/relatives, and traders/goods suppliers. Among the four sources of credit, only the first belongs to the formal credit markets.

Table V.21 summarizes the borrowing behavior of CCU members. Although almost all respondents are borrowers from the CCUs and quite a number of the respondents are bank depositors, only 4 of them availed of a loan from a bank between January and September 1987. This asymmetric access

TABLE V.21

BORROWING BEHAVIOR OF CCU MEMBERS, JANUARY - SEPTEMBER 1987

Sources of Credit	(1) No. of Respondents	(2) Average Amount Borrowed (₱)	(3) Average Maturity days	(4) Average Interest (%)
1. CCU	80	21,760.30	258.7	19.5 1/
	(97.6)	(23,615.20)	(572.4)	(5.8)
2. Banks	4	12,750.00	322.5	19.5
	(4.9)	(18,191.12)	(75.0)	(7.33)
3. Professional Moneylenders	7	2,785.70	65.7	120.0
	(8.2)	(2,118.50)	(30.3)	(0.0)
4. Friends/Neighbors/Relatives	14	10,607.14	95.0 2/	6.0 3/
	(17.0)	(10,388.93)	(60.0)	(-)
5. Traders/Suppliers	26	51,613.46 5/	53.5	29.3 6/
	(51.0) 4/	(121,792.49)	(19.3)	(4.2)
6. Paluwagan	22	19,096.26	-	-
	(26.8)	(41,486.10)	-	-

1/ Effective interest rate which is the interest rate discounted in advance plus all charges.

2/ Refers to only 7 respondents. The other 7 respondents have loans without maturity.

3/ Refers to only one respondent. The other 13 respondents were not charged interest on their loans.

4/ Refers to only those who are engaged in a business.

5/ Refers to an average amount borrowed per month.

6/ Price differential between goods bought in cash and on credit. This is based on the responses from 15 respondents.

Note: Figures in parentheses in column (1) are percent, while in columns (2) - (4) are standard deviations.

to bank services is not uncommon especially among small entrepreneurs.

The average amount of bank loans was ₱12,750. This is just about half of the average amount of the loans obtained by CCU members from their credit unions. So, aside from the fact that only very few have access to bank credit, the size of bank loan is much smaller than those obtained from credit unions. This only serves to emphasize the importance of credit unions to this segment of the population.

The average loan maturity of bank loans was 322 days, which is much longer than that of CCU loans. Unlike CCU loans, the interest payments on bank loans were not deducted in advance. The nominal interest rate per annum charged on bank loans averaged 19.5 percent. This is practically the same as the average nominal effective interest rate charged by CCUs on their members' loans. Again, this shows that interest rates of CCUs and banks do not differ so much. The same is true with the length of processing. It takes, on the average, 8 days to get a loan from the bank, which is only 2 days longer than in CCU.

It is interesting to note that one of the bank borrowers used the loan for lending to others, suggesting some possible linkage between formal and informal credit markets.

Only 7 out of the 82 respondents indicated they borrowed from professional moneylenders. The fewer number of borrowers from this source of credit may be attributed to the fact that many of them joined the credit union precisely to prevent themselves from borrowing from moneylenders. The average amount borrowed from moneylenders was ₱2,785. This is very much below the average amount borrowed from CCUs. This just confirms the findings elsewhere (see Lamberte and Bunda [1988]) that small loans are readily available from moneylenders.

Loans from moneylenders had shorter maturities, averaging 65.7 days and carried very high interest rates, averaging 120 percent per annum. However, unlike loans from CCUs and banks, loans from moneylenders are usually released immediately without any paperwork. This feature is very important especially since most of them used the loans from moneylenders to meet unexpected liquidity problems their small business firms had experienced.

Friends/neighbors/relatives seem to be a more popular alternative source of credit than banks and professional moneylenders. Fourteen (17.1%) respondents signified that they borrowed money from this source between January and September 1987. The amount borrowed from friends/neighbors/relatives is quite significant, which averaged ₱10,607. Of the 14 borrowers, 7 still have outstanding loans as of the date of the interview, which averaged ₱4,893.

The relative popularity of this source of credit stems from several factors. First, it is relatively easier and quicker to obtain loans from this source. Second, no interest is paid on such loans. Among the 14 borrowers, only one claimed that he was charged 7 percent per annum for the loan. And finally, it does not have a definite maturity period. Among the 14 borrowers, 7 indicated that there was no maturity period stipulated on their loans. Loans were used for varied purposes, such as business, education, house repair and medical care.

Of the 82 respondents, 51 (62.2%) claimed that they are directly engaged in a business. Except for one respondent, all of them are members of market-based CCUs. Twenty-six (26) or 51 percent of the businessmen admitted that they bought supplies (fresh and dry goods) from traders/suppliers or "suki" on credit. The amount of trade credits availed of per month between January to September averaged ₱51,613.46. Thus, in terms of size, trade credits appear to be the most important kind of credit. Among the different sources of credit for CCU members, trade credits have the shortest maturity period, averaging 53.5 days. However, larger business concerns usually obtain longer maturity period of between two months and one year, while smaller ones get shorter maturity period. All borrowers from traders/suppliers said that they were not paying explicit interest on trade credits they obtained. However, 15 of them admitted that the prices they paid for the commodities bought on credit were higher than the prices they would have paid had they bought them in cash from the same traders/ suppliers. The estimated implicit interest rate arising from the price differential averaged 29.3 percent per annum. This rate is higher than the CCU and bank lending rates but is considerably lower than the interest rate charged by moneylenders.

In summary, CCU members have access to alternative sources of credit other than the credit union. However, their access to formal sources of credit is severely limited. Among the informal sources of credit, friends/ neighbors/relatives and traders/suppliers are the most popular sources of credit.

D. LENDING BEHAVIOR OF CCU MEMBERS

CCU members are not only savers and borrowers. They are also engaged in lending to friends/ neighbors/relatives and, for those who have a business, to their customers. Thus, their participation in the informal credit markets is quite significant.

Of the 82 respondents, 24 (29.4%) admitted that they lent to their neighbors/friends/relatives during the period January to September 1987. On the average, they had 3.6 borrowers (S.D. = 3.06). The average amount of loans granted per borrower was ₱10,922.90 (S.D. = ₱23,435.40). This is about the same average amount borrowed by CCU members from their friends/neighbors/

relatives. Among the 24 lenders, only one charged an interest on the loan which was 60 percent per annum. Eleven of them did not stipulate a maturity period for the loans they granted. The rest imposed a maturity period which averaged 104.4 days (S.D.=12.3).

As mentioned earlier, 51 respondents are directly engaged in business. Twenty-three (23) of them, or 45 percent, had extended consumer loans to their customers during the period January to September 1987. The average number of borrowers per respondent was 11.9 (S. D. = 13.7). Loans granted averaged ₱10,477 per month (see Table V.22). It means that on the average each borrower obtained a consumer loan amounting to ₱880.44 per month. The maturity period of consumer loans extended by respondents to their customers averaged 38 days (see Table V.23).

As of the date of the interview, the total outstanding consumer loans averaged ₱38,348 (see Table V.24). This is quite a significant amount of loan exposure by market vendors who are mostly engaged in retailing.

Market vendors are not immune to problems usually associated with extending credit. The average amount of past due loans as of the date of the interview was ₱9,626 (S.D. = ₱41,548), which is roughly 25 percent of the average outstanding loans. Those loans were past due for an average of 29 days. All respondents said that they do not charge penalties on past due loans.

Of the 23 respondents who extended consumer loans, only 5 were charging higher prices for goods bought on credit. All of

TABLE V.22

AMOUNT OF CONSUMER LOANS GRANTED PER MONTH

Amount (₱)	Frequency Abs.	Frequency %
100 - 500	6	27.3
600 - 1000	3	13.6
1100 - 5000	7	31.8
5100 - 10000	4	18.2
10100 - 60000	0	0
60100 - 100000	2	9.1
Total	22	100.0

Mean: ₱10,477.27
S.D.: ₱24,746.16

TABLE V.23

MATURITY PERIOD OF TRADE CREDITS TO CUSTOMERS

Maturity Period (days)	Frequency	
	Abs.	%
1	1	4.3
7	9	39.1
30	9	39.1
60	3	13.2
360	1	4.3
Total	23	100.0

Mean: 38 days
S.D.: 72.5 days

TABLE V.24

TOTAL OUTSTANDING CONSUMER LOANS AS OF DATE OF INTERVIEW

Amount (₱)	Frequency	
	Abs.	%
Below 1000	8	34.8
1000 - 5000	9	39.1
6000 - 10000	3	13.05
11000 - 30000	0	0
31000 and above	3	13.05
Total	23	100.0

Mean: ₱38,347.96
S.D.: ₱159,535.05

them are engaged in selling dry goods, like RTW dresses, canned goods, etc. The price differential between goods bought on credit and goods bought in cash averaged 18.6 percent (S.D. = 23.3). Considering that the average maturity period for consumer loans is 38 days, it means that the implicit interest rate the five market vendors are charging on their consumer loans averaged 178.7 percent per annum. This is as high as what professional moneylenders are charging.

VI. SUMMARY AND CONCLUSIONS

This study has examined the role and performance of Cooperative Credit Unions (CCUs) as informal credit and savings institutions and the degree of participation of CCU members in the formal and informal credit markets. CCUs are a more sophisticated form of "paluwagan" (or ROSCAS). They operate like a thrift bank in the sense that they mobilize deposits and lend funds to their members. CCUs are large in number and are spread throughout the country just like rural banks. In terms of assets, many of them are even larger than the largest rural bank and some thrift banks. However, very little is known about their role and performance in the financial markets.

CCUs operate beyond the purview of Central Bank regulations. As a result, they have greater flexibility compared to financial intermediaries operating under Central Bank's rules. For instance, there is no minimum capital requirement for CCUs. They are not subjected to any portfolio ceiling, reserve requirement ratio and other intermediation taxes. It is in this sense that CCUs are considered as belonging to the ICMs, although they are formal institutions in the sense that they are registered with a certain government agency.

CCUs arise out of the need to meet the financial problems of their members who do not have access to the credit facilities of the formal financial institutions by pooling their resources together. Interestingly, most of our sample CCUs started as a "paluwagan". As their size grew, the need to formally organize them into a cooperative was felt. Although CCUs are registered with the Bureau of Cooperatives Development (BCOD), this has by no means reduced their flexibility, the reason being that BCOD does not impose Central Bank-like regulations.

Being legal and formal institutions, CCUs have their own set of internally-generated regulations. But most of these are designed to serve the interest of their members. For example, collection of deposits and loan repayments may be done outside the premises of the CCU office. Office hours are held when members need most the services of CCU. Loan repayment schemes are made to coincide with the cash flow of members. Emphasis on cash flow rather than assets of members is perhaps the main reason why CCU is popular among non-wealthy individuals/entrepreneurs. In the case of market-based CCUs, the daily repayment scheme is patterned after that of moneylenders. Even with those internally-generated regulations, so much flexibility is still exercised by CCUs.

The growth of the sample CCUs has been phenomenal. All of them are found to be financially stable. A greater proportion of their funds still come from fixed deposits. CCUs have yet to explore the potential of raising savings and time deposits. This may not be difficult since some of them have already shown modest success in this regard. Adjustment in certain policies, such as interest rate and loan ceiling needs to be done to encourage members to save more in the CCU.

The performance of sample CCUs in the most recent past has been found to be better compared with the banking system. While the real assets of the banking system had been shrinking during the period 1984 to 1986, those of the sample CCUs had been rising at a faster pace. The growth in the real assets of CCUs is attributed to the increase in both the membership and the contribution per member. It seems that CCUs are less vulnerable to the effects of the general economic crisis than banks. Reciprocity makes CCUs less exposed to a run on deposits which the banking system suffered during the crisis period. Also, the dependence of banks on government subsidies and special rediscounting privileges, which CCUs did not enjoy, exacted a toll on them when such were withdrawn starting in 1984.

There is a weak linkage between banks and CCUs. None of the sample CCUs ever borrowed from banks. CCUs treat banks mainly as repository for their excess funds. But only a small portion of their total funds are deposited with banks since most of them are lent out to their members. CCUs do not regard banks as competitors especially in the credit market, the reason being that they serve entirely different clientele. CCUs cater mainly to households and small entrepreneurs not being accommodated by banks.

In terms of determining the savings deposit rates, CCUs treat banks as the market leaders. Accordingly, they make an effort to align their savings deposit rates with those offered by banks. However, records show that most of the sample CCUs had deposit rates lower than the average deposit rate given by banks during the period 1982 to 1986. There was a reversal in 1987 when banks reduced their savings deposit rate to about 4 percent per annum while CCUs maintained their rates in the previous year.

CCUs appear to be charging lower rates for their loans compared to banks. However, when we take into account the additional charges and the fact that CCUs deduct the interest payments in advance, we could not find any substantial difference between the lending rates of CCUs and banks during normal times. Perhaps, this is one area where CCUs can make some improvements. Instead of hiding a portion of the effective lending rates in the form of additional charges, CCU should reflect already these charges in their quoted rates. This could help their members make proper decision. One should note though that CCUs accommodate small loans, while banks do not.

An interesting contrast we found between banks and CCUs is that the former's lending rate is adjusted in accordance with the market condition while that of the latter is fairly rigid. This is one area where CCUs exercise less flexibility. However, there are reasons for assuming such behavior. One is that CCUs are usually borrower-dominated. The other is that CCU members are more sensitive to non-price factors, such as accessibility and reciprocity, than to interest rate levels and changes.

The information we gathered from members of CCUs are quite revealing. CCU members consider credit unions primarily as an economic organization, not as a social organization as most people suggest. The savings they have with their respective credit unions are not an insignificant amount. As of the date of the interview, their fixed deposits averaged ₱9,144. About 56 percent of the respondents have savings deposits with the CCUs which averaged ₱13,301. Their last borrowings from CCUs averaged ₱21,760, which is about twice their average fixed deposits. The loans they obtained from CCUs were used for various purposes, but a substantial part of them were used for augmenting the operating capital of their small family-owned businesses. Loans from their CCUs were released very quickly.

Apart from the CCUs, the respondents also save with banks and "paluwagan". More than half of the respondents, especially the relatively well-off, have deposits with banks, while 27 percent are members of a "paluwagan". Apart from diversify their savings, CCU members may have been discouraged from plac more of their savings with their CCUs because of certain internally-generated regulations. Ceiling on loans is one example. Also, some CCUs do not offer savings and time deposits. These are areas which must be re-examined more closely by CCUs in order to tap more savings from their members and effectively compete with banks.

CCU members have other sources of credit other than the CCUs. The most popular ones are friends/relatives/neighbors and traders/suppliers. Interestingly, onl from moneylenders between January and September 1987. Their access to CCU, friends/relatives/neighbors and traders/suppliers may have lessened the need to borrow from moneylenders. Despite the fact that more than half of the respondents have savings with banks, only four of them availed of the loans from banks. This asymmetric access to the services of banks is not uncommon especially among households and small entrepreneurs.

CCU members are not only savers and borrowers; they are also lenders. Twenty-nine (29) percent of the respondents lent to their friends/neighbors/relatives during the period January to September 1987, while 45 percent of them extended consumer loans to their customers during the same period.

Our findings with regard to the saving, borrowing, and lending behavior of CCU members suggest that they are active participants in the ICMs and that their degree of participation is very significant.

The overall results demonstrate the important role played by CCUs in the ICMs. They have provided savers and small borrowers who are not accommodated by the banking system with an alternative mode of saving and source of credit that fits well with their financial capacity. CCUs' low transaction costs have enabled them to provide financial services to small savers and borrowers.

The sample CCUs have performed well without government intervention and subsidies, and without access to the rediscounting window of the Central Bank. Many large CCUs like the San Dionisio Credit Union and some credit unions belonging to the Philippine Federation of Credit Cooperatives, Inc. (PFCCI) which were not included in the study have performed similarly. Their size and impressive performance suggest that they are an important segment in the ICMs and bear watching now and in the near future.

Without being regulated, CCUs are likely to introduce more innovations to meet the rapidly growing demand for their services. Lately, some federations, including NAMVESCO PFCCI and NATCCO, have devised interlending schemes, or central liquidity fund. Member credit unions contribute a certain amount to this fund, which is, in turn, lent by the federation to their contributing member credit unions. With this scheme, surplus credit unions would have an outlet for their surplus funds instead of depositing them with banks, while deficit credit unions or those experiencing sudden increase in the demand for credit can immediately access external funds without resorting to credit rationing. The mechanism has yet to be perfected, and the pricing of such services needs to be improved.

CCUs usually place their surplus funds with banks. This is the only way by which they are linked with the formal financial institutions. With the interlending scheme, this linkage will be severely weakened. Some banks are currently devising schemes to strengthen the linkage between them and the CCUs. One scheme being seriously considered is that a bank provides wholesale credit to federations, which, in turn, retail them to member CCUs. This is meant to exploit the comparative advantage of the two institutions. Thus, banks will be indirectly lending to small borrowers. Those federations which have already an inter-lending program should find less difficulty in adopting this scheme. However, this scheme needs some finetuning of the internal policies of CCUs.

Without being subsidized, CCUs are going to continue growing and maintain their stability. The thought that one borrows the deposits of other members reduces the incentive to default. This is similar to the stable rural banks we found which depend heavily on mobilized funds rather than on cheap government funds.

The new constitution has enshrined the cooperative movement and has explicitly stated in several sections the need to develop it. Perhaps, the findings of this study can provide some lessons to policymakers. In particular, it has been shown that the patience, strong determination and sincerity of the leaders/ founding members count a lot in successfully developing a cooperative. Leaders with such quality can easily elicit genuine participation from members. However, such individuals are rare birds. Conscious effort should therefore be made to provide the proper environment for others to develop their leadership potential. It is important to recognize that this process will take sometime. Definitely, good laws and subsidies cannot substitute for good leaders, nor shorten the process of developing good leaders.

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APPENDIX

GNP Deflators and Inflation Rates, 1982 - 1986

Year	GNP Deflator (Base: 1972)	Inflation Rate (%)
1982	3.439	10.2
1983	3.840	10.0
1984	5.754	50.3
1985	6.774	23.1
1986	6.895	0.8

Source: NEDA, Statistical Yearbook, 1987.