

**CREDIT UNIONS: AN UNDERRATED MODE
OF MOBILIZING AND ALLOCATING
RESOURCES IN RURAL AREAS**

*Mario B. Lamberte, Julius P. Relampagos
and Douglas H. Graham*

WORKING PAPER NO. 90-21

September 1990

Philippine Institute for Development Studies

TABLE OF CONTENTS

I.	Introduction	1
II.	Brief Background and Performance of CCUs	4
	A. Brief Background of CCUs	4
	B. Performance of the Sample CCUs	12
III.	Socioeconomic Profile of Sample Respondents	28
	A. General Information	28
	B. Occupation and Income	33
	C. Household Status	36
	D. Profile of Respondents Upon Joining the Credit Union	39
	E. Profile of CCU Member-Farmers	39
IV.	Borrowing and Saving Patterns of CCU Members	43
	A. Membership in the Credit Union	43
	B. Borrowing from the Credit Union	50
	C. Membership in the Paluwagan	57
	D. Bank Services	57
	E. Informal Credit	63
	F. Demand for Share Capital	63
V.	Concluding Remarks	68
	References	73

LIST OF TABLES AND FIGURES

Table	1	CCU Sample Members	5
	2	Total Assets of CCUs: Nominal vs. Real	13
	3	Interest Rate Spreads	27
	4	General Characteristics of Respondents	29
	5	Household Composition	30
	6	Nature of Residential Unit	31
	7	Household Appliances Owned	34
	8	Main Occupation of Respondents	34
	9	Nature of Business	35
	10	Working Members of the Family	37
	11	Financial Assistance	38
	12	Annual Total Household Income	40
	13	Average Annual Expenditures by Item	40
	14	Profile of Respondents Upon Joining the CCUs	41
	15	Respondents' Status Upon Joining the CCUs	42
	16	Farm Size and Value of Production by Crops	44
	17	Maximum and Minimum Number of Animals Owned by CCU Member by Type	44
	18	Tenurial Arrangement of Land Cultivated	45
	19	Farm Inputs and Equipment	45
	20	Nature of Other Sources of Income	46
	21	Reasons for Joining the Credit Union	46
	22	Initial Fixed Deposit	48
	23	Outstanding Fixed Deposit	48
	24	Amount of Savings Deposit for the Past 12 Months ...	49
	25	Time and Cost in Making Savings	51
	26	Last Loan from the Credit Union	52
	27	Duration Between Loan Application and Loan Release..	54
	28	Personal Visits to Credit Union	54
	29	Main Purpose of the Loan	56
	30	Amount of Payments Made	56
	31	Other Family Members Who are Members of a Credit Union	58
	32	Membership in the Paluwagan	59
	33	Minimum and Maximum Savings Deposits for the Past 12 Months in Banks	60
	34	Making Savings Deposit in Banks	62
	35	Parameter Estimates (Logarithm) Demand for Share Capital	66
	36	Parameter Estimates (Linear) Demand for Share Capital	67
	37	Parameter Estimates (Logarithm) Demand for Share Capital	69
	38	Parameter Estimates (Linear) Demand for Share Capital	70
Chart	1	Total Assets (In Constant 1972 Prices) 1984-1988 ...	14
	2	Ratio of Fixed Deposits (FD) and Savings Deposits (SD) to Total Assets, 1984-1988	19
	3	Ratio of Total Overdue Loans to Total Loans Outstanding, 1984-1988	23

**CREDIT UNIONS: AN UNDERRATED MODE
OF MOBILIZING AND ALLOCATING
RESOURCES IN RURAL AREAS***

**Mario B. Lamberte, Julius P. Relampagos
and Douglas H. Graham****

I. INTRODUCTION

Recognizing the importance of cooperatives in development, a bill which sets the comprehensive guidelines pertaining to the operations of all types of cooperatives, has been finally signed into law. A related bill creating the Cooperative Development Authority (CODA) in charge of registration and regulation of cooperatives, has also been signed into law. ^{1/} These laws, especially the one pertaining to the operations of the cooperative or the cooperative code, pose a question as to how the entire cooperative movement, specifically

*Paper presented during the ACPC-PIDS sponsored seminar-workshop on "Rural Savings and Informal Credit in the Context of Financial Liberalization" held on 7-8 June 1990 at the G. Licaros Auditorium, 18th Floor Multi-Storey Bldg., Central Bank of the Philippines, Manila.

This paper is part of a larger study on credit union system in the Philippines.

**Vice-President and Research Associate of the Philippine Institute for Development Studies (PIDS), and Professor of the Ohio State University (OSU), respectively. The authors would like to acknowledge the excellent assistance of Melanie Milo, Rosanna Songco, Rowena Roxas, Mervin Samadan, Erwin Tamayo, Merle Gonzales and Nitz Tolentino in the conduct of the study.

^{1/}These are Republic Act (RA) 6938 otherwise known as an Act to Ordain a Cooperative Code of the Philippines; and R.A. 6939 creating the Cooperative Development Authority (CODA).

the credit cooperative type, will be affected. The Code has generally adopted the existing policies and procedures like the registration requirements, allocation of net surplus, duties and rights of the members, tax treatment, objectives of the cooperatives, capitalization, etc., which are already being followed by the cooperative movement. It is interesting to note, however, that the Code formally acknowledges that cooperative unions may assist the national and local governments in the latter's development activities in their respective jurisdictions. It also highlights special provisions for agrarian reform cooperatives, public service cooperatives, cooperative banks, cooperative insurance societies, and credit cooperatives.

The final product of the two recently enacted laws on the cooperative movement has yet to be determined since the specific guidelines have not yet been formulated. But the guidelines which will concretize the provisions in the laws can help spur or retard the growth of the cooperative movement. This is where understanding the behavior of the different segments of the cooperative movement counts a lot in the formulation of such guidelines. Unfortunately, however, there are only very few studies which can help us understand the behavior of the various segments of the cooperative movement. A man on the street usually associates any cooperative with the past failures of so many government-sponsored cooperatives that had been ubiquitously mentioned in the press. If limited to this set of knowledge, one can reasonably expect the kind of guidelines which would emerge from the laws. That is, the guidelines would aim at policing, instead of promoting, the cooperative movement.

This study, therefore, tries to contribute to the understanding of the behavior of one segment of the cooperative movement. The cooperative credit union (CCU) system was chosen because it is the most successful of all types of cooperatives. Yet, its role in the financial markets has not yet been fully understood nor appreciated.

In rural areas, different modes of mobilizing deposits have been made possible through the formal and informal financial institutions. The failure of the formal financial institutions to provide the channel through which resources mobilized could be injected back in the rural areas in the form of credit, has undermined their existence. This gave the informal financial institutions a stronger position to compete with the remaining formal financial institutions, like rural banks, in mobilizing deposits in the rural financial market. Thus, aside from banks, savings mobilization and credit allocation are also performed by cooperative credit unions (CCUs), "paluwagan," and other informal savings and credit associations.

Among the informal financial institutions, the CCUs appear to be the most organized. ^{2/} They have an organizational set-up, rules and regulations, bookkeeping systems, and a permanent place where business transactions are made. It is not surprising to see a lot of them operate almost like a commercial bank. In some towns, the CCUs are even larger in terms of assets than thrift and rural banks operating in the same locality. Their growth even surpassed those of the formal banking system (see Lamberte 1988). Their success could partly be attributed to an environment with less government regulations, and that they had never been tapped by government to carry out credit programs for some sectors of the economy, unlike the case of the rural banking system.

Over the years, as the need for self-help organizations became increasingly evident especially in rural areas where credit coming from the formal financial institutions began to dwindle, more CCUs have been created. This does not mean, however, that CCUs have now replaced formal financial institutions operating in rural areas. The point here is that there are a number of cases showing that the ground for creating a CCU was to alleviate the problem of lack of access to the services of the banking system.

Recently, the lack of sources of credit in rural areas has been aggravated when a number of rural banks were closed. Of the remaining ones, a great majority has to undergo the rehabilitation program devised by the government for rural banks (see Lamberte and Relampagos 1990). While presently strengthening the financial status of the rural banking system, the government has been seriously looking for nongovernment organizations (NGOs), credit cooperatives and other self-help groups as potential conduits for allocating credit in rural areas. In fact, a number of special credit programs have already begun lending to target beneficiaries through the NGOs and cooperatives (see Lamberte 1990). Also, the Land Bank of the Philippines (LBP) has been busy organizing cooperatives to serve as credit conduits in the future.

This study attempts to analyze the performance of CCUs in rural areas. Since CCUs' performance depends to a certain degree on the borrowing and saving patterns of their members, this study will also examine such patterns.

This study limits itself to eight sample CCUs located in the provinces of Batangas, Laguna, and Pangasinan. These are the areas where some of the sample banks in the earlier Comparative Bank Study jointly conducted by ACPC, PIDS, and OSU were selected.

^{2/}In the Philippines, the CCUs are still considered part of the informal credit markets (see Lamberte and Balbosa 1988).

Due to budget constraint, only 200 members were selected as respondents out of a total of 3,005 active and inactive members of the eight CCUs. They were allocated proportionately to the size of each CCU and were selected using simple random sampling technique. The distribution of the sample respondents is shown in Table 1.

Data collection was done during the period September 1989 through January 1990. There were two sets of structured data collection instruments used. One was administered to officers of the CCUs. The other instrument was administered to sample member-respondents. Financial statements of CCUs from 1984 to 1988 were also obtained.

The next section describes the development of the eight sample CCUs and also evaluates their performance. Section III presents the socioeconomic profile of the sample CCU members. Section IV examines the borrowing and saving patterns of the sample CCU members. The last section concludes the study and discusses some policy implications.

II. BRIEF BACKGROUND AND PERFORMANCE OF CCUs

A. Brief Background of CCUs

A brief background of each of the eight CCUs will be discussed in this section.

1. Alaminos Laguna Cooperative Credit Union, Incorporated (ALCCUI)

The operation of ALCCUI started when a group of civic-oriented and religious community members, some of whom were also members of the local chapter of the Knights of Columbus, organized to combat the proliferation of loan sharks in this area in Laguna. It was the first cooperative in the municipality established in 1966, and the orientation of the founders was initially sponsored by the church. Its formal registration as a cooperative credit union, however, took place in 1970 with 15 incorporators and a paid-up capital of ₱3,595.00.

It was only after registration with the Cooperative Administration Office that ALCCUI began its lending operations. Prior to its registration, the organizers spent a great deal of effort in recruiting community residents to join and save in the cooperative. Thus, the cooperative concentrated on accepting deposits but no loans were granted yet.

The present ALCCUI accepts a member who is a resident of Alaminos and at least 16 years old with some form of livelihood. A minimum of ₱50.00 fixed deposit is required from every member. The cooperative also accepts savings deposits.

Table 1
CCU SAMPLE MEMBERS

CCU	Membership	Sample Size
1. Alaminos Laguna Cooperative Credit Union, Inc. (ALCCUI)	325 (11.0)	22 (11.0)
2. San Cristobal Credit Cooperative, Inc. (SCCCI)	200 (7.0)	13 (7.0)
3. Sta. Monica Cooperative Credit Union, Inc. (SMCCUI)	151 (5.0)	10 (5.0)
4. Batangas Parish Credit Cooperative, Inc. (BPCCI)	887 (29.0)	59 (29.0)
5. Batangas Catholic Cooperative Credit Union, Inc. (BCCUI)	530 (18.0)	35 (18.0)
6. Ambulong Credit Cooperative, Inc. (ACCI)	246 (8.0)	16 (8.0)
7. San Fabian Parish Credit Cooperative, Inc. (SFPCCI)	368 (12.0)	25 (12.0)
8. Villasis Parish Credit Cooperative, Inc. (VPCCI)	298 (10.0)	20 (10.0)
	----- 3,005 (100.0)	----- 200 (100.0)

Figures in parentheses are percent to total.

The cooperative offers two types of loans, regular loans and emergency loans, with a ceiling of ₱1,000.00 and ₱500.00, respectively. Since an emergency loan has a very short maturity of 30 days, the borrowers would rather have their loans classified as regular loans.

Contrary to the common practice, the loan amount borrowed is not necessarily tied up with the member's fixed deposit in ALCCUI. The cooperative puts more emphasis on the character of the borrower in determining the amount that he can borrow. Loan renewal or refinancing is allowed regardless of the percentage of borrower loan repayment already made. Co-makers are required only if the borrower is not regularly employed, that is, he does not receive a fixed and regular salary.

2. San Cristobal Credit Cooperative, Inc. (SCCCI)

The growing concerns for the lack of sources of funds for small businesses and the low standard of living in the community in the early 1970s prompted civic-minded members and leaders of San Cristobal to organize SCCCI. Because of commitment and strong leadership of the officers, they successfully motivated community residents to join the cooperative. Thus, during its formal registration with the CAO in 1971, SCCCI had 77 members already.

During the early period of operation, members adopted a wait-and-see attitude and, thus, were reluctant to borrow from the cooperative. The Cooperative officers and leaders, known for their honesty and integrity, set the mood of availing lending services from the cooperative. Through their example, the members saw for themselves how cooperative would benefit them financially.

At present, SCCCI offers full and associate membership to any resident or one who works in Bgy. San Cristobal. A minimum fixed deposit of ₱100.00 is required from every member except for associate members who hold just a savings account with the cooperative. Savings and time deposits are accepted though not on a regular basis in the case of the latter. There is no ceiling set on fixed deposits and the maximum amount a member may borrow is three times the value of his fixed deposits, provided the loan does not exceed ₱25,000.00.

There is only one type of loan offered by SCCCI which may be providential or agricultural in nature. All loans have a maturity of 10 months with two co-makers required. For relatively big loans, collateral may be required depending on the Board of Directors' (BOD) discretion. Likewise, the percentage of loan repayment made qualified for loan renewal or refinancing depends on BOD's discretion and approval.

3. Sta. Monica Cooperative Credit Union, Inc. (SMCCUI)

Barangay Sta. Monica in Laguna was in a depressed social and economic state due to the sudden overcrowding of families affected by government relocation of houses in the early 1970s. The alarming economic condition of the community, resulting from rising unemployment, made it evident that there was a need to form self-help and community-building organizations. Thus, SMCCUI was organized.

The initial task of SMCCUI was to extend loans to members at low interest rate to finance alternative livelihood projects. Likewise, the cooperative targeted to help low-income residents who frequently end up borrowing from "loan sharks" when other sources were not available.

Funding for business projects aimed to develop the community is also being offered. In 1986, SMCCUI obtained financial and technical assistance for its agricultural production loan project from the Philippine Business for Social Progress (PBSP) through the Center for Rural Technology Development (CRTD).

It is interesting to note that a member does not terminate his membership in SMCCUI even with a zero fixed deposit. This is an exception to the rule because a credit union typically requires a member to maintain a minimum number of share capital subscriptions or its equivalent peso fixed deposits in order to keep his membership. A member with zero fixed deposit, however, cannot borrow from the cooperative. SMCCUI has set a maximum amount of fixed deposit of ₱500.00. Any amount deposited in the fixed deposit that is greater than ₱500.00 is automatically credited to the member's savings deposit.

SMCCUI just obtained the status of a third level cooperative whereby the goal of self-sufficiency became the major thrust and motivation of members. This is a category assigned by CRTD-PBSP based on its evaluation of a cooperative. SMCCUI is a member of the San Pablo City Federation of Core Group, Inc. which is a direct proponent of PBSP. Being a member of CRTD-PBSP, the cooperative benefited from their programs through loan-assisted projects, community-building, and technical assistance.

The cooperative offers two kinds of loans: providential and productive. For both loans, a member can borrow an amount equal to two times the value of his fixed deposits.

4. Ambulong Credit Cooperative, Inc. (ACCI)

The present ACCI was the financing arm of the Samahang Nayon for its various community projects in 1975. It started as a Test Cooperative under the Ambulong Samahang Nayon and was known as Ambulong Credit Union then. For more than five years of operation before its formal registration, the credit union was

operating with no proper orientation of members about the cooperative movement. This created the problem of high delinquency among borrowers and, thus, money-lending operations had to be stopped. With the help of a Cooperative officer from the then Ministry of Agriculture, a series of membership seminars were held informing members about the true spirit of cooperativism. When the problem of the delinquency was gradually resolved, officers formally registered the credit union with the Cooperative Affairs Office (CAO) on November 16, 1981 as the Ambulong Credit Cooperative, Inc.

ACCI envisions to become a development cooperative, providing not only funds but technology as well. Thus, it became a recipient of a financial grant from the Department of Trade and Industry for the "Tulong sa Tao" (TST) project. However, instead of adopting the typical relending scheme to its members, the cooperative directly controls and supervises the project.

In addition to fixed deposits, the cooperative accepts savings and time deposits. The latter, however, depends on the need for long-term capital. Minimum fixed deposit is ₱10.00 but there is no ceiling set. Loans may be granted to members in good standing, either for providential or productive purposes. A member can borrow thrice the amount of his fixed deposits without collateral if the loan does not exceed ₱10,000.00. For loans beyond ₱10,000.00, collateral in the form of real estate, vehicles or appliances, may be required, depending on the borrower's character and credibility. The cooperative does not impose a ceiling for the maximum amount of loan per borrower.

Other services are also offered by ACCI to its members. These include an appliance-financing program, Mutual Benefit Plan, loan insurance program and scholarship fund. Under the appliance financing program, the Ambulong Consumers Cooperative will purchase the appliance the borrower specifies in his loan application form and the cooperative will pay for it. The deed of sale will be turned over to the borrower only upon completion of the loan repayment. Under the Mutual Benefit Plan, the family of a deceased member will receive ₱1,000.00 as contribution. In case a deceased member still has an outstanding loan, a loan insurance program will shoulder the repayment. In the loan insurance program, the family of the deceased cooperative member is relieved from paying the remaining loan balance of the latter. Finally, the Cooperative also sends students to secondary schools through its scholarship fund.

5. Batangas Catholic Cooperative Credit Union, Inc. (BCCCU)

The creation of BCCCU came as a response to the call of the government to encourage self-help organizations, specifically the promotion of cooperative credit unions in the 1960s. The Batangas City Chapter of the Knights of Columbus together with

the support of the various civic leaders of the community, spearheaded the establishment of the cooperative with the sole purpose of providing funds for small borrowers who had no access to credit facilities of nearby banks. During its formal registration on October 25, 1962, the cooperative had a paid-in capital of ₱25,000 with 37 incorporators. One striking feature of BCCUI is that it restricts its operation only to Catholics of Batangas Province and Lipa City.

As a parish-community based cooperative, BCCUI relied on the voluntary services of the parishioners during the first year of operation. This is the common strategy adopted by most parish-based credit cooperatives when their operating incomes do not enable them to hire personnel during the initial stage of operation.

After almost a decade of operation, BCCUI was struck with a serious problem of loan delinquency. Many blamed poor managerial supervision as the main cause of the problem. Due to the dissatisfaction of some members on the poor managerial ability of the treasurer/manager, a group of women from the Catholic Women's League (CWL) separated from BCCUI. The group formed their own credit union which became the Batangas Parish Credit Cooperative Union, Inc. A change in the management became inevitable and since then, the present management has never been replaced.

BCCUI used to accept savings deposit from members. Savings deposit accounts were removed in the 1970s due to the high bookkeeping cost associated with members' infrequent savings and frequent withdrawals. At present, BCCUI requires its members to maintain a minimum of ₱50.00 fixed deposit to keep their membership. For new members, a ₱10.00 membership/entrance fee is collected.

For BCCUI, the struggle for a more progressive operation of a cooperative credit union continues. The present manager specifically wants to address these three critical problems: (1) difficult and slow collection of past due loans; (2) insufficiency of fixed deposits from members; and (3) poor educational cooperative training of members.

6. Batangas Parish Credit Cooperative, Inc. (BPCCI)

BPCCI was created by the local chapter of the Catholic Women's League (CWL). The creation of the cooperative was CWL's response to the increasing need of capital in an economy with a growing industrial and commercial base, specifically among small-scale vendors and entrepreneurs who had limited access to nearby banks. With an initial paid-up capital of ₱1,375.00 from the 25 members/incorporators, the cooperative formally registered with CAO on June 11, 1968.

The operation of BPCCI is strongly supported by the church. Given the spiritual mentality of the local folks, the parish has played a significant role in campaigning and encouraging community residents to join and patronize BPCCI. This strategy proved effective in terms of capital build-up through increased membership.

BPCCI is a member of the Cooperative Union of Batangas, Inc. (CUBI) for four years now. Among the benefits obtained by BPCCI from being a member of CUBI include seminars and workshops regarding credit cooperatives that the latter holds and sponsors.

Any resident of Batangas City with some form of livelihood can join the cooperative provided the member pays and maintains the ₱50.00 minimum fixed deposit. In return, the member may obtain a loan equivalent to two times his fixed deposit, as long as the loan amount does not exceed the ceiling of ₱5,000.00. The cooperative offers only regular loans with interest rates determined in the following manner:

<u>Loan Amount</u>	<u>Interest Rate</u>	
	<u>Ten Months</u>	<u>One Year</u>
Less than ₱2,000.00	7.33%	16%
Greater than ₱2,000.00	8.25%	18%

BPCCI allows loan renewals or refinancing, provided at least 50 percent of the preceding loan has already been paid.

7. San Fabian Parish Credit Cooperative, Inc. (SFPCCI)

SFPCCI is one of the cooperatives established in the mid-1960s under the sponsorship of the Knights of Columbus which had been vigorously promoting the establishment of credit unions. The creation of the SFPCCI came as a relief to the residents of the town of San Fabian as there was no financial institution in their community during those years. With an initial 25 members, including the 15 incorporators, and a paid-up capital of ₱1,065.00, the San Fabian Parish Credit Cooperative was registered with the CAO in July 1966.

At the start, membership in SFPCCI was by invitation, specifically to the members of the different catholic organizations. When SFPCCI began inviting other members of the community, the organizers found it hard to convince them because of the community's frustrating experience with the previous cooperatives. To regain the trust and confidence of the residents in the cooperative movement, SFPCCI did not accept as members those who were held accountable to the failure of previous cooperatives. Thus, membership was limited to well-respected members of the community.

For SFPCCI, the establishment of the Rural Bank of San Fabian three years later did not significantly affect the

cooperative's operations because the two served different clientele. The Rural Bank of San Fabian provided loans to borrowers who were able to present collateral, while the cooperative provided loan to borrowers who had no collateral but of good character. A co-maker, however, has always been a requirement in applying for a loan.

The cooperative offers a regular loan and an emergency loan with a ceiling of ₱3,000.00 and ₱100.00, respectively. For a member to be able to borrow, the cooperative requires a fixed deposit of ₱50.00 although the minimum fixed deposit for membership is ₱5.00. A ceiling on fixed deposit per member is set at ₱5,000.00. Savings deposits are also accepted by the cooperative.

The present thrust of SFPCCI is to rehabilitate the cooperative and to clean its book of accounts with high loan delinquency. Around 60 percent of the cooperative's loans outstanding are overdue loans and this was the result of leniency in collecting loans. The cooperative is also quite lenient when it comes to renewal or refinancing of loans.

8. Villasis Parish Credit Cooperative, Inc. (VIPACCI)

The Villasis Parish Credit Cooperative (VIPACCO) formally started its operations in December 1965 with a paid-in capital of ₱25,000.00. It was organized by the acting parish priest of Villasis at the time with the primary goal of helping the community acquire financing to put up cottage industries as alternative means of livelihood especially for the low-income groups. With the assistance of another organizer and a former president of a cooperative in Davao, completion of the pre-registration requirements (i.e., series of membership seminars, drafting of the cooperative's by-laws, etc.) was done smoothly and fast. VIPACCO, however, applied for re-registration with the Bureau of Cooperative Development and adopted the code of by-laws and articles of incorporation of the Kilusang Bayan for Credit (KB) as required under P.D. 175. Thus, in September 1976 VIPACCO changed its name to Villasis Parish Credit Cooperative, Inc. (VIPACCI).

During its early years of operation, the cooperative went through serious internal management problems that affected its growth performance as well as the trust and confidence of its general membership. This made it difficult for the officers to make the members actively participate in the activities of the cooperative considering the fact that most of them were only beginning to realize the benefits and potential of the cooperative as a self-help organization.

VIPACCI is affiliated with several cooperative organizations in the country. For more than twenty years now, the cooperative continues to invest a part of its net savings into the Philippine

Cooperative Services, Inc. which earns a dividend of 10 percent annually. It became a member of the Pangasinan and Cities Cooperative Union (PACCU) in 1979, and also affiliated itself with the Cooperative Union of the Philippines (CUP). Membership in these organizations allow the cooperative to avail of seminars/workshops, training, and reading materials which are partly subsidized. VIPACCI, however, pays annual dues to CUP equivalent to 10 percent of its net savings.

Recent growth performance of VIPACCI is relatively stable. During the 1981-86 period, its total income and assets had surpassed two other banks in the area which had gone bankrupt. As of date, only one rural bank exists in Villasis. The increase in VIPACCI's earnings in the period prompted the officers to open savings and time deposit accounts with the Philippine National Bank (PNB) branch at Urdaneta. Later, these accounts were transferred to private banks to avail of higher deposit interest rates.

Despite these developments taking place in the cooperative, the perennial problem of loan delinquency was still present. High loan delinquency resulted in the continuous reduction in the cooperative's loan receivable in the 1987-88 period. In this regard, the officers aim to reduce delinquency rate through proper education on the values of cooperativism and self-reliance among their members. Moreover, VIPACCI is adopting a policy that good standing members will always have priority over delinquent members in terms of borrowing privileges.

The cooperative accepts savings deposit in addition to the fixed deposit. A member can be considered full-pledged if he maintains at least ₱100.00 fixed deposit and at least ₱50.00 savings deposit.

B. Performance of the Sample CCUs

In this sub-section, the performance of the sample CCUs is analyzed. It should be noted that these CCUs are producing a variety of products: a) quantitative -- loans, deposits, etc.; and b) qualitative -- good relationship among members, social acceptance, etc. It is therefore appropriate to use a number of indicators to assess the performance of CCUs. In this paper, however, we will limit ourselves only to a few financial indicators. Admittedly, this will give us only a partial view of the performance of the CCUs; nevertheless they are important enough for anyone to appreciate the performance of CCUs.

The nominal and real assets of the eight CCUs for the period 1984-88 are shown in Table 2. The real assets of the eight CCUs are also depicted in Chart 1. One can immediately notice the volatility in outstanding real assets of the eight CCUs. All, except one CCU, were severely hit by the high inflation rates in 1984 and 1985. Five of them were able to quickly recover in

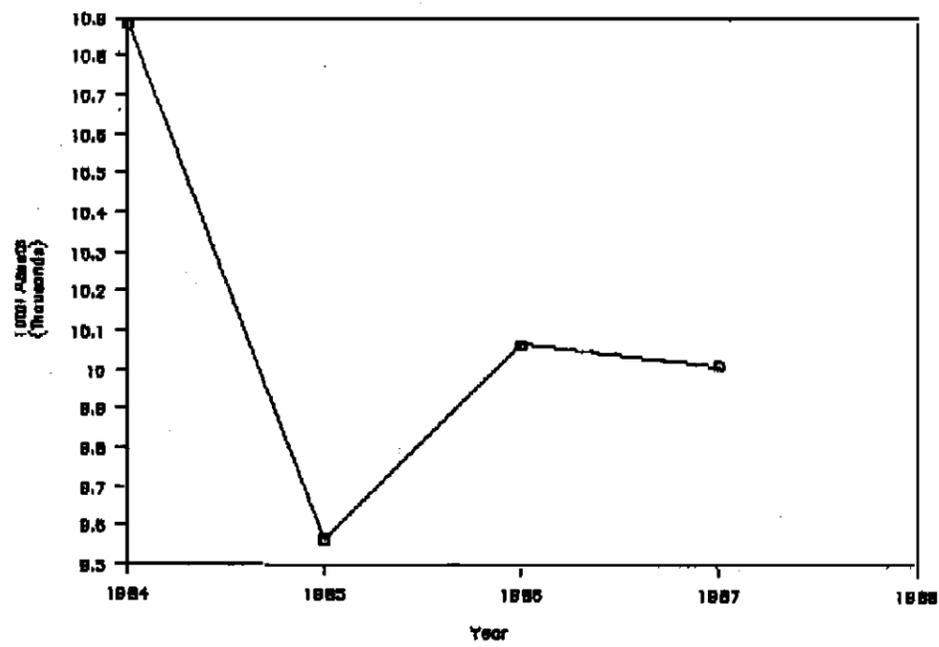
Table 2
TOTAL ASSETS OF CCJs: NOMINAL VS. REAL (1972 PRICES)

CCJ	1984		1985		1986		1987		1988	
	Nominal	Real								
ALCCJ	62,615.71	10,881.91	64,896.31	9,562.39	69,221.82	10,064.35	74,301.82	10,013.26	-	-
SCCJ	443,853.41	77,136.90	505,396.64	74,469.57	562,836.28	81,832.34	711,907.10	95,939.96	699,690.00	85,910.25
SMCCJ	35,828.58	6,226.62	40,117.28	5,911.23	45,647.58	6,636.83	47,808.91	6,442.95	48,511.00	5,956.34
BPCCJ	1,446,167.16	251,328.12	1,492,990.69	219,990.32	1,702,852.93	247,582.54	1,869,489.44	251,941.21	2,177,352.00	267,342.47
BCCJ	579,488.02	100,708.72	648,067.15	95,491.89	785,718.84	114,237.86	928,312.69	125,103.79	901,870.00	110,734.58
ACCJ	69,395.64	12,060.21	69,395.64	10,225.36	69,395.64	10,089.63	69,395.64	9,352.08	69,395.64	8,520.63
SFPCCJ	88,212.48	15,330.37	86,591.22	12,759.11	82,691.54	12,022.75	90,951.92	12,257.11	96,263.00	11,819.49
VPCCJ	167,757.75	29,154.47	204,532.74	30,137.64	239,833.84	34,870.11	235,438.32	31,728.78	225,049.00	27,632.26

Source: 1984-1988 Financial Statements of the eight CCJs.

Chart 1
TOTAL ASSETS
(in Constant 1972 Prices)
1984-1988

ALAMINOS LAGUNA CREDIT COOPERATIVE



SAN CRISTOBAL CREDIT COOPERATIVE

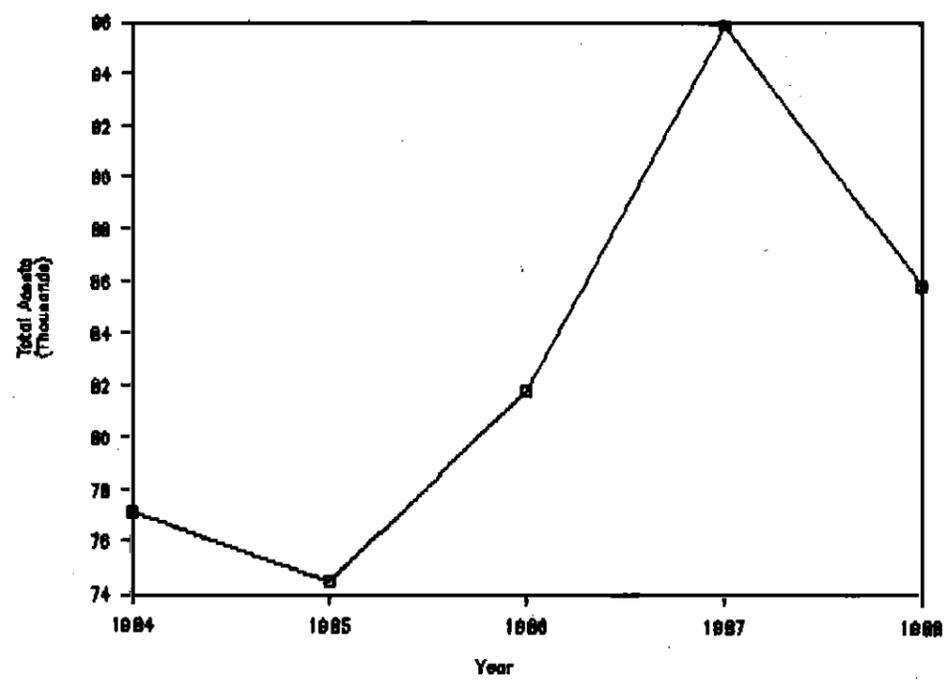


Chart 1 (cont'd)

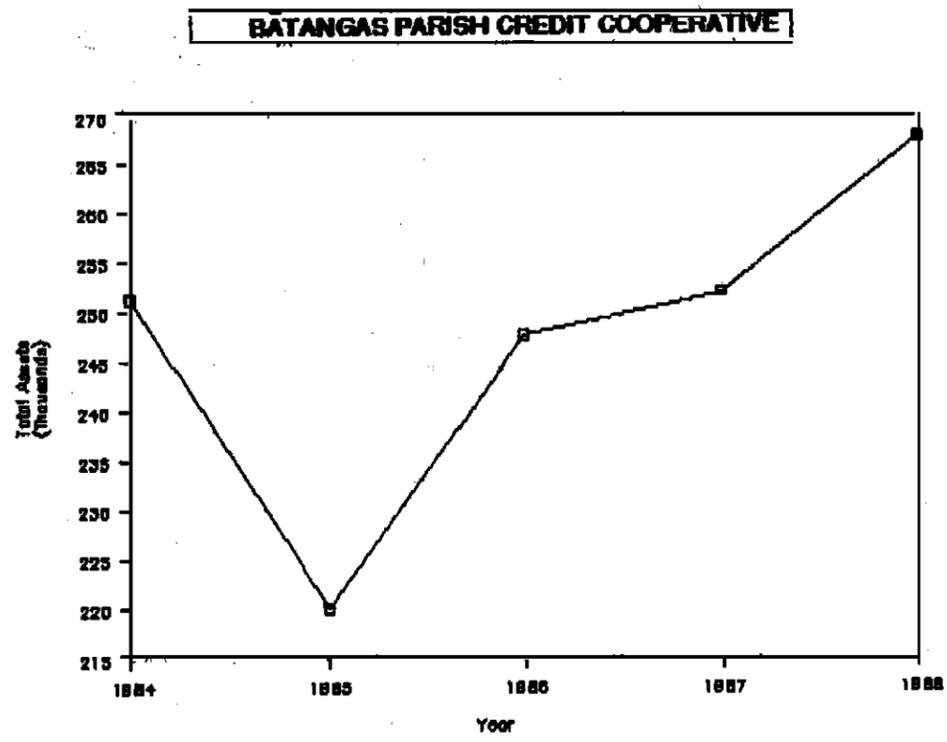
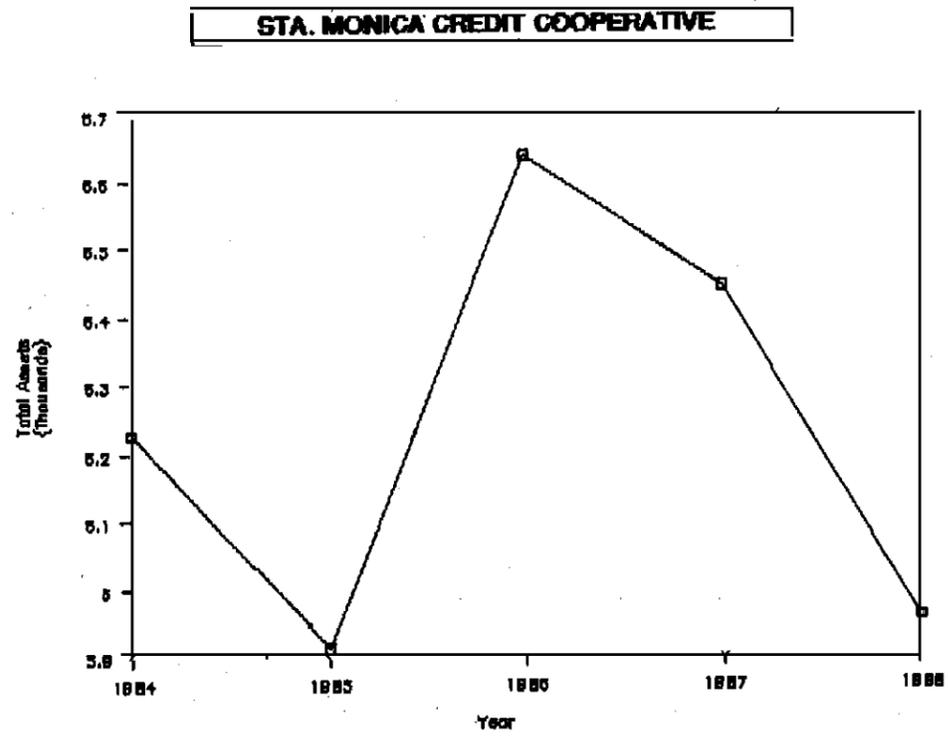
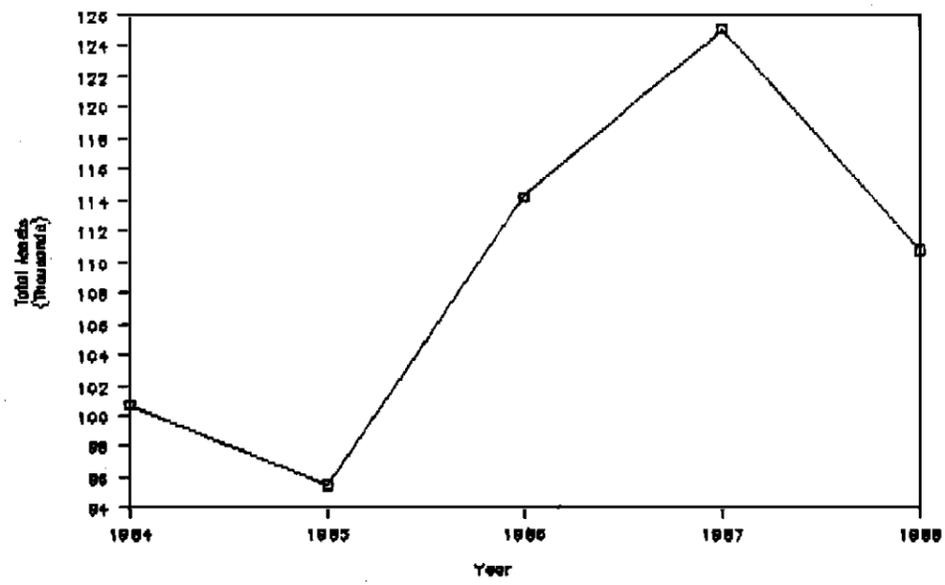


Chart 1 (cont'd.)

BATANGAS GATHOLIC CREDIT COOPERATIVE



AMBULONG CREDIT COOPERATIVE, INC.

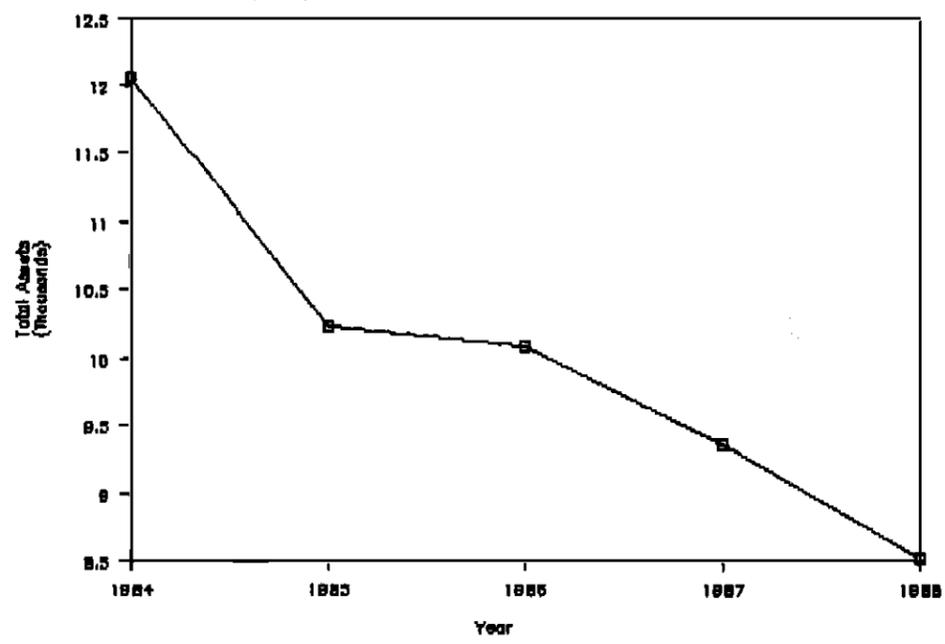
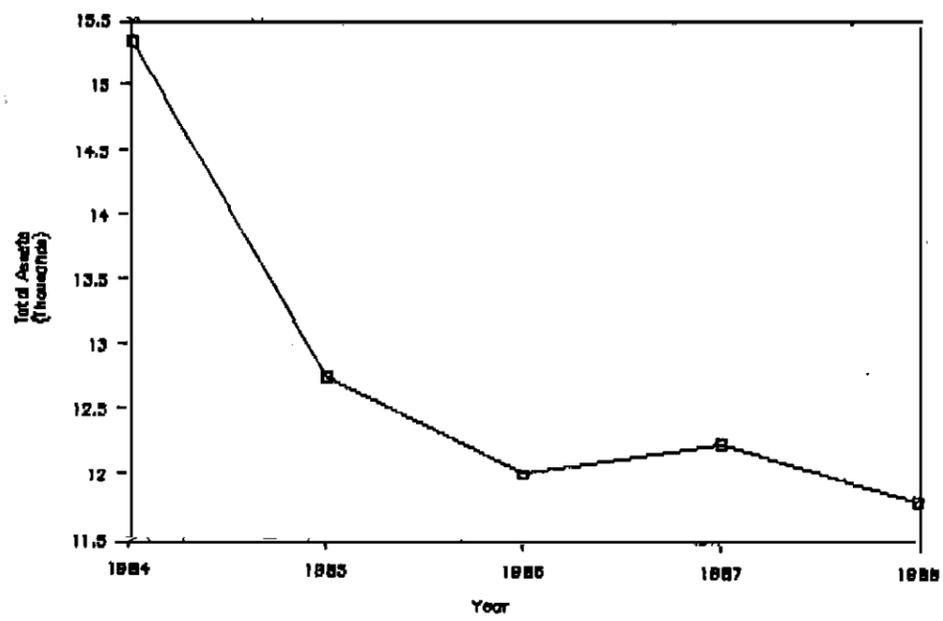
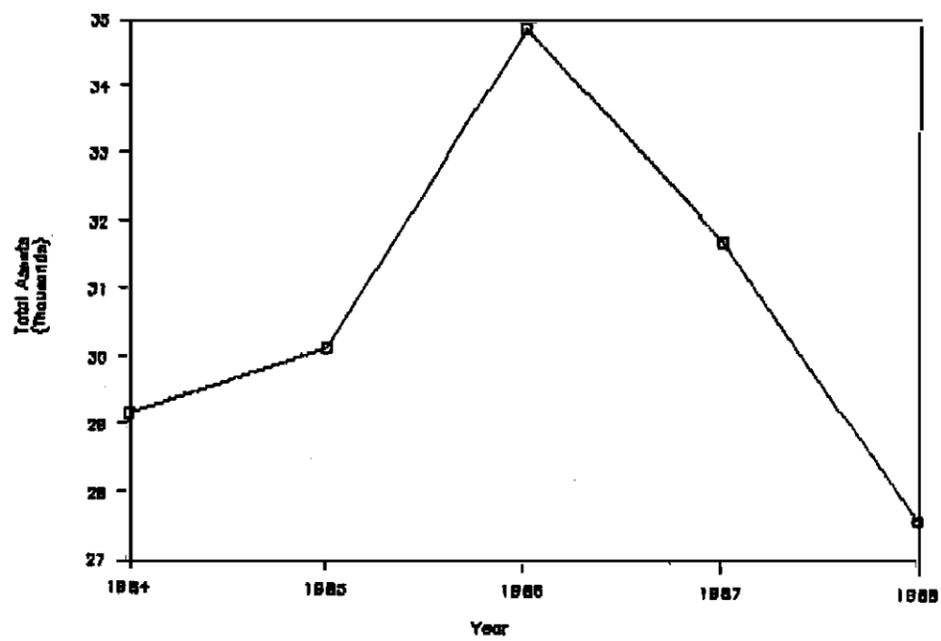


Chart 1 (cont'd)

SAN FABIAN PARISH CREDIT COOPERATIVE



VILLASIS PARISH CREDIT COOPERATIVE



1986. However, the recovery was not sustained by most of them. By 1988, only one of them experienced a positive growth in real assets while the rest suffered a decline.

There are at least two reasons for the unsustainability of the growth in the real assets of CCUs. One is excessive reliance on fixed deposits. This is shown in Chart 2 for the eight CCUs. The growth in fixed deposits hinges on three factors. First, it depends on the growth of CCU membership. New members are likely to contribute larger amounts in the first few years to satisfy the minimum number of shares for a member in good standing. If no new members join, then the growth in assets would also stop. Second, it depends on the loan ceiling imposed by the CCUs. Since the fixed deposit is used to determine the loan capacity of each member, those that have already reached the loan ceiling for an individual borrower will be discouraged from saving more. And third, it depends on the return a credit union will give the fixed deposits. If the return on fixed deposits is low, then members will not be encouraged to save in the CCU. We will come back to this third factor in Section IV below.

It appears that the potential of savings deposits as an alternative source of growth for CCUs has not been exploited. As Chart 2 shows, the ratio of savings deposits to total assets had been very low for all CCUs. Putting emphasis on savings deposits would certainly require new organizational setup and technology. For instance, to service daily deposits and withdrawals, the CCU must have at least a full-time staff to handle it. This is not necessary if all loanable funds of a CCU come from deposits or share capital.

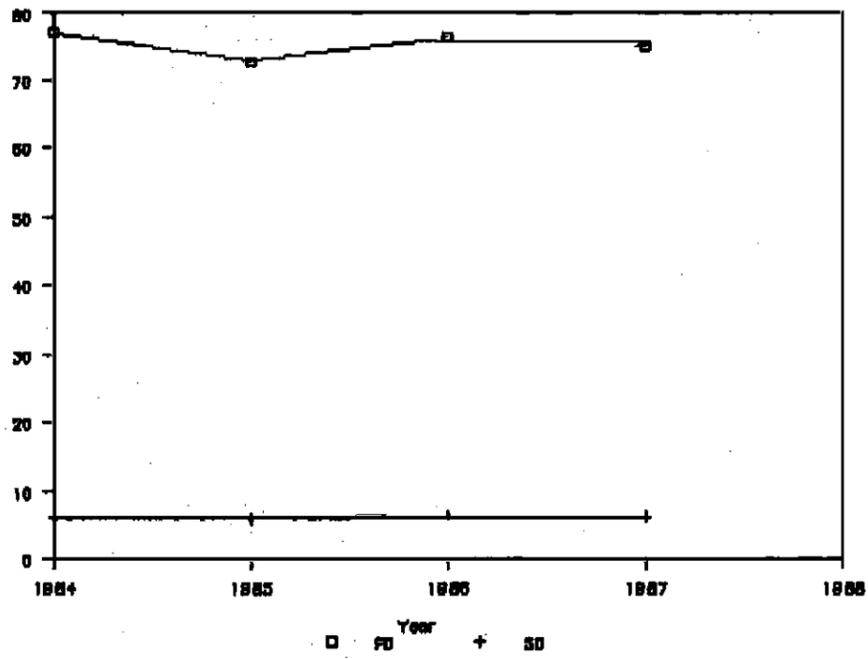
The other reason for the unsustainability of the growth of real assets of the CCUs is the high incidence of overdue loans. This is depicted in Chart 3 for all CCUs. Although some CCUs managed to control the incidence of overdue loans, the ratio of overdue loans to total outstanding loans still appears to be very high for most of them.

The findings above suggest one thing. That is, for a CCU to achieve sustainable growth, it must constantly introduce innovations and institute some control mechanisms to discipline members.

Table 3 shows the average spreads on interest rates on fixed deposits and basic lending rates. On the average, there are differences on the spreads realized by the eight credit unions with most of them getting more than eight percent per annum. It is important to note, however, that interest on fixed deposits is contingent on the profits realized by the CCU at the end of the year. In certain years, no interest is given in deposits because either profits are low or the CCU has certain projects to finance. This is demonstrated by three CCUs. In most CCUs, the nominal interest rate on fixed deposits fluctuated from year to

Chart 2
 RATIO OF FIXED DEPOSITS (FD) AND SAVINGS DEPOSITS (SD)
 TO TOTAL ASSETS
 1984-1988

ALAMINOS LAGUNA CREDIT COOPERATIVE



SAN CRISTOBAL CREDIT COOPERATIVE

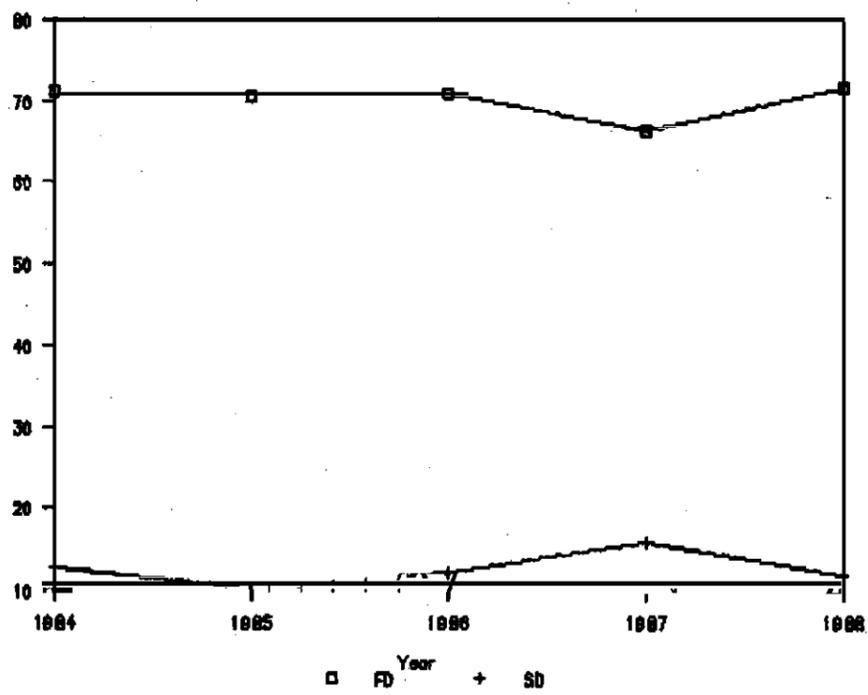
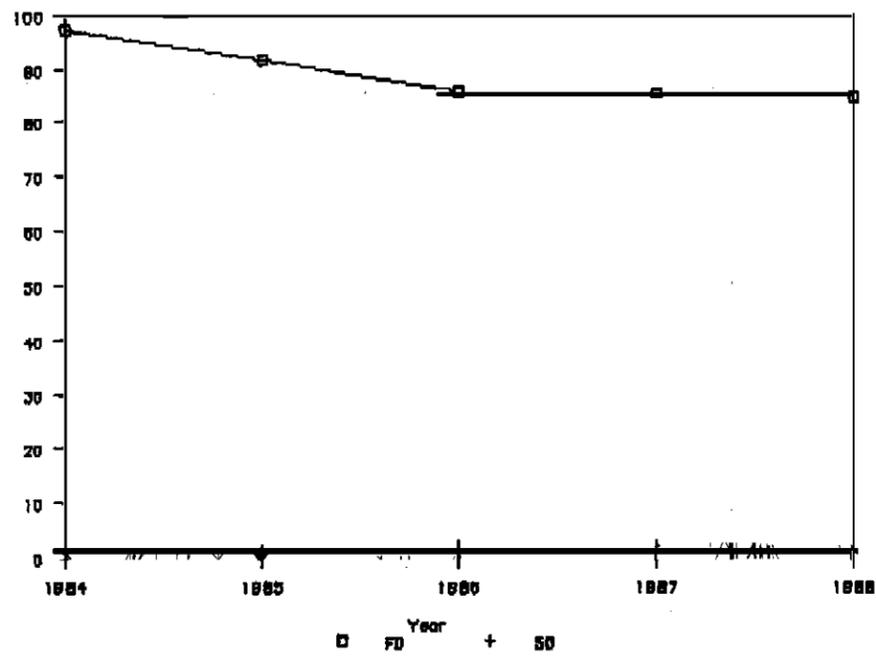


Chart 2 (cont'd)

STA. MONICA CREDIT COOPERATIVE



BATANGAS PARISH CREDIT COOPERATIVE

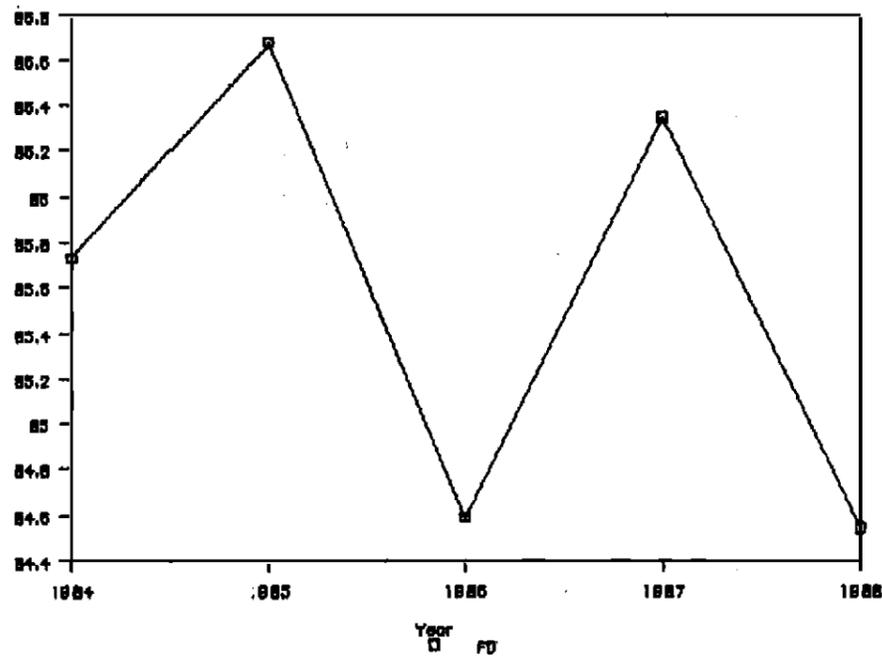
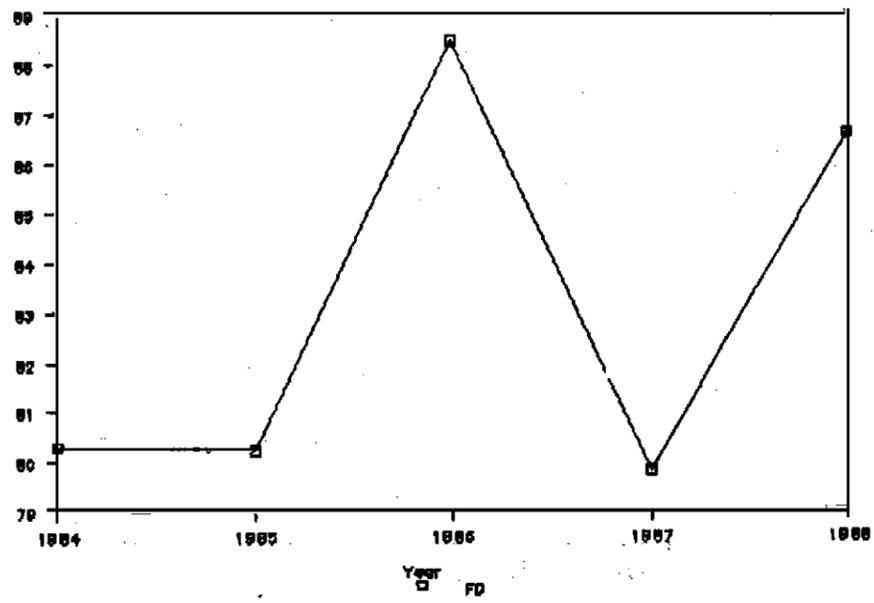


Chart 2 (cont'd.)

BATANGAS CATHOLIC CREDIT COOPERATIVE



AMBULONG CREDIT COOPERATIVE, INC.

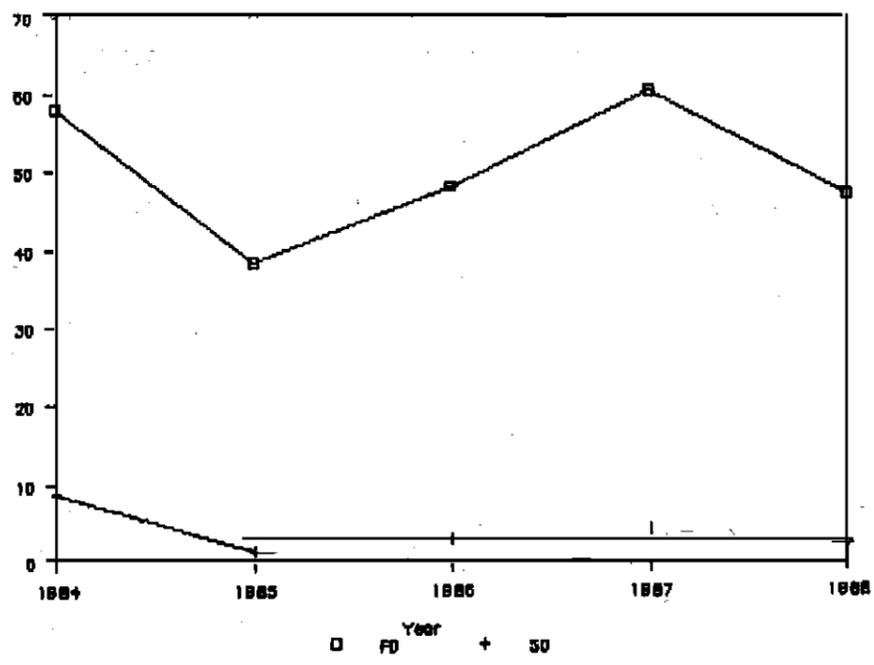
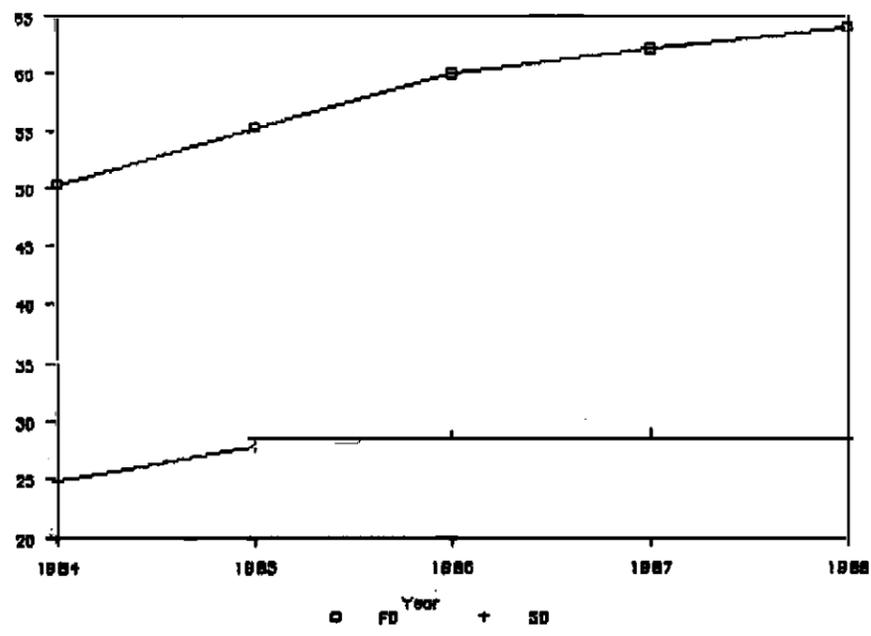


Chart 2 (cont'd)

SAN FABIAN PARISH CREDIT COOPERATIVE



VILLASIS PARISH CREDIT COOPERATIVE

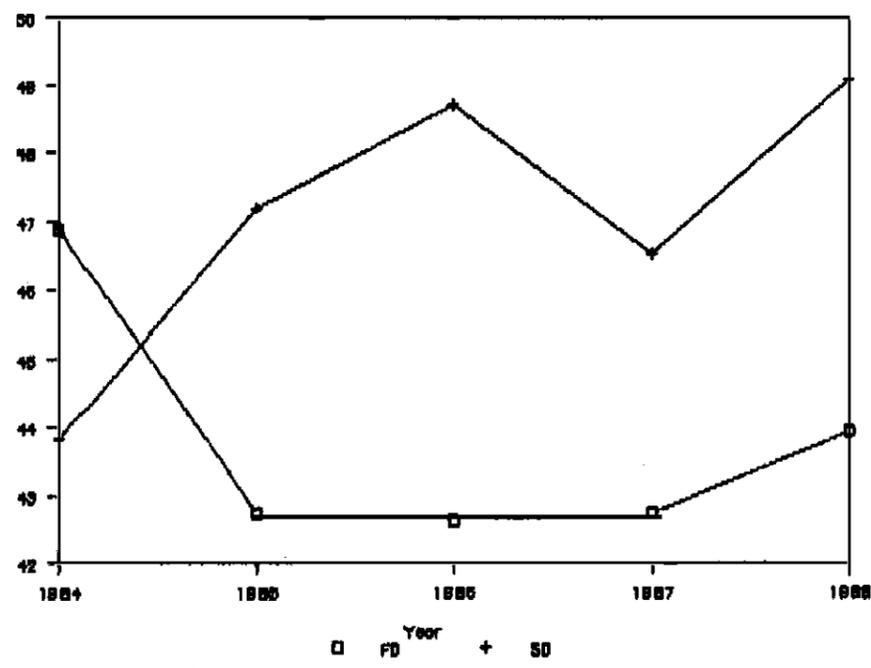
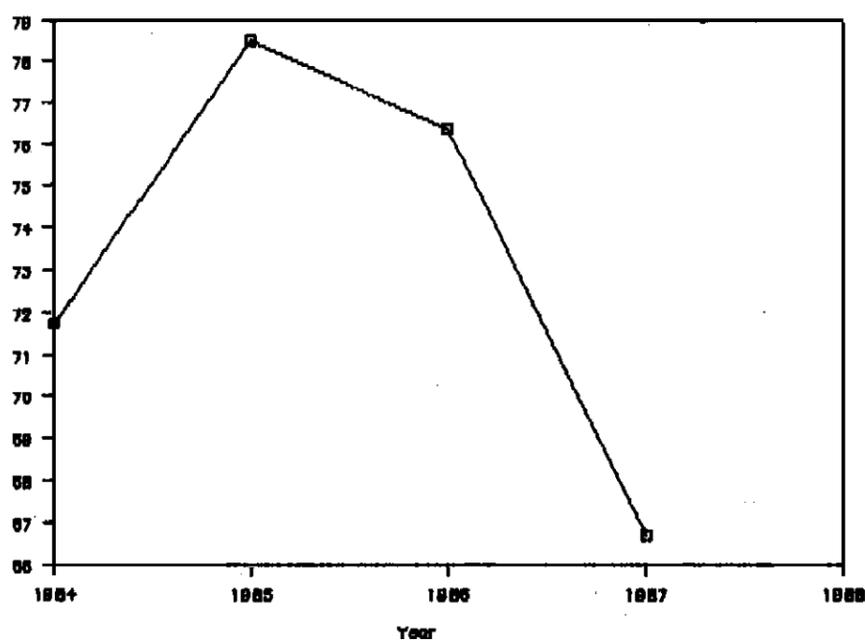


Chart 3
RATIO OF TOTAL OVERDUE LOANS TO
TOTAL LOANS OUTSTANDING
1984-1988

ALAMINOS LAGUNA CREDIT COOPERATIVE



SAN CRISTOBAL CREDIT COOPERATIVE

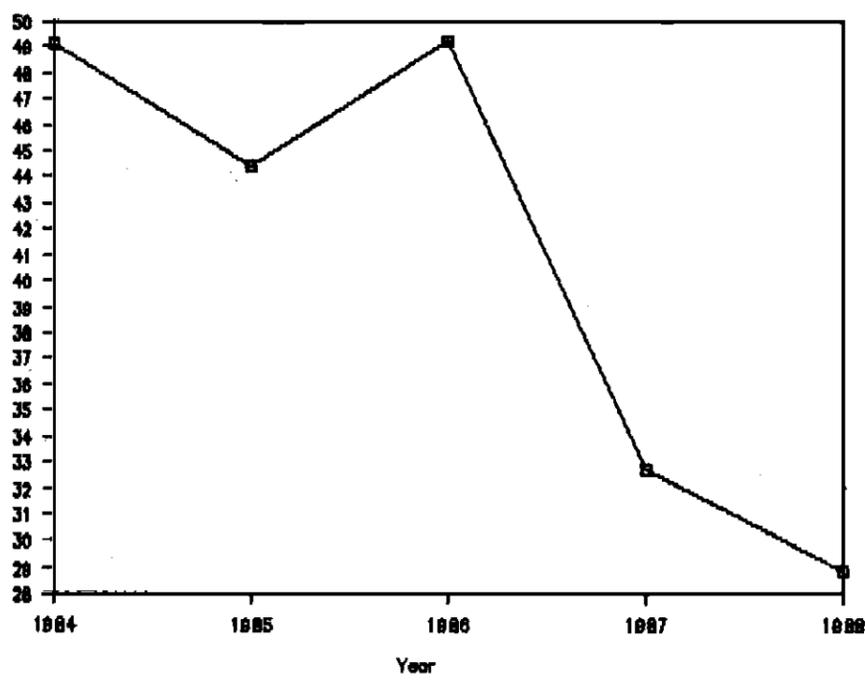
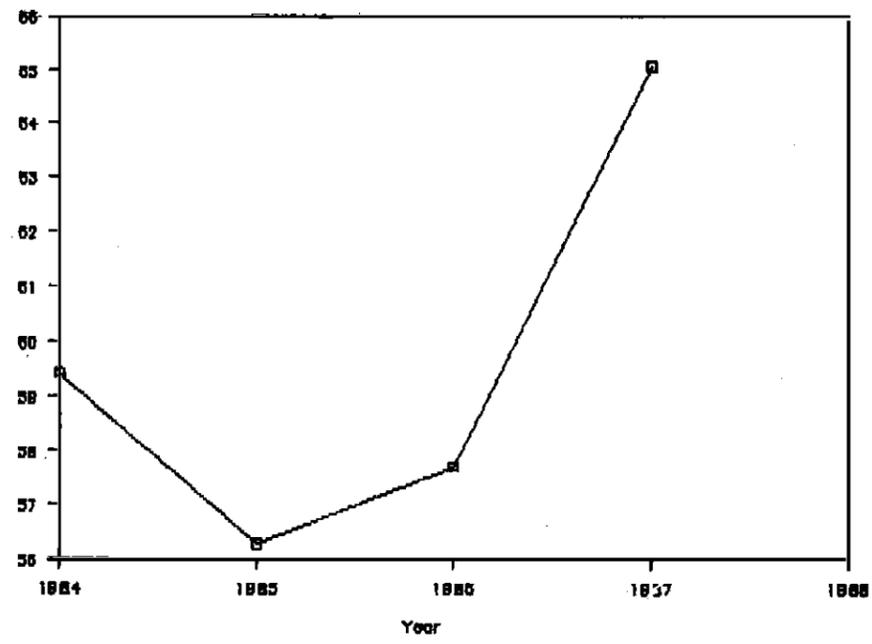


Chart 3 (cont'd)

STA. MONICA CREDIT COOPERATIVE



BATANGAS PARISH CREDIT COOPERATIVE

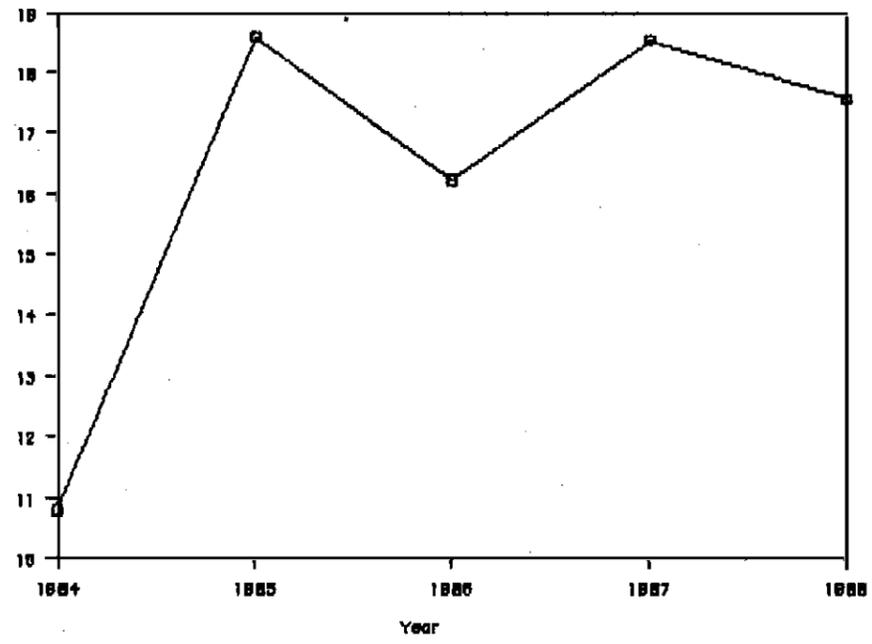
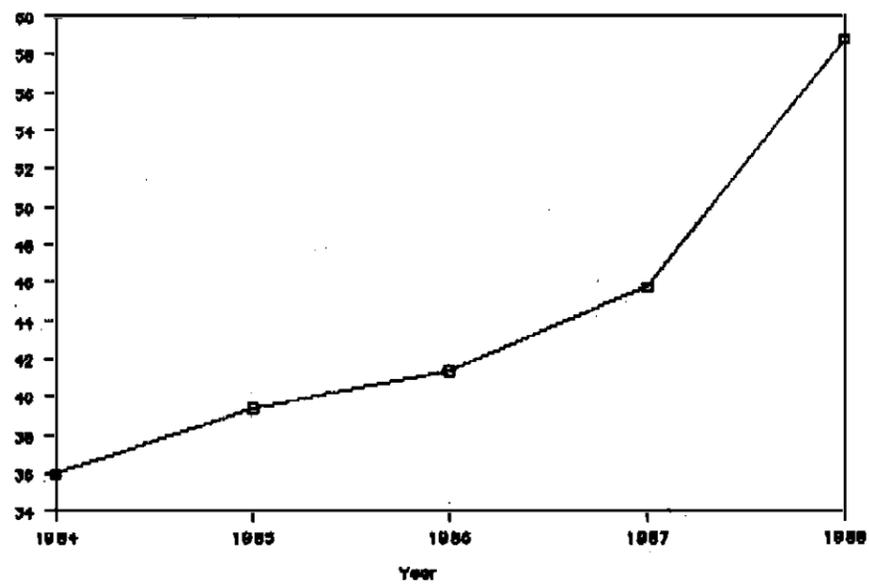


Chart 3 (cont'd)

BATANGAS CATHOLIC CREDIT COOPERATIVE



AMBULONG CREDIT COOPERATIVE, INC.

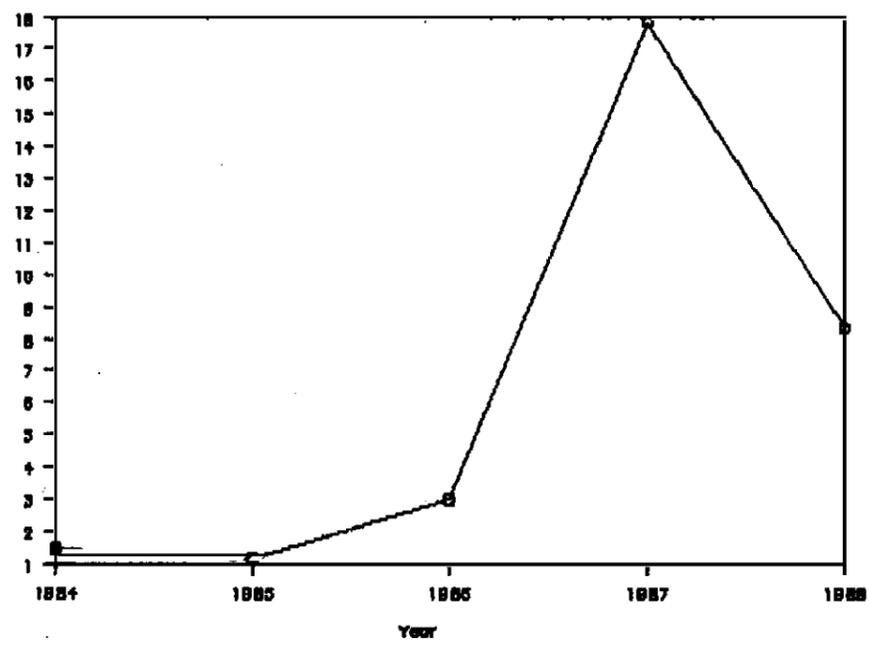
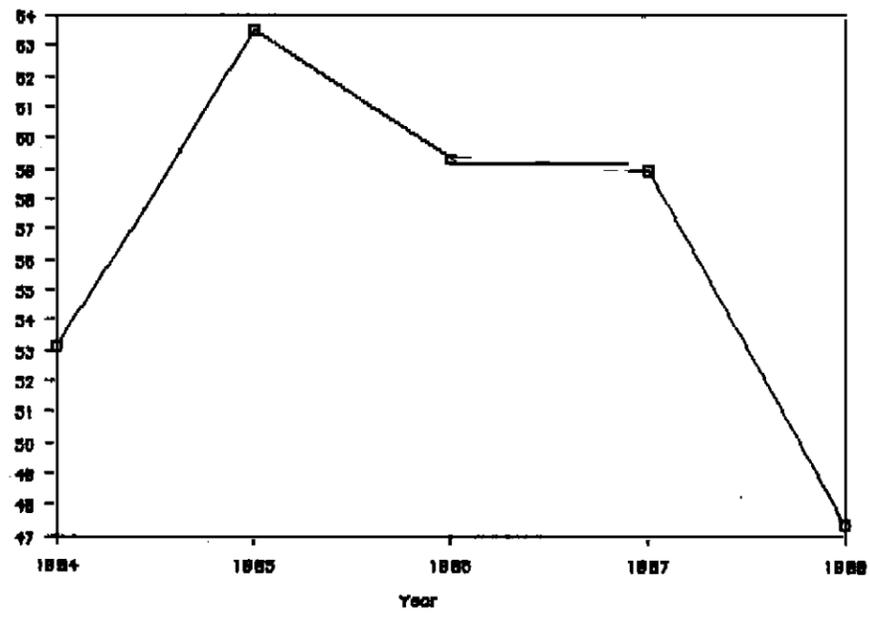


Chart 3 (cont'd)

SAN FABIAN PARISH CREDIT COOPERATIVE



VILLASIS PARISH CREDIT COOPERATIVE

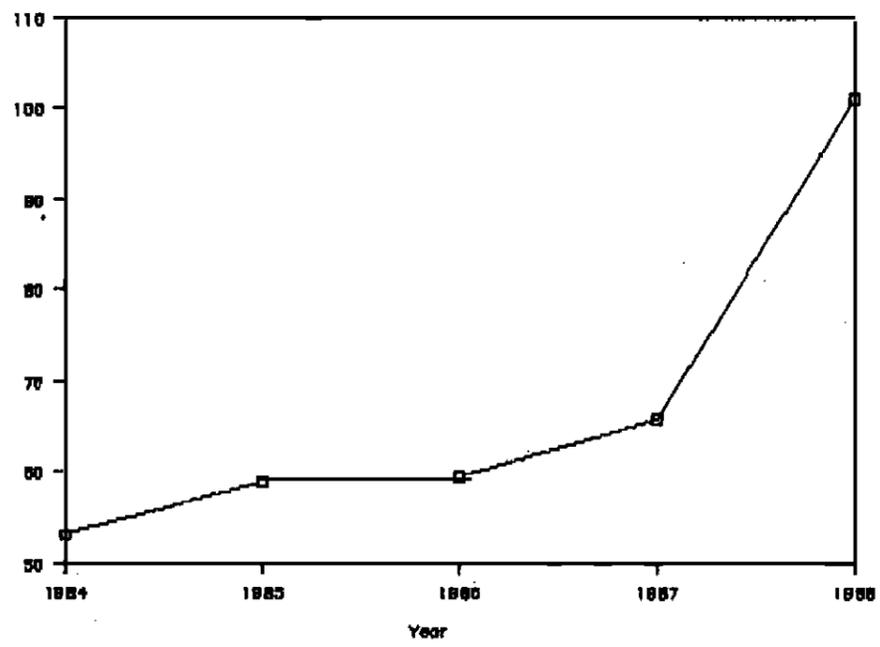


Table 3
INTEREST RATE SPREADS (%)*

	1984	1985	1986	1987	1988	Average
ALCCUI	-	9.00	14.00	14.00	-	12.33
SCCI	(0.59)	5.00	3.58	2.00	4.90	2.98
SMCCUI	-	10.40	9.90	10.20	-	10.17
BPCCI	8.58	10.08	9.08	7.57	9.30	8.92
BCCCUI	(1.00)	(1.00)	0.90	3.60	10.00	2.5
ACCI	8.00	12.00	12.00	12.00	6.00	10.00
SFPCCI	2.10	2.10	2.10	2.10	(4.50)	0.78
VPCCI	12.07	16.00	19.20	17.80	-	16.27

* Basic lending rates minus interest rate on fixed deposits.

year, suggesting that different profit levels were attained by CCUs in various years.

III. SOCIOECONOMIC PROFILE OF SAMPLE RESPONDENTS

A. General Information

Table 4 presents the general characteristics of the 200 members of the eight credit unions included in the study. Close to three-fourths are females. The average age of the sample is 46.91 years old. More than 75 percent of them are married. Household heads comprise 53 percent of the respondents.

There is a fairly high degree of literacy among the CCU members surveyed. A great majority (92.3%) of them have obtained at least secondary schooling. About 77 percent of the total have reached college level and quite a number of them have pursued post-college schooling (i.e., M.D., LL.B, graduate studies, etc.).

The size and age composition of household members of the respondents are presented in Table 5. The size varies from one to 16 members per household. Some households include not only parents and children but also immediate relatives (i.e., grandparents, in-laws, etc.). The average size of the household is 5.72 which approximates that of the national average.

The size of the household is further disaggregated into age groups, namely the nonworking age group (below 15 years old), working age group (15-65 years old), and the retired age group (above 65 years old). 3/ Most of the respondents have members in their household who belong to the working age group. Based on the data on total household members and the number of household members working, the average number of dependents per household is 4.5. 4/ This includes members of the working age group who do not have any form of livelihood.

The nonhousehold head respondents are classified according to their positions in the household. Ninety one of them are either husbands or wives, while the rest are classified as first to fourth child.

Table 6 presents the nature of residential units of the credit union members surveyed. Ninety-two percent of the sample

3/This is based on the National Statistics Office (NSO) definition.

4/After subtracting the number of working members from total household members.

Table 4
GENERAL CHARACTERISTICS OF RESPONDENTS

	Number of Observations	Percent
A. Age Distribution		
Below 20	2	1.0
21 - 30	14	7.0
31 - 40	56	28.0
41 - 50	52	26.0
51 - 60	46	23.0
61 - 70	23	11.5
71 - 80	6	3.0
Above 81	1	0.5
Total	200	100.0
Mean =	46.91	
S.D. =	12.75	
B. Sex		
Male	62	31.0
Female	138	69.0
Total	200	100
C. Civil Status		
Single	28	14.0
Married	155	77.5
Widow/Widower	17	8.5
Total	200	100.0
D. Head of Household		
Head	95	47.5
Others	105	52.5
Total	200	100.0
E. Educational Attainment		
Primary	5	2.6
Intermediate	10	5.1
Secondary	28	14.3
Vocational	3	1.5
College	131	66.8
LL.B, M.D., D.D.M.	16	8.2
Graduate Studies	3	1.5
Total	196	100
F. Position in the Credit Unions		
Officer	21	10.5
Member	179	89.5
Total	200	100

Source: PIDS-OSU CCU Members Survey, 1989.

Table 5
HOUSEHOLD COMPOSITION

	Number of Observations	Percent				
A. Position in the Household						
Husband/Wife	91	84.3				
Eldest Child	6	5.6				
Second Child	6	5.6				
Third Child	3	2.8				
Fourth Child	2	1.9				
Total	108	100.0				
B. Household Size by Age Group						
	No. of Households Reporting (Total = 200)					
Age Group	Men	% to Total	Women	% to Total	Total	% to Total
Less than 15	91	45.5	79	39.5	118	59.0
15-65	169	84.5	172	86.0	181	90.5
Over 65	28	14.0	33	16.5	45	22.5
C. No. of Dependents 1/						
1 - 2	20	18.3				
3 - 4	39	35.8				
5 - 6	34	31.2				
7 - 8	8	7.3				
9 - 10	5	4.6				
> 10	3	2.7				
Total	109	100.0				
Mean =	4.50					
S.D. =	2.34					
D. Total Household Members						
1 - 2	10	5.2				
3 - 4	50	26.2				
5 - 6	65	34.0				
7 - 8	49	25.7				
9 - 10	9	4.7				
11 - 12	6	3.1				
13 - 14	1	0.5				
15 - 16	1	0.5				
Total	191	100.0				
Mean =	5.72					
S.D. =	2.39					

Source: PIDS-OSU CCU Members Survey, 1989.

1/ Total members in the household less number of members working.

Table 6
NATURE OF RESIDENTIAL UNIT

	Number of Observations Percent	
A. Type of House		
Single	184	92.0
Duplex	8	4.0
Apartment	3	1.5
Improvised	3	1.5
Hospital	2	1.0
Total	200	100.0
B. Type of Housing Materials		
Strong materials	130	65.0
Light materials	33	16.5
Salvaged/makeshift materials	1	0.5
Mixed/strong materials	25	12.5
Mixed/light materials	11	5.5
Total	200	100.0
C. Tenure Status of Dwelling Unit		
Own house and lot	173	86.5
Rent house and lot	5	2.5
Own house, rent lot	1	0.5
Own house, rent-free lot w/ consent of owner	14	7.0
Rent-free house & lot w/ consent of owner	7	3.5
Total	200	100.0
D. Number of Rooms in the House		
1 - 2	77	39.1
3 - 4	93	47.2
5 - 6	18	9.1
7 - 8	5	2.5
9 - 10	3	1.5
Above 10	1	0.5
Total	197	100.0
Mean	=	3.20
S.D.	=	2.02

Table 6 (cont'd)

	Number of Observations	Percent
E. Type of Lighting Facility		
Electricity	188	94.0
Kerosene Lamp	9	4.5
Electric and Kerosene	1	0.5
Kerosene and Candle	1	0.5
All Three	1	0.5
Total	200	100.0
F. Fuel Used in Cooking		
Wood	43	21.5
Kerosene	1	0.5
Gas	88	44.0
Electricity	2	1.0
Coal and Gas	9	4.5
Coal and Electricity	1	0.5
Wood and Kerosene	1	0.5
Wood and Gas	22	11.0
Wood and Electricity	4	2.0
Kerosene and Gas	1	0.5
Kerosene and Electricity	1	0.5
Gas and Wood	1	0.5
Gas and Electricity	12	6.0
Coal, Wood and Gas	1	0.5
Coal, Wood and Electricity	3	1.5
Wood, Kerosene and Electricity	3	1.5
Wood, Gas and Electricity	5	2.5
Coal, Wood, Gas and Electricity	1	0.5
Coal, Kerosene, Gas and Electricity	1	0.5
Total	200	100.0
G. Source of Drinking Water		
Faucet/Inside the House/Yard, Community Water System	109	54.5
Faucet/Others, Community Water System	43	21.5
Tubed/Piped Well/Own Use	33	16.5
Tubed/Piped Well/Others	13	6.5
Dug Well	1	0.5
Spring, River, Stream	1	0.5
Total	200	100.0

Source: PIDS-OSU CCU Members Survey, 1989.

occupy a single-type of housing and most of the houses (65.07%) are built with strong materials. There is an average number of three rooms in a house. Most of the respondents (86.5%) own the house and lot they occupy.

Majority of the households use electricity for their lighting facility and either wood or gas or electricity or their combination, for cooking. Similarly, faucet water system inside the house provides the main source of drinking water for these households.

Household appliances and other items owned by the families of respondents are presented in Table 7. The common household appliances owned by most families include radio, television, refrigerator, sewing machine and stereo in that order. Other items include watch, bicycle, and car, where close to 15 percent of the respondents own the latter.

B. Occupation and Income

Seventy-five percent of the respondents are salaried workers employed by government and private offices, farms, hospitals and clinic, and schools (see Table 8). This implies that individuals with a stable source of income are more inclined to save in a credit union. Those engaged in business or the merchant traders comprise roughly 15 percent of the sample, while the rest are farmers, fishermen and artisans. Some credit union members hold part-time jobs in addition to their regular job as office employees to augment their income.

Majority of the respondents (86.1%) have been employed for the past 12 months as of the period of the survey. For those who are wage-earners or salaried workers, the average annual income from main occupation for the past 12 months was ₱32,240.19. The results further show that more than 50 percent of the sample received annual incomes of not less than ₱24,000.00. It is interesting to note that not only low-income groups in rural areas join cooperative credit unions contrary to the common belief. Even though most credit unions were created primarily to help the low-income members of the community, the cooperative movement has also successfully included in its general membership affluent members of society.

Entrepreneurial activities appear to be the second most important source of livelihood for the 14 percent of the respondents. As shown in Table 9, those engaged in retail trade (i.e., buy and sell of garments, jewelry and other accessories, etc.) comprise more than half of the merchant traders. Food services such as carinderia, catering, small restaurant, etc., rank next to retail trade. Close to 25 percent are engaged in this kind of business. Retail trade and small-scale food services are the typical business activities that thrive in rural areas. The other types of business include transportation/trucking and gasoline station services (6.9%), agriculture

Table 7
HOUSEHOLD APPLIANCES OWNED

	No. of Households	% to Total
Radio	174	87.0
Watch	183	91.5
Television Set	163	81.5
Sewing Machine	82	41.0
Bicycle	52	26.0
Refrigerator	136	68.0
Car	29	14.5
Stereo	79	39.5

Source: PIDS-OSU CCU Members Survey, 1989.

Table 8
MAIN OCCUPATION OF RESPONDENTS

	Number of Observations	Percent
A. Main Occupation		
Salaried Office Employees/Laborer	133	74.7
Salaried Farm Employees/Laborer	4	2.2
Farmer	3	1.7
Fisherman	2	1.1
Merchant Trader (Businessman)	25	14.0
Artisan	2	1.1
Salaried Hospital/Clinic Employee	2	1.1
School Teacher	1	0.6
Salaried Office Employee and Farmer	1	0.6
Salaried Office Employee and Merchant Trader	4	2.2
Salaried Office Employee, Businessman and Part-time Teacher	1	0.6
Total	178	100.0
B. Number of Months Working (Sept. '88 - Sept. '89)		
1 - 5 months	3	1.7
6 - 11 months	21	12.1
12 months and above	149	86.1
Total	173	100.0
Mean =	11.55	
S.D =	1.44	
C. Total Annual Income from Main Occupation (P)		
900 - 12,000	40	24.4
12,001 - 24,000	41	25.0
24,001 - 36,000	48	29.3
36,001 - 48,000	16	9.8
48,001 - 60,000	8	4.9
60,001 - 72,000	2	1.2
72,001 - 84,000	2	1.2
84,001 - 96,000	2	1.2
96,001 - 108,000	2	1.2
Above 108,000	7	4.3
Total	164	100.0
Mean =	35,240.19	
S.D =	82,830.44	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 9
NATURE OF BUSINESS

	Number of Observations	Percent
A. Type of Business		
Retail Trade	16	55.2
Transportation/Trucking/Gasoline Station	2	6.9
Clothing/Garments	1	3.4
Food Service	7	24.1
Farming/Fishing	2	6.9
Retail Trade and Housing & Retail Estate	1	3.4
Total	29	100.0
B. Total Gross Income from Business (P)		
5,000 - 50,000	18	69.2
50,001 - 100,000	2	7.7
100,001 - 200,000	1	3.8
200,001 - 300,000	2	7.7
300,001 - 400,000	0	-
400,001 - 500,000	1	3.8
500,001 - 1,000,000	1	3.8
Above 1,000,000	1	3.8
Total	26	100.0
Mean =	243,748.46	
S.D. =	778,801.89	
C. Total Expenses from Business (P)		
2,250 - 50,000	21	80.8
100,001 - 200,000	1	3.8
200,001 - 300,000	1	3.8
300,001 - 400,000	1	3.8
400,001 - 500,000	1	3.8
Above 1,000,000	1	3.8
Total	26	100.0
Mean =	175,485.77	
S.D. =	587,785.22	
D. Net Income from Business (P)		
1,000 - 12,000	13	46.4
12,001 - 24,000	3	10.7
24,001 - 36,000	3	10.7
36,001 - 48,000	3	10.7
48,001 - 60,000	2	7.1
60,001 - 72,000	1	3.6
96,001 - 108,000	1	3.6
Above 108,000	2	7.1
Total	28	100.0
Mean =	63,851.07	
S.D. =	186,582.69	

Source: PIDS-OSU CCU Members Survey, 1989.

(6.9%), clothing/garments manufacturing (3.4%), and real estate (3.4%).

Most of the merchant traders (69.2%) are engaged in small-scale businesses. Their annual gross earnings from such businesses range from ₱5,000.00 to ₱50,000.00. The average annual gross income from business is ₱243,748. On the other hand, the expenses incurred are basically to sustain current operations of the business. These range from ₱2,250.00 to ₱50,000.00 per year with an average of ₱175,486.00. The net incomes of those who were engaged in a business for the past twelve months are quite impressive. Forty-three percent of them realized an annual net income of not less than ₱24,000.00. The average net income from business is ₱63,851.07.

C. Household Status

Table 10 presents some information about the working members of the families of the respondents. Fifty-six percent of the respondents have other household members who are working. On the average, there is 1.31 other working member in the household.

Usually, both parents work to earn a living. This is a very common strategy adopted by most households if the income of a single family earner cannot support the entire household. Other working members may also include children of working age, in-laws, and other immediate relatives with some form of livelihood. The average income of other working members for the past twelve months is ₱35,483.

Some households received financial assistance from various sources. Table 11 shows the sources and amount of financial assistance received for the past 12 months. Most of those who received financial assistance admitted to having received them from friends/relatives residing abroad (41.9%) and friends/relatives residing in other towns of the country (38.7%). In the case of the former, a very common example is a member of the family (i.e., father, children of working age, etc.) who is working overseas and remits home a part of his income. Among those who received assistance for the past 12 months, the amount averaged ₱10,245.17.

The distribution of total household income is shown in Table 12. The annual household income of the respondents averaged ₱53,232. Translating this figure on a monthly basis, the average household income of CCU members would turn out to be higher relative to the 1988 national average of poverty threshold of ₱2,709. ^{5/}

^{5/}Based on the Interagency Working Group on Poverty Determination - National Economic and Development Authority (NEDA), Food and Nutrition Research Institute (FNRI), NSO.

Table 10
WORKING MEMBERS OF THE FAMILY

	Number of Observations	Percent
A. Other Working Members		
With	109	55.9
Without	86	44.1
Total	200	100.0
B. Number of Working Members		
1	80	73.4
2	24	22.0
3	5	4.6
Total	109	100.0
Mean	= 1.31	
S.D.	= 0.56	
C. Total Annual Income of Other Members (P)		
600 - 12,000	24	24.0
12,001 - 24,000	29	29.0
24,001 - 36,000	21	21.0
36,001 - 48,000	10	10.0
48,001 - 60,000	4	4.0
60,001 - 72,000	5	5.0
72,001 - 84,000	2	2.0
84,001 - 96,000	1	1.0
Above 108,000	4	4.0
Total	100	100.0
Mean	= 35,482.84	
S.D.	= 44,206.81	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 4.1
FINANCIAL ASSISTANCE

	No. of Obs.	Percent
A. Received Financial Assistance		
Received	31	15.7
Did not receive	166	84.3
Total	197	100.0
B. Source of Financial Assistance		
Friends/Relatives (relatives residing abroad)	13	41.9
Friends/Relatives (relatives residing in Metro Manila)	1	3.2
Friends/Relatives (relatives residing in other cities of the country)	4	12.9
Friends/Relatives (relatives residing in other towns of the country)	12	38.7
Friends/Relatives (relatives residing in other cities and other towns of the country)	1	3.2
Total	31	100.0
C. Amount of Financial Assistance (P)		
50 - 5,000	21	70.0
5,001 - 10,000	1	3.3
10,001 - 20,000	3	10.0
20,001 - 30,000	1	3.3
30,001 - 40,000	1	3.3
40,001 - 50,000	2	6.7
Above 50,000	1	3.3
Total	30	100.0
Mean =	10,245.17	
S.D. =	16,615.86	

Source: PIDS-OSU CCU Members Survey, 1989.

Total household expenditures averaged ₱42,237. A breakdown of total household expenditures for the past twelve months is presented in Table 13. Food consumption comprised the bulk of the household expenses. The average yearly expenses for food amounted to ₱21,179 constituting 52 percent of their total annual household expenses. This is followed by expenses on education which comprised 12 percent of the total household expenses.

D. Profile of Respondents Upon Joining the Credit Union

Table 14 presents the general profile of the respondents upon joining the cooperative credit union. Almost two-fifths of them sought membership while they were between 31 and 40 years old. In general, the results suggest that majority of those who joined the credit union belong to the working age group (21-60 years old). Of those who have been employed upon joining the credit union, more than 80 percent are salaried employees/workers of government and private offices, farms, and hospitals. This corroborates the findings in Table 8 that wage-earners or salaried workers are more inclined to save in the CCU. Businessmen comprised 11 percent, while the rest were farmers and artisans in this order. These findings show that credit unions typically require members to have some form of livelihood in order to qualify for membership. The status of associate members, however, may be granted to students who wish to save in the cooperative. But associate members cannot avail of loan privileges extended by the credit union to its regular members.

Majority of the respondents were already married and had children upon joining the cooperative. On the average, those respondents who were married had three children.

During the early period of membership, two-thirds of the respondents were receiving an annual income from their main occupation of not less than ₱12,000.00 (see Table 15). Very few were receiving over ₱100,000 per year and these were the businessmen-members of the cooperative. The average annual income was ₱25,603.84.

Fifty-three percent of the respondents claimed that there was only one working member of the household when they joined the cooperative. These were also the respondents who were the single family earner. On the other hand, a number of households had two or three working members of the family. The average total household income was ₱49,484.74.

E. Profile of CCU Member-Farmers

Very few of the respondents have main source of livelihood from agricultural farming. Among the crops produced include rice, coconut, banana and mungo. Table 16 shows the average size of the farm and the average value of production as of the latest harvest season prior to the date of the survey.

Table 12
ANNUAL TOTAL HOUSEHOLD INCOME (P)

Household Income	Number of Observations	Percent
25,000 and less	60	33.1
25,001 - 50,000	63	34.8
50,001 - 75,000	28	15.5
75,001 - 100,000	13	7.2
100,001 - 125,000	6	3.3
125,001 - 150,000	5	2.8
175,001 - 200,000	2	1.1
250,001 - 275,000	1	0.6
275,001 - 300,000	2	1.1
Above 300,000	1	0.6
Total	181	100.0
Average = 53,232		
S.D. = 86,715		

Source: PIDS-OSU CCU Members Survey, 1989.

Table 13
AVERAGE ANNUAL EXPENDITURES BY ITEM (P)

	Number of Observations	Average Expenditure	Proportion to Total (%)
Food	182	21,179.3	51.80
House/Land Rental	181	621.0	0.90
House/Land Amortization	181	126.0	0.20
Fuel, Light & Water	181	3,708.5	9.90
Clothing, Footwear & Other Wear	181	3,489.1	8.90
Education	181	5,397.8	12.20
Furnishings & Furniture	181	555.2	0.70
Household Maintenance & Repairs	183	1,814.4	3.40
Medical care	181	2,543.3	6.50
Transportation	181	2,145.8	5.00
Others	183	942.5	1.20
Total Household Expenditures	183	42,237.1	100.0

Source: PIDS-OSU CCU Members Survey, 1989.

Table 14
PROFILE OF RESPONDENTS UPON JOINING THE CCUs

	Number of Observations	Percent
A. Age Upon Joining the Cooperative		
20 and Below	6	3.1
21 - 30	47	24.2
31 - 40	71	36.6
41 - 50	46	23.7
51 - 60	18	9.3
61 - 70	6	3.1
Total	194	100.0
Mean =	36.06	
S.D. =	11.01	
B. Main Occupation Upon Joining		
Salaried Office Employee/Laborer	142	78.9
Salaried Farm Employee/Laborer	5	2.8
Farmer	4	2.2
Fisherman	3	1.7
Merchant Trader	20	11.1
Artisan	2	1.1
Salaried Hospital Employee	2	1.1
Salaried Office Employee/Merchant Trader	2	1.1
Total	180	100.0
C. Civil Status		
Single	35	17.8
Married	150	76.1
Widow/Widower	12	6.1
Total	197	100.0
D. Number of Children		
0	5	3.1
1 - 2	48	29.6
3 - 4	62	38.3
5 - 6	35	21.6
7 - 8	9	5.6
9 - 10	2	1.2
11 - 12	1	0.6
Total	162	100.0
Mean =	3.54	
S.D. =	1.99	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 15
RESPONDENTS' STATUS UPON JOINING THE CCUs

	Number of Observations	Percent
A. Number of Working Members		
0	3	1.5
1	102	52.6
2	69	35.6
3	16	8.2
4	3	1.5
5	1	0.5
Total	194	100.0
Mean =	1.57	
S.D. =	0.77	
B. Annual Income from Main Occupation (P)		
1 - 12,000	57	33.1
12,001 - 24,000	46	26.7
24,001 - 36,000	40	23.3
36,001 - 48,000	12	7.0
48,001 - 60,000	7	4.1
60,001 - 72,000	2	1.2
72,001 - 84,000	1	0.6
84,001 - 96,000	2	1.2
Above 108,000	5	2.9
Total	172	100.0
Mean =	25,603.84	
S.D. =	25,307.99	
C. Total Annual Household Income (P)		
1,000 - 20,000	56	31.3
20,001 - 40,000	51	28.5
40,001 - 60,000	34	19.0
60,001 - 80,000	15	8.4
80,001 - 100,000	10	5.6
100,001 - 150,000	8	4.5
150,001 - 200,000	1	0.6
Above 108,000	4	2.2
Total	179	100.0
Mean =	49,484.74	
S.D. =	86,602.97	

Source: PIDS-OSU CCU Members Survey, 1989.

Of the 200 respondents, close to 11 percent own/raise animals. As shown in Table 17, the animals typically raised in the rural areas include carabaos, cows, hogs/pigs, goats, chickens, ducks, and turkey. Swine/hog raising and poultry are the most common among the households. Almost all are engaged in small-scale animal raising.

Most of those who are engaged in small-scale agricultural farming own the land they cultivate. Those pieces of land have an average (approximate) resale value of ₱63,875 (see Table 18). Aside from the traditional way (i.e., use of farm animals) of plowing fields, some use farm equipment and machineries such as four-wheel tractors, bush cutter and assorted tools. Other farm inputs also include fertilizer and palay seed (see Table 19).

Very few of the farmers have other sources of income. Table 20 shows the nature of their other sources of income. On the average, income from other sources for the past 12 months was ₱18,967.

IV. BORROWING AND SAVING PATTERNS OF CCU MEMBERS

A. Membership in the Credit Union

CCU members have several motivations for joining the credit union (see Table 21). To be able to borrow for household use/consumption in times of need was pointed out by 51 percent of the respondents as the sole reason for joining the credit union. Unlike saving in banks, members believe that saving in the credit union gives them access to credit not only for business purposes but also for consumption purposes.

Other respondents have a more philanthropic reason for joining a credit union. Thirteen percent of the respondents thought that the cooperative credit union provides the channel through which members of the community could be of help to each other. An example of this is through membership in the credit union's Damayan Trust Fund wherein raising contributions for deaths and medical purposes becomes relatively easy.

Twelve percent of the respondents indicated saving as the primary motive for joining the credit union. To encourage and promote thrift and the habit of saving among its members is really the first objective of the cooperative credit union.

Some of the respondents, however, joined the credit union as one of the conditions in the membership of other organizations/associations (i.e., CWL, Knights of Columbus, etc.). This is understandable considering that some of the credit unions included in this study were created by these organizations, and that patronizing the former is one way by which members can show

Table 16
FARM SIZE AND VALUE OF PRODUCTION BY CROPS

Crops	Average Farm Size (Hectares)		Average Value Production (P) ¹
	Irrigated	Unirrigated	
Rice	2.37	-	P 16,542.86
Coconut	4.00	3.33	9,000.00
Other Crops	-	1.00	250.00

1/ As of the latest harvest season.

Source: PIDS-OSU CCU Members Survey, 1989.

Table 17
MAXIMUM AND MINIMUM NUMBER OF ANIMALS OWNED BY CCU MEMBERS
BY TYPE

Animals	Average Number 1/	
	Minimum	Maximum
Carabaos	1	3
Cows	1	4
Hogs/Pigs	27	44
Goats	2	3
Chickens	5	16
Ducks	1	6
Turkey	2	5

1/ For the past 12 months before the period of survey.

Source: PIDS-OSU CCU Members Survey, 1989.

Table 18
TENURIAL ARRANGEMENT OF LAND CULTIVATED

Arrangement	Number of Observations	Percent
Owner	15	78.9
Leaseholders	1	5.3
Share Tenant	2	10.5
Owner/Share Tenant	1	5.3
Average Value of Land (Approximate) for Owners	P 63,875.00	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 19
FARM INPUTS AND EQUIPMENT

A. Farm Equipment and Machineries		
Type	Average No.	Average Resale Value
4-Wheel Tractor	1	P 27,500.00
Buch Cutter	1	P 6,000.00
Assorted Tools	2	P 2,000.00
B. Other Farm Inputs		
Type		Average Sale Value
Fertilizers		P 830.00
Seed (Palay)		P 21,500.00

Source: PIDS-OSU CCU Members Survey, 1989.

Table 20
NATURE OF OTHER SOURCES OF INCOME

Nature	Number of Observations	Percent
Stall Rental	2	25.0
Real Estate	2	25.0
Pension	1	12.5
Plants Selling	2	25.0
Piggery/Poultry	1	12.5
Average Income = P 18,966.67		

Source: PIDS-OSU CCU Members Survey, 1989.

Table 21
REASONS FOR JOINING THE CREDIT UNION

Reasons	Frequency	Percent
To save/earn (a)	22	11.9
To borrow for consumption (b)	94	50.8
To borrow for business (c)	6	3.2
Condition for membership in associations	2	1.1
To help others (e)	24	13.0
Asked to join (f)	10	5.4
For national economic growth (g)	3	1.6
a and b	13	7.0
a and c	5	2.7
b and c	1	0.5
b and e	3	1.6
c and e	1	0.5
a, b, and e	1	0.5
Total	185	100.0

Source: PIDS-OSU CCU Members Survey, 1989.

their active involvement in some civic-oriented activities sponsored by the latter.

Few of the respondents (1.6%) have a macro perspective in becoming a member of a credit union. They believe that cooperative credit unions could be a vehicle for national economic growth and thus, they want to be part of it.

Almost 71 percent of the respondents had initial fixed deposits of ₱500 or less (see Table 22). Most credit unions purposely require a relatively small initial fixed deposit to attract more members. The average initial fixed deposit was ₱688. As of the period of survey, 45 percent already have fixed deposits of not less than ₱1,000, and some of them even increased their fixed share capital subscriptions to over ₱5,000. On the average, the outstanding fixed deposit was ₱1,686 at the time of the survey (see Table 23).

Two of the credit unions do not accept savings deposits. These are the Batangas Catholic Cooperative Credit Union, Inc. (BCCUI) and Batangas Parish Cooperative Credit Union, Inc. (BPCCUI). Only 48 (24.0%) respondents have savings deposits in their respective credit unions, and only six percent of them claimed to have made regular monthly deposits. Twelve percent did not make any deposit for the past 12 months prior to the period of survey. The others made savings deposits on an irregular basis, usually twice or thrice for the past 12 months. Table 24 shows the amount of savings deposits of the respondents. On the average, the amounts of minimum and maximum savings deposits made for the past 12 months were ₱62 and ₱484, respectively. On the other hand, the average minimum and maximum outstanding savings deposits were ₱280 and ₱2,005, respectively. Indeed, these are small amounts of savings deposits. Perhaps, one reason for maintaining small savings deposits is that this account cannot be used to increase one's loan capacity. For some credit unions, it is a standard operating procedure to require members to convert their savings deposits into fixed deposit if they want to increase their loan capacity.

Sixty-five (65.2) percent of the 48 respondents did not make a single withdrawal from their savings deposits for the past 12 months; 26 percent made one withdrawal; and the rest made two or more withdrawals. This suggests that their investments in savings deposits are long-term. Heavy withdrawals usually occur during the opening of classes in June and Christmas season.

The respondents with savings deposits in the credit union were asked to compare the deposit interest rates offered by both the credit union and the nearby banks for the past 12 months. Of the 48 respondents, 31 (64.6%) claimed that their credit unions offer lower interest rates than banks; 10 (20.8%) consider the interest rates to be the same for both institutions; three

Table 22
INITIAL FIXED DEPOSIT (P)

Fixed Deposits	Number of Observations	Percent
10 - 500	137	70.6
501 - 1,000	20	10.3
1,001 - 1,500	9	4.6
1,501 - 2,000	10	5.2
2,001 - 2,500	10	5.2
2,501 - 3,000	4	2.1
3,501 - 4,000	1	0.5
4,501 - 5,000	2	1.0
Above 5,000	1	0.5
Total	194	100.0
Mean = P	688.41	
S.D. = P	1,142.85	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 23
OUTSTANDING FIXED DEPOSIT (P)

Fixed Deposits	Number of Observations	Percent
10 - 500	75	40.5
501 - 1,000	26	14.1
1,001 - 1,500	19	10.3
1,501 - 2,000	13	7.0
2,001 - 2,500	15	8.1
2,501 - 3,000	11	5.9
3,001 - 3,500	5	2.7
3,501 - 4,000	3	1.6
4,001 - 4,500	2	1.1
4,501 - 5,000	6	3.2
Above 5,000	10	5.4
Total	185	100.0
Mean = P	1,686.34	
S.D. = P	2,355.54	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 24
AMOUNT OF SAVINGS DEPOSIT FOR THE PAST 12 MONTHS

Amount	Number of Observations	Percent
A. Minimum Savings Deposit Made (P)		
1 - 50	27	81.8
51 - 100	1	3.0
101 - 150	1	3.0
151 - 200	2	6.1
Above 200	2	6.1
Total	33	100.0
Mean =	62.10	
S.D. =	104.31	
B. Maximum Savings Deposit Made (P)		
1 - 500	23	76.7
501 - 1,000	2	6.7
1,001 - 1,500	2	6.7
1,501 - 2,000	1	3.3
Above 2,000	2	6.7
Total	30	100.0
Mean =	484.34	
S.D. =	943.59	
C. Minimum Outstanding Savings Deposits (P)		
10 - 500	30	83.3
501 - 1,000	4	11.1
1,001 - 1,500	2	5.6
Total	36	100.0
Mean =	280.30	
S.D. =	308.12	
D. Maximum Outstanding Savings Deposits (P)		
1 - 500	19	52.8
501 - 1,000	7	19.4
1,001 - 1,500	6	16.7
1,501 - 2,000	2	5.6
Above 2,000	2	5.6
Total	36	100.0
Mean =	2,005.05	
S.D. =	7,428.51	

Source: PIDS-OSU CCU Members Survey, 1989.

(6.3%) said CCU interest rate is higher; and four (8.3%) did not know the difference. This could be another reason why the respondents maintained small savings deposit balances in the credit union.

Respondents were also asked to compare the accessibility of their credit union and the bank operating in their respective areas that they know of. Thirty (62.5%) out of the 48 respondents considered their credit unions more accessible than the nearby banks; nine (18.8%) claimed banks are more accessible than their credit unions; seven (14.6%) said both have the same accessibility; and two (4.2%) did not know the difference.

In terms of safety of savings deposits, 20 (41.7%) respondents said that savings deposits are safer in the credit union; six (12.5%) thought that savings deposits are safer in banks; and 22 (45.8%) were indifferent.

Table 25 shows the time and cost spent by the 48 respondents in making savings deposits in the credit union. Most of them happened to be located near the office of the credit union, and they spent only an average of 22 minutes in travel time. Some respondents live in nearby towns and spent more than 30 minutes in traveling time. Aside from the time spent on traveling, members spent an average of 19 minutes to complete a deposit transaction. However, the time needed to complete the deposit transaction could go beyond thirty minutes depending on the number of deposit transactions that the credit union is processing in a day.

Most of the respondents (59.5%) do not take any transportation when they go to the credit union, and very few (14.3%) incur other out-of-pocket expenses in making a deposit. The average transportation and other out-of-pocket expenses were ₱0.93 and ₱0.64, respectively.

B. Borrowing from the Credit Union

Out of the 200 respondents, 173 (86.5%) already applied for a loan from the credit union as of the period of survey. Seventy-seven percent of them obtained their last loan between 1986 and 1989. Most of the respondents obtained loans ranging from ₱200 to ₱10,000 (see Table 26). The average size of the loan was ₱3,560. Given the average outstanding fixed deposit of ₱1,686, the average loan multiple would be two. The average loan maturity was 10 months. Interest rate on loan could reach as high as 24 percent per annum, but the average loan rate was 15.28 percent per annum. The average monthly installment payment was ₱306. Seven out of the eight rural-based sample CCUs discount the interest payments in advance.

Respondents were asked to compare the interest rate on loans in the credit union and the banks. Of the 173 respondents who

Table 25
TIME AND COST IN MAKING SAVINGS

Minutes	Number of Observations	Percent
A. Traveling Time (in minutes)		
1 - 10	18	42.9
11 - 20	9	21.4
21 - 30	7	16.7
31 - 40	1	2.4
41 - 50	1	2.4
51 - 60	6	14.3
Total	42	100.0
Mean = 22.14		
S.D. = 18.83		
B. Time to Complete Transaction (in minutes)		
1 - 30	39	95.1
31 - 60	1	2.4
61 - 90	1	2.4
Total	41	100.0
Mean = 18.60		
S.D. = 16.00		
C. Transportation Cost (P)		
Cost		
0	25	59.5
1	1	2.4
2	13	31.0
4	3	7.1
Total	42	100.0
Mean = 0.93		
S.D. = 1.26		
D. Other Out-of-Pocket Expenses (P)		
Amount		
0	36	85.7
2	1	2.4
5	5	11.9
Total	42	100.0
Mean = 0.64		
S.D. = 1.65		

Source: PIDS-OSU CCU Members Survey, 1989.

Table 26
LAST LOAN FROM THE CREDIT UNION

		Number of Observations	Percent
A. Last Time Applied for a Loan			
1969 -	1975	6	3.7
1976 -	1980	6	3.7
1981 -	1985	25	15.4
1986 -	1989	125	77.2
Total		162	100.0
B. Amount of Last Loan (P)			
200 -	1,000	59	34.1
1,001 -	2,000	38	22.0
2,001 -	3,000	20	11.6
3,001 -	4,000	12	6.9
4,001 -	5,000	17	9.8
5,001 -	10,000	21	12.1
10,001 -	20,000	3	1.7
Above 20,000		3	1.7
Total		173	100.0
Mean = P 3,560.46			
S.D. = P 5,947.54			
C. Maturity of Last Loan (months)			
1 -	6	6	3.5
7 -	12	163	95.3
13 -	18	1	0.6
19 -	24	1	0.6
Total		171	100.0
Mean = 10.15			
S.D. = 1.59			
D. Amount of Installment Payment (P)			
10 -	250	105	62.9
251 -	500	37	22.2
501 -	750	13	7.8
751 -	1,000	7	4.2
Above 1,000		5	3.0
Total		167	100.0
Mean = 305.57			
S.D. = 366.27			
E. Interest Rate on Loans (%)			
0.5 -	6.0	14	8.7
6.1 -	12.0	33	20.5
12.1 -	18.0	98	60.9
18.1 -	24.0	16	9.9
Total		161	100.0
Mean = 15.28			
S.D. = 4.25			

Source: PIDS-OSU CCU Members Survey, 1989.

answered the question, 86 (50.0%) claimed that the lending rate of their CCU is lower than that of the bank; 55 (32.0%) said it is the same; nine (5.2%) said it is higher than bank interest rate; and 24 (13.9%) did not know the difference. For those who answered higher, the average percentage points difference they noted was 5.9, while for those who answered lower, the average percentage points difference was 6.2.

Respondents were also made to compare the interest rates between their credit union and moneylenders they know of. Ninety-one (53.2%) of them claimed CCU interest rate is lower; 51 (29.8%) said it is the same; 12 (7.0%) claimed CCU interest rate is higher; and 20 (11.6%) did not know the difference.

The above findings show that the cost of borrowing from the credit union is generally lower relative to other sources of credit in the rural areas.

A collateral is generally not required by credit unions from their member-borrowers. However, in cases wherein the amount of loan is extremely high and/or is beyond the borrower's loan capacity, a collateral may be required. This happened to only three of the total respondents. The rest of the borrowers just used their fixed deposits to secure the loan. In most cases, a borrower is required to have one co-maker.

Table 27 shows the number of days of loan processing starting from loan application to loan release. Majority of the loan applications (79.5) were processed and released within a period of seven days. Around 43.5 percent of the loans were released in one to two days. On the average, it took 7.59 days for a loan application to be processed and released. In some credit unions, the disbursement of the loan after approval may take some time, depending on the availability of funds.

Forty-eight percent of the 173 respondents made a follow up in their loan applications. This was done because of the long delay in releasing the loan. In making a follow up, most of them (76.2%) personally visited the credit union, while the rest did it by telephone. The average number of personal visits made was 1.73 times and took an average of 0.95 hours per visit (see Table 28). Most of the borrowers did not have to take a ride in going to the credit union office; hence, they incurred zero transportation cost. Likewise, a great majority did not incur any other out-of-pocket expenses when they applied and made a follow-up on their loan.

Only 16 (13.6%) respondents encountered problems with regard to delays in loan disbursement in the credit union. Most of them waited until the loan was released, while the rest obtained bridging funds by borrowing from a bank, friends and moneylenders. Only five respondents experienced a reduction in the loan amount approved due to numerous loan applications in the

Table 27
DURATION BETWEEN LOAN APPLICATION AND LOAN RELEASE

No. of Days	Number of Observations	Percent
1 - 2	70	43.5
3 - 4	32	19.9
5 - 6	10	6.2
7 - 8	17	10.6
Above 8	32	19.9
Total	161	100.0
Mean =	7.59	
S.D. =	15.76	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 28
PERSONAL VISITS TO CREDIT UNION

	Number of Observations	Percent
A. Number of Personal Visits		
1	37	57.8
2	19	29.7
3	4	6.3
4	2	3.1
8	2	3.1
Total	64	100.0
Mean =	1.73	
S.D. =	1.36	
B. Number of Hours Per Visit		
0.02 - 1.00	56	93.3
1.01 - 2.00	1	1.7
2.01 - 3.00	1	1.7
Above 3.00	2	3.3
Total	60	100.0
Mean =	0.95	
S.D. =	2.58	
C. Transportation Cost		
0	35	56.5
1	2	3.2
2	21	33.9
4	2	3.2
5	1	1.6
6	1	1.6
Total	62	100.0
Mean =	1.02	
S.D. =	1.37	
D. Other Out-of-Pocket Expenses		
0	54	87.1
2	2	3.2
3	1	1.6
5	5	8.1
Total	62	100.0
Mean =	0.52	
S.D. =	1.43	

Source: PIDS-OSU CCU Members Survey, 1989.

credit union at that time. Two of them had to supplement the approved amount of loan by borrowing from friends and relatives. On the average, the amount approved was 28 percent lower than the amount applied for.

Table 29 lists down the main purpose of the last loan obtained by the respondents. The most commonly cited reasons for borrowing are to finance education, family consumption, business, medical care, and acquisition of household appliances/furniture/fixtures in this order. This shows that the eight credit unions do not discriminate loans in terms of purposes. This is one of the attractive features of a credit union not found in formal financial institutions. Out of the 173 respondents who obtained loans from their respective credit unions, 85 (49.1%) had either fully or partially paid back their loan at the time of the survey; 78 (45.1%) still have to make the payment; and 10 (5.8%) were waiting for the due date. It is interesting to note that all of them are consciously aware of their loan obligations to the credit union and not even a single one forgot the due date of his/her loan. For those who had fully or partially paid the loan, the amount already repaid as of the period of survey averaged ₱3,184 (see Table 30).

Most of the respondents (53.4%) who still have to make the payment encountered difficulty in meeting their loan obligations due to emergency and unexpected expenses they incurred. The rest were not able to pay the loan promptly because of insufficient income. In this regard, the credit union took steps to collect loan repayment mostly in the form of a message or letter sent to the borrowers concerned. Another step taken was to personally visit the borrowers and solicit payments. This is usually done by officers of credit unions. Fines are imposed on overdue loans. Only five respondents claimed to have been summoned to appear before proper authorities. To a certain extent, pressures were exerted by other members to make the delinquent borrowers pay the loan. Majority of those who could not pay their loans were not allowed to apply for another loan until the outstanding balance was fully paid. Some delinquent borrowers were given limited access to the credit union's services. None of the delinquent members were suspended. A credit union rarely suspends a member. It first exhausts all means to help and make the delinquent borrowers pay the loan. This explains why most credit unions do not write off loans but continue to carry the problem of delinquency.

Very seldom do credit unions disapprove loan applications. This was experienced by only three respondents. Normally, a credit union reduces the amount of loan approved especially if there are a lot of pending loan applications instead of outright disapproval of the loan application.

Of the 200 respondents, 47 percent admitted that they are not regularly attending the annual general assembly meeting.

Table 29
MAIN PURPOSE OF THE LOAN

	Number of Observations	Percent
Business (a)	28	16.2
Household Appliances/Furniture and Fixtures (b)	4	2.3
Household Repairs/Improvement (c)	15	8.7
Family Consumption (d)	37	21.4
Payment for Loans (e)	1	0.6
Restructuring of Old Loans from Cooperative (f)	1	0.6
Lending to others (g)	5	2.9
Education (h)	43	24.9
Medical care (i)	22	12.7
House/Lot Acquisition (j)	1	0.6
Repair of Vehicles (k)	3	1.7
Animal Feeds (l)	1	0.6
a and h	2	1.2
d and h	3	1.7
f and h	2	1.2
c and i	1	0.6
h and i	2	1.2
i and l	1	0.6
a, c, d, i	1	0.6
Total	173	100.0

Source: PIDS-OSU CCU Members Survey, 1989.

Table 30
AMOUNT OF PAYMENTS MADE

	Number of Observations	Percent
1 - 1,000	37	45.1
1,001 - 2,000	17	20.7
2,001 - 3,000	6	7.3
3,001 - 4,000	4	4.9
4,001 - 5,000	7	8.5
5,001 - 10,000	10	12.2
Above 10,000	1	1.2
Total	82	100.0
Mean = P 3,184.09		
S.D. = P 7,372.61		

Source: PIDS-OSU CCU Members Survey, 1989.

The general assembly is usually held at the start of the year and, as one of the policies of the credit union, all members are supposed to attend it. Most of those who did not attend claimed that they were too busy with their work. A number of them also claimed that they were not properly informed. Others were either sick or out of town when the assembly was held.

Membership in the credit union is not usually limited to one member per household. Other income-earning members of a household may join in the same credit union. It could also be that family members may be members of different credit unions. Forty-nine (24.6%) out of the 200 respondents have other family members who are presently members of a credit union. On the average, two other household members are members of a credit union. Table 31 shows the average outstanding fixed deposits and loans obtained by other family members from their respective credit unions. The findings show that other members of the family appear to be active members of a credit union. Their average outstanding fixed deposits were two to three times higher than that of the respondents and they had larger loans outstanding balances at the time of the survey.

C. Membership in the Paluwagan

Aside from being members of a credit union, 10 percent of the sample respondents also happened to be members of a paluwagan, an informal savings and credit association. They became members upon invitations from their officemates, co-teachers, school principal and school treasurer/cashier who were either managers or members of a paluwagan.

Ten out of the 20 respondents belong to a paluwagan which operates occasionally during the year. The sizes of the paluwagan units vary from 6 to 300 members. However, majority of the respondents belonged to a paluwagan which had not more than 30 members (see Table 32). More than half of the 20 respondents joined a paluwagan which required monthly contribution, the average of which was ₱168. The turn for receiving the kitty or "sahod" is determined by lottery. But this may be changed depending on the agreement reached by individual members.

D. Bank Services

Out of the 200 respondents, 96 (48%) claimed to have savings deposits in banks at the time of the survey. Thirty five of the 96 respondents were active depositors. Ten of them had deposit transactions of more than once a month, while twenty-five of them were making monthly deposits for the past 12 months prior to the time of the survey. The rest of the depositors had one to three deposit transactions throughout the year. Table 33 presents the minimum and maximum savings deposits of those with deposit accounts in banks. The results show that, on the average, respondents appear to have larger savings deposit

Table 31
OTHER FAMILY MEMBERS WHO ARE MEMBERS OF A CREDIT UNION

		Number of Observations	Percent
A. Number of Family Members			
	1	31	60.8
	2	9	17.6
	3	7	13.7
	5	3	5.9
	6	1	2.0
	Total	51	100.0
	Mean =	1.78	
	S.D. =	1.25	
B. Average Outstanding Fixed Deposit (P)			
Member	1	3,797.37	
Member	2	3,581.78	
Member	3	3,147.47	
Member	4	705.82	
Member	5	4,121.13	
Member	6	3,122.86	
C. Average Minimum and Average Maximum Outstanding Savings Deposits (as of Dec. 88, P)			
		Minimum	Maximum
Member	1	2,446.59	4,930.41
Member	2	1,522.86	2,979.64
Member	3	1,325.84	1,835.73
Member	4	152.58	162.88
Member	5	17.14	66.89
Member	6	50.68	5,238.60
D. Average Amount of Last Loan from Credit Union (P)			
Member	1	5,354.55	
Member	2	9,028.57	
Member	3	5,300.00	
Member	4	-	
Member	5	1,835.00	
Member	6	-	
E. Average Outstanding Loan (Sept. 1989, (P))			
Member	1	3,432.99	
Member	2	8,476.06	
Member	3	5,937.15	
Member	4	-	
Member	5	1,858.31	
Member	6	-	

Source: PIDS-OSU CCU Members Survey, 1989.

Table 32
MEMBERSHIP IN THE PALUWAGAN

		Number of Observations	Percent
A. Number of Members			
6 -	10	8	40.0
11 -	20	3	15.0
21 -	30	6	30.0
31 -	40	1	5.0
41 -	50	1	5.0
	Above 50	1	5.0
	Total	20	100.0
Mean = 31.95			
S.D. = 64.04			
B. Frequency of Contribution			
	Daily	2	10.0
	Weekly	1	5.0
	Twice/Month	6	30.0
	Monthly	11	55.0
	Total	20	100.0
C. Amount of Contribution (P)			
	Less than 50	2	10.0
	50 - 100	7	35.0
	101 - 150	2	10.0
	151 - 200	6	30.0
	Above 200	3	15.0
	Total	20	100.0
Mean = 168.50			
S.D. = 136.85			

Source: PIDS-OSU CCU Members Survey, 1989.

Table 33
MINIMUM AND MAXIMUM SAVINGS DEPOSITS
FOR THE PAST 12 MONTHS IN BANKS

		Number of Observations	Percent
A. Minimum Savings Deposit Made (P)			
1	- 500	39	52.7
501	- 1,000	8	10.8
1,001	- 2,000	4	5.4
2,001	- 3,000	2	2.7
3,001	- 4,000	2	2.7
4,001	- 5,000	10	13.5
5,001	- 10,000	7	9.5
Above 10,000		2	2.7
Total		74	100.0
Mean =		2,273.34	
S.D. =		3,100.69	
B. Maximum Savings Deposit Made (P)			
1	- 5,000	46	64.8
5,001	- 10,000	10	14.1
10,001	- 15,000	5	7.0
15,001	- 20,000	1	1.4
35,001	- 40,000	1	1.4
45,001	- 50,000	2	2.8
Above 50,000		6	8.5
Total		71	100.0
Mean =		11,987.46	
S.D. =		22,277.14	
C. Minimum Outstanding Savings Deposit (P)			
1	- 5,000	46	82.1
5,001	- 10,000	4	7.1
10,001	- 15,000	2	3.6
20,001	- 25,000	1	1.8
35,001	- 40,000	1	1.8
45,001	- 50,000	2	3.6
Total		56	100.0
Mean =		5,292.89	
S.D. =		10,848.12	
D. Maximum Outstanding Savings Deposit (P)			
1	- 5,000	27	50.0
5,001	- 10,000	17	31.5
10,001	- 15,000	2	3.7
15,001	- 20,000	1	1.9
20,001	- 25,000	2	3.7
45,001	- 50,000	1	1.9
Above 50,000		4	7.4
Total		54	100.0
Mean =		14,694.46	
S.D. =		32,669.25	

Source: PIDS-OSU CCU Members Survey, 1989.

balances with banks than with their credit union. It is important to note, however, that some credit unions do not accept savings and time deposits and, thus, members are made to open savings deposits in banks.

Most of the banks where the respondents had savings deposits were relatively accessible. Close to 70 percent of the respondents who were bank depositors traveled only five kilometers or less to reach the bank from their residence. Very few (6.6%) have to commute more than fifteen kilometers to reach the bank. The average distance of the bank from their residence was 4.5 kilometers, and it took them an average of 22 minutes for a one-way trip to the bank (see Table 34). On top of the traveling time, depositors stay in the bank until deposit transaction is completed which took an average of 23 minutes. Note, however, that in rural areas, what normally takes long in commuting is the time spent in waiting for a ride. Most of the depositors take one ride to get to the bank and another one back which, on the average, entailed ₱2.58 per roundtrip. Aside from the transportation cost, other out-of-pocket expenses were incurred which averaged ₱2.03.

The frequency of cash withdrawal from a bank greatly varied among respondents who had bank deposits. For the past 12 months prior to the survey, twenty-seven (27.62%) of them made cash withdrawal at least once a month; thirty-three (33.7%) made two to three cash withdrawals; twenty-two (22.4%) had one; and the rest did not make any cash withdrawal.

Among the 200 respondents, only 10 (5%) had time deposits in a bank with an average maturity of 180 days. The average amount of time deposits was ₱19,600 with an average interest rate of 10.9 percent per annum.

Only twenty (10.0%) respondents were able to obtain loans from banks. Most of them (60.0%) borrowed from a rural bank. The average loan amount was ₱18,416 with an average maturity of 16.4 months. The interest rate on these loans averaged 19 percent per annum, and discounted in advance in most cases (78.9%).

Some banks which granted loans to the respondents are located in distant places. The average distance between the bank and their residence is 22 kilometers. Thirteen of the respondents had to commute by jeepney/bus to get to the bank. Each roundtrip took an average of 1.04 hours and entailed an average transportation cost of ₱8.63. Other out-of-pocket expenses were nil for the majority of them. A number of them, however, had to make several trips/visits to the bank to obtain the loan. Each visit consumed at least one-half day of the borrower's time.

In terms of processing the loan application, thirteen (65.0%) of the respondents obtained the loan in less than one

Table 34
MAKING SAVINGS DEPOSIT IN BANKS

		Number of Observations	Percent
A. Distance of Bank from Residence (kms.)			
0.03 -	5	62	69.7
5.01 -	10	10	11.2
10.01 -	15	12	13.5
15.01 -	20	4	4.5
Above 20		1	1.1
Total		89	100.0
Mean = 4.50			
S.D. = 5.75			
B. Traveling Time (mins.)			
1 -	10	37	42.5
10.01 -	20	17	19.5
20.01 -	30	20	23.0
30.01 -	40	3	3.4
40.01 -	50	1	1.1
50.01 -	60	6	6.9
Above 60		3	3.4
Total		87	100.0
Mean = 22.52			
S.D. = 23.16			
C. Waiting Time in Depositing (mins.)			
1 -	10	22	26.2
10.01 -	20	22	26.2
20.01 -	30	34	40.5
30.01 -	40	1	1.2
50.01 -	60	4	4.8
Above 60		1	1.2
Total		84	100.0
Mean = 23.03			
S.D. = 16.72			
D. Transportation Cost Per Roundtrip (P)			
0		23	24.2
1 -	2	35	36.8
2.01 -	4	16	16.8
4.01 -	6	19	20.0
6.01 -	8	1	1.1
8.01 -	10	1	1.1
Total		95	100.0
Mean = 2.58			
S.D. = 2.07			
E. Other Out-of-Pocket Expenses (P)			
0 -		87	91.6
1 -	5	3	3.2
5.01 -	10	1	1.1
10.01 -	15	1	1.1
Above 20		3	3.2
Total		95	100.0
Mean = 2.03			
S.D. = 11.04			

Source: PIDS-OSU CCU Members Survey, 1989.

week's time. The rest had to wait between eight to 30 days. All the bank borrowers already received the entire amount of their loan as of the date of survey.

E. Informal Credit

Aside from banks, credit union members have other sources of credit. These are the informal sources consisting of friends/relatives, traders, and moneylenders. The results of the survey show that traders are not a very popular source of credit and very few (4.0%) borrowed from professional moneylenders. For the 74 (37.0%) respondents, borrowing from friends/relatives is the second most important source of credit next to the cooperative credit unions. On the average, these respondents borrowed 2.94 times from their friends/relatives for the past 12 months. The average amount of loan most recently obtained from friends/relatives was ₱4,208 with an average maturity of 53 days. It is important to note, however, that the maturities of the majority of those loans were not explicitly specified by the lenders. In most cases, there is an informal agreement that borrowers will pay the loan whenever he is able to do so.

Only eight (4.0%) of the 200 respondents borrowed from professional moneylenders. The average interest rate on loans from moneylenders was 9.5 percent per month. The amount of loans obtained from moneylenders averaged ₱957.

F. Demand for Share Capital

This section presents the empirical results obtained in estimating the demand for share capital subscriptions or credit union shares. The standard model of the demand for financial assets is being followed with some modifications to take into consideration the unique characteristics of the financial instruments used by cooperative credit unions.

The empirical results are classified into three groups: Group 1 uses the annual income data of the respondents as one of the explanatory variables; Group 2, the annual total household income data; and Group 3, the annual total household savings data. Alternative models are being tested under each group. It is hypothesized that:

$$\begin{aligned} \text{Group 1: } & FD = f(Y, i, L, M, D, \text{DUM1}, \text{DUM2}) \\ \text{Group 2: } & FD = f(H, i, L, M, D, \text{DUM1}, \text{DUM2}) \\ \text{Group 3: } & FD = f(Y, i, L, M, D, S, \text{DUM1}) \end{aligned}$$

where

FD = outstanding peso fixed deposits of individual members;
 Y = annual income of the individual members;
 H = annual total household income;
 i = interest rate on fixed deposits;

L = amount of last loan obtained by members from the credit union;
 M = number of years as member of the credit union;
 D = dependency ratio obtained by dividing total number of unemployed household members by the total household members;
 S = annual total household savings;
 DUM1 = dummy variable 1
 1 for salaried worker/employee, 0 otherwise;
 DUM2 = dummy variable 2
 1 for bank depositors, 0 otherwise.

Interest rate on fixed deposit is expected to have a positive effect on the demand for credit union shares. Similarly, an increase in income would increase the demand for credit union shares. However, an increase in income could also result in the lowering of the demand for credit union shares if this particular type of financial asset is an inferior one. This alternative hypothesis should be entertained because many believe that those who joined the credit unions are low-income individuals who do not have access to the formal credit market.

To have a better understanding of the saving behavior of CCU members, the model includes the amount of the latest loan obtained by each respondent from the credit union. A unique feature of a credit union is that it only grants loans to regular members who are also its savers. Unlike banks, nonmembers or nonsavers cannot borrow from the credit union. The amount that a member can borrow or his loan capacity is determined by a certain multiple of his/her share capital subscriptions or fixed deposits. Thus, it is expected that a member who intends to increase the amount of his loan is likely to increase his fixed deposit.

The number of years of membership in the same credit union is used here as a proxy variable for the degree of confidence a member gives to his/her CCU. It is hypothesized that the higher the degree of confidence in the credit union, the higher is the member's demand for fixed deposit.

Dependency ratio is also included as one explanatory variable in the model. Households with higher dependency ratio tend to have lower savings rate. Thus, it is hypothesized that the dependency ratio variable exerts a negative effect on the demand for credit union shares.

To test the hypothesis that individuals with a stable source of income tend to save in the credit union, a dummy variable for occupational status has been included. A dummy variable for bank depositors is also included to determine how access to the saving facilities of banks affects CCU members' behavior to save in their credit union. Lastly, it is hypothesized that total household saving, which is defined as the difference between

household income and expenditure, would affect positively the member's demand for credit union shares.

Ordinary least squares (OLS) method is used in all the empirical testing. The logarithmic form, in the case of Group 1, yielded better results than the linear form. Tables 35 and 36 show the results of Group 1 in logarithmic and linear forms, respectively. Using the logarithmic functional form, the explanatory variables in all models explain at the least 60 percent of the variation in the dependent variable. The models are all plausible as shown by the statistically significant F-statistics.

The results generally show that the interest rate on fixed deposits has a significant positive effect on the demand for credit union shares as expected. This suggests that members increase their fixed deposit in the credit union as a result of a higher interest rate on such financial instrument. However, the estimated coefficients in all models using logarithmic form are far below one, suggesting that the demand for credit union shares is interest inelastic.

The demand for credit as represented by the amount of last loan has a statistically significant positive effect on credit union shares. This implies that members tend to increase their fixed deposits if they intend to increase the amount they want to borrow from the credit union.

The number of years of membership seems to exert a statistically significant negative effect on the demand for credit union shares. The length of membership, in this case, may not be a good proxy variable for the degree of confidence in the credit union. It could be that those who have been with the CCU for quite a long time have already fully paid their subscribed capital, and they have no more motivation to increase their share capital because their loan capacity which is based on share capital has already gone beyond the loan limit set by the CCU. Similarly, the dependency ratio variable appears to be weak in explaining members' saving behavior in the CCU.

Model 1 in Table 35 shows that the dummy variables have statistically significant effects on the demand for CCU shares. The result of model 1 in Table 35 implies that occupational status and savings in banks positively affect the member's demand for credit union shares. The result allays the fears that access to the savings facilities of banks would weaken the interest of CCU members in increasing their fixed deposits in the credit union. It is possible that CCU members treat the two financial instruments differently. However, after dropping the variable on the number of years of membership in the credit union, only DUM2 remains statistically significant.

Instead of using the annual income data of members, the second group of estimation (Group 2) uses the total household

Table 35
PARAMETER ESTIMATES (LOGARITHM)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
C	0.734 (0.762)	-0.411 (-0.506)	1.069 (1.128)	-0.236 (-0.287)	0.483 (0.503)
Y	-0.067 (-0.724)	-0.103 (-1.119)	-0.034 (-0.375)	-0.066 (-0.722)	-0.040 (-0.432)
i	0.383 (2.619)***	0.413 (2.791)***	0.405 (2.764)***	0.451 (0.003)***	0.434 (3.005)***
L	0.809 (9.868)***	0.858 (10.745)***	0.795 (9.686)***	0.851 (10.506)***	0.827 (10.089)***
M	-0.366 (-2.138)**	-	-0.433 (-2.590)***	-	-0.394 (-2.294)**
D	0.826 (1.626)	1.807 (2.174)**	-	-	0.718 (1.414)
DUM1	0.286 (1.632)*	0.285 (1.604)	0.288 (1.636)*	0.288 (1.600)	0.282 (1.597)
DUM2	0.258 (1.719)*	0.289 (1.903)*	0.228 (1.520)	0.254 (1.662)*	-
DF	129	129	129	129	129
$\frac{2}{R}$	0.620	0.609	0.615	0.597	0.614
F value	31.105 ***	34.525 ***	35.377 ***	39.302 ***	35.238 ***

Figures in parentheses are t-statistics.

* Significant at 10 percent.

** Significant at five percent.

*** Significant at one percent.

Table 36
PARAMETER ESTIMATES (LINEAR)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
C	679.377 (0.678)	-166.779 (-0.191)	792.869 (1.041)	203.251 (0.292)	932.654 (0.922)
Y	-0.009 (-1.051)	-0.011 (-1.197)	-0.009 (-1.044)	-0.009 (-1.063)	-0.004 (-0.484)
i	34.961 (0.452)	38.233 (0.491)	37.238 (0.491)	48.300 (0.633)	68.295 (0.887)
L	0.179 (5.337)***	0.188 (5.623)***	0.178 (5.535)***	0.182 (5.638)***	0.182 (5.332)***
M	-50.497 (-1.687)*	-	-52.053 (-1.828)*	-	-57.362 (-1.897)*
D	175.870 (0.175)	678.814 (0.702)	-	-	-100.019 (-0.099)
DUM1	541.625 (1.138)	559.083 (1.166)	540.119 (1.140)	554.986 (1.160)	572.771 (1.186)
DUM2	898.044 (2.202)**	969.708 (2.373)**	889.136 (2.206)**	941.349 (2.319)**	-
DF	129	129	129	129	129
$\frac{2}{R}$	0.255	0.244	0.261	0.247	0.232
F value	7.305 ***	7.930 ***	8.586 ***	9.456 ***	7.481 ***

Figures in parentheses are t-statistics.

* Significant at 10 percent.

** Significant at five percent.

*** Significant at one percent.

income data in explaining the members' saving behavior in the CCU (see Table 37). The logarithmic functional form yielded better results than the linear form as may be gathered from the adjusted R^2 s which explain at the least 63 percent of the variation in the dependent variable in all models. The results of Group 2 are basically the same as those of Group 1. The only difference is that the dummy variable for occupational status becomes statistically significant. This corroborates the earlier findings that a stable source of income is an important determinant in explaining the saving behavior of members.

Table 38 shows the empirical results using total household savings as one of the explanatory variables in linear and logarithmic forms. As expected, total household savings have a positive effect on the demand for credit union shares. However, the saving variable is only statistically significant in linear form.

As a whole, the amount of loan from the credit union appears to have a very strong and positive effect on share capital subscriptions. This is not surprising considering that most credit unions determine the maximum amount each member can borrow according to some loan multiple, say two or three times the fixed deposit. In this case, members find it beneficial to increase their fixed deposit to obtain a bigger amount of loan, provided the loan will not exceed the ceiling set forth by the CCU.

Finally, it is to be noted that in all models estimated, the income variable does not have a statistically significant effect on the demand for credit union shares.

V. CONCLUDING REMARKS

This paper has examined the performance of CCUs and the saving and borrowing behavior of their members. Empirical results have shown that borrowing from the credit union exerts a positive influence in increasing the demand for fixed deposit. This has an important implication on rural savings mobilization. Given the present problem of inadequate supply of formal credit in the rural sector, rural savers would be encouraged to save and patronize a CCU in order to have access to the credit union's borrowing privileges. This emphasizes the important role of CCUs in providing the essential financial services needed in the rural areas.

The successful operation of most CCUs even in very remote towns has gained popular attention both from the government and the formal financial sector. Thus, this prompted the government to consider CCUs as potential conduits in allocating resources in the rural areas. In fact, the Land Bank of the Philippines

Table 37
PARAMETER ESTIMATES (LOGARITHM)
DEMAND FOR SHARE CAPITAL

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
C	0.565 (0.660)	-0.765 (-1.163)	0.995 (1.207)	-0.418 (-0.649)	0.428 (0.499)
H	-0.049 (-0.770)	-0.060 (-0.929)	-0.052 (-0.813)	-0.065 (-1.001)	-0.039 (-0.614)
i	0.279 (2.155)**	0.306 (2.328)**	0.315 (2.450)**	0.355 (2.715)***	0.307 (2.372)**
L	0.844 (11.459)***	0.889 (12.293)***	0.847 (11.427)***	0.899 (12.322)**	0.864 (11.844)***
M	-0.381 (-2.370)**	-	-0.426 (-2.661)***	-	-0.392 (-2.421)**
D	0.789 (1.698)*	0.967 (2.073)**	-	-	0.730 (1.566)
DUM1	0.317 (2.091)**	0.302 (1.961)**	0.341 (2.247)**	0.330 (2.131)**	0.305 (2.004)**
DUM2	0.223 (1.623)	0.236 (1.688)*	0.205 (1.484)	0.214 (1.522)	-
DF	144	144	144	144	144
\bar{R}^2	0.654	0.643	0.650	0.634	0.650
F value	39.938 ***	44.180 ***	45.494 ***	50.948 ***	45.615***

Figures in parentheses are t-statistics.

* Significant at 10 percent.

** Significant at five percent.

*** Significant at one percent.

Table 38
PARAMETER ESTIMATES (LINEAR)
DEMAND FOR SHARE CAPITAL

Independent Variables	Linear		Logarithm	
	Model 1	Model 2	Model 1	Model 2
C	1,242.827 (0.896)	-3.945 (-0.003)	-2.347 (-0.287)	-3.017 (-0.368)
Y	-0.012 (-0.940)	-0.009 (-0.702)	-0.053 (-0.479)	-0.057 (-0.512)
i	106.386 (1.179)	114.026 (1.249)	0.557 (3.551)***	0.583 (3.722)***
L	0.165 (4.267)***	0.172 (4.395)***	0.868 (9.560)***	0.896 (10.067)***
M	-66.371 (-1.884)*	-	-0.273 (-1.454)	-
D	-662.678 (-0.498)	24.317 (0.019)	0.377 (0.563)	0.602 (0.919)
S	0.014 (2.064)**	0.014 (1.993)**	0.170 (0.257)	0.141 (0.212)
DUM1	627.689 (0.824)	657.964 (0.853)	0.463 (1.848)*	0.453 (1.798)*
DF	107	107	107	107
$\frac{2}{R}$	0.2417	0.223	0.642	0.638
F value	5.873 ***	6.105 ***	28.470 ***	32.505 ***

Figures in parentheses are t-statistics.

* Significant at 10 percent.

** Significant at five percent.

*** Significant at one percent.

(LBP) has been busy organizing cooperatives to serve as credit conduits in the future. Organizing a cooperative credit union, however, is not a simple task. It needs strong determined leaders who know how to use failures as a ladder to success. Many of these credit unions would have folded up already because they lost the confidence of their members. But leaders hanged on. In doing so, they were able to gain back the confidence of the community. Each one of them devised their own rehabilitation scheme without the help and subsidy from the government. It is these efforts that should form the seed of a cooperative organized by the Land Bank.

While internal problems pose an obstacle to the growth of CCUs, the lack of initiative to innovate poses a greater obstacle. In light of their expanding role in rural savings mobilization, CCUs must introduce new innovations in mobilizing savings deposits from their members. This requires the ability of CCUs to effectively maintain low transactions cost associated with infrequent saving and frequent withdrawals of savings deposit accounts of members. This also requires employment of full-time staff to service deposits and withdrawals of members anytime. Likewise, there seems to be more emphasis and dependence on fixed deposits as a major source of funds among credit unions. This may pose obstacle in sustaining the growth of CCUs into bigger financial institutions. As CCUs expand, the need for alternative sources of funds, like savings and time deposits, becomes inevitable.

Like any other financial institutions, CCUs may have high loan delinquency problem. As discussed earlier, some CCUs have alarming levels of total overdue loans, but some of them were able to reduce their past due ratios during their recent operations. Credit unions do not usually write-off loans as the management exhausts all means to help the borrower pay his arrears. It is important to note that the eight CCUs included in this study are community or parish-based. Loan arrearages for this type of CCUs tend to be higher relative to market-based and institution-based because loan repayment is not on a payroll basis.

In light of these existing delinquency problems of the credit cooperatives, the idea of making them conduits of lending programs in the rural areas may be done with great caution to avoid repeating the experience of the rural banking system. There is a need for the government to understand more deeply the operations of CCUs and how they are different from the rest of the financial institutions. Although it has been explicitly stated in the privileges of cooperatives under the new Cooperatives Code that CCUs and/or federations shall be entitled to loans, credit lines, rediscounting of their notes and other eligible papers with the Development Bank of the Philippines (DBP), the Philippine National Bank (PNB), the Land Bank of the Philippines (LBP), and other financial institutions

except the Central Bank of the Philippines, the experience of the rural banking system should set as a precedence of what could possibly happen to financial institutions which become dependent on government funds. It must be emphasized that despite their loan delinquency problems, CCUs are still relatively successful in mobilizing deposits in the rural areas because of a unique system in dealing with depositors and borrowers. This makes their overall operation sustainable. Thus, it must be emphasized that making CCUs conduits in allocating resources should not undermine their savings mobilization efforts.

The question of supervision over cooperatives deserves equal attention. CCUs have the potential to grow into bigger financial institutions and, like formal financial institutions, can expand their areas of operation. Similarly, as credit cooperatives grow, the demand for more financial services among members may also expand. This may pose a problem regarding supervision of their activities. Even though it is explicitly stated in the new Cooperatives Code that supervision of cooperatives is placed under the Cooperative Development Authority (CODA), there is a foreseeable overlapping of functions between the CODA and the Central Bank. Given the credit unions' predominant financial nature and the fact that savers and share owners are placed at risk through imprudent loan activity argues for a role for conventional supervisory authorities in the Central Bank. Moreover, primary cooperatives can organize among themselves a cooperative bank which is directly under the supervision of the Central Bank. This implies that the Central Bank can somehow regulate primary cooperatives composing the cooperative bank. It is in this regard that supervision of cooperatives should be placed under an appropriate agency or institution that could help their operations and address their own internal problems, and not a venue for serving other agenda and interests.

Finally, the cooperative sector is not well represented in this study because it focuses on cooperative credit unions only. Credit cooperative unions, however, appear to have the most successful operations among the cooperative sub-sectors. Likewise, CCUs account for a significant share of the total number of cooperatives in the country. ^{6/}

^{6/}Per BCOD statistics as of end-1989, there are roughly 6,466 registered cooperatives all over the country in which around 2,325 (35.96%) are cooperative credit unions.

REFERENCES

- Agabin, Meliza H. "A Review of Policies Impinging on the Informal Credit Markets in the Philippines." *PIDS Working Paper Series No. 88-12*. Makati: Philippine Institute for Development Studies, September 1988.
- Lamberte, Mario B. "The Role and Performance of Cooperative Credit Unions in the Rural Financial Markets: Some Preliminary Results." *PIDS Working Paper Series No. 88-24*. Makati: Philippine Institute for Development Studies, October 1988.
- _____ and Joven Balbosa. "Informal Savings and Credit Institutions in the Urban Areas: The Case of Cooperative Credit Unions." *PIDS Working Paper Series No. 88-06*. Makati: Philippine Institute for Development Studies, April 1988.
- _____ and Julius P. Relampagos. "An Assesement of Policies Affecting the Financial Sector, 1986-1988." *PIDS Working Paper Series No. 90-05*. Makati: Philippine Institute for Development Studies, January 1990.
- Republic Act 6938 known as "An Act to Ordain a Cooperative Code of the Philippines."
- Republic Act 6939 known as "An Act Creating the Cooperative Development Authority."

PIDS WORKING PAPERS

- | | |
|--|--|
| <p>W.P. No. 90-01 The Philippines: Recent Performance, Prospects for 1990-1991, and Policy and Development Issues.
<i>Josef T. Yap</i> (P16.00)</p> | <p>W.P. No. 90-09 An Assessment of Labor and Employment Policies in the Philippines, 1986-1988.
<i>Edna A. Reyes and Ma. Teresa C. Sanchez</i> (P30.00)</p> |
| <p>W.P. No. 90-02 An Assessment of the Performance of the Aquino Government in Selected Policy Areas, 1986-1988: An Overview and Summary.
<i>Erlinda M. Medalla</i></p> | <p>W.P. No. 90-10 An Assessment of Population, Health and Education Policies in the Philippines, 1986-1988.
<i>Alejandro N. Herrin</i> (P15.00)</p> |
| <p>W.P. No. 90-03 An Assessment of Philippine Public Administration, 1986-1988.
<i>Ledivina V. Cariño</i> (P30.00)</p> | <p>W.P. No. 90-11 A Review of the 1986 Reform of the Individual Income Tax.
<i>Rosario G. Manasan</i></p> |
| <p>W.P. No. 90-04 An Assessment of the External Debt Management in the Philippines, 1986-1988.
<i>Josef T. Yap</i> (P13.00)</p> | <p>W.P. No. 90-12 An Analysis of the Value Added Tax in the Philippines.
<i>Rosario G. Manasan</i></p> |
| <p>W.P. No. 90-05 An Assessment of Policies Affecting the Financial Sector, 1986-1988.
<i>Mario B. Lamberte and Julius P. Relampagos</i> (P35.00)</p> | <p>W.P. No. 90-13 The PIDS-NEDA Annual Macroeconometric Model, Version 1989: A Summary.
<i>Winifrida Constantino, Roberto S. Mariano and Josef Yap</i> (P20.00)</p> |
| <p>W.P. No. 90-06 An Assessment of Fiscal Policy in the Philippines, 1986-1988.
<i>Rosario G. Manasan</i> (P34.00)</p> | <p>W.P. No. 90-14 A Review of Fiscal Policy Reforms in the ASEAN Countries in the 1980s.
<i>Rosario G. Manasan</i> (P18.00)</p> |
| <p>W.P. No. 90-07 An Assessment of Trade and Industrial Policy, 1986-1988.
<i>Erlinda M. Medalla</i> (P27.00)</p> | <p>W.P. No. 90-15 Comparative Saving Behavior of Rural and Urban Households in the Philippines
<i>Romeo M. Bautista and Mario B. Lamberte</i> (P14.00)</p> |
| <p>W.P. No. 90-08 A Review of Natural Resource and Environmental Management, 1986-1988.
<i>Marian S. delos Angeles and Noela Lasmarias</i> (P34.00)</p> | <p>W.P. No. 90-16 Reestimation of Shadow Prices of the Philippines.
<i>Erlinda M. Medalla</i></p> |

- W.P. No. 90-17 **Economics of Philippine Fisheries and Aquatic Resources: A Literature Survey.** *Marian S. delos Angeles, Ernesto P. Gonzales, Ramyleo Pelayo and Lota A. Ygrubay* (P63.00)
- W.P. No. 90-18 **The Philippine Industrial Sector Policies, Programs and Performance.** *Filologo Pante, Jr. and Erlinda Medalla* (P23.00)
- W.P. No. 90-19 **Health Manpower Employment and Productivity in the Philippines.** *Edna A. Reyes and Oscar Picazo*
- W.P. No. 90-20 **MCSME Promotion Policy and Legislative Agenda: Focus on Monetary Policy, Finance and Credit Programs.** *Mario B. Lamberte*
- W.P. No. 90-21 **Credit Unions: An Under-rated Mode of Mobilizing and Allocating Resources in Rural Areas.** *Mario B. Lamberte, Julius P. Relampagos and Douglas H. Graham* (P26.00)
- W.P. No. 90-22 **Trade in Banking Services in ASEAN Countries.** *Mario B. Lamberte* (P23.00)
- W.P. No. 90-23 **A Study of the Operations and Performance of Selected Credit Cooperatives in the Philippines.** *Julius P. Relampagos, Mario B. Lamberte and Douglas Graham*
- W.P. No. 90-24 **Central Bank Policies and the Behavior of the Money Market.** *Josef T. Yap, Mario B. Lamberte, Teodoro S. Untalan, and Ma. Socorro V. Zingapan*
- W.P. No. 90-25 **Off-Balance Sheet Activities of Commercial Banks in the Philippines.** *Ma. Socorro V. Zingapan, Mario B. Lamberte and Josef T. Yap*
- W.P. No. 91-01 **The Philippines: Recent Performance, Prospects for 1991-92, and Policy and Development Issues.** *Josef T. Yap* (P20.00)

MONOGRAPH SERIES

- M.S. No. 12 **The Political Economy of External Indebtness: A Case Study of the Philippines.** *James K. Boyce* (P85.00)
June 1990 102 pages
- M.S. No. 13 **Balanced Regional Development Study.** *Mario B. Lamberte, Rosario G. Manasan, Gilberto Llanto, Winfred M. Villamil, Elizabeth S. Tan, Fernando C. Fajardo, and Maren Kramer*



This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 License.

To view a copy of the license please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

This is a download from the BLDS Digital Library on OpenDocs
<http://opendocs.ids.ac.uk/opendocs/>