A STUDY OF THE OPERATIONS AND PERFORMANCE OF SELECTED CREDIT COOPERATIVES IN THE PHILIPPINES

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I. INTRODUCTION

A. *The Credit Cooperative Movement in the Philippines*

Past monetary and credit policies have been biased against informal lenders and informal lending practices. Despite this, a segment within the informal credit market (ICM) continued to show dynamism in mobilizing resources from savers and in channeling credit to small borrowers in the rural and urban areas. Even during the economic crisis of 1983-'84, this segment of the ICM displayed remarkable resilience by recovering faster amidst the failures of other financial institutions. This segment is the network of credit cooperatives, a sub-system within the cooperative movement.

Credit cooperatives are generally believed to be the most successful financial institutions operating outside Central Bank control. They perform financial intermediation function just like the banking institutions, but since they are not covered by Central Bank regulations, they have greater flexibility in carrying out savings mobilization and lending functions, hence the term *informal financial intermediary*.[1] However, under the cooperative laws enacted recently, the operations of the credit cooperatives will be covered by the Cooperative Code of the Philippines and supervised by the Cooperative Development Authority.[2] This raises a question of how the new cooperative code will affect the future of credit cooperatives in particular, and the cooperative movement in general.

The development of credit cooperatives in the country is interesting. Many of them started with a handful of members who pooled their meager resources to address their financial problems. Some of

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1. See Lamberte and Balbosa (1988) for a more detailed discussion on the criteria for determining which institutions or activities belong to the informal financial market.

2. See Republic Act Numbers 6938 and 6939.

them even started as informal associations (i.e., damayan, paluwagan, etc.) with a simple objective of collectively looking for means to ease the financial difficulties of individual members.[3] But years of nurturing collective efforts and of demonstrating capability to serve the common interests of their members enabled these credit cooperatives to expand their sphere of influence in communities and institutions and, consequently, to inspire membership from different income groups. Not only did they expand in terms of membership, physical assets, and capital, some of them have diversified their activities (i.e., branched into consumer cooperatives, etc.) to respond to the changing demands of their members. Even more interesting is that the creation and growth of the majority of these credit cooperatives have not been fueled by the infusion of external funds. They depended solely on internally generated capital to sustain operations and enhance their viability as financial intermediaries. In sharp contrast, many rural banks, despite heavy subsidy, collapsed and had to be rehabilitated by the government.

All these have given credit cooperatives a new image as an important economic entity in the community. The success of many credit cooperatives is now beginning to challenge the old impression about the cooperative movement which, in the 1970s, suffered initial organizational errors, resulting in the failures of several government-initiated cooperatives. The errors were partly due to lack of coordination among primary cooperatives. To avoid past mistakes, some credit cooperatives have sought to strengthen inter-cooperative linkages to promote the sharing of technical expertise and even surplus financial resources among themselves. Thus, there now exists a number of secondary (provincial) and tertiary (regional) associations/federations of credit cooperatives which oversee wider coordination among primary cooperatives.

With its viability to supply the much-needed credit in the countryside, the credit cooperative subsystem has inevitably gained the status of an economic force capable of stimulating progress. In fact, some small enterprises which encountered difficulty in obtaining credit from formal financial institutions have turned to credit cooperatives for their financial needs. A number of credit cooperatives have also began to be tapped as conduits for loans to specific borrowers, in line with the previous policy of countryside development through infusion of external funds, including funds from non-government organizations (NGOs) and government agencies. Among the familiar sources of external funds for credit cooperatives are the Philippine Business for Social Progress (PBSP), Department of Trade and Industry, Department of Agriculture, Land Bank of the Philippines, and other national and local organizations. However, credit cooperatives do not direct their loanable funds to specific sectors of the economy. Their loan portfolio can be as diverse as the economic activities of their members.

Credit cooperatives have also been successful in mobilizing deposits, especially among low-income individuals who are generally discouraged from saving in banks by the minimum amount of

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3. A damayan is a mutual self-help group in which members turn in equal amounts of money to create a common fund known as the Damayan Trust Fund. It extends medical and funeral assistance among its members through contributions from the said fund. A Damayan Trust Fund exists in some credit cooperatives where all of the damayan members are also cooperative members. However, not all credit cooperative members may be members of the Damayan Trust Fund. A paluwagan is the Philippine version of a ROSCA (Lamberte and Bunda 1988).

deposits required and by the relatively high transaction costs associated with smaller deposits. They have effectively provided low-cost alternative saving instruments for low-income depositors. However, their deposit-taking function has limitations. For one, some of them do not yet offer savings and time deposit instruments, which limits a member's investment choices. This limitation could pose a constraint for the future growth of credit cooperatives into bigger financial institutions. But on the whole, their success in mobilizing deposits has, over the years, basically sustained their growth in terms of membership and physical assets.

One of the concerns of the present development strategy of the government is to mobilize the NGOs, cooperatives, and other self-help groups to promote livelihood and employment projects especially in indigenous areas. Specifically, the government, through its special credit programs has already started lending to target sectors, with NGOs and cooperatives as conduits.[4] Within the cooperative movement, the credit cooperatives have been eyed as effective conduits of external funds since they possess some general features of a banking institution. Thus, to determine whether or not they can be mobilized effectively as credit conduits, an in-depth understanding of credit cooperative behavior and performance is necessary.

B. *Objectives and Scope of the Study*

This study attempts to provide an adequate understanding of what a credit cooperative is, in terms of operations and policies, financial performance, and membership. Specifically, the major objectives of the study are:

a. to determine the effectiveness of credit cooperatives in meeting the needs of their members and, where applicable, to suggest ways and means to improve services; and
b. to identify possible management financial weaknesses in their operations.

Thus, the analysis is divided into three major groupings:

1. Operations and Policies

a. the policies and practices associated with the savings and lending activities of credit cooperatives;
b. the degree of flexibility they adopt in implementing credit cooperative rules and regulations;
c. the issues and problems encountered in their regular operations, and the way to handle them;
d. their relationship with other savings and credit institutions, both formal and informal, and the extent of competition among themselves and with other institutions of similar functions; and
e. the relationship and/or affiliations of primary credit cooperatives with associations or federations.

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4. See Lamberte (1990).

2. Financial Performance

a. the growth performance and patterns of credit cooperatives; and
b. the problems and constraints in their growth process.

3. Membership

a. the overall profile and characteristics of credit cooperative members;
b. the saving and borrowing behavior of members;
c. the extent of membership participation in cooperative activities;
d. the lending behavior of members; and
e. the members' level of awareness about cooperative issues and related matters.

Included in the third major grouping is an estimation of the demand for credit cooperative fixed deposits that helps explain the saving behavior of members.

Earlier studies on credit cooperatives were conducted by Lamberte and Balbosa (1988), Lamberte (1988), and Lamberte, Relampagos, and Graham (1990). The most recent study focused on the financial performance and membership aspects of the eight credit cooperatives in the context of the rural sector, particularly in Luzon area.

In this current study, 12 credit cooperatives with diverse characteristics were included in the survey. They were chosen based on broad regional groupings. Five of them were from Luzon (with two operating in Metro Manila), three from the Visayas, and four from Mindanao. According to types of operation, eight of them were community-based (with seven non-sectarian and one parish-based), three were institution-based, and one was market vendor-based. Table 1 shows the listing of the 12 cooperatives by type and their location. Most of them operate in the leading urban centers of the country.

The survey is composed of three parts. The first is the manager/officer portion which explores the management aspect of credit cooperative operations. The second deals with the financial statements and other quantitative indicators culled from the records of these cooperatives. The third deals with the membership aspect of the survey.

C. *Data Collection*

1. Manager/Officer Portion

An interview schedule was administered to the managers/ officers of the 12 credit cooperatives, though additional information were obtained from the Board of Directors. This part explored the management aspect, including the policies and practices of these cooperatives. The managers/officers were visited during the period from November 1989 to February 1990.

Table 1

LIST OF CREDIT COOPERATIVES, BY TYPE

Type/Name	Location
A. Non-Sectarian Community Based	
1. Tabuk Credit Cooperative, Inc.	Tabuk, Kalinga-Apayao
2. St. Martin of Tours Kilusang Bayan sa Pagpapautang, Inc.	Bocaue, Bulacan
3. Our Lady of Grace HNS Credit Cooperative, Inc.	Caloocan City, Metro Manila
4. Gen. Mariano Alvarez Credit Cooperative, Inc.	GMA, Cavite
5. St. Isidore's Credit Cooperative, Inc.	McArthur, Leyte
6. First Community Credit Cooperative, Inc.	Cagayan de Oro City, Mis. Or.
7. Notre Dame of Bongao Integrated Cooperative, Inc.	Bongao, Tawi-Tawi
B. Parish Community Based	
8. Paco Credit Cooperative, Inc.	Paco, Manila
C. Institution Based	
9. Bacolod City Public School Teachers' Credit Coop., Inc.	Bacolod City, Negros Occ.
10. San Miguel Corp. Mandaue Brewery Employees Cooperative Credit Union, Inc.	Mandaue City, Cebu
11. Mindanao State University-Iligan Institute of Technology Employees Cooperative, Inc.	Iligan City, Lanao del Norte
D. Market Vendor Based	
12. Filipino Merchants' Credit Cooperative, Inc.	Davao City, Davao del Sur

2. Financial Statements and Other Quantitative Indicators

The balance sheets and income statements from 1984 to 1988 were obtained during visits to each cooperative. The allocation of net income or net savings was also obtained during interviews with managers. Some of the forms containing quantitative information were sent after the interviews.

3. Membership Portion

A separate survey questionnaire was administered by the field interviewers to sample member-respondents. There were originally 300 member-respondents chosen out of some 30,331 active and inactive credit cooperative members. They were allocated proportionately to the size of each credit cooperative and were selected using simple random sampling technique. However, only 227 of the respondents completed the survey instrument. The survey questionnaires were personally administered by the field officers of the Philippine Federation of Credit Cooperatives, Inc. (PFCCI) from November 1989 to May 1990. Table 2 shows the sample respondents per credit cooperative.

This paper is divided into seven chapters. The next chapter describes the characteristics, policies, and practices—as obtained from the manager questionnaires—of the 12 credit cooperatives. Chapter III analyzes their financial status, including their growth performance and patterns. Chapter IV presents the socioeconomic profile of credit cooperative members, followed by a discussion of their saving and borrowing behavior in Chapter V. Chapter VI discusses the empirical results of the analysis of the demand for fixed deposits and some issues pertaining to the level of awareness of credit cooperative members. The last chapter presents the summary, conclusion, and policy recommendations of the study.

II. BACKGROUND OF THE TWELVE CREDIT COOPERATIVES

A. *Characteristics*

Most of the credit cooperatives in this study were created through the initiatives of civic-minded individuals in the local community, typically through joint efforts by parish priests and local leaders seeking to organize a cooperative that would address the livelihood, financial, and other problems of the community. Only one credit cooperative started as an informal association known as "Damayan." The rest operated as credit cooperatives from the beginning of their establishment. Three of them were established before 1970, while the majority between 1970-1985. All but one are registered with the Bureau of Cooperative Development (BCOD), now the Cooperative Development Authority (CDA).

The credit cooperatives operate in their respective locality with an average number of 65,273 voters.[5]

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5. Minimum age of qualified voters is 18 years old.

Table 2

SAMPLE CREDIT COOPERATIVE MEMBERS

Credit Cooperative	Total Number of Members1/	Targeted Sample Size	Actual (Completed) Sample Size
TABUK	2570 (9.0)	25 (9.0)	25
SMT	5153 (17.0)	51 (17.0)	51
GMA	674 (2.0)	7 (2.0)	10
OUR LADY	4610 (15.0)	45 (15.0)	0
PACO	404 (1.0)	4 (1.0)	0
BCPST	2011 (7.0)	20 (7.0)	20
SMC-MAND	1281 (4.0)	13 (4.0)	1
ISIDORE	907 (3.0)	10 (3.0)	8
FICCO	8168 (27.0)	80 (27.0)	68
MSU-IIT	1210 (4.0)	12 (4.0)	12
FIL-MER	2474 (8.0)	24 (8.0)	24
BONGAO	869 (3.0)	9 (3.0)	8
Total	30331	300	227

1/ As provided by the field officers of PFCCI.
Figures in parentheses are percent to total.

B. *Operations*

Of the 12 credit cooperatives, seven do not own the building where they hold office. However, only four of them are paying rent; the rest are occupying the building free of charge since their operations and services are directly linked to other institutions like schools, parishes, and offices. On the other hand, the credit cooperatives which own their office buildings are non-sectarian community-based, maintaining independent operations.

Like any other office or business entity, these credit cooperatives have fixed office hours, in most cases from 8 to 5 or 9 to 6, with the usual noon breaks on weekdays, and morning sessions on Saturdays.[6] Four of the cooperatives, however, extend their official time up to Saturday afternoon. Only one does not observe a regular shift as its office hours are adjusted based on the availability of the cooperative staff who work on a part-time basis.

Several of the credit cooperatives are flexible in observing officer hours. They try to accommodate special cases, such as 1) depositors from distant places who try to beat the closing time for transactions; 2) borrowers whose loans have to be processed a few hours before closing time because of emergency reasons (i.e., accidents, hospitalization, etc.); and 3) members who have to transact business during noon breaks or a few minutes after closing time because they could not leave their work (e.g., market vendors who could not leave their stalls, office workers who could not absent from work, etc.). However, this flexibility had to be exercised discretely to prevent abuse by the general membership. Normally, the credit cooperatives do not impose additional charges for transactions outside the official time, which emphasizes their service-oriented philosophy.

Some of the credit cooperatives conduct official transactions outside their office premises. This is especially true among those whose significant proportion of general membership consists of market vendors. Market vendor-based credit cooperatives assign a collector in the marketplace where he/she accepts the individual deposits and loan payments of vendor-members.

C. *Share Capital Subscription*

All the 12 credit cooperatives require their members to subscribe minimum fixed shares, or their equivalent in peso fixed deposits. The peso value of share capital varies among the cooperatives, from P10 to P100 per share. It appears that open-type credit cooperatives (i.e., community- and market-based) have higher values per share than the closed-type ones (i.e., institution- or employee-based). Three credit cooperatives do not translate the value of fixed deposits in terms of number of shares subscribed.

Six credit cooperatives require their members to subscribe to a minimum of five shares. Only one requires a minimum capital subscription of 50 shares. The par value of one share of stock is P100 in the case of the six credit cooperatives, while the rest charge lower than P100 per share (Table 3). Most of them do not impose a ceiling or maximum number of shares per member. The bigger the amount of

6. This type of office schedule is prevalent among private offices.

Table 3

MINIMUM AND MAXIMUM SHARE CAPITAL SUBSCRIPTION

Credit Cooperative	Minimum		Maximum	
	No. of Shares	Total Value (P)	No. of Shares	Total Value (P)
TABUK	n.a.	500	n.a.	n.a.
FIL-MER	5	500	200	20,000
SMT	5	250	n.a.	n.a.
BCPST	n.a.	500	n.a.	n.a.
PACO	50	1,000 1/	n.a.	n.a.
GMA	5	500	150	15,000
OUR LADY	5	500	n.a.	n.a.
SMC-MAND	n.a.	25	n.a.	n.a.
ISIDORE	5	500	n.a.	n.a.
FICCO	10	1,000	n.a.	2/
MSU-IIT	6	120	n.a.	n.a.
BONGAO	5	200	50	2,000

n.a. = not applicable

1/ For new members, P500.00 for old members

2/ Not more than 20 percent of total assets of the cooperative

Source: Credit Cooperative Managers Survey, 1989.

fixed deposit of a member, the bigger the amount of money he/she can borrow, and he/she receives more dividends at the end of the year. Unlike the stockholders of typical corporations, the voting power of a credit cooperative members is independent of their share capital subscription.

As stated in the by-laws of these credit cooperatives, a member is required to put up an equity in the form of fixed deposits before he/she can avail of the cooperative borrowing privileges. Not all of them, however, require their members to put up the entire minimum fixed deposits. Five credit cooperatives allow their members to borrow even if the latter have paid less than the minimum share capital required (Table 4). The members, of course, have to satisfy other requirements, such as attending a membership training seminar, payment of registration fees, etc. Further, in some credit cooperatives, members have to wait for a certain time period after paying their minimum paid-up share or fixed deposit before their loan application is entertained. In one credit cooperative, the waiting time takes three months.

The credit cooperatives made use mainly of the loan retention policy and promotional campaigns, such as raffles, to encourage members to increase their paid-up share capital. Other initiatives taken to increase the members' fixed deposits include retention of a certain portion of dividends and patronage refunds, and some kind of forced saving plan.

D. *Savings Mobilization*

Eleven credit cooperatives accept savings deposits from members. It appears, however, that only three of them actively mobilize savings deposits. Interest rates paid on savings deposits vary from four to nine percent per annum (Table 5), which are generally higher than the prevailing bank rates. This is not surprising because most of the credit cooperatives use the interest rate on savings deposit of nearby banks as their reference rate and add a premium to it to attract deposits. In fact, seven of them are closely monitoring the bank interest rate, and either adopt it or offer a rate that is higher by 0.5 to 2.5 percentage points. Others base their interest rates on the income performance of the cooperative.

In most cases, those directly involved in determining the interest rate on savings deposit are the cashier/treasurer and the board of directors of the credit cooperative. The cashier/ treasurer monitors the bank interest rate and disseminates the information to the board members for discussion. The decision is announced to the general membership through board resolution.

Most credit cooperatives review regularly their interest rates on savings deposit. The frequency of review varies between cooperatives—monthly, quarterly, semi-annually, annually, or once every two years. Other credit cooperatives review their interest rates only when declared by the authorities concerned, or when there is a demand from members. All these suggest that credit cooperatives follow a flexible interest rate policy.

The credit cooperatives admit, that among the factors that motivate members to open savings deposit account in the cooperative, the interest rate is second only in importance to the accessibility of the cooperative office and to enhance access to borrowing services. Other important factors include safety of deposits and the low cost in making a deposit, which rank third and fourth, respectively.

Table 4
MINIMUM PAID-UP SHARE CAPITAL

Credit Cooperative	%
TABUK	100
FIL-MER	25
SMT	100
BCPST	50
PACO	100
GMA	100
OURLADY	25
SMC-MAND	n.d.
ISIDORE	25
FICCO	10
MSU-IIT	100
BONGAO	100
Average	67
Standard Deviation	39

n.d. = no data available.
Source: Credit Cooperative Manager's Survey, 1989.

Table 5
INTEREST RATE ON SAVINGS DEPOSIT
Credit Cooperative vs. Bank Rate, 1988
(Percent Per Annum)

Credit Cooperative	Credit Cooperative Rate	Observed Bank Rate
TABUK	7.5	6.5
FIL-MER	6.0	5.0
SMT	8.5	6.0
BCPST	5.0	5.0
PACO	5.0	4.0
GMA	9.0	8.5
OURLADY	4.0	4.5
SMC-MAND	n.a.	n.a.
ISIDORE	4.0	n.a.
FICCO	6.0	4.5
MSU-IIT	6.0	5.0
BONGAO	5.0	5.0
Average	6.0	5.4
Standard Deviation	1.69	1.31

n.a. = not applicable
Source: Credit Cooperative Managers Survey, 1989.

Six of the credit cooperatives do not resort to any promotional programs, gimmicks, or incentives to encourage members to increase their savings and fixed deposits. Those who do have launched raffle draws and a beauty contest. Others have implemented savings programs, such as the "Tipid Movement" and the "Forced Saving Plan." Nonetheless, the twelve cooperatives continue to educate their members on the advantages of saving in the cooperative, such as the more attractive interest earnings due to the absence of withholding tax on interest income, increase of borrowing privileges through bigger loan amount, and others. Another important advantage is that the credit cooperatives allow the members to withdraw their savings deposits anytime they want. This policy is adopted by ten of the credit cooperatives.

Six credit cooperatives offer time deposits. However, the volume of time deposits mobilized from members appears very minimal, and practically nil in some of them. The interest rates vary from 8 to 12 percent per annum, depending on the maturity. The procedure adopted in determining the interest rate on time deposit is similar to that of the interest rate on savings deposit. The interest rates are reviewed regularly. Some of these credit cooperatives consider their interest rates on time deposits competitive with bank rates.

E. *Lending Policies and Practices*

Lending procedures and policies are one of the important matters discussed during membership training seminars. Members have to understand and accept the lending policies and practices before they join the cooperative. The credit cooperatives normally put into writing the rules and guidelines on borrowing in order to minimize, if not eliminate, conflicts and misinterpretations of policies arising from lending transactions. Only one of the 12 sample cooperatives does not have a written lending policy.

One important policy pertains to the loan multiple or the borrowing capacity of members. Table 6 shows the absolute maximum limit per single borrower of the 12 cooperatives. It can be observed that open-type credit cooperatives tend to have higher absolute limit than closed-type ones.[7]

The determination of the maximum loanable amount varies across the credit cooperatives. Seven of them adopt a single loan multiple while the rest have several loan multiples according to certain loan factors. Among the latter, some base the multiple on loan types (i.e., providential and productive), characteristics of borrower (i.e., first time, delinquent, non-delinquent, etc.), mode of payment (i.e., daily, weekly, bi-monthly, etc.), loan maturity (i.e., short-term, medium-term, and long-term), and the amount of fixed deposit. Table 7 distinguishes credit cooperatives according to their loan multiples. The majority of those following a single loan multiple maintain a 2:1 ratio. This means that the maximum amount of loan a member can borrow is twice the value of his share capital. One credit cooperative adopts a 3:1 ratio.

On the other hand, two of the credit cooperatives using several loan multiples emphasize the characteristics of borrower in determining the loan multiple. In fact, one came up with a detailed classification of members, i.e., class A, class B, class C, and delinquent. In this cooperative, a class A

7. Closed-type credit cooperatives are the institution-based or employee-based ones.

Table 6
SINGLE BORROWER'S LIMIT

Credit Cooperative	Amount (P)
TABUK	1/
FIL-MER	40,000
SMT	100,000
BCPST	6,000
PACO	2/
GMA	30,000
OURLADY	50,000
SMC-MAND	3/
ISIDORE	4,000
FICCO	80,000
MSU-IIT	15,000
BONGAO	20,000

1/ Not more than 10 percent of the share deposits of the cooperative.
2/ Not more than 10 percent of members' equity of the cooperative for businessmen and professionals; P10,000 for vendors.
3/ Depending on the 50 percent take home pay of a member
Source: Credit Cooperative Managers Survey, 1989.

Table 7
LOAN MULTIPLES

Credit Cooperative	Type
TABUK	Single
FIL-MER	Several
SMT	Single
BCPST	Single
PACO	Several
GMA	Single
OURLADY	Several
SMC-MAND	Single
ISIDORE	Single
FICCO	Several
MSU-IIT	Several
BONGAO	Single

Source: Credit Cooperative Managers Survey, 1989.

member may borrow up to 300 percent of his/her fixed deposit, 200 percent for class B, 150 percent for class C, and 100 percent for a delinquent member. Another credit cooperative classifies borrowers into delinquent and non-delinquent payors. Two credit cooperatives offer a loan multiple of three to borrowers who pay the loan more frequently (i.e., daily basis) and to those who apply for productive loans. None of the credit cooperatives changed their loan multiples very recently.

A borrower is usually required to have a co-maker instead of a collateral. In most cases, each member is required to have a co-maker who can guarantee the loan in the event of failure of the borrower to pay. Per policy of six credit cooperatives, a co-maker can only guarantee up to 50 percent of the total loan value of the borrower. Since the loan value vis-a-vis a member's fixed deposit typically has a 2:1 ratio, the credit cooperatives require that a co-maker guarantees the other half of the loan value not covered by the borrower's fixed deposit. The majority of the credit cooperatives are flexible enough to allow the co-maker to use his/her deposit, including the obligated portion, for guaranteeing a loan. Only four credit cooperatives require their co-makers to use only the unobligated portion of their deposits for loan guarantee purposes. A few credit cooperatives may require collateral only in exceptional cases, such as: 1) the loan applied for exceeds a certain limit, usually the absolute maximum limit per single borrower; 2) a member does not have a co-maker; and 3) the loan is exorbitantly high (i.e., house financing, livelihood projects, etc.).

Most credit cooperatives impose a uniform ceiling on the amount of emergency loans and regular loans. The ceiling for emergency loans varies across credit cooperatives from P500 to P10,000 per single borrower, while the maximum absolute limit per single borrower is adopted for regular loans. Table 8 shows the current ceiling per loan type and the longest maturity period.

Three credit cooperatives avail of a special credit program of the Department of Trade and Industry-Tulong sa Tao Program (DTI-TST). The loan package, intended to finance livelihood projects of cooperative members, consists of relending schemes for individuals and groups. The loan ceiling for individual relending scheme ranges from P20,000 to P25,000 with maturities of from one to three years, while the ceiling for group relending scheme can be as much as P200,000 with a maturity of five years. Another special credit program is the Rural Agricultural Credit Financing Loan being extended by the Philippine Business for Social Progress to finance livelihood projects.

Loan interest rates charged by the cooperatives are set by the board of directors and approved by the general assembly. Some credit cooperatives align their interest rates to the prevailing lending rates of other institutions, while others offer rates lower than those offered by banks. Six credit cooperatives review their loan interest rates regularly and make adjustments when necessary. The others review their rates whenever needed. Nine credit cooperatives made upward adjustments in their interest rates after the 1983-84 economic crisis, while five adjusted during the 1988-89 period. Among the reasons mentioned for making those adjustments are: 1) cooperative lending rate is too low relative to the prevailing lending rate in the area of operation, 2) simplification of interest rate according to the mode of payment, 3) compensating for losses due to loan delinquency, 4) coping with inflation and the rising operational costs, and 5) increasing the take home loans of members.

None of the 12 credit cooperatives charge different interest rates on loans according to sizes and maturities, which is the usual practice among banks. Eight credit cooperatives use a single interest rate

Table 8

LOAN CEILINGS AND MATURITY

Credit Cooperative	Regular Loans		Emergency Loans	
	Current Ceiling (P)	Maturity Period (days)	Current Ceiling (P)	Maturity Period (days)
TABUK	1/	365	500	365
FIL-MER	40,000	365	n.a.	n.a.
SMT	100,000	1,095	5,000	150
BCPST	6,000	450	500	30
PACO	2/	270	2,000	60
GMA	30,000	450	10,000	180
OURLADY	50,000	360	n.a.	n.a.
SMC-MAND	3/	1,095	500	365
ISIDORE	n.d.	n.d.	n.d.	n.d.
FICCO	80,000	1,095	4/	365
MSU-IIT	15,000	365	300	90
BONGAO	20,000	1,277	n.a.	n.a.

n.a. = not applicable (no emergency loans)
n.d. = no data available
1/ Not more than 10 percent of fixed deposit of cooperative
2/ Not more than 10 percent of fixed deposit of cooperative for businessmen and professionals; P10,000 for vendors
3/ Based on the 50 percent take home pay of the borrowers
4/ Based on 100 percent fixed deposit of borrowers
Source: Credit Cooperative Managers Survey, 1989.

for all types of loans, while the others charge differentiated interest rates either according to loan types or to mode of payment. Those which follow the latter appear to charge lower interest rates on loans that are amortized more frequently (i.e., daily and weekly). This strategy is aimed at achieving high turn-over rate for their loanable funds. It also helps maintain the liquidity of the cooperative to accommodate more borrowers. Six credit cooperatives discount interest payments in advance, while the others charge interest payments on the remaining balance. Table 9 shows the basic lending rates charged by the 12 credit cooperatives.

Ten credit cooperatives consider their interest rates on loans competitive with bank rates. In fact, the majority of them charge interest rates at two to 15 percentage points lower than the prevailing bank lending rates in their areas of operation. On the other hand, one credit cooperative does not consider the banks as competitors because its clientele is different from that of the banks'.

Aside from the interest rates charged on loans, borrowers pay additional charges in imposed by the cooperative, such as service fees, loan application fees, filing fees, loan protection plan fees for insured loans, notarial fees, and others. It should be noted, however, that most credit cooperatives collect service fees which already include all other charges. Service fees vary from one to four percent of loan value, depending on the maturity period. In a few cases, service fees are expressed as a fixed peso amount for every one hundred pesos, or even one thousand pesos, worth of loan. Loans with longer maturities are charged higher service fees. These non-interest charges are collected in advance.

Most of the credit cooperatives are careful in maintaining the balance between the value of loans they approve and their available loanable funds. Only three of them experienced frequent shortage of loanable funds. Nevertheless, they managed to overcome the problem by: 1) drawing upon the savings deposits they held in banks, 2) preterminating their time deposits placed with banks and other short-term investments, 3) making use of the general reserve fund, 4) improving the loan collection system, 5) scheduling future loan approvals based on projected cash flow pattern, 6) continuing the membership drive, 7) massive re-education of members on loan repayment and related lending policies, and 8) securing additional funding from institutions with which the cooperative is affiliated.

The majority of credit cooperatives are strict when it comes to evaluation of loan applicants. Eight credit cooperatives require all loan applicants, including repeat borrowers with good track record, to undergo the same process of loan evaluation every time they apply for a loan. This has enabled them to closely monitor delinquent and non-delinquent borrowers. On the other hand, those credit cooperatives which do not require repeat borrowers with good track record to undergo the same loan evaluation process simply waive some of the loan application procedures. For instance, they no longer require the borrowers concerned to attend the delinquency control seminar prior to credit committee evaluation, or to pass through the credit committee for screening and evaluation of loan application. In fact, one credit cooperative waives the requirement on presenting a co-maker for a borrower with extremely good membership record.

Six credit cooperatives claimed to have rejected some loan applications in 1988. The proportion of rejected loans to total loan applications, however, was minimal. The highest rejection rate shown by one credit cooperative was only two percent. This indicates that outright rejection of a loan application

Table 9

BASIC LENDING RATES

Credit Cooperative	Interest Rate (%)
TABUK	12.0 p.a.
FIL-MER	
Daily	1.0 /mo.
Weekly	1.2 /mo.
Bi-monthly	1.5 /mo.
Monthly	1.5 /mo.
SMT	21.0 p.a.
BCPST	
Regular	12.0 p.a.
Contingency	2.0 /mo.
PACO	
Daily	12.0 p.a.
Weekly	13.0 p.a.
Bi-monthly	14.0 p.a.
Monthly	15.0 p.a.
GMA	18.0 p.a.
OURLADY	12.0 p.a.
SMC-MAND	6.25 p.a.
ISIDORE	24.0 p.a.
FICCO	
Regular	8.0 p.a.
Special Credit Program	12.0 p.a.
Appliance	11.0 p.a.
Motor Vehicle	12.0 p.a.
Petty Cash	1.0 /mo.
MSU-IIT	18.0 p.a.
BONGAO	24.0 p.a.

Source: Credit Cooperative Managers Survey, 1989.

is seldom. What usually happens is that credit cooperatives reduce the amount of loans approved or granted as penalty to borrowers who do not satisfy all the lending requirements and who are delinquent in complying with their obligations.

Aside from lending and deposit services, some credit cooperatives, through their Damayan Trust Fund, have provided members with hospitalization and death benefits. Beneficiaries of the deceased Trust Fund member automatically receive cash donations/gifts from the cooperatives as funeral assistance. However, not all cooperative members are also Trust Fund members. Nonetheless, when an ordinary cooperative members dies, his/her beneficiaries are automatically entitled to a funeral assistance through voluntary individual contributions of the general membership. Usually, the individual contribution is automatically debited to the deposit accounts of the members. Likewise, some credit cooperatives provide subsidies for hospitalization expenses of members. A few credit cooperatives offer scholarships for children of members. The scholarships cover college schooling for courses specified by the cooperative.

F. *Loan Renewals/Refinancing and Delinquency Issues*

Loan renewals and refinancing are allowed in most of the credit cooperatives. Two of them require the borrowers to pay fully their outstanding loans before their new loan applications are entertained. The loan repayment rate allowable for renewal/ refinancing varies across credit cooperatives from 50 to 80 percent (Table 10). However, these cooperatives include certain conditions in the loan renewal policy. For instance, they automatically deduct the remaining balance of the previous loan from the new loan. Some credit cooperatives require members to put up a new deposit equity as a percentage of new loan. For eight credit cooperatives, the proportion of renewals/refinancing to the total loan applications averaged 59 percent in 1988. Three credit cooperatives even had higher ratios of up to 100 percent.

In the case of the eight credit cooperatives,[8] eight borrowers who are delinquent in their payments are also given the same privilege of loan renewal/refinancing. However, two additional conditions had been imposed on delinquent borrowers who seek to renew their loans. One, they are required to attend an orientation on delinquency control and prompt payment of loans. Second, they are asked to settle all fines and overdue charges associated with loan delinquency. In six credit cooperatives, the proportion of total loan renewals with delinquent installment payments averaged 24 percent in 1988. Three of them had higher ratios of up to 50 percent. Moreover, two credit cooperatives do not allow borrowers who continue to be delinquent after the first loan renewal to renew their loans for the second time. One credit cooperative allows a delinquent borrower to renew/refinance the loan from two to three times in succession.

The average rate of delinquency considered dangerous by the credit cooperatives is 21 percent of the total value of loans outstanding. Credit cooperatives with conservative lending policies do not

8. These credit cooperatives do not have a common definition of delinquency. However, the majority of them appear to consider a loan delinquent whenever the borrower fail to pay partly or in full the loan on the contracted date. Two credit cooperatives consider a loan delinquent 30 days after the due date for scheduled amortization, while one credit cooperative classifies a loan delinquent one day after its maturity. Another credit cooperative considers a loan delinquent based on the number of months it has been in arrears for a given maturity.

Table 10

LOAN RENEWALS/REFINANCING

Credit Cooperative	Loan Repayment (%)
TABUK	50
FIL-MER	n.a.
SMT	50
BCPST	50
PACO	75
GMA	50
OURLADY	80
SMC-MAND	75
ISIDORE	n.d.
FICCO	70
MSU-IIT	70
BONGAO	n.a.

n.d. = no data available
n.a. = not applicable
Source: Credit Cooperative Managers Survey, 1989.

Table 11

POLICY INSTRUMENTS: LIQUIDITY SHORTAGE

Instrument	No. of Credit Cooperatives
1. Raising interest rates on loans	1
2. Raising service fees on loans	1
3. Lowering loan multiple	1
4. Increasing time daly in releasing loan	3
5. Borrowing from CFF interlending scheme	4
6. Borrowing from bank or other FIs	2
7. Promoting new membership	2
8. Promoting savings and time deposits through higher deposit rates	3
9. Promote more rigorous loan recovery	5
10. Introduce more stringent loan renewal terms and conditions	4
11. Reducing patronage refund and increasing interest on share capital	2
12. Increase loan retention limit	2
13. Updating of records showing cash inflows and outflows	1

Source: Credit Cooperative Managers Survey, 1989.

allow the rate of delinquency to exceed 20 percent. It appears that larger credit cooperatives have lower rate of delinquency, which suggests that they are more efficient in managing their loan portfolio. Thus, increasing the size of a credit cooperative does not necessarily lead to a loss of control of its operations. They only have to have an efficient management team and a well-functioning operational systems.

Some credit cooperatives have not been documenting the outstanding loans in arrears according to the length of time past due. This is true in the case of employee-based credit cooperatives. For them, past due loans are very minimal because repayment is done through salary deduction. Another reason why aging of loans, considered to be a time-intensive task, may not be done is that the cooperative staff might be overloaded with other regular activities (i.e., processing deposit and loan documents, etc.). Aging of loans is important in improving the management's control of operations, especially when it formulates loan collection program.

G. *Liquidity Management Issues*

Four of the credit cooperatives had experienced a temporary shortage of funds, which was mainly attributed to the following: (1) a slow turnover of loanable funds due to delays in loan repayments of some members; (2) excess of loan approvals over available funds due to failure of the cooperative to update records showing cash inflows and outflows; and (3) delays in the remittance of employee-members' regular contribution/saving to the cooperative. The third factor, however, was beyond the control of the cooperatives. In a particular credit cooperative, the liquidity shortfall was a consequence of the problem of the institution to which the cooperative is attached.

On the other hand, another four credit cooperatives experienced excess liquidity due to a slack in demand for loans resulting from a surge in the flow of deposits. The excess liquidity in some credit cooperatives was even aggravated by the inflow of funds for relending programs from funding agencies/ institutions. The rest of the credit cooperatives experienced both liquidity shortage and surplus for the past 12 months due to the same factors.

Table 11 shows the policy instruments resorted to by the credit cooperatives to adjust to a liquidity shortage. It can be observed that a number of them tend to use easy-to-implement policy instruments without necessarily going through the process of amending the cooperative by-laws or written lending policies. Moreover, the use of these policy instruments, such as promotion of more vigorous loan recovery, can be decided upon immediately by the manager alone. The two other instruments, i.e., borrowing from Central Finance Facility (CFF) and introducing more stringent loan renewal terms and conditions, normally require the approval of the Board.

On the other hand, Table 12 shows the policy instruments typically used by the credit cooperatives to solve excess liquidity. Most of them have deposited their excess liquidity in banks usually located in the same locality. Other have increased the loan multiple and reduced loan processing period to encourage more borrowings.

Table 12

POLICY INSTRUMENTS: LIQUIDITY SURPLUS

Instruments	No. of Credit Cooperatives
1. Lowering interest rates on loans	2
2. Lowering service fees on loans	2
3. Raising loan multiple	4
4. Reducing loan processing/releasing period	4
5. Relaxing loan renewal terms and conditions	2
6. Depositing excess in CFF	2
7. Depositing excess in bank or other FIs	6
8. Lowering interest on savings and time deposits	2
9. Increasing patronage refund (and lowering dividends on share capital)	3
10. Reducing effort to recruit new members	0
11. Reducing loan retention limit	1

Source: Credit Cooperative Managers Survey, 1989.

H. *Interlending Scheme*

The interlending scheme can be generated viably among credit cooperatives given the heterogeneity in their cash flow patterns. Seven credit cooperatives are currently shareholders in the CFF.[9] Two of them became shareholders only in 1989. As of December 1988, only one credit cooperative made a substantial investment of over P200,000 in the CFF; the rest have investments of P5,000 and below. Not all credit cooperatives earned dividends on their investments with the CFF in 1988. Some of them obtained dividends in 1989.

Of the seven credit cooperatives, only one availed of the CFF's lending facility. This was the same cooperative which had substantial investment in CFF. It borrowed three times, and the amount of the most recent loan was almost twice the value of its investment in CFF. The interest was 12 percent for one year maturity.

There are several reasons why credit cooperatives have placed their excess reserves in CFF even if some of them have not borrowed from the CFF. Among these are: (1) the credit cooperatives wanted to promote the spirit of cooperativism; (2) the CFF is considered stable; (3) investment in CFF is more profitable than in banks; and (4) the credit cooperative wanted to strengthen their relationship with the PFCCI.

On the other hand, among the reasons why some credit cooperatives remained not affiliated with CFF include: (1) the cooperative is already affiliated with another federation; (2) the cooperative is not interested in investing in CFF; (3) the cooperative does not know anything about CFF; (4) dues to be paid are quite high; and (5) the cooperative wants to strengthen and stabilize its operations before joining any federation.

I. *Relationship with Banks*

The relationship of credit cooperatives with banks is straightforward. Banks serve as depository of credit cooperative funds. Aside from placing savings and time deposits in the banks, these cooperatives also obtain checking account services from their depository banks. A number of them make use of their checking deposits to encash the checks they issue to their members. Loans in big amount are normally released in the form of a check instead of cash. This way, banks are able to help the management monitor the flow of cash in the cooperative. Moreover, one credit cooperative which accepts pieces of jewelry as collateral also deposits them in its neighboring bank.[10]

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9. A Central Finance Facility (CFF) is a pool of funds/resources of PFCCI-affiliated primary credit cooperatives. These cooperatives can become stockholders in CFF upon payment of the minimum share capital subscription of P5,000, among other requirements (i.e., registration, etc.). Should financial needs arise, a primary credit cooperative can borrow three times (3X) the value of its share capital in CFF, provided it has been a stockholder for at least two months, at one percent per month or 12 percent per annum. There is no ceiling on loans that a primary cooperative can obtain from the CFF as long as the loan multiple is observed. The primary credit cooperatives will receive at the end of the year dividends on their investments, depending on the net income generated by the CFF.

10. Some banks in the country are allowed by the Central Bank to provide depository boxes to their clients for a certain fee.

All the credit cooperatives have deposit balances in neighboring banks. Some of them even had two to three accounts in different banks. Their savings deposits ranged from P5,000 to P2.69 million, while time deposits ranged between P0.5 million and P6.83 million as of the period of survey. The average savings deposits with banks of 10 credit cooperatives is P755,239, with an average interest rate of 5.32 percent per annum, while the average time deposits of six credit cooperatives is P2,852,240, with an average interest rate of 16.42 percent per annum. The interest rates on time deposits varied according to maturity period. These are potential resources of the credit cooperatives which they could use for interlending scheme.

J. *Relationship with Federation and Other Institutions*

Ten of the credit cooperatives are affiliated with the PFCCI. Most of them became affiliated in 1988 and 1989. Some of them are also affiliated with other local federations like the Northern Luzon Cooperatives Development Center (NLCDC), Bulacan Federation of Credit Cooperatives (BFCC), Regional Federation of Credit Cooperatives-Region III (RFCC-Region III), Federation of Credit Cooperatives of Negros Occidental (FCCNO), Regional Cooperatives Union (RCU), and Mindanao Alliance for Self-Help Society-Southern Philippine Educational Center for Cooperatives (MASS-SPECC) (Table 13). These federations provide training services to the management staff, members, and officers of the primary cooperatives. Specific training is given to managers, accountants, and bookkeepers. Leadership training is given to credit cooperative officers. These training courses and seminars are either partly or fully funded by the federations. The primary cooperatives normally provide the venue for locally conducted seminars.

The credit cooperatives pay annual dues to the federations, either in fixed amount or depending on the size of cooperative membership. In the case of PFCCI, the annual contribution is equivalent to P5 for every cooperative member, but not exceeding P10,000 per credit cooperative.

Only two credit cooperatives have received financial grants/ aid from other institutions and agencies. These institutions include the Philippine Business for Social Progress (PBSP), which provided financial support for small livelihood projects, and the Bureau of Rural Workers of the Department of Labor and Employment (BRW-DOLE), which provided technical training on farming and related rural activities. The amount of financial assistance varied from P38,086 to P52,000. One credit cooperative received non-monetary/non-financial assistance, which included livelihood training conducted by the Department of Agriculture, entrepreneurial skills training given by the National Manpower and Youth Council, and farmers' organization and federation training given by the PBSP.

Table 13

CREDIT COOPERATIVE AFFILIATIONS
(as of 1989)

Credit Cooperative	Location	No. of Years of Application
TABUK		
NLCDC	Baguio	3
PFCCI	Manila	1
FIL-MER		
PFCCI	Manila	1
SMT		
BFCC	Bulacan	2
PFCCI	Manila	1
RFCC	Angeles	2
BCPST		
FCCNO	Bacolod	10
PACO		
PFCCI	Manila	3
GMA		
PFCCI	Manila	5 1/2
OURLADY		
PFCCI	Manila	3
SMC-MAND		
PFCCI	Manila	3
ISIDORE		n.d.
FICCO		
PFCCI	Manila	2
MSU-IIT		
PFCCI	Manila	1
RCU	Cotabato	n.d.
MASS-SPECC	Cagayan de Oro	n.d.
BONGAO		
PFCCI	Manila	1
MASS-SPECC	Cagayan de Oro	12

n.d. = no data available
Source: Credit Cooperative Managers Survey, 1989.

III. FINANCIAL STATUS OF THE 12 CREDIT COOPERATIVES

This section analyzes the performance of the 12 credit cooperatives. The analysis focuses on quantitative indicators culled from their financial statements. The first part discusses the growth performance, while the second part discusses the operations and problems encountered in the growth process.

A. *Growth Performance*

All 12 credit cooperatives have noted an impressive expansion in their total nominal assets, at an average annual rate of 37 percent during the 1984-1988 period (Table 14). In real terms, however, only six of them were able to sustain positive annual growth rates in total assets throughout the period.[11] Four of them were severely hit by high inflation in 1984-1985, but successfully recovered in 1986 and sustained their growth in the succeeding years. The average annual real growth rate of the 12 cooperatives was 26 percent, with eight of them growing at an average rate of 20 percent annually in real terms. This impressive growth performance reflects their ability to weather the 1983-1984 economic crisis and the management's ability to resolve internal problems to preserve the members' loyalty and confidence in the cooperative.

The increase in fixed deposits, which rose by an average of 37 percent during the period, mainly accounted for the growth in total resources of the credit cooperatives.[12] This impressive nominal growth rate in fixed deposits can be attributed to several reasons. First, there was a continuous expansion in the membership of these credit cooperatives, especially among the market vendor- and community-based ones. Second, some of the credit cooperatives have launched savings mobilization programs and promotional gimmicks, including raffle draws and beauty contests, to expand share capital subscription of members. In the case of institution-based credit cooperatives, a "Forced Saving Plan" was implemented requiring employee-members to contribute monthly for fixed and savings deposits. This was done by automatically deducting a certain amount from their payroll. Third, the cooperatives have imposed a loan retention limit from one to five percent per loan transaction to increase the borrower's fixed deposit. Five credit cooperatives had loan retention limit of up to five percent. Fourth, some credit cooperatives retained a certain percentage of the member's dividend or interest on share capital and added it to his/her fixed deposit. One credit cooperative retained at least 25 percent of the annual dividends of members. In some cases, the patronage refund was included in the computation of the retention.

Even though fixed deposits have expanded in this period, it appears that their share to total resources remained relatively stable for most of the credit cooperatives, and even declined for some. On the average, the proportion of fixed deposits to total resources was 57 percent in 1984-1988. This implies that the growth of nominal assets was not solely sustained by an increase in fixed deposits. In fact, four of the credit cooperatives had average ratios lower than 50 percent.

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11. The real growth rates were computed using the 1972 GNP deflator.
12. Total resources = total liabilities + total funds + members' equity = total assets.

Table 14

TOTAL ASSETS
NOMINAL vs. REAL (1972)
1984 - 1988

	1984		1985		1986		1987		1988	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
BCPST	3,006,280.28	522,432.49	3,156,102.90	463,940.38	3,297,951.57	480,199.36	3,669,063.67	494,506.30	4,056,648.06	498,177.94
BONGAD	849,877.85	147,692.08	914,756.43	134,467.24	1,055,841.70	153,736.19	1,470,192.85	198,148.54	1,959,736.46	240,666.05
FICCCO	10,097,347.93	1,754,720.08	11,512,504.52	1,692,313.56	14,970,002.16	2,179,712.25	19,953,573.69	2,689,287.73	31,517,450.90	3,870,510.50
FIL-MER	n.d.	n.d.	3,323,024.73	488,477.53	4,177,386.69	608,249.81	5,425,979.49	731,298.58	7,268,865.02	892,655.26
GMA	673,190.38	116,987.27	782,850.34	115,077.33	979,657.56	142,643.37	1,530,609.00	206,291.27	2,434,858.00	299,013.50
ISIDORE	n.d.	n.d.	n.d.	n.d.	296,735.81	43,206.32	425,176.03	57,304.05	457,998.35	56,244.63
MSU-IIT	755,897.93	131,987.27	930,215.94	136,739.75	1,307,113.00	190,322.63	1,730,619.46	233,248.13	2,217,814.33	272,359.39
OURLADY	5,858,182.00	1,018,037.01	7,418,388.00	1,090,487.18	10,495,164.00	1,528,151.92	11,540,866.00	1,555,446.15	12,621,853.00	1,550,030.64
PACO	257,324.55	44,717.95	381,197.02	56,035.15	576,864.42	83,994.54	710,174.00	95,715.30	1,000,957.00	122,922.84
SMC-MAND	1,515,187.97	263,309.92	1,876,035.88	275,773.26	2,546,745.28	370,819.71	4,332,713.70	583,951.22	9,051,322.42	1,111,550.51
SMT	18,509,039.16	3,216,507.60	32,290,026.84	4,746,564.93	46,641,636.12	6,791,271.27	54,855,792.00	7,393,312.62	73,895,943.00	9,074,814.59
TABUK	2,147,073.86	373,119.28	5,050,396.43	742,397.48	9,364,391.42	1,363,505.39	17,872,622.73	2,408,822.89	31,155,768.81	3,826,094.02

n.d. = no data available

Source: Credit Cooperative Financial Statements, 1984-1988.

Interestingly, several of them have considered the potential of savings deposits as an alternative source of growth in resources. In some of them, the proportion of savings deposits to total assets continuously rose throughout the period (Table 15). They were also the ones which have noted a reduction in the proportion of fixed deposits to total assets, reflecting a gradual shift of emphasis from fixed deposit to savings deposit in sustaining their growth. On the average, the share of savings deposit to total resources of the 12 credit cooperatives was 24 percent during the period. Three of them used mainly savings deposits to finance the expansion in their resources, while one used both fixed and savings deposits. Some credit cooperatives have not considered savings deposits as an important source of funds, but once they put emphasis on it they would certainly require new innovations and organizational set-up. For instance, servicing deposits and withdrawals on a daily basis would require hiring full-time staff. Moreover, new innovations must be introduced to keep low the transaction costs associated with deposits and withdrawals. Only one credit cooperative did not accept savings deposit from its members.

Notwithstanding this impressive performance, additional efforts by the credit cooperatives are still necessary to mobilize more savings deposits from members. Most of the credit cooperatives are still mainly dependent on fixed deposits to finance their lending operations. As shown in Table 16, the ratio of their loans to savings deposit is visibly higher than the ratio of loans to fixed deposit. The low levels of savings deposit relative to loans outstanding suggest that savings deposits have not been used intensively in sustaining their lending activities. The proportion of loans outstanding to total assets has remained relatively high during the 1984-1988 period, at an annual average of 78 percent (Table 17). But in the case of six credit cooperatives, this ratio had declined in 1988.

Chart 1 shows the movements of key balance sheet indicators of individual cooperatives. One can observe the high correlation between the rise in total resources (TASSETS) and the increase in fixed deposits (SHAREK), which shows the growth dependence of credit cooperatives on members' share capital. Although some of them began recognizing the potential of savings deposits as an alternative source of growth, the level of savings deposits mobilized still remained low relative to fixed deposits. Of the 12 credit cooperatives, only four have actively mobilized savings deposits (SAVINGSD) from members. These four—especially St. Martin of Tours, First Community, and Notre Dame of Bongao—have experienced relatively high growth rates in their nominal assets during the 1984-1988 period. Furthermore, Chart 1 also shows the level of the 12 credit cooperatives' loans outstanding (LOANSR) which accounted for the bulk of the total resources during the 1984-1988 period.

Because of the concentration of resources on lending operations, credit cooperatives derive their income mainly from interests on loans (Table 18). Interest on loans contributed, on the average, 66 percent of the gross income of these credit cooperatives. Seven of them even had higher average ratios of up to 84 percent. Moreover, in six credit cooperatives, interest on loans alone could sustain interest expenses on savings and time deposits of members, and administrative and operating expenses. On the average, the ratio of interest on loans to total expenses was 1.3 during the period (Table 19).

Chart 2 shows the movements of selected income statement accounts of the 12 credit cooperatives during the 1984-1988 period. One can observe an increase in gross income (TOTINC), mainly due to an increase in interest income on loans. Most of the credit cooperatives have maintained fairly stable

Table 15

RATIO TO TOTAL ASSETS OF FIXED AND SAVINGS DEPOSITS
1984-1988

	1984	1985	1986	1987	1988
BCPST					
FD	0.77	0.78	0.80	0.76	0.75
SD	0.002	0.002	0.002	0.01	0.02
BONGAO					
FD	0.14	0.17	0.19	0.19	0.18
SD	0.75	0.70	0.65	0.67	0.67
FICCCO					
FD	0.38	0.42	0.45	0.43	0.44
SD	0.39	0.35	0.36	0.40	0.41
FIL-MER					
FD	n.d.	0.81	0.77	0.75	0.72
SD	n.d.	0.02	0.04	0.03	0.04
GMA					
FD	0.71	0.78	0.73	0.61	0.55
SD	0.05	0.04	0.04	0.06	0.14
ISIDORE					
FD	n.d.	n.d.	0.74	0.66	0.74
SD	n.d.	n.d.	0.09	0.19	0.16
MSU-IIT					
FD	0.56	0.59	0.54	0.60	0.60
SD	0.09	0.10	0.08	0.11	0.11
OURLADY					
FD	0.14	0.14	0.17	0.15	0.18
SD	0.57	0.62	0.61	0.68	0.65
PACO					
FD	0.80	0.83	0.75	0.69	0.66
SD	0.12	0.10	0.11	0.18	0.26
SMC-MAND					
FD	0.83	0.82	0.83	0.85	0.87
SD	n.a.	n.a.	n.a.	n.a.	n.a.
SMT					
FD	0.23	0.19	0.18	0.21	0.23
SD	0.38	0.33	0.36	0.42	0.43
TABUK					
FD	0.88	0.73	0.71	0.75	0.71
SD	0.08	0.07	0.08	0.06	0.09

n.a. = not applicable (no savings deposit offered)
n.d. = no data available

Source: Credit Cooperative Financial Statements, 1984-1988.

Table 16

LOANS - TO-DEPOSIT RATIOS
1984 - 1988

	1984	1985	1986	1987	1988
BCPST					
L-SD	464.47	566.44	534.19	75.53	51.65
L-FD	1.22	1.20	1.10	1.16	1.18
L-D	1.21	1.20	1.10	1.14	1.15
BONGAO					
L-SD	0.90	1.02	0.96	0.87	0.88
L-FD	4.78	4.29	3.37	3.14	3.32
L-D	0.75	0.82	0.75	0.68	0.70
FICCCO					
L-SD	2.14	2.47	2.11	2.04	2.00
L-FD	2.20	2.05	1.69	1.86	1.87
L-D*	1.05	1.09	0.90	0.96	0.95
FIL-MER					
L-SD	n.d.	38.78	22.85	24.13	16.65
L-FD	n.d.	1.09	1.06	1.07	1.04
L-D	n.d.	1.06	1.02	1.02	0.98
GMA					
L-SD	16.38	21.75	19.83	12.13	5.33
L-FD	1.08	1.10	1.17	1.22	1.32
L-D	1.01	1.04	1.10	1.11	1.06
ISIDORE					
L-SD	n.d.	n.d.	n.d.	3.56	4.28
L-FD	n.d.	n.d.	n.d.	1.03	0.90
L-D	n.d.	n.d.	n.d.	0.80	0.74
MSU-IIT					
L-SD	6.18	6.52	7.24	5.36	5.22
L-FD	1.04	1.11	1.10	0.99	0.93
L-D	0.89	0.95	0.95	0.84	0.79
OURLADY					
L-SD	1.30	1.06	1.12	1.15	1.22
L-FD	5.21	4.84	4.13	5.19	4.50
L-D	8.72	7.65	8.80	7.27	6.36
PACO					
L-SD	7.24	9.38	8.31	5.07	3.32
L-FD	1.11	1.10	1.23	1.33	1.32
L-D	0.96	0.99	1.07	1.05	0.94
SMC-MAND					
L-SD	-	-	-	-	-
L-FD	1.09	1.12	1.15	1.04	1.05
L-D	1.09	1.12	1.15	1.04	1.05
SMT					
L-SD	1.98	2.10	1.91	1.80	1.94
L-FD	3.28	3.60	3.72	3.58	3.69
L-D*	0.84	0.77	0.74	0.81	0.92
TABUK					
L-SD	10.39	12.06	11.47	16.65	9.58
L-FD	0.94	1.23	1.30	1.23	1.16
L-D*	0.85	1.10	1.14	1.13	1.00

n.a. = not applicable (no savings deposit)
n.d. = no data available ; * = including time deposit
L-SD - Loans-to-savings deposit ratio
L-FD - Loans-to-fixed deposit ratio
L-D - Loans-to-total deposit (including time deposit) ratio
Source: CCU Forms and Financial Statements, 1984-1988.

Table 17

LOANS TO TOTAL ASSETS RATIO
1984-1988

	1984	1985	1986	1987	1988
BCPST	0.94	0.94	0.87	0.88	0.88
BONGAO	0.68	0.71	0.63	0.58	0.59
FICCCO	0.84	0.87	0.76	0.81	0.82
FIL-MER	n.d.	0.89	0.82	0.80	0.75
GMA	0.77	0.85	0.86	0.75	0.72
ISIDORE	n.d.	n.d.	n.d.	0.68	0.66
MSU-IIT	0.58	0.65	0.60	0.60	0.56
OURLADY	0.74	0.66	0.69	0.78	0.79
PACO	0.89	0.92	0.92	0.92	0.87
SMC-MAND	0.90	0.92	0.95	0.88	0.91
SMT	0.75	0.70	0.68	0.75	0.84
TABUK	0.83	0.90	0.92	0.92	0.83

n.d. = no data available

Source: CCU Financial Statements, 1984-1988.

Table 18

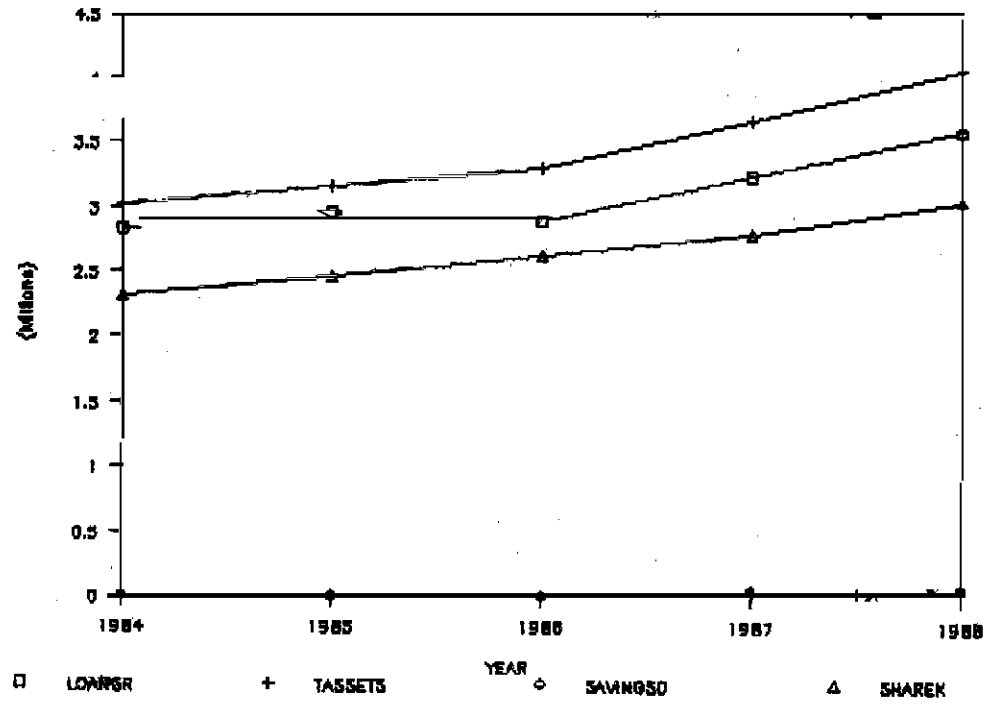
INTEREST ON LOANS TO GROSS INCOME
1984-1988

	1984	1985	1986	1987	1988
BCPST	0.87	0.87	0.84	0.81	0.83
BONGAO	0.92	0.62	0.56	0.61	0.58
FICCCO	0.65	0.57	0.62	0.60	0.60
FIL-MER	n.d.	0.70	0.69	0.70	0.67
GMA	0.65	0.70	0.67	0.74	0.71
ISIDORE	n.d.	n.d.	0.83	0.84	0.81
MSU-IIT	0.47	0.42	0.02	n.d.	n.d.
OURLADY	0.46	0.42	0.48	0.51	0.52
PACO	0.60	0.62	0.62	0.58	0.57
SMC-MAND	0.85	0.85	0.83	0.83	0.84
SMT	0.53	0.59	0.54	0.96	0.98
TABUK	0.65	0.59	0.64	0.75	0.77

n.d. = no data available ; = including time deposit
Source: Credit Cooperative Forms and Financial Statements, 1984-1988.

Chart 1
SELECTED BALANCE SHEET ACCOUNTS
(In Nominal Terms)
1984–1988

BACOLOD CITY TEACHERS' CREDIT COOP.



NOTRE DAME OF BONGAO CREDIT COOP.

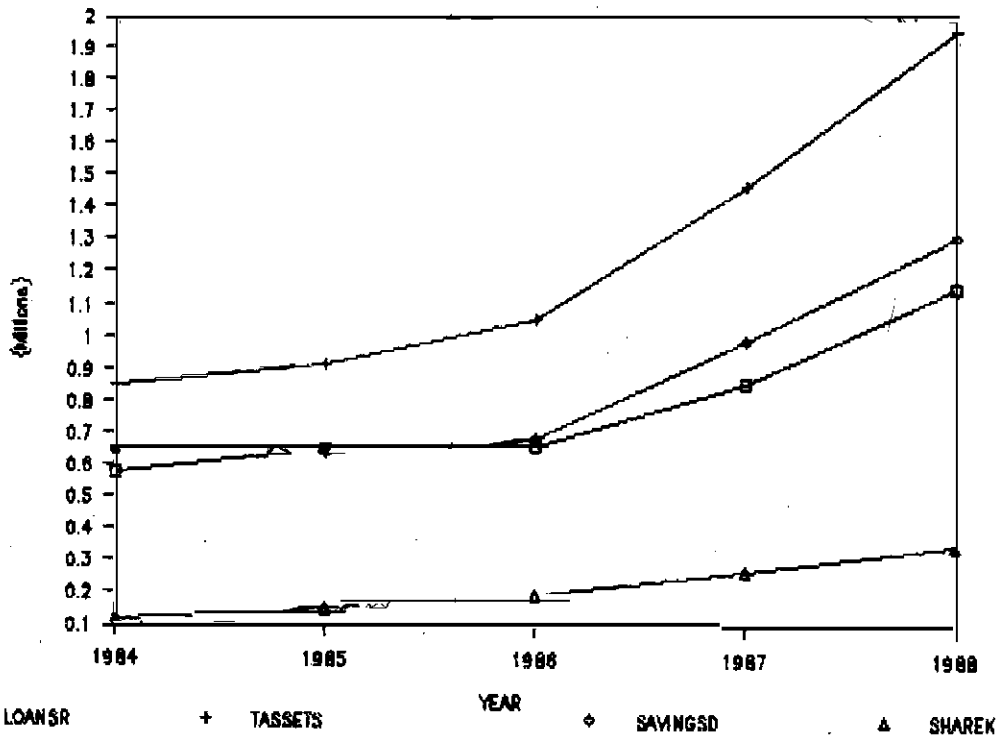
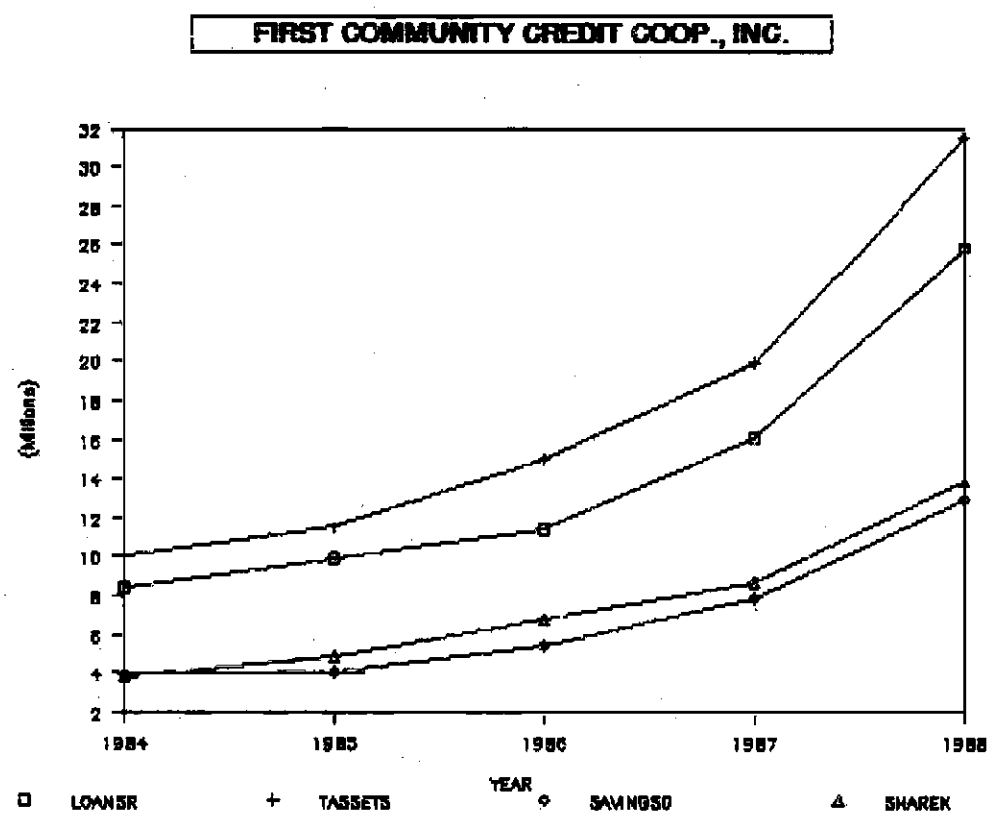


Chart 1 (cont'd)

FIRST COMMUNITY CREDIT COOP., INC.



FILIPINO MERCHANTS' CREDIT COOP., INC.

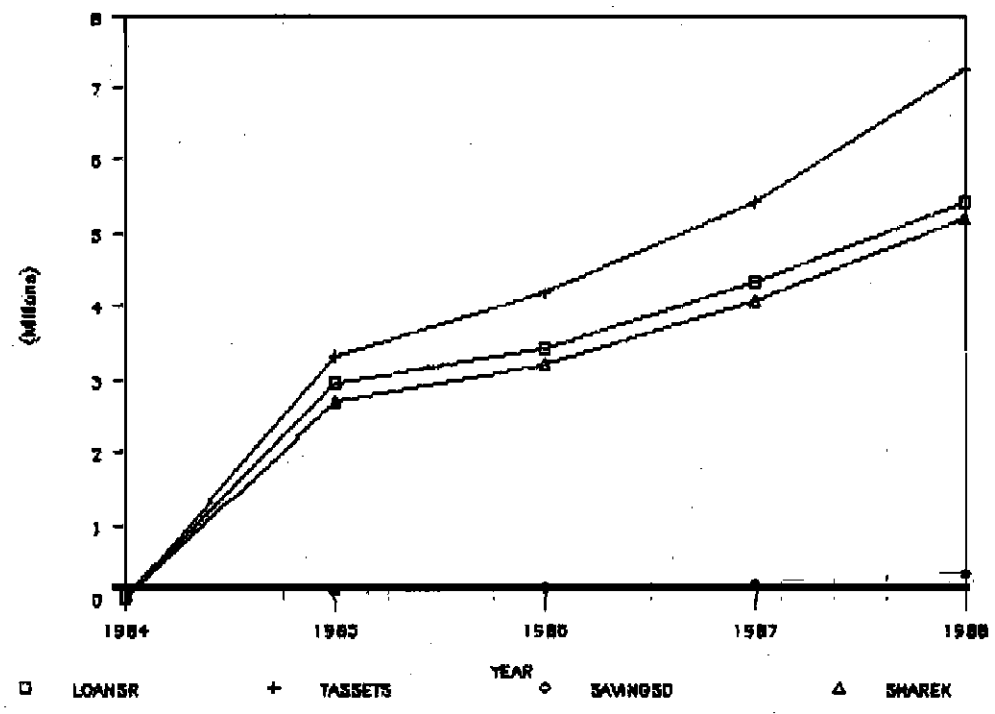
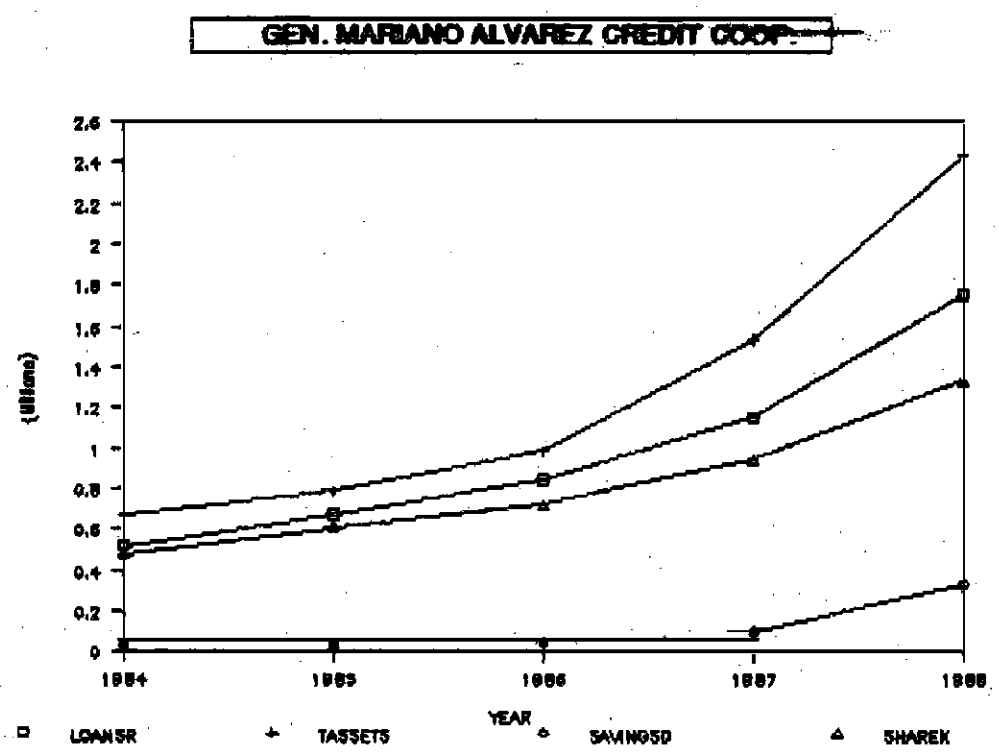


Chart 1 (cont'd.)



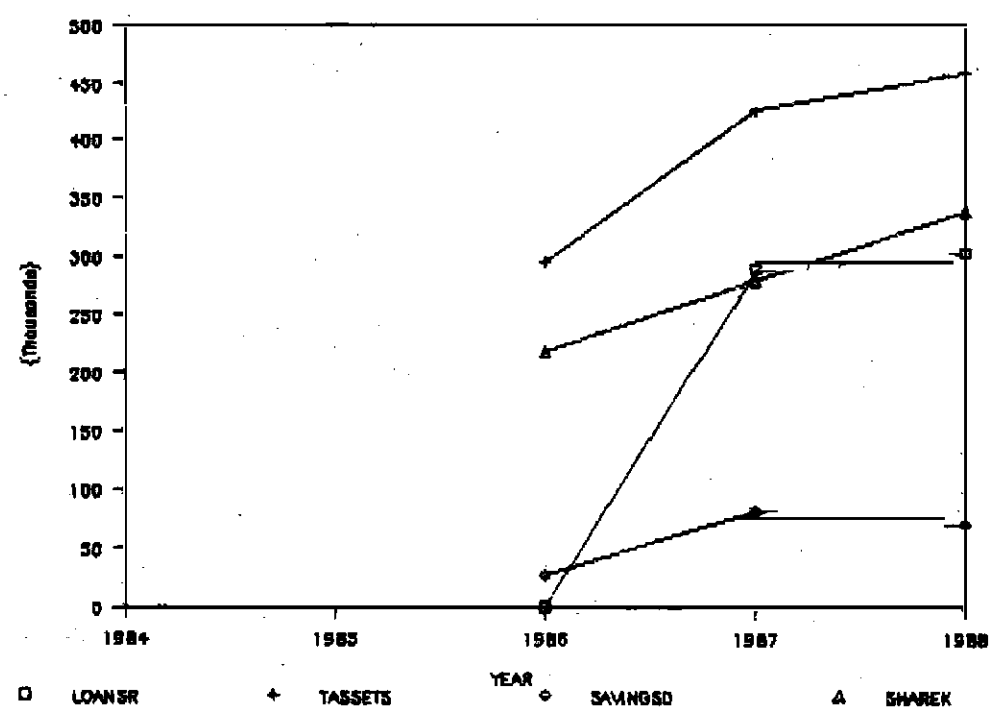
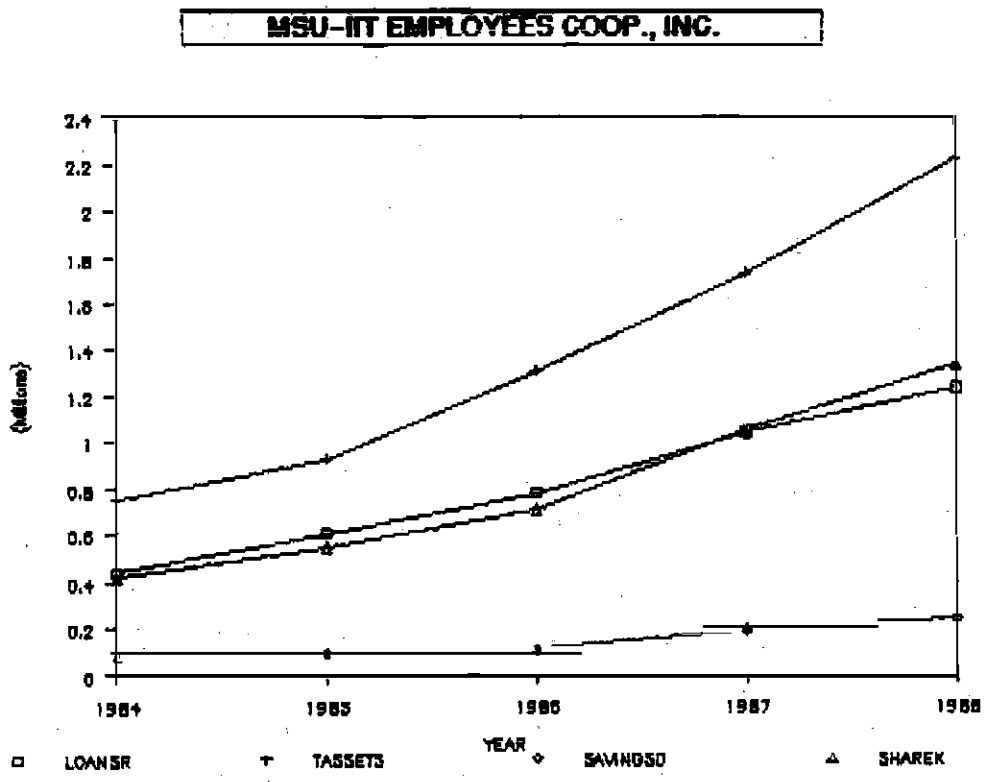


Chart 1 (cont'd)



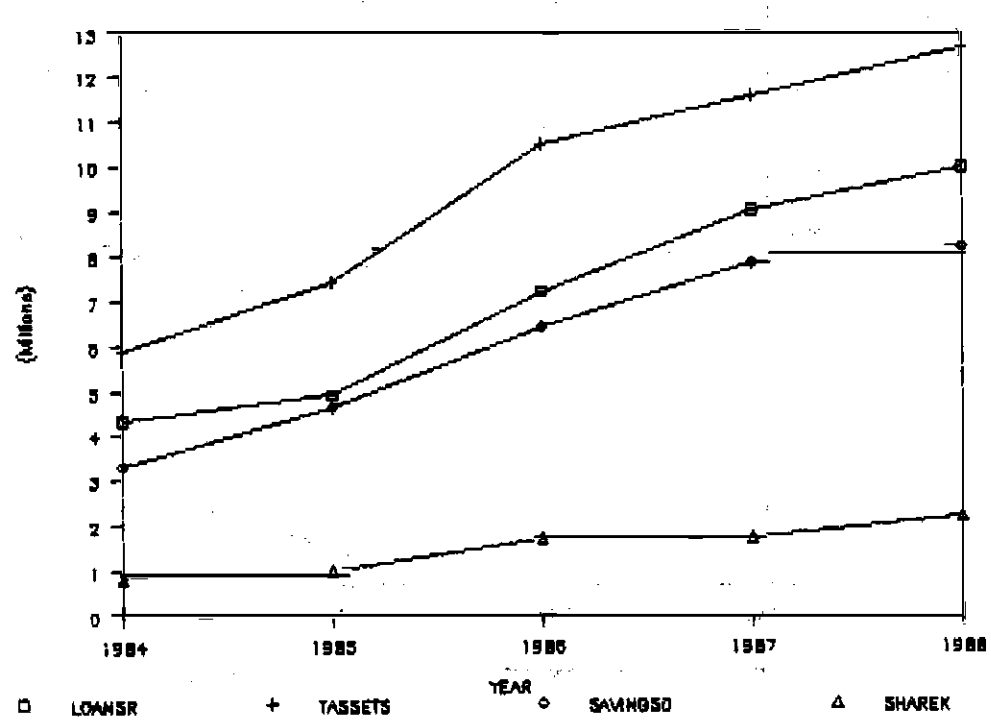
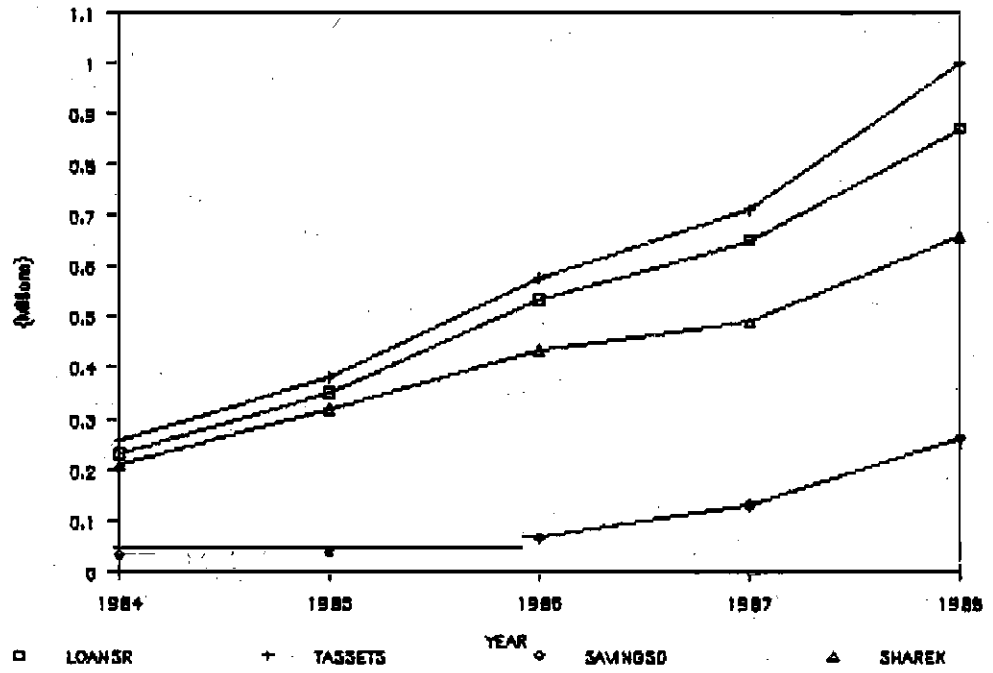


Chart 1 (cont'd)

PACO CREDIT COOPERATIVE, INC.



SMC-MAND CREDIT UNION, INC.

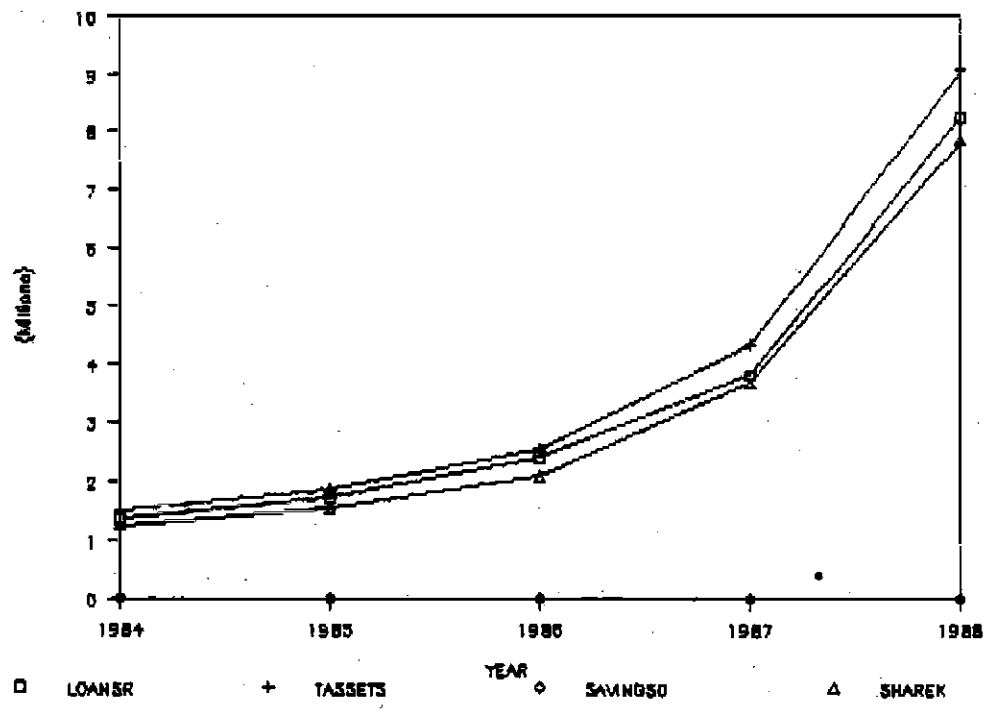
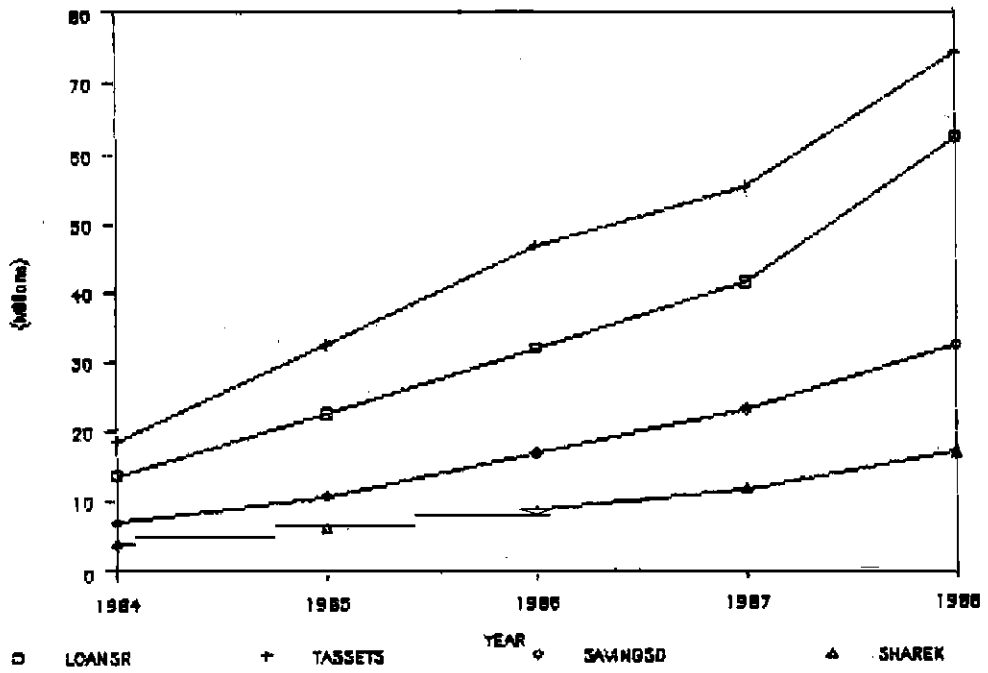


Chart 1 (cont'd)

ST. MARTIN OF TOURS CREDIT COOP., INC.



TABUK CREDIT COOPERATIVE, INC.

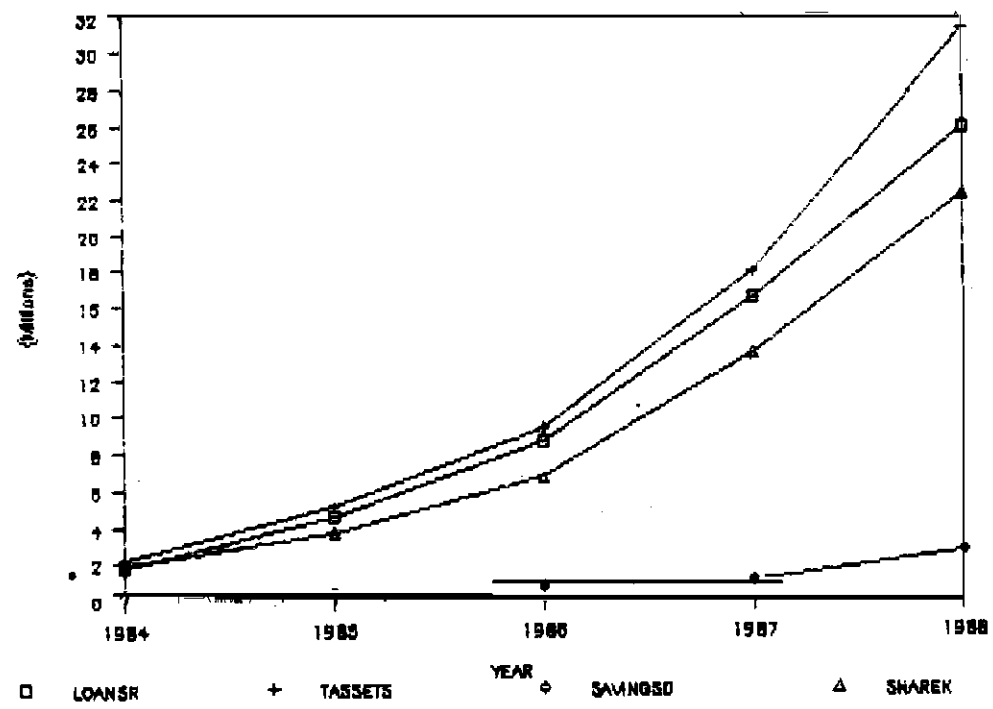
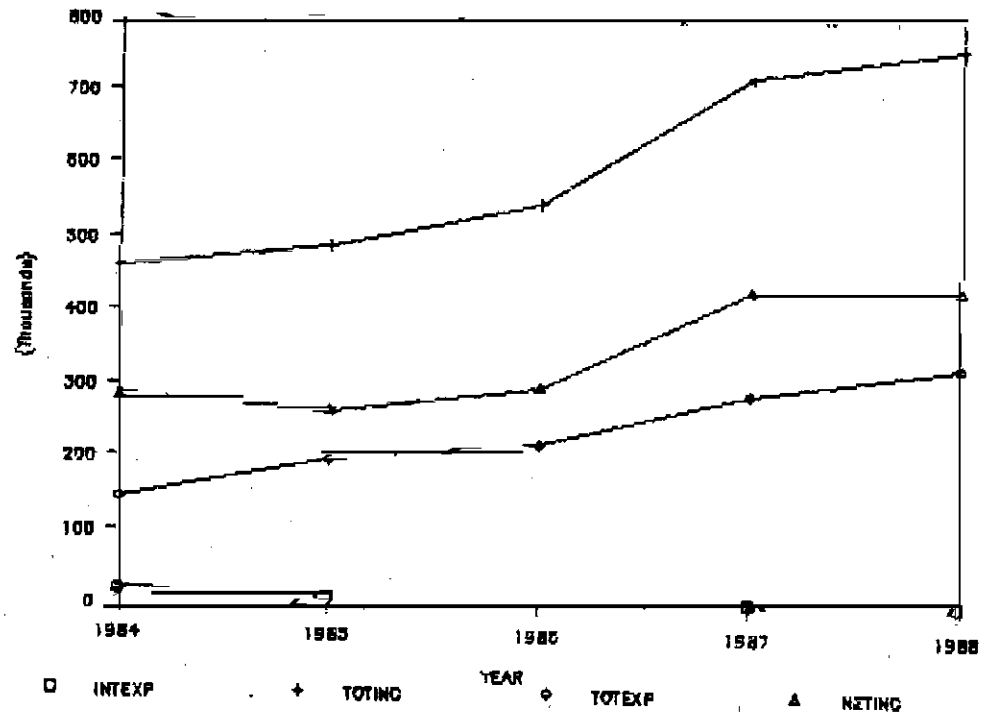


Chart 2
SELECTED INCOME STATEMENT ACCOUNTS
(In Nominal Terms)
1984-1988

BACOLOD CITY TEACHERS' CREDIT COOP.



NOTRE DAME OF BONGAO CREDIT COOP.

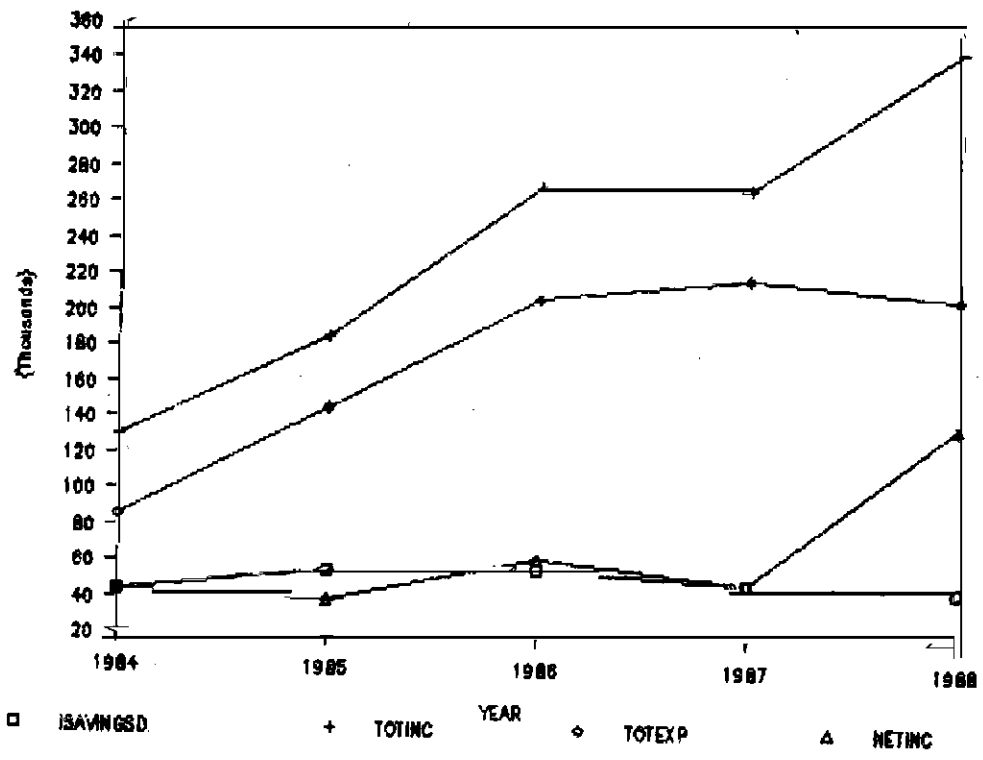
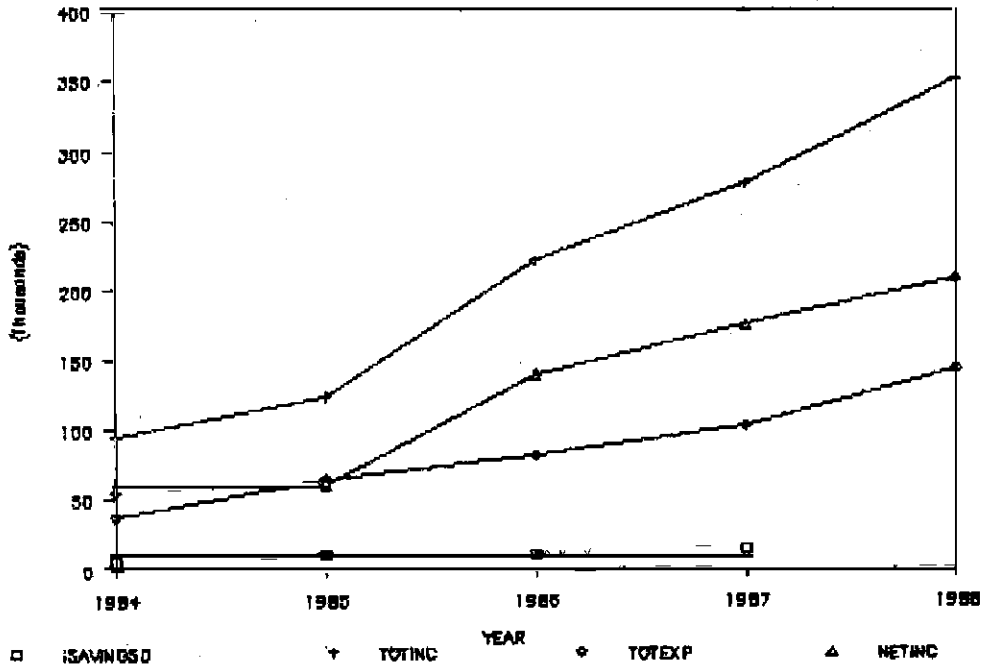


Chart 2 (cont'd)

MSU-IIT EMPLOYEES COOP., INC.



OUR LADY OF GRACE COOP., INC.

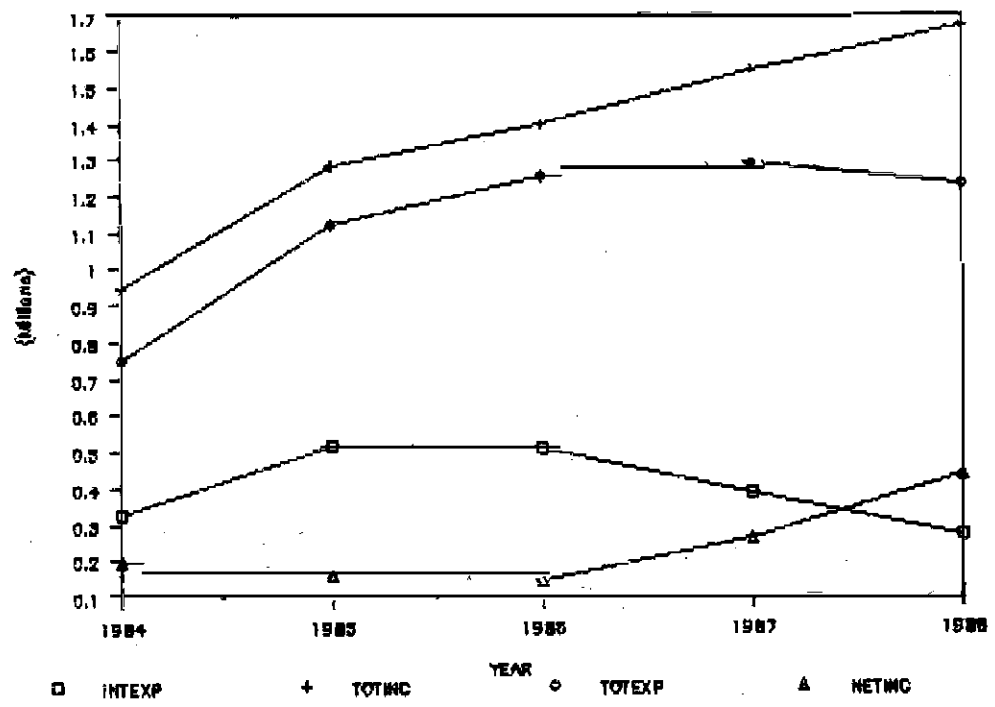
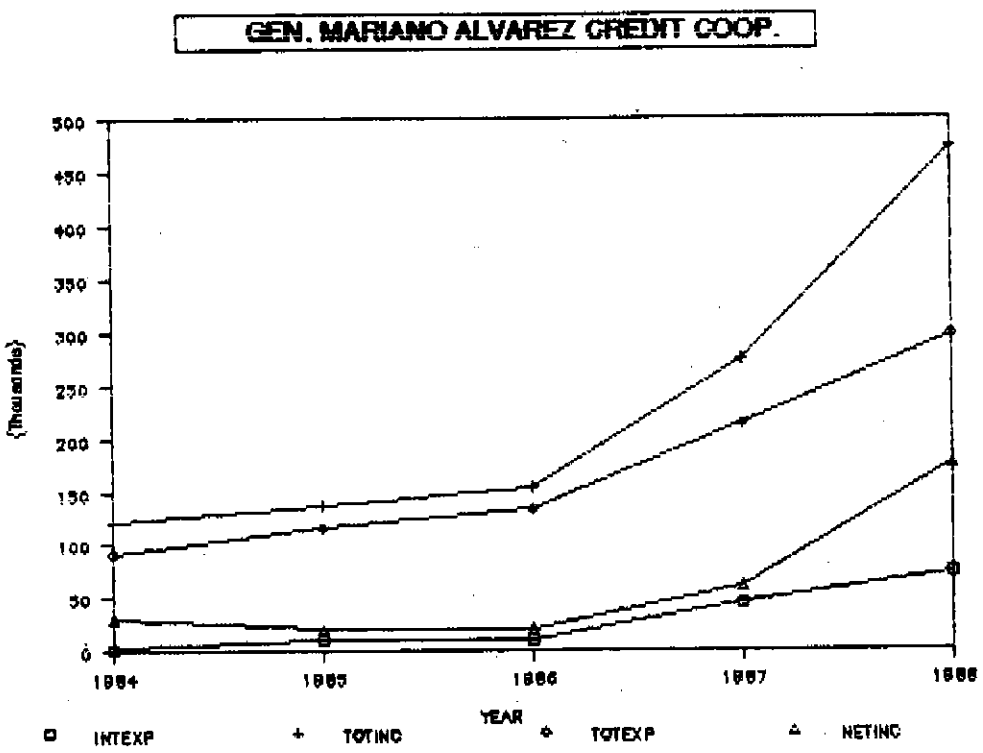


Chart 2 (cont'd.)



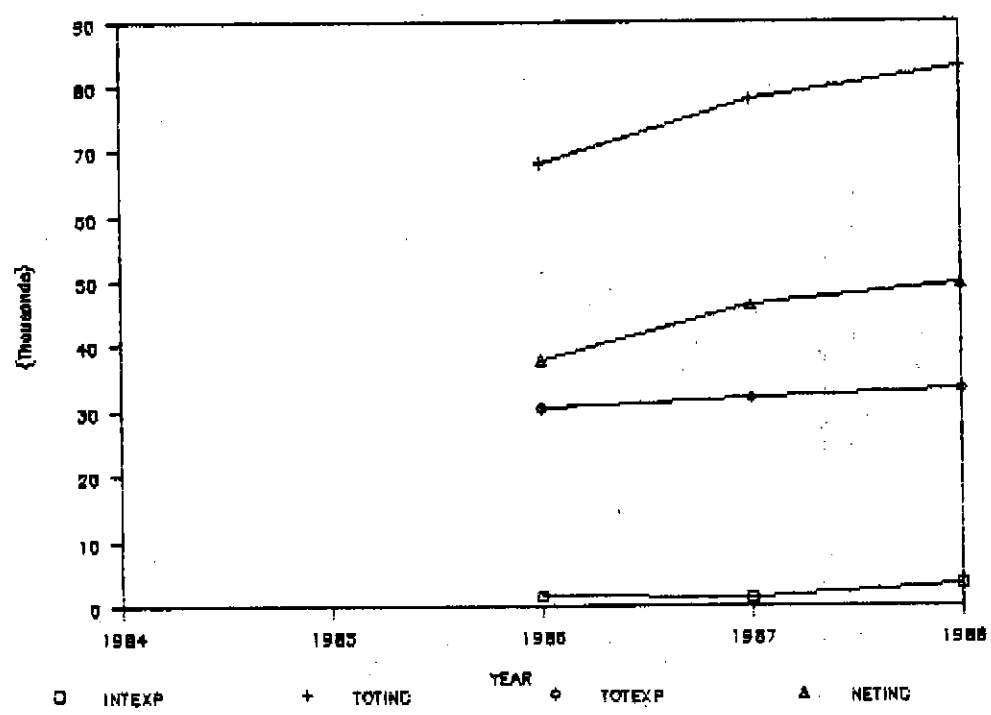
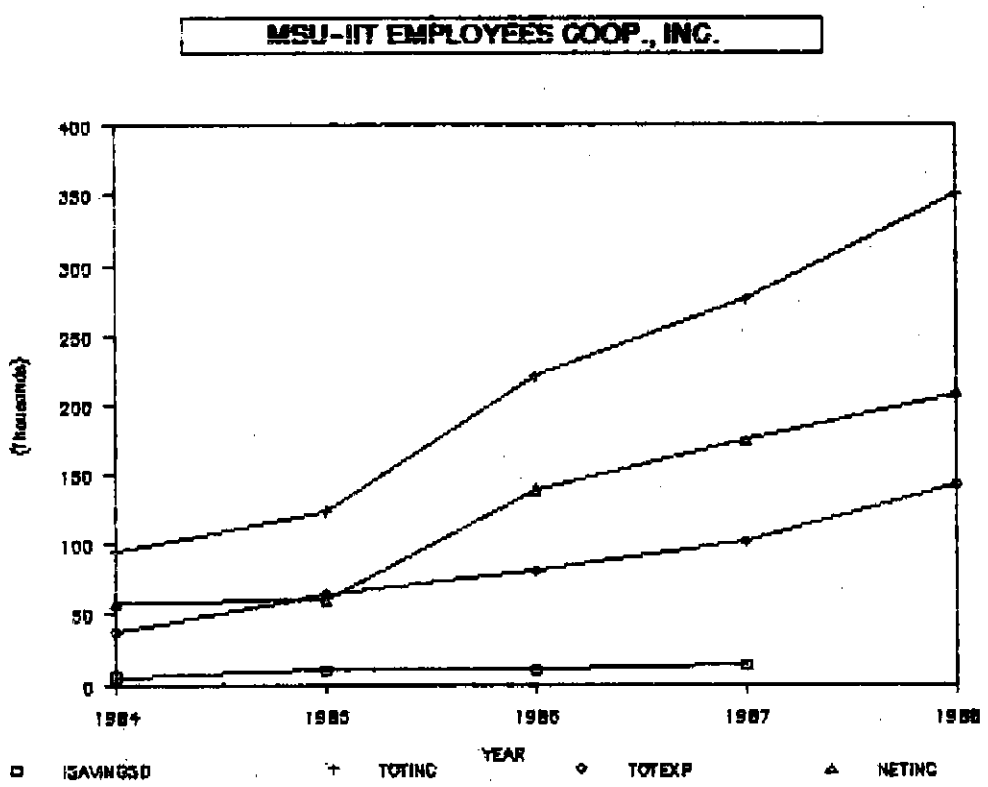


Chart 2 (cont'd)



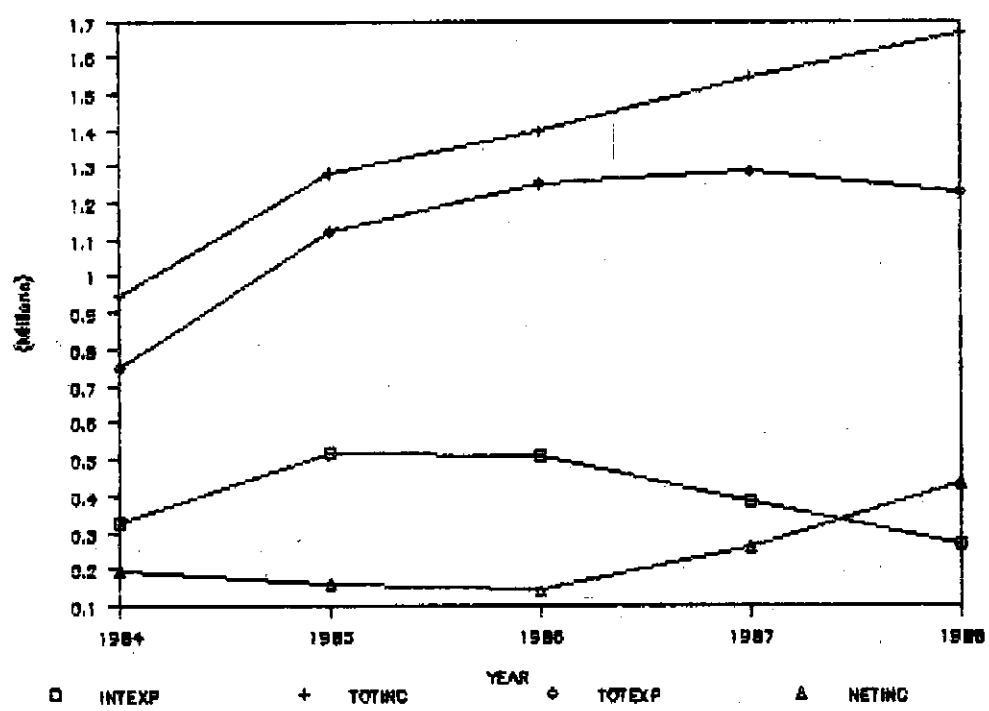
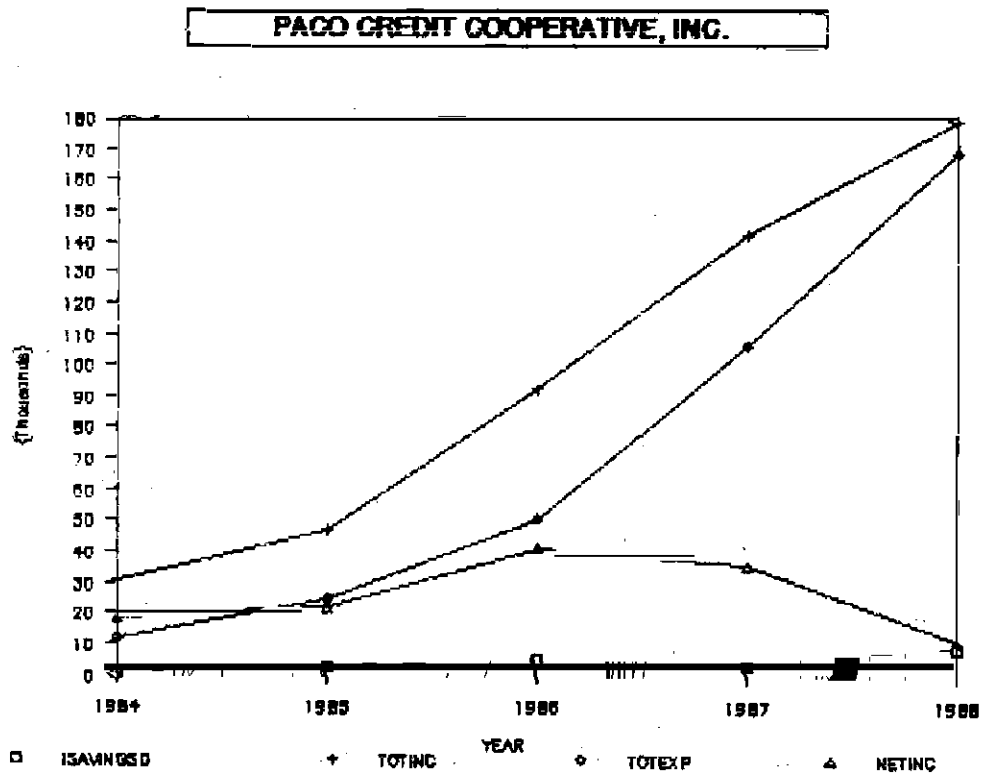


Chart 2 (cont'd)



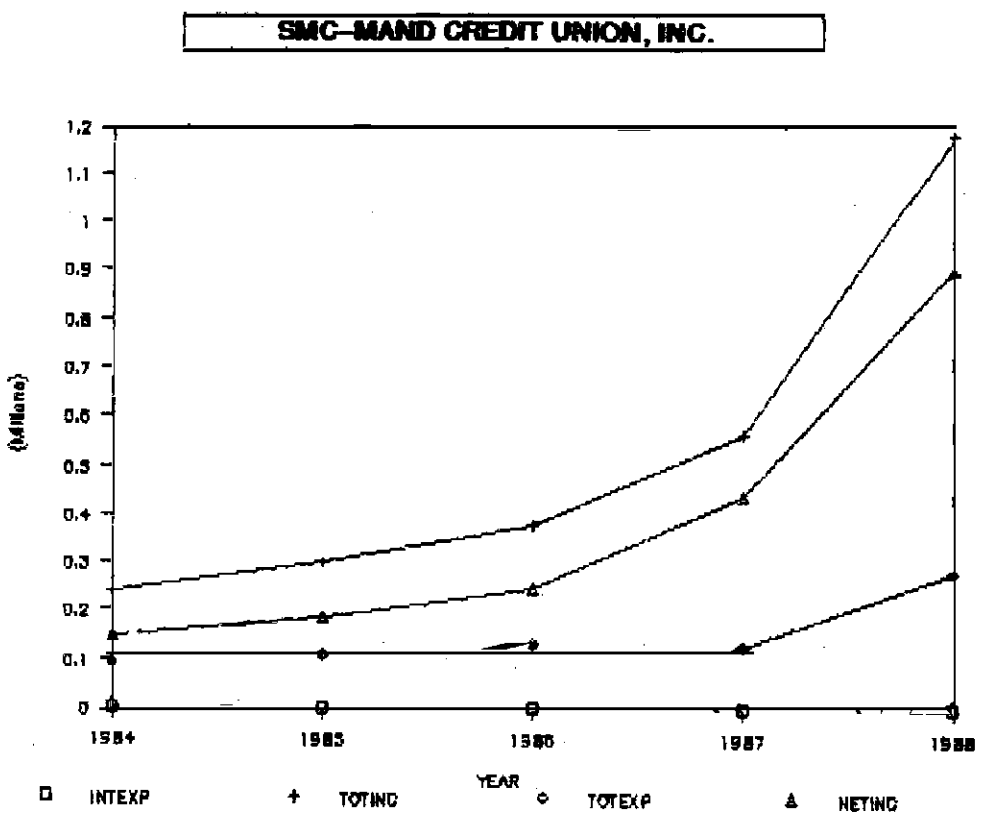
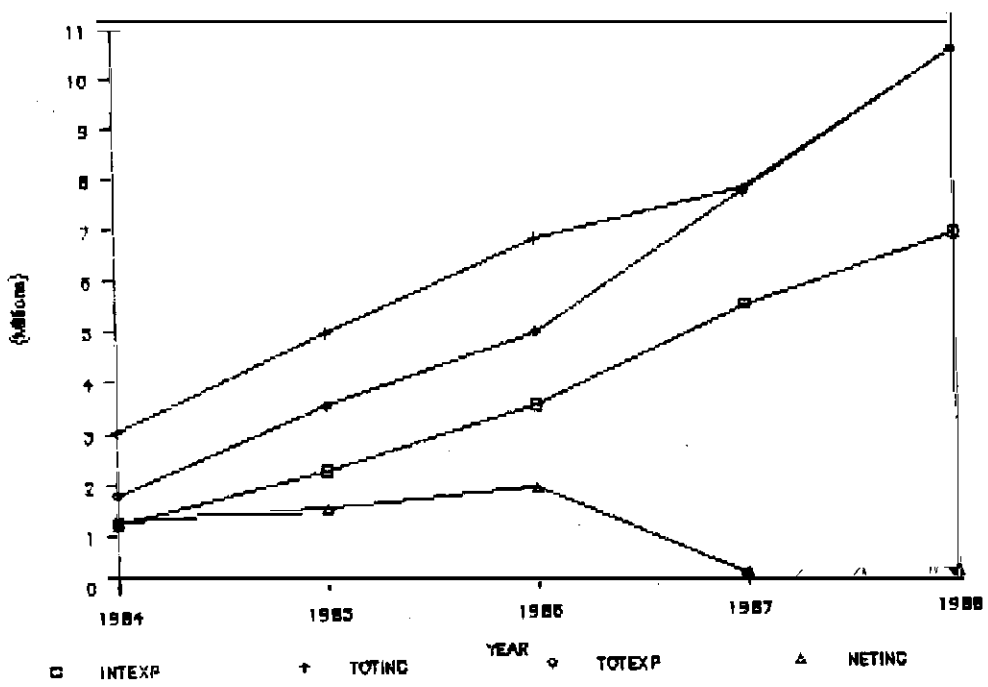


Chart 2 (cont'd)

ST. MARTIN OF TOURS CREDIT COOP., INC.



TABUK CREDIT COOPERATIVE, INC.

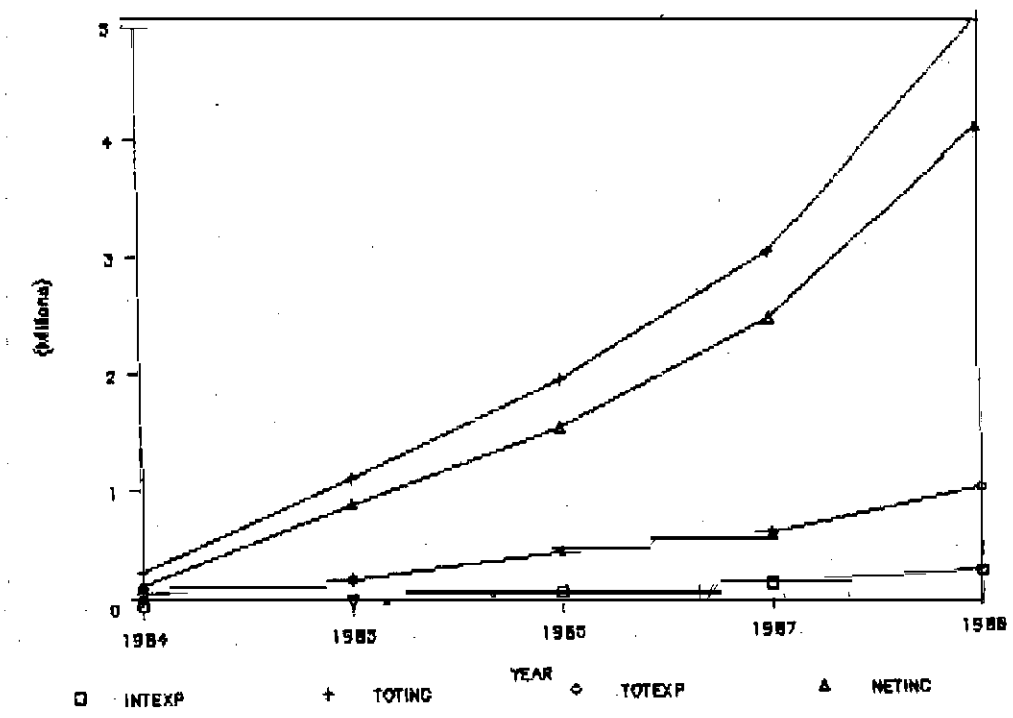


Table 19

INTEREST ON LOANS TO TOTAL EXPENSES
1984-1988

	1984	1985	1986	1987	1988
BCPST	2.80	2.18	2.10	2.03	1.92
BONGAO	1.41	0.79	0.73	0.75	0.97
FICCCO	1.02	1.07	0.95	1.08	1.10
FIL-MER	n.d.	1.23	1.19	1.42	1.44
GMA	0.87	0.82	0.78	0.95	1.13
ISIDORE	n.d.	n.d.	0.14	0.13	0.10
MSU-IIT	1.19	0.81	0.06	n.d.	n.d.
OURLADY	0.58	0.48	0.54	0.61	0.71
PACO	1.53	1.16	1.12	0.77	0.61
SMC-MAND	2.23	2.28	2.38	3.73	3.54
SMT	0.89	0.83	0.74	0.96	0.98
TABUK	1.77	2.98	2.93	4.01	4.16

n.d. = no data available
Source: Credit Cooperative Financial Statements, 1984-1988.

Table 20

LOAN DELINQUENCY RATIO
1984-1988

	1984	1985	1986	1987	1988
BCPST	n.d.	n.d.	n.d.	n.d.	0.12
BONGAO	0.13	0.15	0.08	0.09	n.d.
FICCCO	0.11	0.11	0.11	0.10	0.09
FIL-MER	n.d.	n.d.	n.d.	n.d.	n.d.
GMA	n.d.	n.d.	n.d.	n.d.	n.d.
ISIDORE	n.d.	n.d.	n.d.	n.d.	n.d.
MSU-IIT	0.00	0.00	0.00	0.00	0.00
OURLADY	n.d.	n.d.	n.d.	0.22	n.d.
PACO	n.d.	n.d.	n.d.	0.33	0.47
SMC-MAND	n.d.	n.d.	n.d.	n.d.	n.d.
SMT	0.15	0.16	0.16	0.17	0.16
TABUK	0.11	0.17	0.11	0.12	0.11

n.d. = no data available
Source: Credit Cooperative Forms and Financial Statements, 1984-1988.

expenditure patterns which sustained a continuous increase in their net incomes (NETINC) throughout the period. Only two of them registered a decline in net income during their most recent operations due to a surge in operating expenditures, specifically on office equipment and building improvements. Moreover, the proportion of interest expenses (INTEXP), especially on savings deposits (ISAVINGSD) of members, to total expenses remained very minimal in most of them. Only one appears to have incurred a significant amount of interest expenses on deposits. For purposes of reporting financial performance, the use of charts or illustrations can help the credit cooperatives closely monitor and manage the flow of expenditures and receipts incurred in the conduct of regular operations.

B. *Operations and Problems*

It appears that only five of the credit cooperatives have loan delinquency problems. However, these credit cooperatives, all community-based, have managed to control the perpetuation of loan delinquencies among members through continuous membership education and the implementation of penalties for delinquent borrowers. As shown in Table 20, the ratio of overdue loans to loans outstanding declined during the recent operations of some credit cooperatives. Only one of them had exhibited relatively high loan delinquency ratios in 1987 and 1988. This cooperative did not maintain a full-time manager, which posed difficulty in enforcing consistent policies on loan collection and repayment.

An extra caution, however, should be taken in interpreting the figures on loan delinquency ratios in Table 20, especially in those credit cooperatives which have not reported their overdue loans. Evidently, some of these cooperatives have not been aging loans according to the length of time past due. Thus, during the survey, these cooperatives encountered difficulties in tracing and summing up overdue loans.

In the case of institution-based credit cooperatives, loan delinquency was practically nil because loan repayment is done through payroll deduction which eliminates, or at least reduces, the probability of loan delinquency and default.

Despite the impressive growth rates in nominal assets achieved by the 12 credit cooperatives in the past five years, a number of them still have not sustained a continuous increase in their net incomes/ savings (Table 21).[13] In fact, two of these credit cooperatives have registered negative growth rates of net savings during their most recent operations. This was mainly due to a surge in their operating expenses, specifically on office improvements and the installation of computer facilities and equipment, among others. One credit cooperative with the largest membership found it inevitable to use computers to handle a bigger volume of daily transactions. Though the growth rates of their net savings have been erratic for some of them, the 12 cooperatives have achieved an average nominal growth rate of 42 percent from 1984-1988.

The net savings of credit cooperatives are generally allocated for cooperative education training fund (CETF), general reserve fund (GRF), patronage refund, and dividends on share capital. The allocation is normally stipulated in the cooperative's by-laws. To some extent, the allocation may be

13. Net income and net savings are used synonymously in this paper.

Table 21

NET SAVINGS BEFORE PROVISION
1984 - 1988

	1984	1985	1986	1987	1988
BCPST	316,774.02	293,214.48	329,818.96	431,919.06	435,718.71
BONGAO	44,817.74	39,874.77	63,716.26	50,443.65	138,355.87
FICCCO	547,939.26	876,006.69	678,373.31	1,118,831.30	1,595,786.60
FIL-MER	n.d.	225,086.57	293,776.29	498,372.95	739,030.34
GMA	30,879.76	20,458.89	21,471.58	60,614.00	175,758.00
ISIDORE	n.d.	n.d.	37,827.12	46,146.03	49,472.88
MSU-IIT	57,706.77	59,935.64	139,201.18	174,146.73	208,239.01
OURLADY	197,313.00	159,487.00	140,661.00	261,630.00	435,822.00
PACO	18,451.67	22,006.79	41,315.64	35,528.00	10,526.00
SMC-MAND	147,876.94	187,492.97	244,876.36	438,214.73	900,297.09
SMT	1,245,589.79	1,442,291.58	1,805,625.93	48,719.00	33,829.00
TABUK	194,371.71	852,867.68	1,477,176.13	2,400,260.35	4,007,914.28

n.d. = no data available

Source: Credit Cooperative Financial Statements, 1984-1988.

influenced by institutions/organizations with which the cooperative is affiliated. For example, a Mindanao-based credit cooperative is adopting the allocation method recommended by the Mindanao Alliance for Self-Help Society-Southern Philippines Educational Center for Cooperatives (MASS-SPECC). Nevertheless, allocation of net savings appears to be similar among the 12 credit cooperatives in spite of differences in institutional affiliations.

The 12 credit cooperatives allocated the greatest share of their net savings to patronage refunds and dividends on share capital. In most cases, the amount is equivalent to ove. 80 percent of net savings after deducting the provisions for CETF and GRF. In dividing the balance of net savings after statutory provisions, three credit cooperatives have consistently used 80-20 dividends-patronage refunds allocation from 1984-1988. By allocating a greater portion of net savings to dividends, these cooperatives in effect were encouraging more share capital subscriptions from members. They have made fairly attractive the interest on fixed shares by basing the interest on share capital on the dividends that the credit cooperative allocates from its net savings.

On the other hand, some credit cooperatives allocated a bigger portion of net savings to patronage refund, indicating their objective of encouraging more borrowings from members. Still, others maintained a 50-50 allocation for dividends and patronage refunds.

The volatility of net savings of these credit cooperatives resulted in erratic growth rates of their dividends and patronage refunds (Table 22). A reduction in the net savings before statutory provisions also reduced the allocation for dividends and patronage refund. This is because the credit cooperative had to satisfy the required provisions for other items (i.e., CETF, GRF, etc.) before the amount of net savings to be allocated to dividends and patronage refund can be finally determined. On the average, three of the credit cooperatives have registered negative growth rates on dividends and patronage refund during the 1984-1988 period.

There were instances when the allocations for patronage refund and dividends were reduced because of the following: (1) the cooperative set aside a certain portion of net savings for developmer' fund to finance projects and business ventures; (2) the cooperative allocated for capital investment on community loan service (CLS), which are loans to community residents who are non-members of the cooperative but are endorsed by the members; and (3) the cooperative set aside for land and buildin, fund to finance land acquisition and building improvements.

The most common statutory provisions that credit cooperatives directly set aside from net savings include CETF and GRF. The allocation for CETF is equivalent to 10 percent of net savings, with half of the amount retained in the cooperative and the other half remitted to the Cooperative Union of the Philippines (CUP). This allocation is intended to finance training and seminars and information materials on cooperatives which are given to members, management staff, and officers of the credit cooperatives. On the other hand, the allocation for GRF is equivalent to 10 percent of net savings after provision for CETF. There were instances, however, when the amount allocated to GRF was raised to 20 percent, such as when loan losses reached relatively high levels. The amount is intended to absorb losses from loan defaults. Thus, credit cooperatives build up reserve fund substantial enough to give them security against bad debts. Kilusang Bayan Guarantee Fund (KBGF), on the other hand, was

Table 22

GROWTH RATES OF DIVIDENDS AND PATRONAGE REFUNDS

	1985	1986	1987	1988
BCPST				
DIV.	(17.72)	12.48	n.d.	n.d.
PAT.	(17.72)	12.48	n.d.	n.d.
BONGAO				
DIV.	11.21	n.d.	n.d.	118.00
PAT.	77.94	59.79	(20.83)	371.24
FICCCO				
DIV.	60.84	(23.15)	66.05	41.29
PAT.	60.84	(23.15)	66.05	41.29
FIL-MER				
DIV.	38.64	23.99	60.72	64.77
PAT.	38.64	23.99	60.72	64.77
GMA				
DIV.	(53.92)	28.94	107.42	195.50
PAT.	(53.92)	28.94	107.42	195.50
ISIDORE				
DIV.	n.d.	n.d.	(59.33)	n.d.
PAT.	n.d.	n.d.	(76.31)	n.d.
MSU-IIT				
DIV.	(1.84)	76.57	68.24	4.52
PAT.	n.d.	106.00	44.20	4.52
OURLADY				
DIV.	30.49	47.77	19.18	2.02
PAT.	(32.73)	25.45	0.12	186.09
PACO				
DIV.	30.41	30.61	78.95	105.45
PAT.	n.d.	n.d.	(15.56)	(48.69)
SMC-MAND				
DIV.	30.41	30.61	78.95	105.45
PAT.	30.41	30.61	78.95	105.45
SMT				
DIV.	99.03	(29.48)	125.24	23.73
PAT.	(49.72)	284.71	21.32	55.37
TABUK				
DIV.	261.50	90.31	62.51	67.63
PAT.	261.50	90.31	62.51	67.63

n.d. = no data available
Source: Credit Cooperative Managers Survey, 1989.

generally taken from the credit cooperatives' gross income. It is equivalent to one percent. The amount is intended to finance expenses associated with social gatherings within the cooperative and among cooperatives.

Only a few of the credit cooperatives were able to maintain a fairly stable return on share capital during the 1984-1988 period. Seven of them suffered a slight decline in share capital return despite increase in net income levels (Table 23). One credit cooperative exhibited a large reduction in its return on share capital because of a decrease in the level of its net savings in 1987 and 1988 when it partly computerized its operations for handling loans and deposit transactions. On the other hand, four credit cooperatives have sustained an increase in return on share capital during their most recent operations. The increase was due mainly to an expansion in their gross income and to effective management of operations expenses. On the average, the return on share capital for the 12 credit cooperatives was 15 percent during the period, which is fairly impressive. This approximates the 17 percent average interest rate on fixed deposit during the same period.

A similar trend can be observed in return on total assets of these credit cooperatives (Table 24). But given the rapid expansion in nominal assets and the highly erratic movements in net savings levels, the average return on total assets during the period was only seven percent. This is higher than the average return on total assets of the rural banking system, which was 1.48 percent during the 1984-1988 period.[14]

C. *Summary*

The credit cooperatives which have actively mobilized savings deposits from members have noted relatively high growth rates in their total resources. This clearly shows the potential of savings deposit as an alternative source of growth. Considering that almost all the credit cooperatives in this study have staff working on a full-time basis, savings deposit mobilization may not really be a complicated task. The cooperative staff can always extend during official time the services needed to process deposits and withdrawals by members.

In the case of institution- and market vendor-based credit cooperatives, savings deposits can be mobilized from members through payroll deduction and collectors, respectively. At the same time, offering savings deposit instrument could make credit cooperatives less vulnerable to fluctuations in fixed deposits, which can be caused by pressures from loan ceilings or ceilings on share capital subscription.

Credit cooperatives with big membership may experience rising operating costs as a result of an intensive mobilization of savings deposits. In this regard, they may pursue cost-reducing innovations, such as computerizing their regular transactions.

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14. See Lamberte and Relampagos (1990).

Table 23

RETURN ON SHARE CAPITAL
1984-1988

	1984	1985	1986	1987	1988
BCPST	0.14	0.12	0.13	0.15	0.14
BONGAO	0.37	0.26	0.32	0.19	0.40
FICCCO	0.14	0.18	0.10	0.13	0.12
FIL-MER	n.d.	0.08	0.09	0.12	0.14
GMA	0.06	0.03	0.03	0.06	0.13
ISIDORE	n.d.	n.d.	0.17	0.16	0.15
MSU-IIT	0.14	0.11	0.20	0.17	0.16
OURLADY	0.24	0.16	0.08	0.15	0.20
PACO	0.09	0.07	0.10	0.07	0.02
SMC-MAND	0.12	0.12	0.12	0.12	0.11
SMT	0.30	0.23	0.21	0.004	0.002
TABUK	0.10	0.23	0.22	0.18	0.18

n.d. = no data available
Source: Credit Cooperative Financial Statements, 1984-1988.

Table 24

RETURN ON TOTAL ASSETS
1984-1988

	1984	1985	1986	1987	1988
BCPST	0.11	0.09	0.10	0.12	0.11
BONGAO	0.05	0.04	0.06	0.03	0.07
FICCCO	0.05	0.08	0.05	0.06	0.05
FIL-MER	n.d.	0.07	0.07	0.09	0.10
GMA	0.05	0.03	0.02	0.04	0.07
ISIDORE	n.d.	n.d.	0.13	0.11	0.11
MSU-IIT	0.08	0.06	0.11	0.10	0.09
OURLADY	0.03	0.02	0.01	0.02	0.03
PACO	0.07	0.06	0.07	0.05	0.01
SMC-MAND	0.10	0.10	0.10	0.10	0.10
SMT	0.07	0.04	0.04	0.0009	0.0005
TABUK	0.09	0.17	0.16	0.13	0.13

n.d. = no data available
Source: Credit Cooperative Financial Statements, 1984-1988.

Although credit cooperatives have posted impressive nominal growth rates in their total resources, more prudent management of their expenditures could improve their net income performance. This is especially true for those cooperatives which have experienced a drastic decline in their net incomes during their most recent operations due to a surge in their operating expenditures. Such a decline in net income could penalize shareholders and borrowers through a reduction in the dividends and patronage refund given to them.

IV. SOCIOECONOMIC PROFILE OF SAMPLE RESPONDENTS

A. *General Information*

Table 25 shows some characteristics of the 227 member-respondents included in the baseline survey. Their average age is 39.9 years. More than 80 percent are married. Females comprise 74.9 percent, and the sample respondents are mostly non-household heads. This shows that membership in the credit cooperative is not limited to one member of the family. Close to 97 percent are regular members; the rest are officers.

There is a fairly high degree of literacy among the sample respondents. More than 80 percent of them have obtained at least secondary schooling; 58 percent have pursued college schooling, and a number reached post-undergraduate level (i.e., LL.B., M.D., D.M.D., and graduate studies).

Non-household head respondents are further classified according to their position in the household. More than 50 percent are spouses, while the rest are immediate family members (Table 26). The average household size is 6.2, approximately the national average. Table 26 also shows the disaggregation of household members by age groups as reported by the respondents. More households reported having family members, both men and women, within the working age group (15-65 years old).[15] Based on the total of household members and of working members, the number of dependents (those not engaged in any form of livelihood activity) was computed. On the average, there were five dependents in each household.

The respondents' residential characteristics are presented in Table 27. Those residing in single houses comprise 78.2 percent, which is 11.5 percentage points below the national proportion.[16] Sixty-three percent own the house and lot, which is above the 58.1 percent national proportion in 1985. Most residential units are built of strong and light materials, with an average number of 2.8 rooms. Ninety-three percent of households use electricity for their lighting facility, but only few use the same for cooking. Based on the 1985 Family Income and Expenditures Survey, only 57 percent of total households in the country have electricity in their homes. Liquified petroleum gas appears to be the primary source of fuel for cooking. Moreover, a faucet water system inside the house provides the main source of drinking water for 62.2 percent of the sample.

15. Age group classification based on NSO definition.

16. Based on the 1985 Family Expenditures and Income Survey, 89.7 percent of the total households in the country resided in single houses.

Table 25

GENERAL CHARACTERISTICS OF MEMBER-RESPONDENTS

	No. of Observations	Percent
A. Age Distribution		
< 20	1	0.4
21 to 30	37	16.4
31 to 40	91	40.4
41 to 50	58	25.8
51 to 60	31	13.8
61 to 70	7	3.1
Total	225	100.0
Mean = 39.99		
S.D. = 9.90		
B. Sex		
Male	57	25.1
Female	170	74.9
Total	227	100.0
C. Civil Status		
Single	21	9.4
Married	194	87.0
Widow/Widower	8	3.6
Total	223	100.0
D. Head of Household		
Head	88	39.1
Other	137	60.9
Total	225	100.0
E. Position in the Credit Cooperative		
Member	215	96.8
Officer	7	3.2
Total	222	100.0
F. Educational Attainment		
No Schooling	2	0.9
Primary	9	4.0
Intermediate	27	12.0
Secondary	51	22.7
Vocational	6	2.7
College	111	49.3
LL.B., M.D., D.M.D.	4	1.8
Graduate Studies	15	6.7
Total	225	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 26

HOUSEHOLD COMPOSITION

	No. of Observations	Percent
A. Position in the Household (for non-household heads)		
Husband/Wife	125	92.6
Eldest Child	1	0.7
Second Child	2	1.5
Third Child	3	2.2
Fourth Child	2	1.5
Others	2	1.5
Total	135	100.0

B. Household Size by Age Group

	No. of Households Reporting (Total = 228)					
	Men	% to Total	Women	% to Total	Total	% to Total
Less than 15	130	57.3	108	47.4	164	71.9
15 - 65	187	82.4	195	85.5	201	88.2
Over 65	11	4.8	23	10.1	29	12.7

C. Total Household Members		
1 - 2	9	4.4
3 - 4	45	21.8
5 - 6	72	35.0
7 - 8	49	23.8
9 - 10	16	7.8
11 - 12	10	4.9
13 - 14	3	1.5
15 - 16	1	0.5
> 16	1	0.5
Total	206	100.0
Mean = 6.20		
S.D. = 2.65		
D. Number of Dependents[1]		
1 - 2	16	11.5
3 - 4	48	34.5
5 - 6	44	31.7
7 - 8	20	14.4
9 - 10	7	5.0
> 10	4	2.9
Total	139	100.0
Mean = 4.99		
S.D. = 2.48		

[1]Total household members less number of members working.
Source: Credit Cooperative Members Survey, 1989.

Table 27

CHARACTERISTICS OF RESIDENTIAL UNITS

	No. of Observations	Percent
A. Type of Unit		
Single	176	78.2
Duplex	15	6.7
Apartment	19	8.4
Improvised	11	4.9
Hospital	4	1.8
Total	225	100.0
B. Housing Materials		
Strong	93	42.1
Light	73	33.0
Salvaged/Makeshift	3	1.4
Mixed/Strong	35	15.8
Mixed/Light	14	6.3
Mixed/Salvaged	1	0.5
Combination	2	0.9
Total	221	100.0
C. Tenure Status		
Own or owner-like possession of house and lot	141	63.2
Rent house and lot	28	12.6
Own house, rent lot	18	8.1
Own house, rent-free lot with consent of owner	23	10.3
Own house, rent-free lot without consent of owner	1	0.4
Rent free house & lot with consent of owner	11	4.9
Rent free house & lot without consent of owner	1	0.4
Total	223	100.0

Table 27 (continuation)

	No. of Observations	Percent
D. Number of Rooms in the House		
1	99	46.3
3	90	42.1
5	21	9.8
7	3	1.4
> 10	1	0.5
Total	214	100.0
E. Type of Lighting Facility		
Electricity	207	92.8
Kerosene Lamp	10	4.5
Combination	6	2.6
Total	223	100.0
F. Fuel Used in Cooking		
Coal	5	2.2
Wood	38	17.0
Kerosene	17	7.6
Gas	63	28.3
Electricity	18	8.1
Sawdust	7	3.1
Combination	75	33.6
Total	223	100.0
G. Source of Drinking Water		
Faucet/Inside	138	62.2
Faucet/Others	25	11.3
Well/Own Use	40	18.0
Well/Others	11	5.0
Dug Well	1	0.5
Rain	4	1.8
Combination	3	1.5
Total	222	100.0

Source: Credit Cooperative Members Survey, 1989.

The most common household appliances owned by the respondents include radios, television sets, refrigerators, sewing machines, and stereos, in that order. Very few own cars and other types of vehicle. In Table 28, the proportions of the sample who reported owning household conveniences—specifically radio, television set, and refrigerator—are much higher than the national percentages.[17] Thus, it appears that the sample households generally enjoy above average standard of living.

B. *Occupation and Income*

Wage-earners comprise the biggest portion of the sample. These include salaried employees/ laborers working in government and private offices, farms, hospitals and clinics, and school teachers from both public, private, and state institutions. Thus, it appears that a significant proportion of credit cooperative members have stable sources of income. Eighty-six percent of them were employed for the past 12 months, but on the average, salaried workers were employed for 11.4 months as of the period of survey. The annual income from main occupation averaged P40,457, which is above the national average family income from main occupation of P39,728. [18] From Table 29, it can be observed that more than 60 percent of the salaried workers have income of at least P24,000 annually, or about P2,000 a month.

Merchant traders also account for a significant proportion of the sample, comprising 26.3 percent. Most of them are engaged in retail trade, but some are large-scale businessmen with gross income of as much as P6 million in the past 12 months. This shows that credit cooperative membership is not only limited to low-income groups, which is not surprising since most of the credit cooperatives operate in communities with heterogenous residents in terms of livelihood and living standards. Apparently, these cooperatives have given the community residents equal access to membership privileges regardless of their economic status. After incorporating business-related expenses, the net income of businessmen-respondents averaged P48,943 (Table 30).

C. *Household Status*

Several members of the family contribute to household income. As shown in Table 31, 70.1 percent of the households have two or more members who have some form of livelihood. This is important since each income-earning individual in the community is a potential credit cooperative member. On the average, aside from the respondents themselves, there are 1.5 percent other household members who are earning, aside from the respondents. These are typically the spouses of married respondents, and parents of unmarried ones. Their total annual income range from P500 to P900,000, with an average of P55,089. Thus, these household members contribute significantly to total household income.[19]

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17. Of the total households in the country, 69.9 percent own radio, 30.4 percent own television set, and 20.3 percent own refrigerator (FIES 1985).

18. Based on the Family Income and Expenditures Survey, 1988 (preliminary table).

19. These other income-earning household members include the household heads considering that the sample respondents comprised mainly of non-household heads. This explains the relatively high average annual income of the entire household.

Table 28

APPLIANCES / OTHER ITEMS OWNED

	No. of Households	Percent
Radio	201	88.1
Watch	182	79.8
Television Set	173	75.9
Sewing Machine	111	48.7
Bicycle	73	32.0
Refrigerator	146	64.0
Car	33	14.5
Stereo	102	44.7

Source: Credit Cooperative Members Survey, 1989.

Table 29

OCCUPATION OF RESPONDENTS

	No. of Observations	Percent
A. Main Occupation		
Salaried Office Employee	77	36.8
Salaried Farm Employee	2	1.0
Farmer	17	8.1
Fisherman	1	0.5
Merchant Trader	55	26.3
Artisan	2	1.0
Salaried Hospital/Clinic Employee	2	1.0
School Teacher	35	16.7
Self-Employed	5	2.4
Others	13	6.3
Total	209	100.0
B. Number of Months Working		
1 - 5 months	9	5.1
6 - 11 months	15	8.6
12 months and above	152	86.3
Total	176	100.0
Mean = 11.42		
S.D. = 2.87		
C. Total Annual Income from Main Occupation (P/)		
≤ 12,000	38	21.2
12,001 - 24,000	29	16.2
24,001 - 36,000	47	26.3
36,001 - 48,000	23	12.8
48,001 - 60,000	15	8.4
60,001 - 72,000	7	3.9
72,001 - 84,000	1	0.6
84,001 - 96,000	4	2.2
96,001 - 108,000	2	1.1
> 108,000	13	7.3
Total	179	100.0
Mean = 40,456.67		
S.D. = 39,411.77		

Source: CCU Members Survey, 1989

Table 30

NATURE OF BUSINESS

	No. of Observations	Percent
A. Type of Business		
Retail/Trade	44	69.8
Transportation/Trucking/ Gasoline Station	1	1.6
Food Manufacturing	1	1.6
Clothing/Garments	1	1.6
Housing/Real Estate	1	1.6
Food Services	3	4.8
Farming/Fishing	1	1.6
Non-Food Services	5	7.9
Others	6	9.5
Total	63	100.0
B. Total Gross Income from Business (P/)		
< 5,000	1	1.6
5,000 - 50,000	25	41.0
50,001 - 100,000	16	26.2
100,001 - 200,000	6	9.8
200,001 - 300,000	7	11.5
300,001 - 400,000	2	3.3
400,001 - 500,000	1	1.6
500,001 - 1,000,000	2	3.3
Above 1,000,000	1	1.6
Total	61	100.0

Mean = 225,110.82
S.D. = 775,466.82

Table 30 (continuation)

	No. of Observations	Percent
C. Total Expenses from Business (P/)		
< 2,250	7	12.6
2,250 - 50,000	27	48.2
50,001 -100,000	13	23.2
100,001 -200,000	4	7.1
200,001 -300,000	1	1.8
300,001 -400,000	1	1.8
400,001 -500,000	1	1.8
500,001-1,000,000	2	3.6
Total	56	100.0
Mean = 83,719.29		
S.D. = 157,679.85		
D. Net Income from Business (P/)		
≤ 12,000	19	32.8
12,001 - 24,000	4	6.9
24,001 - 36,000	12	20.7
36,001 - 48,000	3	5.2
48,001 - 60,000	7	12.1
60,001 - 72,000	3	5.2
84,000 - 96,000	1	1.7
96,001 -108,000	1	1.7
> 108,000	8	13.8
Total	58	100.0
Mean = 48,942.76		
S.D. = 55,642.16		

Source: Credit Cooperative Members Survey, 1989.

Table 31

HOUSEHOLD MEMBERS WORKING

	No. of Observations	Percent
A. Other Household Members Working		
With	150	70.1
Without	64	29.9
Total	214	100.0
B. Number of Other Household Member Working		
1	107	72.3
2	20	13.5
3	13	8.8
4	5	3.4
5	3	2.0
Total	148	100.0
Mean = 1.49		
S.D. = 0.94		
C. Total Annual Income of Other Members (P/)		
≤ 12,000	16	12.2
12,001 - 24,000	28	21.4
24,001 - 36,000	26	19.8
36,001 - 48,000	17	13.0
48,001 - 60,000	13	9.9
60,001 - 72,000	10	7.6
72,001 - 84,000	4	3.1
84,001 - 96,000	4	3.1
96,001 -108,000	3	2.3
> 108,000	10	7.6
Total	131	100.0
Mean = 55,089.42		
S.D. = 88,366.22		

Source: Credit Cooperative Members Survey, 1989.

Very few (15.1%) of the respondents received financial assistance for the past 12 months prior to the survey (Table 32). The average amount they received was P89,164, mostly from friends and relatives residing abroad. The financial assistance includes remittances of relatives working overseas. Some of the respondents also received financial assistance from friends and relatives residing within the country.

Table 33 shows the distribution of total household income, the annual average of which is P85,782, although close to 20 percent of the households have annual income of at least P100,000. [20] On the other hand, total household expenditure averaged P51,239 per annum (Table 34). Over 45 percent of this is spent on food. Education is the second major expenditure, followed by expenditures on fuel, light, and water. Expenses for house and land rental are minimal as most households own the house and lot they occupy.

Table 35 shows the respondents' annual total household saving, which is derived by subtracting total household expenditure from total household income. On the average, annual household saving was P37,213. This indicates the saving potential of households which could be tapped by the credit cooperatives.

D. *Respondents' Profile Upon Joining the Credit Cooperative*

Table 36 shows the profile of respondents when they joined their respective credit cooperatives. Their average age was 34.1 years. Close to 79 percent of them were married and had an average of 3.4 children. Roughly 50 percent of the respondents who were single when they first joined the cooperative were now married during the period of survey.

Upon application for membership, the majority (50.8%) of the respondents were salaried workers, mostly office employees/ laborers and school teachers, while one-fourth (25.4%) were merchant traders/businessmen. Apparently, a significant portion of the membership has stable sources of income. A number of respondents (8.6%) also earned livelihood from farming. Upon joining the credit cooperative, the respondents' average annual income from their main occupation was P35,486. The proportion of those who were unemployed or did not have some form of livelihood upon joining the cooperative was minimal. Although the credit cooperatives admit non-working members, it appears that they attract mostly income-earning members. Some credit cooperatives grant associate membership to students, but this type of membership could not avail of borrowing privileges.

Upon joining the credit cooperative, more than two-fifths of the sample claimed about two members of the household were working. On the average, there were 1.9 household members earning a living. In most instances, these were the respondents themselves and their spouses. Several of them were sole earner of the household upon joining the cooperative. Total annual household income averaged P64,444.

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20. The financial assistance received by the households of the sample respondents for the past 12 months have been included in the computation of the annual household income.

Table 32

FINANCIAL ASSISTANCE

	No. of Observations	Percent
A. Revised Financial Assistance		
Received	32	15.1
Did not receive	180	84.9
Total	212	100.0
B. Sources of Financial Assistance		
Friends/relatives residing abroad	20	64.5
Friends/relatives residing in M.M.	3	9.7
Friends/relatives residing in other cities in the country	3	9.7
Friends/relatives residing in other town of the country	3	9.7
Others	2	6.4
Total	31	100.0
C. Amount of Financial Assistance		
≤ 5,000	18	62.0
5,001 - 10,000	4	13.8
10,001 - 20,000	1	3.4
20,001 - 30,000	1	3.4
30,001 - 40,000	2	6.8
> 50,000	3	10.3
Total	29	100.0

Mean = 86,164.14
S.D. = 370,286.33

Source: Credit Cooperative Members Survey, 1989.

Table 33

ANNUAL TOTAL HOUSEHOLD INCOME (₱)

	No. of Observations	Percent
≤ 25,000	38	19.3
25,001 - 50,000	49	24.9
50,001 - 75,000	43	21.8
75,001 - 100,000	29	14.7
100,001 - 125,000	11	5.6
125,001 - 150,000	7	3.6
150,001 - 175,000	4	2.0
175,001 - 200,000	5	2.5
200,001 - 225,000	2	1.0
225,001 - 250,000	2	1.0
250,001 - 275,000	1	0.5
> 300,000	6	3.0
Total	197	100.0

Mean = 85,782.83
S.D. = 163,659.82

Source: Credit Cooperative Members Survey, 1989.

Table 34

AVERAGE ANNUAL EXPENDITURES BY ITEM

	No. of Observations	Average Expenditures (₱)	Proportion to Total (%)
Food	195	23,121.34	45.1
House/Land Rental	195	1,523.12	3.0
House/Land Amortization	195	1,233.61	2.4
Fuel, Light and Water	195	5,031.38	9.8
Clothing, Footwear, etc.	195	4,858.41	9.5
Education	195	5,802.08	11.3
Furnishings & Furniture	195	2,875.03	5.6
House Maintenance & Repair	195	2,470.77	4.8
Medical Care	195	2,436.94	4.7
Transportation	195	2,892.83	5.6
Other Expenses	195	1,556.59	3.0
Total Expenditures	195	51,239.49	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 35

ANNUAL TOTAL HOUSEHOLD SAVING

	No. of Observations	Percent
None	52	29.1
≤ 1,000	5	2.8
> 1,000 - 10,000	22	12.3
> 10,000 - 20,000	17	9.5
> 20,000 - 30,000	22	12.3
> 30,000 - 40,000	18	10.1
> 40,000 - 50,000	6	3.3
> 50,000 - 60,000	9	5.0
> 60,000 - 70,000	3	1.7
> 70,000 - 80,000	7	3.9
> 80,000 - 90,000	7	3.9
> 90,000	11	6.1
	179	100.0

Mean = 37,212.70
S.D. = 142,246.02

Source: Credit Cooperative Members Survey, 1989.

Table 36

RESPONDENT STATUS UPON JOINING THE CREDIT COOPERATIVE

	No. of Observations	Percent
A. Age		
20 and below	8	3.8
21 - 30	79	37.3
31 - 40	78	36.8
41 - 50	35	16.5
51 - 60	11	5.2
61 - 70	1	0.5
Total	212	100.0
Mean = 34.07		
S.D. = 9.32		
B. Main Occupation		
Salaried office employee/laborer	104	49.8
Salaried farm employee/laborer	2	1.0
Farmer	18	8.6
Fisherman	1	0.5
Merchant Trader	53	25.4
Artisan	3	1.4
Salaried hospital employee	2	1.0
School teacher	18	8.6
Self-employed	4	1.9
Ordinary laborer	1	0.5
Others	3	1.5
Total	209	100.0
C. Civil Status		
Single	41	18.3
Married	176	78.6
Widow/Widower	7	3.1
Total	224	100.0
D. Number of Children		
0	8	4.5
1 - 2	63	35.6
3 - 4	57	32.2
5 - 6	29	16.4
7 - 8	14	7.9
9 - 10	4	2.3
11 - 12	2	1.1
Total	177	100.0
Mean = 3.45		
S.D. = 2.29		

Table 36 (continuation)

	No. of Observations	Percent
E. Number of Working Members		
0	1	0.5
1 - 2	170	83.7
3 - 4	29	14.3
> 4	3	1.5
Total	203	100.0
Mean = 1.90		
S.D. = 1.21		
F. Annual Income from Main Occupation		
≤ 12,000	44	25.6
12,001 - 24,000	41	22.8
24,001 - 36,000	37	20.6
36,001 - 48,000	18	10.0
48,001 - 60,000	15	8.3
60,001 - 72,000	7	3.9
72,001 - 84,000	3	1.7
84,001 - 96,000	3	1.7
96,001 - 108,000	4	2.2
> 108,000	6	3.3
Total	178	100.0
Mean = 35,485.73		
S.D. = 44,449.56		
G. Total Annual Household Income		
< 1,000	1	0.6
1,000 - 20,000	32	17.7
20,001 - 40,000	55	30.4
40,001 - 60,000	26	14.4
60,001 - 80,000	29	16.0
80,001 - 100,000	11	6.1
100,001 - 150,000	11	6.1
150,001 - 200,000	8	4.4
> 200,000	8	4.4
Total	181	100.0
Mean = 64,443.68		
S.D. = 69,928.48		

Source: Credit Cooperative Members Survey, 1989.

An increase in the current total household income from the time the respondents joined the cooperatives has been observed. The average increase was P27,683. As shown in the next chapter, this increase in household income also increased the respondents' fixed deposits by an average of P4,586 from the time they joined their credit cooperatives.

E. *Profile of Respondents Engaged in Farming*

Thirty of the respondents are engaged in farming. They include those who, aside from their main occupation, have considered farming as an additional source of income. Table 37 shows the average farm size and value of production by type of crops. Twenty-five of the farmer-respondents are involved in rice farming, with an average production value of P43,922 for the past 12 months prior to the survey.

Further, 25 respondents also own/raise animals. Table 38 shows the average number of animals by type raised for the past 12 months. Swine and poultry raising are the most common, though a number of respondents also own carabaos used in traditional farming.

Very few of the farmer respondents own and use a four-wheel tractor in farming, but 19 of them use two-wheel hand tractors. Other farm implements and inputs include assorted tools (i.e., axe, bolo, etc.) and seed (palay) (Table 39). Ten of them own the land they cultivate, with an average value of P152,316, approximately. The others are share tenants, amortizing owners, and cultivators for absentee landlords (Table 40).

Some farmer-respondents are engaged in other means of livelihood to augment their income from farming. Table 41 shows the nature of other sources of income of nine farmer-respondents, with an average earnings of P14,415 during the past 12 months.

F. *Summary*

Based on the information on household income, expenditures, residential status, and amenities, the sample is generally composed of households with above average standard of living. These households have greater potential to save. The credit cooperatives could play an important role in mobilizing these potential household savings. Since the credit cooperatives, as pointed out earlier, impose a ceiling on the maximum amount of loan per single borrower, this may restrict the members' willingness to voluntarily increase their fixed deposits. Thus, offering other deposit instruments, such as savings and time deposits, may encourage them to save their surplus funds in the credit cooperative. Likewise, the present practice by some cooperatives of mobilizing deposits through such programs and promotional gimmicks as Tipid Movement, Forced Saving Plan, raffle draws, beauty contests, etc., can be considered effective in mobilizing the surplus resources of members. Lastly, the management can effectively encourage more share capital subscription if it relaxes its loan ceiling policy.

Table 37

FARM SIZE AND VALUE OF PRODUCTION

Crops	Average Farm Size (ha)		Average Value of Production (P)
	Irrigated	Unirrigated	
Rice	3.22	1.5	43,922.4
Corn	0.50	-	n.d.
Coconut	2.67	-	1,192
Peanut	3.00	-	n.d.
Vegetables	4.00	-	n.d.

n.d. = no data available
Source: Credit Cooperative Members Survey, 1989.

Table 38

ANIMALS/POULTRY OWNED

Type	Average	
	Minimum	Maximum
Carabaos	1	2
Cows	1	1
Hogs/Pigs	3	9
Goats	1	1
Chickens	7	17
Ducks	7	11
Turkey	2	3

Source: Credit Cooperative Members Survey, 1989.

Table 39

FARM INPUTS AND EQUIPMENT

A. Farm Equipment and Machineries

Type	Average No.	Average Resale Value Per Unit
4-Wheel Tractor	1	P 18,000.00
Hand Tractors	1	P 25,000.00
Assorted Tools	2	P 200.00

B. Other Farm Inputs

Type	Average Sale Value
Seed (Palay)	P 1,800.00
Palay	P 11,185.00

Source: Credit Cooperative Members Survey, 1989.

Table 40
CULTIVATED LAND ARRANGEMENT

Arrangement	No. of Observations	Percent
Owner	10	34.5
Amortizing Owner	3	10.3
Share Tenant	6	20.7
Others	10	34.5
	29	100.0

Average Value of Land for Owners (Approximate) P 152,315.79

Source: Credit Cooperative Members Survey, 1989.

Table 41
OTHER SOURCES OF INCOME OF FARMER-RESPONDENTS

Nature	No. of Observations	Percent
Passenger Jeepney	1	11.1
Piggery/Poultry	1	11.1
Retail Trade	4	44.4
Canteen/ Carinderia	1	11.1
Sound System Service	1	11.1
Dry Goods Store	1	11.1
	9	100.0

Average Income = P 14,415.55

Source: Credit Cooperative Members Survey, 1989.

V. BORROWING AND SAVING PATTERNS

A. *Saving in the Credit Cooperatives*

The most commonly cited reason for joining a credit cooperative is to have access to credit. Almost 50 percent of the respondents had this motivation when they joined their respective credit cooperatives (Table 42). Interestingly, several respondents seemed to have a wider vision of membership in the cooperative. They believed that it is through the credit cooperatives that they could manifest their personal contribution to national economic growth. Others had a more philantrophic perspective, which was to help the other members.

Less than 10 percent of the respondents cited saving as a motivating force in membership. This is ironic since the primary goal of credit cooperatives is to encourage saving and thrift among its members.

The majority of the respondents started with an initial fixed deposit of P500 and less. In most cases, credit cooperatives require a very minimal share capital subscription in order to encourage more membership. However, a number of respondents have also put up a substantial initial fixed deposit of over P5,000, with the highest share capital subscription of P40,000. The average initial fixed deposit placed by the respondents was P2,386 (Table 43). On the other hand, Table 44 shows the outstanding fixed deposits of the respondents during the period of survey. Comparing Tables 43 and 44, one can observe an upward movement in the fixed deposits of most respondents.

As of the period of survey, the proportion of respondents who have fixed deposits of P500 and less was reduced to 8.3 percent from the initial 54.9 percent. Moreover, there is an increase in the proportion of those who have fixed deposit of at least P5,000, and the highest share capital subscription has already reached P80,000. This indicates the members' continuous saving in the cooperative which could have been facilitated and accelerated through savings mobilization programs. The average outstanding fixed deposit at the time of survey was P6,880. However, the rate of increase in annual terms throughout the period of membership appears slow. Given an average membership period of 5.9 years, and the average increase in fixed deposits of P4,586, the member-respondents increased their fixed deposit balances at an average of P775 per annum.

Aside from fixed deposits, most credit cooperatives offer savings deposits. However, of the 227 respondents, only 116 (51%) have savings deposits. Of these 116 respondents, roughly 35 percent regularly made monthly deposits, while 16 percent had more frequent deposit transactions of more than once a month (Table 45). On the average, the minimum and maximum savings deposits made during the past 12 months were P769 and P2,533, respectively. On the other hand, the average minimum and maximum outstanding savings deposits were P3,053 and P6,165, respectively. These are comparable with the respondents' initial and outstanding fixed deposits, and are indicative of the members' willingness to save larger amounts in the credit cooperatives.

The respondents were asked to compare the interest rates on savings deposits between the credit cooperative and the bank. Thirty-one percent claimed that cooperative interest rates were higher than

Table 42

REASONS FOR JOINING THE CREDIT COOPERATIVE

	No. of Observations	Percent
To save and earn	17	8.3
To be able to borrow	97	47.1
As a condition for membership in other associations	4	1.9
To be able to help other members in the credit union	26	12.6
Asked to join by other members 1/ officers of the credit union	10	4.9
For national economic growth	28	13.6
Others (combination)	24	11.6
Total	206	100.0

1/ Household consumption includes expenditures on education, household repairs, medical, & other emergency needs.

Source: Credit Cooperative Members Survey, 1989.

Table 43

INITIAL FIXED DEPOSIT (P)

Fixed Deposits	No. of Obs.	Percent
≤ 500	113	54.9
501 - 1,000	21	10.2
1,001 - 1,500	8	3.9
1,501 - 2,000	5	2.4
2,001 - 2,500	5	2.4
2,501 - 3,000	11	5.3
3,001 - 3,500	3	1.5
3,501 - 4,000	1	0.5
4,001 - 4,500	1	0.5
4,501 - 5,000	12	5.8
5,001 - 10,000	17	8.3
10,001 - 50,000	9	4.4
Total	206	100.0

Mean = 2,386.34
S.D. = 4,387.85

Source: Credit Cooperative Members Survey, 1989.

Table 44

OUTSTANDING FIXED DEPOSIT (P)

Fixed Deposits	No. of Obs.	Percent
≤ 500	17	8.3
501 - 1,000	18	8.7
1,001 - 1,500	17	8.3
1,501 - 2,000	22	10.7
2,001 - 2,500	14	6.8
2,501 - 3,000	14	6.8
3,001 - 3,500	8	3.9
3,501 - 4,000	5	2.4
4,001 - 4,500	4	1.9
4,501 - 5,000	15	7.3
5,001 - 10,000	36	17.5
10,001 - 50,000	32	15.5
> 50,000	4	1.9
Total	206	100.0

Mean = 6,880.03
S.D. = 10,682.28

Source: Credit Cooperative Members Survey, 1989.

Table 45

SAVINGS DEPOSIT IN THE CREDIT COOPERATIVE, PAST 12 MONTHS

	No. of Observations	Percent
A. Frequency		
Once only	24	21.6
Twice/thrice	28	25.2
Once a month	39	35.1
Less than one month	18	16.2
Never	2	1.8
Total	111	100.0
B. Minimum Savings Deposit Made (₱)		
≤ 500	85	82.5
501 - 1,000	5	4.9
1,001 - 1,500	2	1.9
1,501 - 2,000	1	1.0
2,001 - 2,500	1	1.0
2,501 - 5,000	6	5.8
5,501 - 10,000	2	1.9
> 10,000	1	1.0
Total	103	100.0
Mean = 769.22		
S.D. = 2,012.63		
C. Maximum Savings Deposit Made (₱)		
≤ 500	49	49.5
501 - 1,000	14	14.1
1,001 - 1,500	3	3.0
1,501 - 2,000	6	6.1
2,001 - 2,500	4	4.0
2,501 - 5,000	10	10.1
5,501 - 10,000	8	8.1
> 10,000	5	5.1
Total	99	100.0
Mean = 2,532.87		
S.D. = 4,602.60		
D. Minimum Outstanding Savings Deposits (₱)		
≤ 500	46	49.5
501 - 1,000	11	11.8
1,001 - 1,500	4	4.3
1,501 - 2,000	2	2.2
2,001 - 2,500	6	6.5
2,501 - 5,000	6	6.5
5,501 - 10,000	11	11.8
> 10,000	7	7.5
Total	93	100.0
Mean = 3,053.52		
S.D. = 5,595.16		

Table 45 (cont'd)

	No. of Obs.	Percent
E. Maximum Outstanding Savings Deposits (₱)		
≤ 500	18	18.4
501 - 1,000	9	9.2
1,001 - 1,500	1	1.0
1,501 - 2,000	6	6.1
2,001 - 2,500	6	6.1
2,501 - 5,000	19	19.4
5,501 - 10,000	19	19.4
> 10,000	20	20.4
Total	98	100.0
Mean = 6,164.71		
S.D. = 7,446.24		

Source: Credit Cooperative Members Survey, 1989.

bank rates, 29 percent claimed otherwise, 15 percent considered the interest rates the same for both institutions, and the rest did not know the difference. The figures indicate a relatively high level of awareness among the members of the returns on savings deposits in different institutions. It appears, though, that the perception regarding the interest rates on savings deposits in the credit cooperatives and the banks differs between the management and membership. Most of the officers/management of these cooperatives claimed that their savings deposit rates were either similar to or higher than the observed bank rate (Chapter II). Only one credit cooperative claimed that its interest rate was lower than the observed bank rate.

Moreover, more respondents considered the opening of classes in June and the Christmas season as periods of heavy withdrawals. Thus, credit cooperatives should be able to effectively project cash inflow and outflow during these periods by balancing loan approvals and the available loanable funds. For liquidity management purposes, the credit cooperatives may diversify their portfolios by placing a portion of their surplus funds on short-term maturity investments that earn attractive rates of return (i.e., time deposits, etc.) and which can be terminated and withdrawn during periods of high demand for loans. Likewise, the concept of pooled cooperative resources, such as the Central Finance Facility from where deficit cooperatives can borrow, may help in cooperative liquidity management.

The respondents were further asked to compare the safety of deposits in, and the accessibility of, their credit cooperative *vis-a-vis* the bank they know in their area. The results showed that 69 percent considered their credit cooperative more accessible than the bank, and 54 percent believed that their savings deposits were safer in the cooperative.

Table 46 shows the time and cost involved in depositing in the cooperative. The majority (86.1%) of respondents spent 30 minutes and less in round trip travel time every time they performed a deposit transaction. On the average, each round trip took 21 minutes, roughly indicating the accessibility of the credit cooperative office. More time, however, is spent in completing the deposit transaction in the credit cooperative. The average is 38.7 minutes. This length of time, however, depends on the volume of deposit transactions being processed by the credit cooperatives on the same day. Besides, most of them have not yet computerized their operations, thus, processing a deposit transaction takes some time, especially in the case of bigger cooperatives where there are expectedly more deposit transactions being processed. A number of respondents do not commute as the credit cooperative is just a walking distance away from their houses. Similarly, very few of them incur out-of-pocket expenses. On the average, the transportation cost per round trip and other out-of-pocket expenses incurred are P1.82 and P0.95, respectively.

B. *Borrowing from the Credit Cooperative*

Most of the respondents obtained their most recent loan in 1988 and 1989. The amount ranged from P500 to P127,000. The average loan size was P17,743, which is much higher than the average loan size of P4,040 reported for the informal sector in a nationwide survey.[21] It can be observed that the average loan size is approximately 2.5 times higher than the average value of the respondents'

21. See Agabin *et al.* (1989).

Table 46

TIME AND COST IN DEPOSITING IN THE CREDIT COOPERATIVE

	No. of Observations	Percent
A. Travel Time (minutes)		
≤ 10	52	59.7
> 10 - 20	13	14.9
> 20 - 30	10	11.5
> 30 - 40	2	2.3
> 40 - 50	6	6.9
> 50 - 60	4	4.6
Total	87	100.0
Mean = 21.21		
S.D. = 28.86		
B. Time to Complete Transaction in the Cooperative (minutes)		
≤ 10	27	31.8
> 10 - 20	12	14.1
> 20 - 30	18	21.2
> 30 - 40	2	2.4
> 40 - 50	8	9.4
> 50 - 60	11	12.9
> 60	7	8.2
Total	85	100.0
Mean = 38.72		
S.D. = 48.96		
C. Transportation Cost (₱)		
0	38	38.0
> 0 - 2.00	41	41.0
> 2.00 - 4.00	14	14.0
> 4.00 - 6.00	5	5.0
> 6.00	2	2.0
Total	100	100.0
Mean = 1.82		
S.D. = 2.18		
D. Other Out-of-Pocket Cost (₱)		
0	71	89.9
> 2.00 - 5.00	2	2.5
> 5.00 - 10.00	5	6.3
> 10.00	1	1.3
Total	79	100.0
Mean = 0.95		
S.D. = 3.92		

Source: Credit Cooperative Members Survey, 1989.

outstanding fixed deposits, indicating an average loan multiple of 2.5. The average loan maturity is 15.6 months, with most of the loans maturing in one year or less. Each installment payment averaged P1,805, while interest charges ranged from six percent to 36 percent per annum. The average interest rate on loans is 15.1 percent per annum (Table 47).

The respondents were asked to compare the interest rates on credit cooperative loans with those on bank loans. Of the 181 respondents, 63 percent claimed that cooperative loan rates were lower, six percent claimed otherwise, nine percent considered the rates the same for both institutions, and the rest did not know the difference. Those who answered higher noted an average difference of six percentage points, while those who answered lower noted 7.46 percentage points. Similarly, the interest rates on cooperative loans were compared with the interest rates on loans from moneylenders. The majority believed that the cooperative loan rates were lower than those charged by the moneylenders.

Twenty-three percent of the 186 respondents were required to present collaterals for the last loan they obtained from the credit cooperatives. The collaterals were mostly chattel and land, with an average value of P43,734. As mentioned in the previous chapter, collaterals were only required when the amount applied for was deemed very high.

The processing of loan applications usually takes several days before the loan is finally released. Sixty percent of the respondents waited for more than a week before they were able to obtain their most recent loan. On the average, the duration from the submission of loan application to loan disbursement is 10 days (Table 48). Delays in loan releases are due to the following: (1) scheduling of loan disbursement according to the availability of funds; (2) a very rigid process of screening loan application; and (3) processing of numerous loan application at one time considering that even repeat borrowers with good track records are required to pass through the same screening policy as new borrowers.

Forty percent of the respondents followed up their loan application through personal visits to the credit cooperative. The average number of personal visits was three, with each visit taking an average of 1.7 hours, including travel time and discussion. Respondents incurred transportation costs every time they visited the credit cooperative, although 27.4 percent of them went to the cooperative office by walking. But only a few incurred additional out-of-pocket expenses in following up their loan applications. Transportation cost and out-of-pocket expenses averaged P3.48 and P0.48, respectively (Table 49).

The majority (89.4%) received the loan on the time they needed it most. The rest just waited until their loans were finally released. However, out of 175 respondents, 15 percent did not receive the full amount as specified in their loan applications. The amount received was lower by an average of 31 percent. This loan reduction was due to the following: (1) there were many applicants at a given time; (2) the amount applied for was too high for the stated purpose; (3) there was a penalty because of late payments on the previous loan; (4) outstanding balance of the previous loan was automatically deducted (loan refinancing); and (5) other requirements set by the cooperative were not satisfied (e.g., delinquent depositor, lack of collateral, etc.). Nevertheless, all of them accepted the approved amount, but some of them supplemented it by borrowing from friends/relatives and moneylenders.

Table 47

LAST LOAN FROM THE CREDIT COOPERATIVE

	No. of Observations	Percent
A. Year Obtained		
1981 - 1985	5	2.9
1986 - 1989	161	92.0
1990	9	5.1
Total	175	100.0
B. Loan Status		
Approved	184	97.4
Disapproved	5	2.6
	175	100.0
C. Loan Amount (₱)		
≤ 1,000	14	7.7
1,001 - 2,000	21	11.5
2,001 - 3,000	11	6.0
3,001 - 4,000	11	6.0
4,001 - 5,000	11	6.0
5,001 - 10,000	40	22.0
10,001 - 20,000	33	18.1
20,001 - 50,000	25	13.7
50,001 - 100,000	15	8.2
> 100,000	1	0.5
Total	182	100.0
Mean = 17,743.54		
S.D. = 23,922.49		
D. Maturity (months)		
1 - 6	49	26.6
7 - 12	57	31.0
13 - 18	23	12.5
19 - 24	30	16.3
> 24	25	13.5
Total	184	100.0
Mean = 15.58		
S.D. = 10.28		

Table 47 (cont'd)

	No. of Observations	Percent
E. Amount of Installment Payments (₱)		
≤ 250	41	27.7
251 - 500	29	19.6
501 - 750	14	9.5
751 - 1,000	18	12.2
1,001 - 5,000	42	28.4
> 5,000	4	2.7
Total	148	100.0
Mean = 1,804.72		
S.D. = 8,556.75		
F. Interest Rate on Loans (% p.a.)		
≤ 6.00	4	2.4
> 6.00 - 12.00	83	50.0
> 12.00 - 18.00	30	18.1
> 18.00 - 24.00	47	28.3
> 24.00	2	1.2
Total	166	100.0
Mean = 15.06		
S.D. = 5.62		

Source: Credit Cooperative Members Survey, 1989.

Table 48

NUMBER OF DAYS OF PROCESSING LOANS

	No. of Observations	Percent
< 1	5	2.9
1 - 2	31	17.9
3 - 4	18	10.4
5 - 6	15	8.7
7 - 8	36	20.8
9 - 10	10	5.8
> 10	58	33.5
Total	173	100.0

Mean = 9.99
S.D. = 9.83

Source: Credit Cooperative Members Survey, 1989.

Table 49

PERSONAL VISITS IN FOLLOWING-UP LOAN APPLICATION

	No. of Observations	Percent
A. Number of Personal Visits		
1 - 2	45	69.2
3 - 4	9	13.8
5 - 6	3	4.6
7 - 8	2	3.1
9 - 10	3	4.6
11 - 12	1	1.5
> 12	2	3.1
Total	65	100.0
Mean = 2.97		
S.D. = 3.12		
B. Hours Per Visit		
≤ 1.00	38	63.3
> 1.00 - 2.00	10	16.7
> 2.00 - 3.00	5	8.3
> 3.00	7	11.7
Total	60	100.0
Mean = 1.73		
S.D. = 2.11		
C. Transportation Cost (₱)		
0	17	27.4
1 - 2	22	35.5
3 - 4	12	19.4
5 - 6	4	6.4
7 - 8	2	3.2
> 8	5	8
Total	62	100.0
Mean = 3.48		
S.D. = 5.21		
D. Other Out-of-Pocket Expenses (₱)		
0	46	92.0
1	1	2.0
3	1	2.0
10	2	4.0
Total	50	100.0
Mean = 0.48		
S.D. = 2.01		

Source: Credit Cooperative Members Survey, 1989

Table 50 shows the main purposes of the most recent loans obtained by the respondents. It can be observed that the loans were intended mainly to finance businesses, household repairs and improvements, and family consumption, in that order.

As of the period of survey, 53.4 percent of the respondents had paid back their loan or at least made the payments already due, while 33.7 percent were still waiting for the due date. The average amount of payment made was P9,274. Those who have not made any payment for the loans already due cited insufficient income and emergency expenses as reasons. Thus, in order to collect payments, the credit cooperatives have taken two common steps: (1) sending a collection letter to the borrower; and (2) making a collection visit by one of the cooperative staff or officers. The cooperatives also exerted some forms of pressure, which included cancellation or suspension of membership, imposition of a moratorium on new loans until the outstanding balance has been fully paid, and curtailment of borrower's access to the cooperative's services.

Cases of loan disapproval are very minimal. This only takes place when a borrower is not yet qualified for loan restructuring/refinancing.

Out of 200 respondents, only 59 percent regularly attend the general assembly. However, 61 percent attended the last general assembly. Most of those who did not attend the last general meeting/ assembly were too busy with their work; a number of them were also out of town. Another reason for non-attendance was the lack of information. Some respondents were not informed about the date and time of the last general assembly.

Thirty-four percent of the respondents claimed that other members of the household were also members of a credit cooperative. On the average, 1.6 of other household members are also cooperative members. Table 51 shows these other members' outstanding fixed and savings deposits, and the amount of the last loan they obtained from the credit cooperative. It can be observed that these other household members are active cooperative members, as seen in their substantial fixed and savings deposits. Some of them have larger loans outstanding than the respondents themselves.

C. *Membership in a Paluwagan*

Only 22 of the respondents are members of a paluwagan, an informal savings association. These respondents may have joined a paluwagan to diversify their savings into other associations where obtaining funds in times of emergency is relatively easy. Since a paluwagan normally has a smaller membership, saving and borrowing may not be very complicated and tedious as in credit cooperatives and banks. Further, some respondents may have joined a paluwagan to show camaraderie to organizers who may be close friends or relatives. Membership in a paluwagan is normally obtained through invitations from the organizers themselves. However, not all of the 22 respondents belonged to a paluwagan unit which functioned permanently during the year. Two respondents were members of a paluwagan that operated occasionally in a year.

Sizes of the paluwagan varied from six to 150 members, although the majority of respondents belonged to a paluwagan which had less than 30 members. On the average, there were 34.8 members in a paluwagan (Table 52).

Table 50

PURPOSE OF LAST LOAN

	No. of Observations	Percent
Business	97	54.5
Household Appliances/Furniture and Fixtures	3	1.7
Household Repairs/Improvement	25	14.0
Family Consumption	13	7.3
Restructuring of Old Loans from the Cooperative	1	0.6
Lending to others	2	1.1
Education	9	5.1
Medical Care	6	3.4
House/Lot Acquisition	5	2.8
Jewelries	1	0.6
Repair of Vehicles	5	2.8
Animal Feeds	3	1.7
Travel Purposes	2	1.1
Purchase of Vehicles	2	1.1
Others	4	2.4
Total	178	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 51

OTHER CREDIT COOPERATIVE MEMBERS WITHIN THE FAMILY

		No. of Observations	Percent
A.	Number		
	1	45	66.2
	2	15	22.1
	3	3	4.4
	4	3	4.4
	5	1	1.5
	6	1	1.5
	Total	68	100.0
	Mean = 1.57		
	S.D. = 1.04		

B.	Average Outstanding Fixed Deposit (₱)	
	Member 1	5,261.00
	Member 2	7,905.00
	Member 3	7,350.00
	Member 4	1,985.00
	Member 5	1,725.00
	Member 6	1,700.00

C.	Average Outstanding Savings Deposits	Minimum	Maximum
	Member 1	2,917	3,811
	Member 2	2,210	5,783
	Member 3	5,768	16,300
	Member 4	100	1,300
	Member 5	-	-
	Member 6	-	-

D.	Average Amount of Last Loan from Credit Cooperative (₱)	
	Member 1	15,710
	Member 2	28,121
	Member 3	35,050
	Member 4	-
	Member 5	-
	Member 6	-

E.	Average Outstanding Loan (as of period of survey, ₱)	
	Member 1	10,830
	Member 2	15,012
	Member 3	40,000
	Member 4	60,000
	Member 5	-
	Member 6	-

Source: Credit Cooperative Members Survey, 1989.

Table 52

MEMBERSHIP IN THE PALUWAGAN

	No. of Observations	Percent
A. Number of Members		
6 - 10	4	19.0
11 - 20	3	14.3
21 - 30	7	33.3
31 - 40	2	9.5
41 - 50	2	9.5
> 50	3	14.3
Total	21	100.0
Mean = 34.81		
S.D. = 32.00		
B. Frequency of Contribution		
Weekly	7	35.0
Twice/Month	7	35.0
Monthly	6	30.0
Total	20	100.0
C. Amount of Regular Contribution (P)		
< 50	2	9.6
50 - 100	11	52.4
101 - 150	1	4.8
151 - 200	2	9.5
> 200	5	23.8
Total	20	100.0
Mean = 216.90		
S.D. = 277.19		
D. Turn of Receiving "Sahod"		
By lottery	15	71.4
By paluwagan manager	3	14.3
By voting	1	4.8
First come/first serve	2	9.5
Total	21	100.0

Source: Credit Cooperative Members Survey, 1989.

Seven of the 22 respondents made their regular contribution on a weekly basis, while another seven respondents on a bi-monthly basis. The rest belonged to a paluwagan that required a monthly contribution. The average regular contribution was P217. The term for receiving the kitty, or "sahod," was determined most of the time by lottery, though some respondents also claimed that it was determined by the paluwagan manager. However, the terms for receiving the "sahod" could not be changed except in emergency cases.

Aside from the paluwagan, very few of the respondents know of other informal savings associations operating in their areas. Only two of them have deposits in these other savings associations. The deposits are very minimal compared to their deposits in the credit cooperatives. The average minimum and maximum deposits are only P87.50 and P275, respectively.

D. *Saving and Borrowing from the Bank*

Eighty-three (39.2%) respondents have savings deposits in banks, mostly in commercial and private development banks. Less than 50 percent of them, however, can be considered active depositors who have frequent deposit transactions (i.e., monthly, bi-monthly, etc.) for the past 12 months prior to the survey. Table 53 shows the amount of savings deposit they have made and the outstanding balance as of the period of survey. It appears that these respondents have larger savings deposit balances in banks than in the credit cooperative. Some members still placed a larger portion of their savings in banks.

The banks happened to be relatively accessible to the respondents,79 percent of whom have to travel only five kilometers or less to reach the bank from their houses. On the average, the distance from residence to bank is 5.4 kilometers. Most of the respondents spent an average of 27 minutes to commute, and an average of 46 minutes to complete the deposit transaction. (These figures are close to the amount of time spent by other respondents in travelling to and completing a deposit transaction in the credit cooperative.) Transportation and out-of-pocket expenses incurred averaged P4.58 and P5.52, respectively (Table 54). The majority of the respondents seldom withdraw from their bank savings account, at most only two or three times during the past 12 months. This suggests that savings deposits are a long-term investment for most of them. Only nine (4.6%) respondents have time deposit accounts in banks. On the average, the amount of time deposit is P17,500, with an interest rate of 11.8 percent per annum. The average maturity period is 207 days.

Only 20 (5.3%) of the respondents borrowed from the banks in the last two years. The loans were obtained between 1988 and 1990, mostly from rural banks. The amount ranged from P3,000 to P220,000, with an average of P49,600. The loans had an average maturity 45.2 months, payable on an average of 43 installments. Thus, these were basically long-term loans intended for business financing. With an average interest rate of 19.4 percent per annum, most interest payments were discounted in advance. Collateral, like house and lot, land, house, and fishing boat, was required for some of these loans. The average value of the collateral was P149,286.

Only two out of 10 borrowers received technical assistance from the bank. The borrowers were visited twice on the average by extension agents from the bank during the processing of their loan applications.

Table 53

SAVINGS DEPOSITS IN BANKS

	No. of Observations	Percent
A. Minimum Savings Deposit Made - Past 12 mos. (₱)		
≤ 500	34	51.5
501 - 1,000	12	18.2
1,001 - 2,000	2	3.0
2,001 - 3,000	2	3.0
3,001 - 4,000	3	4.5
4,001 - 5,000	4	6.1
5,001 - 10,000	5	7.6
> 10,000	4	6.1
Total	66	100.0
Mean = 2,497.57		
S.D. = 4,027.94		
B. Maximum Savings Deposit Made - Past 12 mos. (₱)		
≤ 5,000	36	66.7
5,001 - 10,000	6	11.1
10,001 - 15,000	1	1.9
15,001 - 20,000	4	7.4
25,001 - 30,000	2	3.7
30,001 - 35,000	1	1.9
35,001 - 40,000	1	1.9
45,001 - 50,000	1	1.9
> 50,000	2	3.7
Total	54	100.0
Mean = 18,134.61		
S.D. = 59,581.05		
C. Minimum Outstanding Savings Deposit - Past 12 mos. (₱)		
≤ 5,000	39	79.6
5,001 - 10,000	5	10.2
10,001 - 15,000	1	2.0
15,001 - 20,000	2	4.1
25,001 - 30,000	1	2.0
> 50,000	1	2.0
Total	49	100.0
Mean = 5,576.53		
S.D. = 14,885.22		

Table 53 (cont'd)

	No. of Observations	Percent
D. Maximum Outstanding Savings Deposit - Past 12 mos. (₱)		
≤ 5,000	23	48.9
5,001 - 10,000	10	21.3
10,001 - 15,000	3	6.4
15,001 - 20,000	3	6.4
20,001 - 25,000	2	4.3
25,001 - 30,000	2	4.3
45,001 - 50,000	1	2.1
> 50,000	3	6.4
Total	47	100.0
Mean = 22,612.77		
S.D. = 64,085.46		

Source: Credit Cooperative Members Survey, 1989.

Table 54

TIME AND COST IN DEPOSITING IN THE BANK

		No. of Observations	Percent
A.	Travel Time (minutes)		
	≤ 10	23	34.8
	> 10 - 20	19	28.8
	> 20 - 30	12	18.2
	> 30 - 40	2	3.0
	> 40 - 50	1	1.5
	> 50 - 60	6	9.1
	> 60	3	4.5
	Total	66	100.0
	Mean = 27.04		
	S.D. = 35.50		
B.	Waiting Time in Bank (min.)		
	≤ 10	14	22.2
	> 10 - 20	9	14.3
	> 20 - 30	22	34.9
	> 30 - 40	2	3.2
	> 50 - 60	9	14.3
	> 60	7	11.1
	Total	63	100.0
	Mean = 45.65		
	S.D. = 62.26		
C.	Transportation Cost Per Roundtrip (₱)		
	0	8	12.1
	> 0 - 2	29	43.9
	> 2 - 4	13	19.7
	> 4 - 6	5	7.6
	> 6 - 8	3	4.5
	> 8 - 10	1	1.5
	> 10	7	10.6
	Total	66	100.0
	Mean = 4.58		
	S.D. = 5.89		
D.	Other Out-of-Pocket Expenses (₱)		
	0	38	79.2
	> 0 - 5	1	2.1
	> 5 - 10	5	10.4
	> 15 - 20	1	2.1
	> 20	3	6.3
	Total	48	100.0
	Mean = 5.52		
	S.D. = 17.45		

Source: Credit Cooperative Members Survey, 1989.

On the average, the banks which granted the loans were located 12.5 kilometers from the respondents' homes. In going to the bank, the respondents travelled by bus/jeepney on an average of 53.4 minutes per round trip. Other out-of-pocket expenses were nil, but transportation cost, on the average, was P5.50 per round trip. Most of the respondents visited the bank twice to obtain the loans. Each visit consumed at least one-half day of the borrower's time.

Processing took an average of 10.8 days from submission of loan application to disbursement of loan. Almost all of the borrowers received the entire amount requested in their loan applications. As of the period of survey, six borrowers had fully paid their loans, or at least made the payments due. The others were still waiting for the first due date of payment.

E. *Informal Credit*

1. Friends/Relatives

Aside from credit cooperatives and banks, some respondents obtained credit from other sources. Specifically, 71 (33.3%) respondents borrowed from friends/relatives on the average of 3.7 times during the past 12 months prior to the survey. The average amount of loan obtained was P12,663, which is quite substantial compared with the average loan amount obtained from the credit cooperative. Many of these loans were short-term in nature, some with maturities of 30 days or less, but the average maturity was 85 days (Table 55). Since some loans were obtained from relatives, repayment term was normally on a "pay when able" basis. Eighty-seven percent of the respondents have to pay back these loans. As of the survey period, 49 percent of them have already fully paid their loans, though there still remains an average outstanding balance of P9,346. The average number of installment payments was 3.32, with most of the loans payable in lump sum or up to two installments. Only 28 percent of those who borrowed from friends/relatives were charged interest rates. The charges, however, were not uniform as lenders imposed interest rates on a daily, weekly, and monthly bases. The average peso amounts of the charges were P12.50 for the daily, P392 for the weekly, and P300 for the monthly.

In terms of interest rates, the average charge was 196.6 percent per annum. Almost all loans were paid in cash, which averaged P15,354 including principal and interest (Table 56). It appears, though, that these lenders did not require their borrowers to present collaterals. Only three borrowers had to secure loans with a collateral, while four were given a condition prior to the release of loans. This was to remind them of the deadline for loan repayments.

Table 57 shows the intended uses of the loans obtained from friends/relatives. It can be observed that several of these loans were used to finance acquisition of household appliances, family consumption, and business ventures, in that order.

2. Moneylenders

Twenty five (12.3%) of the respondents obtained loans from moneylenders on the average of 1.9 times during the past 12 months. The average amount of loan was P4,664, with an average maturity period of 101 days (Table 58). Loan repayment was spread out on the average of 8.5 installments. As of the survey period, the average outstanding loan balance was P3,187.

Table 55

LAST LOAN FROM FRIENDS/ RELATIVES

		No. of Observations	Percent
A.	Amount (₱)		
	≤ 1,000	27	43.5
	1,001 - 2,000	1	1.6
	2,001 - 3,000	9	14.5
	3,001 - 4,000	2	3.2
	4,001 - 5,000	7	11.3
	5,001 - 10,000	5	8.1
	> 10,000	11	17.7
	Total	62	100.0
	Mean = 12,662.85		
	S.D. = 50,994.53		
B.	Days of Maturity		
	1 - 30	19	44.2
	31 - 60	7	16.3
	61 - 90	2	4.7
	> 90	15	34.9
	Total	43	100.0
	Mean = 84.65		
	S.D. = 91.96		
C.	Loan Outstanding Balance (as of survey period, [₱])		
	0	26	49.1
	> 0 - 1,000	12	22.6
	> 1000 - 2,000	3	5.7
	> 2000 - 3,000	4	7.5
	> 3000 - 4,000	1	1.9
	> 4000 - 5,000	3	5.7
	> 5000	4	7.5
	Total	53	100.0
	Mean = 9,346.45		
	S.D. = 54,918.80		
D.	No. of Installment Payment		
	1 - 2	30	68.2
	3 - 4	7	15.9
	> 5	7	15.9
	Total	44	100.0
	Mean = 3.32		
	S.D. = 6.18		

Source: Credit Cooperative Members Survey, 1989.

Table 56

AMOUNT OF CASH PAID BACK TO FRIENDS/ RELATIVES
(Principal and Interest, P)

	No. of Observations	Percent
A. Amount (₱)		
≤ 1,000	20	47.6
1,001 - 2,000	6	14.3
2,001 - 3,000	2	4.8
3,001 - 4,000	2	4.8
4,001 - 5,000	3	7.1
5,001 - 10,000	2	4.8
Above 10,000	7	16.7
Total	42	100.0

Mean = 15,354.38
S.D. = 61,856.89

Source: Credit Cooperative Members Survey, 1989.

Table 57

PURPOSE OF THE LOAN OBTAINED FROM FRIENDS/RELATIVES

	No. of Observations	Percent
Business	11	16.4
Household Appliances, Furniture and Fixtures	16	23.9
Household Repairs/Improvement	6	9.0
Family Consumption	15	22.4
Loan Payments	2	3.0
Education	5	7.5
Medical Care	3	4.5
House/Lot Acquisition	1	1.5
Repair of Vehicles	2	3.0
Animal Feeds and Farming Purposes	2	3.0
Emergency	3	4.5
Others	1	1.5
Total	67	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 58

LOANS OBTAINED FROM MONEYLENDERS

	No. of Observations	Percent
A. Amount (₱)		
≤ 1,000	9	40.9
1,001 - 2,000	7	31.8
2,001 - 3,000	1	4.5
3,001 - 4,000	1	4.5
4,001 - 5,000	2	9.1
> 10,000	2	9.1
Total	22	100.0
Mean = 4,663.64		
S.D. = 10,588.11		
B. Maturity Period (days)		
1 - 30	7	35.0
31 - 60	3	15.0
61 - 90	2	10.0
> 90	8	40.0
Total	20	100.0
Mean = 100.87		
S.D. = 85.27		
C. No. of Installment Payment		
1 - 2	3	17.6
3 - 4	4	23.5
> 5	10	58.8
Total	17	100.0
Mean = 8.47		
S.D. = 10.09		
D. Loan Outstanding Balance (as of survey period, [₱])		
0	9	42.9
> 0 - 1,000	6	28.6
> 1,000 - 2,000	4	19.0
> 5,000	2	9.5
Total	21	100.0
Mean = 3,186.67		
S.D. = 10,801.52		

Source: Credit Cooperative Members Survey, 1989.

All loans were charged interest rates on a weekly, monthly, and annual bases. On the average, the interest rate was 177 percent per annum. The average peso amount of the charges was P1,192, which is roughly 28 percent of the average loan amount. All loans were paid in cash, which averaged P5,853 for both principal and interest (Table 59). Five of the respondents secured their loans with a pledge or collateral, and four were given conditions.

As shown in Table 60, several of the loans were used to finance business ventures, family consumption, medical care, and house repairs/improvements, in that order.

Negotiations for loans usually took place at the moneylender's residence which, on the average, was 2.2 kilometers from the respondent's house. On the average, the respondents met the moneylenders 1.3 times in obtaining the loan, with each meeting lasting 35 minutes, in addition to 22 minutes in travel time per round trip. Average transportation and other out-of-pocket expenses incurred were equivalent to P1.87 and P1.28, respectively (Table 61).

Processing of loan requests did not usually take long. Most of the respondents obtained their loans on the same day they made the requests. It only took an average of 1.7 days from request to disbursement of loans (Table 62). Further, almost all respondents received the loan in just one disbursement and on time at the moneylender's residence.

Twelve (54.5%) had fully paid, or at least made the payments due, while the rest are still waiting for the due dates. The respondents had to pay their loans at the moneylender's house.

3. Traders

Nineteen respondents (9.8%) borrowed from traders on the average of 15.7 times during the past 12 months. The loan amount averaged P54,489, payable in 3.2 average installments within a period of 61.4 days. As of the survey period, the average loan balance was P53,508 (Table 63).

Only four of the respondents were charged interest on loans on an annual basis, with an average rate of 11.7 percent. This is relatively lower than the average rate charged by the credit cooperative. Almost all the loans were paid back, or required to be paid, in cash. As of the survey period, the amount of cash payment for both principal and interest averaged P36,039 (Table 64). Only one respondent was required to secure the loan with collateral in the form of chattel. The rest obtained the loans without any collateral requirement. Most of the loans were used for business purposes (Table 65).

The respondents negotiated for the loans at the trader's residence which, on the average, was eight kilometers from their homes. The number of meetings that took place averaged 1.3, with each meeting lasting approximately 30.6 minutes. Average transportation and other out-of-pocket expenses incurred were P13.20 and P0.55, respectively (Table 66).

Loans from traders are not usually obtained on the same day of request. It took an average of 3.5 days from loan request to loan disbursement (Table 67). However, at disbursement, the respondents obtained the entire amount of the loan. In most cases, they received the loans at the traders's residence.

Table 59

AMOUNT OF CASH PAID BACK TO MONEYLENDERS
(Principal and Interest, in P)

	No. of Observations	Percent
A. Amount (in P)		
≤ 1,000	6	35.3
1,001 - 2,000	4	23.5
2,001 - 3,000	4	23.5
5,001 - 10,000	1	5.9
> 10,000	2	11.8
Total	17	100.0

Mean = 5,853.23
S.D. = 13,264.83

Source: Credit Cooperative Members Survey, 1989.

Table 60

PURPOSE OF THE LOAN OBTAINED FROM MONEYLENDERS

	No. of Observations	Percent
Business	5	23.8
Household Appliances, Furniture and Fixtures	1	4.8
Household Repairs/Improvement	3	14.3
Family Consumption	5	23.8
Loan Payments	1	4.8
Education	1	4.8
Medical Care	4	19.0
Others	1	4.8
Total	21	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 61

TIME AND COST SPENT IN OBTAINING LOAN FROM MONEYLENDERS

		No. of Observations	Percent
A.	Travel Time Per Roundtrip (hrs.)		
	Less than 1 hour	16	84.2
	One hour	3	15.8
	Total	19	100.0
	Mean = 0.36		
	S.D. = 0.35		
B.	Transportation Cost (in P)		
	0	5	33.3
	2	8	53.3
	6	2	13.3
	Total	15	100.0
	Mean = 1.87		
	S.D. = 1.92		
C.	Other Out-of-Pocket Expenses (in P)		
	0	12	85.7
	8	1	7.1
	10	1	7.1
	Total	14	100.0
	Mean = 1.28		
	S.D. = 3.29		
D.	Number of Meetings with Moneylenders		
	1	18	81.8
	2	3	13.6
	4	1	4.5
	Total	22	100.0
	Mean = 1.27		
	S.D. = 0.70		
E.	Hours Per Meeting		
	Less than 1 hour	12	57.1
	One hour	8	38.1
	Two hours	1	4.8
	Total	21	100.0
	Mean = 0.58		
	S.D. = 0.53		

Source: Credit Cooperative Members Survey, 1989.

Table 62

NUMBER OF DAYS OF PROCESSING LOANS FROM MONEYLENDERS

	No. of Observations	Percent
1	14	66.7
2	4	19.0
3	2	9.5
7	1	4.8
Total	21	100.0

Mean = 1.67
S.D. = 1.39

Source: Credit Cooperative Members Survey, 1989.

Table 63

LAST LOAN FROM TRADERS

	No. of Observations	Percent
A. Amount (in P)		
≤ 1,000	5	26.3
1,001 - 2,000	2	10.5
2,001 - 3,000	2	10.5
4,001 - 5,000	1	5.3
5,001 - 10,000	2	10.5
> 10,000	7	36.8
Total	19	100.0
Mean = 54,489.47		
S.D. = 125,074.94		
B. Days of Maturity		
1 - 30	11	64.7
31 - 60	1	5.9
61 - 90	1	5.9
> 90	4	23.5
Total	17	100.0
Mean = 61.35		
S.D. = 79.35		
C. No. of Installment Payment		
1 - 2	14	82.4
3 - 4	1	5.9
> 5	2	11.8
Total	17	100.0
Mean = 3.18		
S.D. = 7.01		
D. Loan Outstanding Balance (as of survey period, in P)		
0	5	27.8
> 0 - 1,000	5	27.8
> 1000 - 2,000	2	11.1
> 2000 - 3,000	1	5.6
> 5000 -	5	27.8
Total	18	100.0
Mean = 53,508.33		
S.D. = 129,502.63		

Source: Credit Cooperative Members Survey, 1989.

Table 64

AMOUNT OF CASH PAID BACK TO TRADERS
(Principal and Interest, in P)

	No. of Observations	Percent
A. Amount (in P)		
0	1	7.1
> 0 - 1,000	5	35.7
> 1,001 - 2,000	2	14.3
> 10,000	6	42.9
Total	14	100.0
Mean = 36,039.28		
S.D. = 73,156.19		

Source: Credit Cooperative Members Survey, 1989.

Table 65

PURPOSE OF THE LOAN OBTAINED FROM TRADERS

	No. of Observations	Percent
Business	9	69.2
Household Appliances, Furniture and Fixtures	1	7.7
Family Consumption	3	23.1
Total	13	100.0

Source: Credit Cooperative Members Survey, 1989.

Table 66

TIME AND COST SPENT IN OBTAINING LOANS FROM TRADERS

		No. of Observations	Percent
A.	Travel Time Per Roundtrip (hrs.)		
	Less than 1 hour	10	66.7
	One hour	2	13.3
	Two hours	3	0.2
	Total	15	100.0
	Mean = 0.72		
	S.D. = 0.73		
B.	Transportation Cost Per Roundtrip (in P)		
	1 - 2	2	20.0
	2 - 4	1	10.0
	5 - 6	1	10.0
	> 6	4	40.0
	Total	15	100.0
	Mean = 13.20		
	S.D. = 16.00		
C.	Other Out-of-Pocket Expenses (in P)		
	0	8	88.9
	5	1	11.1
	Total	9	100.0
	Mean = 0.55		
	S.D. = 1.67		
D.	Number of Meetings with Traders		
	1	14	82.4
	2	1	5.9
	3	2	11.8
	Total	18	100.0
	Mean = 1.29		
	S.D. = 0.69		
E.	Hours Per Meeting		
	Less than 1 hour	11	64.7
	One hour	6	35.3
	Total	17	100.0
	Mean = 0.51		
	S.D. = 0.40		

Source: Credit Cooperative Members Survey, 1989.

Table 67

NUMBER OF DAYS OF PROCESSING LOANS FROM TRADERS

	No. of Observations	Percent
< 1	1	5.6
1	14	77.8
5	1	5.6
14	1	5.6
30	1	5.6
Total	18	100.0

Mean = 3.53
S.D. = 7.32

Source: Credit Cooperative Members Survey, 1989.

Table 68

TOTAL AMOUNT OF LOANS/ASSISTANCE
EXTENDED BY CREDIT COOPERATIVE MEMBERS
(in ₱)

	No. of Observations	Percent
≤ 1,000	23	35.9
1,001 - 2,000	7	10.9
2,001 - 3,000	9	14.1
3,001 - 4,000	3	4.7
4,001 - 5,000	2	3.1
5,001 - 10,000	6	9.4
> 10,000	14	21.9
Total	64	100.0

Mean = 14,397.50
S.D. = 40,237.97

Source: Credit Cooperative Members Survey, 1989.

F. *Lending Activities*

Several credit cooperative members are engaged in some lending activities. Sixty-seven (32.5%) respondents have extended loans or assistance to 23 borrowers for the past 12 months. Most of the loans extended were in the form of cash, with an average amount of P14,397 (Table 68). However, only 10 of them charged interest rates on these loans, whose average maturity was 240 days.

G. *Summary*

It is evident that credit cooperative members resort to alternative sources of credit and outlets for their surplus resources. This is not unusual since an individual seeks to maximize the benefits obtained from saving and borrowing in a particular institution, and credit cooperative members are no exception. In addition, there may be factors that could have discouraged cooperative members from putting all their surplus resources in the cooperative and depending solely on it for credit.

On the saving aspect, there are credit cooperative members with substantial amount of surplus resources who are capable of maintaining several savings deposit accounts in different institutions. These members may seek to diversify their savings portfolio in such a way that they can avail of the services provided by different institutions aside from maximizing the returns on these alternative saving instruments. For instance, most of the credit cooperatives in this study provide higher interest rates on savings deposit than banks. The fact that credit cooperatives do not impose a withholding tax on interest income on deposits effectively increases the returns on savings deposits.

However, in terms of additional services like telegraphic transfer, checking account, etc., cooperative members can attain them if they have deposits in banks. As regard borrowing, there is no doubt that credit cooperatives do not impose stringent landing policies (i.e., collateral requirement, project feasibility study, equity counterpart for business projects, etc.) to prove the borrower's credit worthiness, and they provide flexible terms and conditions on loan repayments. But the loan ceiling policy may have discouraged members from placing their entire savings in the credit cooperative. It is important to note that there are affluent members in these credit cooperatives who would qualify to obtain bigger amounts of loans in banks than in the cooperatives.

The above arguments do not imply that the credit cooperatives will eventually lose their grip on their members. But there is a need for them to provide more efficient services to members in terms of processing deposits and withdrawals, and facilitating the processing and disbursement of loans in shorter periods.

VI. DEMAND FOR FIXED DEPOSIT AND OTHER ISSUES

A. *Demand for Share Capital*

In this section, the demand for credit cooperative share capital or fixed deposits is estimated using the standard model of the demand for financial assets. It is important to point out, however, that some modifications were made in the model to capture the unique characteristics of the demand for fixed deposits. Thus, additional variables that could help explain holdings of fixed deposits have been included. Three sets of regression runs were conducted. Table 69 shows the description of the variables included in the estimation.

Several hypotheses are tested in the model. These are as follows:

First, the interest rate on fixed deposits, variable i, is expected to have a positive sign, indicating that credit cooperative members tend to increase their fixed deposits if offered higher interest rates on share capital.

Second, the income variable, Y, will have a positive effect on the demand for fixed deposits. In other words, an increase in the income of individual members increases their demand for share capital. However, an alternative hypothesis—that an increase in the member's income reduces fixed deposit holdings—is also tested. This test considers that this type of financial asset is inferior due to the belief that those who join the credit cooperatives belong to low-income groups who do not have access to the financial services of formal financial institutions.

Third, the amount of loans, L, that members obtain from the credit cooperative usually depends on their fixed deposits. Thus, those who want to increase their loanable amount would likely increase their share capital.

Fourth, the length of membership, M, in the credit cooperative, which is also expected to have a positive sign, serves as a proxy variable for the degree of members' confidence in their cooperatives. Thus, the longer the period of membership, or similarly the higher the degree of confidence in the credit cooperative, the greater is the member's demand for fixed deposits.

Fifth, members with higher dependency ratio, D, in their households tend to have lower savings rate. Thus, the dependency ratio variable exerts a negative effect on the demand for fixed deposits. This variable is defined as the ratio of the total number of unemployed household members to total household size. Lamberte and Bautista (1990) used the same variable in estimating a household saving function, and the expected negative sign was obtained in all the regression runs.

Finally, two dummy variables were included in the model to explain the effects of occupational status (i.e., stable source of income), represented by dummy variable 1 (DUM1), and saving in banks, represented by dummy variable 2 (DUM2), on credit cooperative members' demand for fixed deposits. DUM1 is expected to yield a positive sign showing that members with stable sources of income are more likely to save in credit cooperatives. On the other hand, DUM2 is expected to have a negative sign

Table 69

LIST OF VARIABLES

Variable	First Set	Second Set	Third Set
Dependent:			
Fixed Deposit			
Independent:			
C	Intercept	- do -	- do -
i	Current Interest Rate on Fixed Deposit	- do -	- do -
Y	Annual Income of Members		- do -
H		Total Household Income	-
L	Amount of the most recent loan from the CCU	- do -	- do -
M	Number of Years of Membership in the CCU	- do -	- do -
D	Dependency Ratio	- do -	- do -
S	-	-	Total Household Savings
DUM1	Dummy Variable 1 1 = salaried worker 0 = otherwise	- do -	- do -
DUM2	Dummy Variable 2 1 = with bank deposits 0 = otherwise	- do -	

showing that members who do not have access to banks are more likely to save in credit cooperatives. The above comprises the first set of regression runs.[22]

The second set of regression runs replaces the individual member's income with the total household income, H (which is also expected to have a positive sign), as one of the explanatory variables. The rest of the variables presented in the first set are included.

In the third set of regression runs, total household saving, *S*, replaces the second dummy variable, while the rest of the variables in the first set are included. It is hypothesized that household saving will positively affect the demand for fixed deposits.

The empirical model was tested in different functional forms using the ordinary least squares (OLS) method. The linear functional form yielded relatively better results than the logarithmic form. The results of both functional forms are presented in Tables 70-75. All the regression results show that the independent variables explain 60 to 70 percent of the variation in the demand for fixed deposits. Likewise, the regression models are all plausible as shown by their statistically significant F-statistics.

Tables 70 and 71 show the results of the first set of regression runs in linear and logarithmic forms, respectively. The interest rate variable has the expected positive sign in all models, especially in the linear form. This is highly significant because it supports the hypothesis posed earlier, that credit cooperative members tend to increase their fixed deposits if offered higher interest rates on share capital. Furthermore, the results in the logarithmic form show that the demand for fixed deposits is interest elastic, as shown by the estimated coefficients of the interest rate variable, which is greater than one. This implies that the demand for fixed deposits is highly responsive to the interest rate paid on fixed deposits, or to the dividends on share capital. Interestingly, similar results for the interest rate variable were also obtained in the second and third sets of regression runs (Tables 72-75).

The OSU-PIDS study on credit cooperatives, however, yielded a different result; here the demand for fixed deposits is inelastic with respect to the interest rate.[23] In the Comparative Bank Study, the demand for deposit instruments was estimated.[24] The results showed that the demand for bank deposits was inelastic with respect to the interest rate. This suggests that interest rate does not mean anything to people if financial institutions are not accessible to them. The interest rate variable used in that study was the effective interest rate on deposits. Moreover, the banks included in the study were located outside Metro Manila.

The individual members' income variable, on the other hand, yielded the expected positive sign but was not statistically significant in some of the regression runs as shown in Table 70. In the logarithmic form, the sign was negative, though not statistically significant (Table 71). The same negative sign for the individual members' income variable was also obtained in the third set of regression

22. Additional dummy variables for household position, sex and the type of credit cooperative were included in some of the regression runs. However, they were found to be stitistically insignificant in explaining the demand for fixed deposits by members.

23. See lamberte, Relampagos and Graham (1990).

24. See Lamberte (1987).

Table 70

PARAMETER ESTIMATES (LINEAR)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4
C	-10860.6 (-2.000)**	-10206.2 (-2.100)**	-11280.3 (-2.095)**	-13009.5 (-2.649)***
i	959.41 (2.547)***	952.436 (2.548)***	976.145 (2.604)***	1053.453 (2.906)***
Y	0.025 (1.606)	0.026 (1.663)*	0.024 (1.511)	0.030 (2.009)**
L	0.279 (10.231)***	0.279 (10.314)***	0.278 (10.234)***	0.280 (10.253)***
M	285.58 (2.200)**	287.263 (2.227)**	273.424 (2.130)**	280.981 (2.168)**
D	950.558 (0.276)	- -	1141.766 (0.334)	1170.09 (0.341)
DUM1	-1363.7 (-0.930)	-1391.51 (-0.957)	-1382.24 (-0.946)	- -
DUM2	-1018.4 (-0.728)	-1047.94 (-0.755)	- -	-1041.01 (-0.745)
DF	91	91	91	91
$\bar{R}^2$	0.672	0.675	0.674	0.672
F-Stat	27.615***	32.559***	32.308***	32.124***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

Table 71

PARAMETER ESTIMATES (LOGARITHM)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
C	-1.200 (-0.704)	-1.221 (-0.724)	-1.150 (-0.680)	-1.166 (-0.698)	-2.199 (-1.373)
i	1.020 (1.877)*	1.024 (1.899)*	1.043 (1.941)*	1.045 (1.959)**	1.241 (2.344)**
Y	-0.008 (-0.075)	-0.010 (-0.104)	-0.016 (-0.158)	-0.017 (-0.180)	0.015 (0.155)
L	0.663 (8.751)***	0.663 (8.802)***	0.659 (8.817)***	0.659 (8.871)***	0.666 (8.754)***
M	0.566 (2.450)**	0.566 (2.463)**	0.557 (2.436)**	0.557 (2.450)**	0.566 (2.439)**
D	-0.078 (-0.119)	- -	-0.054 (-0.083)	- -	- -
DUM1	-0.293 (-1.690)*	-0.292 (-1.696)*	-0.294 (-1.702)*	-0.293 (-1.711)*	- -
DUM2	-0.068 (-0.379)	-0.066 (-0.372)	- -	- -	-0.071 (-0.396)
DF	91	91	91	91	91
$\bar{R}^2$	0.651	0.655	0.654	0.658	0.647
F-Stat	25.191***	29.732***	29.665***	36.012***	34.354***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

Table 72

PARAMETER ESTIMATES (LINEAR)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4
C	-11394 (-2.281)**	-12777.8 (-3.049)***	-11345.9 (-2.293)**	-14566.9 (-3.767)***
i	1210.70 (3.666)***	1225.644 (3.740)***	1217.131 (3.712)***	1319.407 (4.164)***
H	-0.004 (-1.529)	-0.004 (-1.517)	-0.004 (-1.529)	-0.003 (-1.333)
L	0.275 (11.794)***	0.274 (11.836)***	0.276 (11.987)***	0.275 (11.888)***
M	311.499 (2.562)***	298.552 (2.516)**	318.602 (2.681)***	295.90 (2.491)***
D	-1718.14 (-0.538)	- -	-1757.53 (-0.554)	- -
DUM1	-1525.02 (-1.220)	-1250.85 (-1.101)	-1527.11 (-1.229)	- -
DUM2	379.920 (0.316)	405.183 (0.339)	- -	389.851 (0.326)
DF	91	91	91	91
$\bar{R}^2$	0.681	0.683	0.684	0.683
F-Stat	28.713***	33.732***	33.840**	40.137***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

Table 73

PARAMETER ESTIMATES (LOGARITHM)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4
C	-1.414 (-0.792)	-2.023 (-1.169)	-1.550 (-0.890)	-2.955 (-1.778)*
i	1.292 (2.424)**	1.355 (2.541)***	1.230 (2.450)**	1.600 (3.057)***
H	0.083 (0.994)	0.093 (1.101)	0.088 (1.057)	0.124 (1.482)
L	0.583 (7.925)***	0.579 (7.842)***	0.589 (8.133)***	0.574 (7.665)***
M	0.418 (1.756)*	0.366 (1.551)	0.442 (1.898)*	0.390 (1.607)
D	-0.896 (-1.308)	- -	-0.900 (-1.320)	-0.312 (-0.488)
DUM1	-0.375 (-2.119)**	-0.282 (-1.733)*	-0.372 (-2.113)**	- -
DUM2	0.088 (0.502)	0.090 (0.514)	- -	0.076 (0.425)
DF	91	91	91	91
$\bar{R}^2$	0.647	0.644	0.650	0.632
F-Stat	24.826***	28.440***	29.179***	27.102***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

Table 74

PARAMETER ESTIMATES (LINEAR)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3
C	-13794.2 (-2.279)**	-13081.3 (-2.663)***	-16431.7 (-3.293)***
i	1282.195 (3.310)***	1277.38 (3.327)***	1345.548 (3.564)***
Y	-0.003 (-0.214)	-0.003 (-0.182)	-0.001 (-0.096)
L	0.270 (10.033)***	0.270 (10.104)***	0.271 (10.099)***
M	306.127 (2.328)**	310.594 (2.412)**	298.698 (2.284)**
D	863.343 (0.204)	- -	2363.126 (0.632)
S	0.003 (0.480)	0.003 (0.446)	0,005 (0.714)
DUM1	-1275.36 (-0.775)	-1429.75 (-0.984)	- -
DF	73	73	73
$\bar{R}^2$	0.691	0.695	0.693
F-Stat	24.322***	28.781***	28.446***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

Table 75

PARAMETER ESTIMATES (LOGARITHM)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3
C	-0.922 (0.0437)	-1.125 (-0.556)	-2.432 (-1.262)
i	1.150 (1.866)*	1.163 (1.905)*	1.325 (2.156)**
H	-0.038 (-0.333)	-0.048 (-0.435)	-0.054 (-0.477)
L	0.662 (7.763)***	0.666 (7.934)***	0.685 (8.046)***
M	0.521 (2.059)**	0.517 (2.059)**	0.544 (2.126)**
D	-0.004 (-0.359)	- -	0.364 (0.456)
S	-0.003 (-0.048)	0.001 (0.009)	0.034 (0.430)
DUM1	-0.361 (-1.651)*	-0.324 (-1.688)*	- -
DF	73	73	73
$\bar{R}^2$	0.660	0.665	0.652
F-Stat	21.286***	25.139***	23.767***

Figures in parentheses are t-statistics:

* - significant at 10 percent
** - significant at 5 percent
*** - significant at 1 percent

runs when household saving was included in the model (Tables 74 and 75). Likewise, the total household income variable obtained a negative sign but was not statistically significant (Tables 72 and 73). Similar results were also obtained in the OSU-PIDS study, where the income variable had a negative sign but was not significant, while the interest rate variable had the correct sign and was significant. However, in the regression results of the preliminary study on credit cooperatives conducted by Lamberte (1988), the income variable yielded a statistically significant correct sign, though the interest rate variable was not included in the model. This seems to suggest that there is a high correlation between income and interest rate variables.

The loan amount variable also yielded the expected positive sign which is highly significant in all three sets of regression runs. This supports the hypothesis that members tend to increase their fixed deposits in order to obtain larger loans from the credit cooperative. This is not unusual considering that the amount of loan a member can borrow is equivalent to a certain multiple of his fixed deposit. Its implication is that, putting a cap on the maximum amount of loan per single borrower would, in the long run, render the savings mobilization efforts of credit cooperatives ineffective as the demand for fixed deposits increases with the size of loans the members can borrow.

Another variable which has the expected sign and is statistically significant is the number of years of membership in the cooperative. This implies that the amount of the fixed deposits held by members increases with the length of membership period, or similarly, with the degree of confidence in the credit cooperative.

The dependency ratio has the expected negative sign in most of the regression runs, but it appears to be an insignificant variable in explaining the demand for fixed deposits.

The regression results using the linear form show that the two dummy variables do not have statistically significant coefficients. This means that, in the case of dummy variable 1, the demand for fixed deposit does not vary among members with stable sources of income and other occupational status. This suggests that, all things being equal, income volatility has no particular impact on demand for fixed deposits. In the case of dummy variable 2, savings in bank do not affect the demand for fixed deposits. This suggests that members treat fixed deposits and bank deposits as different financial instruments which yield different benefits to them. Similarly, the total household saving variable did not yield statistically significant coefficients in the third set of regression runs, although the expected positive sign was obtained (Tables 74 and 75).

On the whole, the model supports some of the hypotheses explaining the demand for fixed deposits. Specifically, the interest rate on variables, amount of loan, and the length of membership period significantly explain the members' demand for fixed deposits. However, the model may have some limitations which pose difficulties in verifying the effects of other variables that could help explain the demand for fixed deposits. These limitations arise from incomplete information for some variables, resulting in reduced number of observations included in the estimation.

B. *Deposit Instruments Offered*

Ninety-three percent of the respondents were aware of the deposit instruments offered by their credit cooperatives. These instruments influenced their decision to join the cooperatives. On the other hand, those who were not aware were informed by their cooperatives, during the membership training seminar, of the types of deposits available to them.

Credit cooperatives which offer only fixed deposits encouraged all their members to avail of the instrument. In other credit cooperatives, however, it appears that not all the members have been explicitly encouraged to avail of the different deposit instruments. This is true among 20 percent of the respondents. Among the reasons given, as perceived by the respondents, were: (1) savings and/or time deposits can be withdrawn any time; (2) there is no communication among officers, staff, and members; (3) availing of savings and/or time deposits prevents members from increasing their contribution to fixed deposits beyond the required minimum level; and (4) the credit cooperative does not want to increase its interest expenses on other types of deposits. Some credit cooperatives, in fact, openly admit that they want to maintain simple operations, thus offering only fixed deposits.

The majority of the respondents have been informed of the interest rates paid on each type of deposit, which also influenced their decision to open deposit accounts (i.e., savings and time) aside from the required fixed deposit. Interestingly, more than 60 percent of the respondents wanted their credit cooperatives to offer, or continue to offer, savings and time deposit services to members. This way, the respondents believed that: (1) the cooperative could give members more choices in investing their surplus funds in different types of deposits; (2) the cooperative could encourage members to transfer their bank savings and/or time deposit accounts into the credit cooperative; (3) the cooperative could encourage members to increase their saving contribution through savings and time deposits; and (4) the cooperative would be able to attract more people to save.

C. *Interlending Scheme*

This section discusses the extent of the membership's familiarity with the handling of surplus funds of the cooperative. Thirty-seven percent of the respondents do not have any idea of how their credit cooperatives handle surplus funds. These are the members who were not informed of where such surplus funds are deposited. Yet, the respondents believe that they should be informed about it.

On the other hand, among the respondents who are informed, the majority point out that credit cooperatives place surplus funds in depository banks. Only a few are familiar with the interlending scheme concept. There are two reasons for this. First, a number of credit cooperatives have not yet participated in this interlending scheme. Second, some credit cooperatives have not yet formally informed their members about their investment in the central liquidity fund as they are still experimenting with it. Besides, these cooperatives still have very minimal exposure in the central liquidity fund, or in the CFF.

The interviewers took time to explain to the respondents the basic concept of the interlending scheme. It appears that the majority favor the placing of surplus funds in the CFF. Among their reasons are: (1) interest earnings from the CFF could increase the dividends of members; (2) the credit

cooperative could borrow from the CFF in times of liquidity shortfall; (3) the knowledge that the CFF could help credit cooperatives with financial problems increases the confidence of members; and (4) the cooperative could strengthen its relationship with other credit cooperatives.

This implies that in order for the program to be fully appreciated and accepted by the general membership, credit cooperatives need to launch a massive information drive highlighting the pros and cons of the interlending scheme. With better information, the general membership can help in the implementation of the program.

VII. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study has examined different aspects of credit cooperative operations. The findings provide some insights into the extent of their success in performing the financial intermediation function, and the limitations and problems encountered in carrying out this function. The study has also identified some areas of strengths and weaknesses of the credit cooperatives in the conduct of their regular operations.

The ability of the credit cooperatives to effectively provide the link between savings and credit and, at the same time, maintain their financial viability is a remarkable achievement for this segment of the informal credit market. Reciprocity, i.e., savers are given access to credit, is an important feature of the credit cooperatives. All this has encouraged the creation of more credit cooperatives all over the country. Now, they are not only visible in communities and market places but in private and government offices and institutions as well.

Many credit cooperatives have achieved a remarkable growth in size. Some of them even surpassed the asset sizes of rural banks and thrift banks operating in the same locality. This was made possible by their ability to sustain a more stable growth pattern over time, which in turn is due to their resilience to both internal and external crisis. Many of them have successfully recovered after the 1983-1984 balance of payments crisis, while the rest of the formal financial system has remained under stress. Even more challenging for these credit cooperatives is the fact that their speedy recovery and impressive financial performance have not been induced by external factors such as government-sponsored rehabilitation schemes, as what was done in the case of rural banks and several commercial and thrift banks that failed in the wake of the 1983-1984 crisis. Even without government help, the credit cooperatives instituted the necessary solutions and adjustments to financial problems, which enabled them to reach their present status. This could not have been achieved, of course, without good leadership, determined staff, and cooperation of the membership of the credit cooperatives.

Admittedly, some of the sample credit cooperatives had to overcome internal conflicts and management problems arising from differences in personalities and views of the people directly involved in handling operations. To some extent, this even triggered a division within the cooperative, resulting in the loss of confidence of the general membership. But people with a strong sense of commitment and leadership eventually prevailed. They have been instrumental in reviving their own credit cooperative and restoring the confidence of members. These efforts, however, are futile without total cooperation and unity among the cooperative officers and members.

In terms of financial status, the sample credit cooperatives have achieved an impressive real growth rate of 26 percent in total resources during the 1984-1988 period. But this expansion is mainly accounted for by the increase in fixed deposits, which grew by an average of 26 percent annually in real terms during the period. Interestingly, most of them do not impose a ceiling on fixed deposits, or a maximum share capital subscription per member. Thus, members are free to increase their share capital subscription. Since fixed deposits are the most stable source of funds in the sense that they are not withdrawable anytime except on grounds of membership termination, they can be used to sustain long term growth of the credit cooperative.

In sustaining growth, the credit cooperatives could be made less dependent on fixed deposits by offering savings deposit instruments. This is important especially for those few which impose a ceiling on fixed deposits per member. There are limitations that the credit cooperatives may face if they depend on fixed deposits for their future growth. First, a slowdown in membership growth may pose a problem in sustaining the increase in fixed deposits. Second, unless additional incentives are offered, members may stop increasing their fixed deposits once they reach the single borrower's limit. The borrowing capacity of a member is largely determined by the amount of his/her fixed deposit. Considering that most of the credit cooperatives in this study have full time cooperative staff, intensifying savings mobilization efforts may not be a very difficult task. The cooperative staff can always extend the services needed to process deposits and withdrawals during regular operating hours. Almost all credit cooperatives accept savings deposits but it appears that only a few of them actively mobilize savings deposits from members. The proportion of savings deposits to total assets remains negligible for most of them. Likewise, only 51 percent of the sample members have savings deposits with their credit cooperatives. This shows the cooperatives' potential in mobilizing deposits from members through the offering of new instruments, such as savings and time deposits. This financial innovation requires new skills and new management style. Hence, the staff must be trained properly.

During the period 1984-1988, the proportion of loans outstanding to total assets of the sample credit cooperatives has remained relatively high at an annual average of 78 percent. The great bulk of these loans were short-term, maturing in one year or less. Most of these loans were for productive purposes (i.e., working capital for small-scale business enterprises) and for providential purposes (i.e., household consumption).

The sample credit cooperatives are flexible in implementing cooperative rules and policies and this is highly appreciated by their members. This flexibility is evident in their lending policies, specifically on collateral requirements and loan repayments. Unlike banks, they do not require members to present collateral for loans. Borrowers are required only to have a single co-maker who can guarantee the portion of their loans which is not covered by their fixed deposits. In most credit cooperatives, the co-maker is even allowed to use the obligated portion of his deposit for loan guarantee purposes. Thus, collateral is not a problem in evaluating the qualification of members to borrow.

In the case of loan repayment, the credit cooperatives normally provide the most convenient repayment schedule acceptable to borrowers. The borrower is made to choose the schedule (i.e., daily, weekly, bi-monthly, or monthly) according to his cash flow patterns, and the cooperative just follows the corresponding interest rate stated in its written lending policies. For institution-based credit cooperatives, loan repayment is made through payroll deduction. This reduces time and financial cost

associated with performing the transaction, for both the borrower and the cooperative. For market-vendor credit cooperatives, a collector is normally sent out to the field to collect loan payments from individual vendor-borrowers. In this way, the vendors do not have to leave their stalls/stores to perform the transaction. Moreover, the credit cooperatives even extend their office hours without imposing additional charges to process emergency loans. But this is done very discretely so that it cannot be abused by the general membership.

Unlike banks, loan rejection does not usually occur in credit cooperatives. The latter are flexible in dealing with delinquent borrowers, or delinquent members who are applying for a loan. Borrowers who are delinquent in their installment payments can also avail of loan renewal/refinancing privileges in most credit cooperatives. What the cooperatives usually do is to reduce the amount of loan extended to a delinquent borrower as a penalty. Thus, outright rejection of loan application may not really take place in credit cooperatives.

The only aspect where the credit cooperatives have imposed stringent measures pertains to the screening of loan applicants. Most of them require their loan applicants, including repeat borrowers with good track records, to undergo the same process of loan evaluation every time the latter apply for a new loan. This policy enables the cooperative management to continuously educate members on matters of prompt payment of loans.

Most of the credit cooperatives charge interest rates that are lower than those charged by the banks and by other informal sources (i.e., moneylenders) in their areas of operation. This makes them a very competitive source of credit. Moreover, they do not discriminate borrowers according to loan types, a practice common among formal sources of credit. All of the members have equal access to borrowing privileges provided they meet the basic lending requirements, such as paying the required minimum share capital subscription, attending the membership training seminars, and others. The credit cooperatives also apply uniformly to all borrowers the cooperative's loan ceilings, the appropriate loan multiple according to loan types, and interest and non-interest charges on loans. In exceptional cases, however, the management may use the loan multiple as an incentive to improve the members' attitude toward the credit cooperative. For example, members with good standing may be offered a higher loan multiple than the regular one as an incentive to maintain such good standing. The definition of good standing, however, varies across credit cooperatives.

It has been observed that credit cooperatives base their interest rates on savings deposits on the rates of the banking system. Some of them even offered rates higher than those paid by the banks. The difference ranged from by 0.5 to 2.5 percentage points, depending on their net savings/net income performance. This makes them more competitive in terms of resource mobilization in their areas of operation. They review their interest rates on savings deposits regularly so that they can respond to changes in bank interest rates accordingly.

Some of the sample credit cooperatives have encountered temporary liquidity shortages, which were easily remedied since they were not really caused by low levels of deposits getting into the cooperative. The causes were more technical in nature, such as inaccurate projections in matching cash inflows and outflows, delays in loan repayments of some members, delays in the payment of employee-

members' contributions, etc. In dealing with the liquidity shortage, the credit cooperatives tended to use policy instruments that were easy to implement, without necessarily going through the process of amending the by-laws or the written lending policies. The decision to tap alternative solutions, the most common of which was to pursue more vigorously loan recovery, usually depended on the manager. It is interesting to note that these credit cooperatives never resorted to borrowing from banks or from other external sources to deal with their temporary liquidity problem.

On the other hand, most of those which encountered excess liquidity deposited their surplus in nearby banks, usually in their depository banks. This shows that the relationship of the credit cooperatives with banks is straightforward. Banks serve as a depository of cooperative funds, a linkage which may be considered one-sided as these cooperatives do not have access to credit from their banks. Some of them have substantial savings and time deposits with banks, amounting on the average, to P/ 755,239 and P/2,852,240, respectively, as of the survey period. These are potential resources which could be used for an interlending scheme. In one credit cooperative, excess liquidity was aggravated by the inflow of external funds for relending programs. Thus, extra caution must be made in tapping credit cooperatives as conduits of funds for target borrowers.

Generally, the credit cooperatives would prefer to keep their surplus funds with the most accessible banks for purposes of checking account services. Thus, some of them have concentrated their deposits in one or two banks which also operate in the same locality.

Other ways to deal with excess liquidity include increasing the loan multiple and relaxing the policy on loan ceilings. This way, the credit cooperative can increase the borrowing capacity of members and, at the same time, control the accumulation of surplus funds to avoid incurring high opportunity cost on idle funds. Greater flexibility in certain cooperative lending policies does not necessarily mean running a higher risk of default. Considering that many of these credit cooperatives have a problem of delayed payments instead of loan defaults, the effective monitoring and management of loan accounts can help minimize loan delinquency among members.

The sample credit cooperatives differ in their methods of defining a delinquent loan account. They vary in the degree of flexibility that theyexercise in dealing with a delinquent account. Some have very rigid criteria while others have a more relaxed policy. For example, some credit cooperatives immediately consider a borrower delinquent if he/she fails to pay any of the scheduled installment payments of the loan, while others consider a loan delinquent only when the borrower fails to pay the entire amount (principal and interest) of the loan during its maturity period. Some cooperatives do not document outstanding loans according to the length of time past due simply because the staff might be overloaded. It may be true that aging of loans is time-intensive, but this is one way to effectively monitor loan delinquency. Interestingly, most of the sample credit cooperatives do not usually write-off loans; they exhaust all means to help the borrower settle his obligations.

The survey on cooperative membership reveals that the sample households have a great potential to save. Almost 71 percent of them have accumulated financial savings during the past 12 months prior to the survey. Moreover, 40 percent have realized an increase in their household income during their membership with the cooperative.

From the sample respondents, cooperative membership has a strong female bias. The membership survey results also show that a significant number of the most recent loans obtained from the cooperative were for business purposes. All these suggest that the credit cooperatives are ideal vehicles to service women entrepreneurs and small-scale business enterprises.

The membership survey results also reveal some pieces of evidence that members resort to alternative sources of credit (i.e., moneylenders, traders, and relatives/friends) and outlets for their surplus resources (i.e., banks and *paluwagan*). On the saving aspect, this may not be unusual since members may be looking for additional financial services not normally offered by their credit cooperatives, like telegraphic transfer, checking account, etc. Thus, to avail of these services, the members may seek to diversify their savings portfolio by placing some of their savings in banks. But on the borrowing aspect, resorting to alternative sources of credit sounds disturbing considering that, among the potential credit sources it is the credit cooperative which provides the most flexible terms and conditions on collateral requirements and loan repayments. Such cases normally arise when the borrowers have already reached their maximum borrowing capacity and, they need other sources to augment their loans. To some extent, the members also resort to other sources to circumvent the penalties imposed by the cooperative, such as loan reduction. Access to outside sources of credit may have an implication on the savings mobilization efforts of the credit cooperatives in the long-run since borrowing is highly associated with saving in the cooperative.

Many of the credit cooperatives have been more flexible in terms of collecting loan repayments, and yet very stringent when it comes to screening loan applications. Such practices do not necessarily prevent loan delinquency among members. Recognizing the limitations in their savings mobilization function, the credit cooperatives can improve their operations and relationship with members by offering more efficient services. These include processing of deposits and withdrawals, and faster processing and disbursement of loans.

In the case of moneylenders, loans are generally released on the same day the request is made. Thus, credit cooperatives should aim for this standard. More importantly, there is a need for them to adopt a more flexible loan ceiling policy. It is important to note that there are affluent cooperative members who are capable of obtaining credit in banks, and such lending policies may have adverse effects on their patronage of the cooperative.

Empirical results show that the amount of loan the members can obtain is a very significant factor in determining their fixed deposits in the credit cooperative. Thus, placing a cap on the maximum amount of loan per single borrower could render savings mobilization efforts ineffective in the long-run. The empirical results also show that the interest rate paid on fixed deposits is a significant factor affecting member behavior in saving with the credit cooperative.

As the credit cooperative expands, the members' demand for other services also increases. In fact, in addition to deposit and lending services, some of these credit cooperatives are contemplating to venture into other projects, such as housing/real estate financing, automotive and appliance financing, opening a consumers' cooperative, and others. In one integrated cooperative, opening a credit line for

members was already implemented to further strengthen the linkage between its credit division and consumer division. This is similar to the universal banking concept now being applied in the banking system. Such additional services are to be expected from a continuously expanding credit cooperative. However, offering additional services to members should not jeopardize its credit operations by reducing its loanable funds to sustain other non-credit services. But certainly, such services may not be offered by small and newly-created credit cooperatives.

Almost all the sample credit cooperatives are affiliated with the Philippine Federation of Credit Cooperatives, Inc. (PFCCI), but only seven of them are shareholders in the Central Finance Facility (CFF) as of the survey period. It appears that the interlending scheme is generally a less familiar concept especially among credit cooperatives which do not have a direct contact with the PFCCI central office. Recognizing that the scheme was introduced to PFCCI-affiliated credit cooperatives just recently, there is still a vacuum in the understanding of the program. Better knowledge of the program's mechanism and of its potential benefits can help the individual credit cooperatives manage effectively their surplus financial resources and their temporary liquidity problem. It can also help them weigh the costs and benefits of alternative outlets for their excess liquidity. Promoting the concept of interlending scheme requires an intensive campaign by the PFCCI among its member primary credit cooperatives, which in turn will relay this new technology to their membership. The campaign should highlight the advantages and disadvantages of the interlending scheme and the overall feasibility of the program after taking into account the potential costs and benefits of joining it. The success of the program will largely depend on the extent of participation and investment of many credit cooperatives affiliated with the PFCCI. Specifically, the campaign must focus on the following broad areas:

(1) How the interlending scheme can be effectively utilized by credit cooperatives given the heterogeneity of their cash flow patterns. The PFCCI must be able to take into account the differences in the cash flow patterns of the credit cooperatives. Some cooperatives encounter temporary liquidity problems (i.e., liquidity shortage during planting season, opening of classes, and holidays, and excess liquidity in other periods of the year) and structural liquidity problems (i.e., there is either excess liquidity or shortage throughout the year).

(2) How the CFF will handle the transfer of funds at least cost for the credit cooperatives, especially those located in far away places. This will have a direct bearing on the effective dividends or interest earnings of the cooperative's investments with the CFF. It is important to note that the credit cooperatives are more likely to keep their surplus financial resources in nearby banks if the cost of accessing them is minimal relative to other alternatives outlets. Thus, cooperative investments in the CFF must be made more profitable than any of the alternative outlets for surplus resources so as not to penalize the returns on share capital of credit cooperative members. Likewise, the mechanism for the transfer of funds must be taken into account. It appears at present that the transfer of funds will be done through the banking system considering that the PFCCI-affiliated cooperatives are highly dispersed throughout the country.

(3) How the interlending scheme can provide for additional services to credit cooperatives, aside from the borrowing privileges associated for being a shareholder in the CFF. The banks where credit cooperatives keep their surplus resources normally provide checking account services. Unless the interlending scheme provides similar services, the credit cooperatives are likely to maintain their deposit accounts with banks just to continue availing of the services. Moreover, it is likely that, for purposes of short-term liquidity management, the credit cooperatives would prefer to deposit their surplus resources in nearby banks.

On another aspect, PFCCI is expected to play a significant role in helping its member cooperatives meet the increasing challenge of transforming into bigger financial institutions. Thus, it may conduct more intensive and diversified training programs that include general and specific training designed to equip its member cooperatives with adequate information on the different aspects credit cooperative operations. Specifically, this training must emphasize on the following areas:

(1) How credit cooperatives can deal with more frequent transactions associated with deposits and withdrawals by members. In the OSU-PIDS study, some cooperatives discontinued their offering savings deposit services to members because of the high costs incurred in servicing more frequent withdrawal transactions. These credit cooperatives were not able to grow as fast as they should because they were unprepared to handle financial innovations.

(2) Effective monitoring credit cooperative performance through a more appropriate (updated) management accounting system, delineation of duties and responsibilities of personnel to avoid overlapping functions and personnel conflicts, and a more precise process of reporting quantitative indicators (i.e., loan delinquency, aging of loans, balance sheet, income statement, net income distribution, etc.). The PFCCI may devise a standard format for all accounting procedures to facilitate integration of financial reports of its member credit cooperatives.

Lastly, there is a need for PFCCI to keep track of the financial status of its member credit cooperatives and of policy pronouncements and changes being effected in the primary cooperatives. The diverse characteristics of its member cooperatives makes it extremely difficult for PFCCI to closely monitor the operations and performance of individual credit cooperatives. Thus, it is also difficult to gather information which may be useful in the formulation of its own policies and of measures that can improve the linkage between the primary cooperatives and the federation. Being an organization itself, the PFCCI can develop its own computer-based information management system that will facilitate record-keeping and updating of information about the perfomance of its member credit cooperatives. The use of graphs and analysis showing the movements of key financial and non-financial indicators (i.e., growth rates in assets, net income, deposits, expenditures, membership, etc.) used in this study may serve as starting models for such purpose. If the PFCCI can devise a system of monitoring the

financial status of its member cooperatives on a quarterly basis, to determine heterogeneity in the latter's cash flow patterns, managing the CFF can become relatively easy. Likewise, the effective information dissemination of board resolutions and minutes of general assemblies will help PFCCI keep track of the changes in the policies being effected by the primary credit cooperatives. This flow of information from the primary cooperatives will also guide the PFCCI in formulating appropriate programs for its members. In the long run, a computer-based information management system will be an inexpensive way to obtain, organize, and disseminate information to and from the primary credit cooperatives. In this regard, training and computer-based information system are areas where external assistance to PFCCI may be concentrated.

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