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# **DOCUMENTARY ANALYSIS ON THE STATUTORY FUNDS OF COOPERATIVES IN THE CORDILLERA ADMINISTRATIVE REGION, PHILIPPINES**

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## **Brief Background of the Philippine Cooperative Code (RA 9520)**

The Philippine Cooperative Code of 2008 (Republic Act 9520) was an amended version of the Cooperative Code of the Philippines. Originally referred to as Cooperative Code of the Philippines, it was enacted by the House of Representatives and Senate of the Philippines and was approved on March 10, 1990. It covers all types and categories of cooperatives like primary, secondary, and tertiary. It provides the general framework on the rules and regulations in the registration, operations and management of cooperatives entire the Philippines.

Designed to encompass all aspects related to cooperatives, the Philippine Cooperative Code is a comprehensive reference for all cooperators and stakeholders in acquiring legal personality for cooperatives under Philippine laws. As a law that was enacted under the New Philippines Constitution of 1987, it consolidated all the different laws previously issued by different administrations.

Implementation of the provisions of the Code is done by the Cooperative Development Authority (CDA) that was created by virtue of Republic Act 6939 which was enacted as a twin law with the Cooperative Code of the Philippines in 1990. As an agency tasked to oversee the implementation of the Cooperative Code, CDA publishes supplemental circulars and office memoranda that clarify the broad scope of provisions of the Code.

In line with the provisions of the Code, the study was conducted to look into the compliance of cooperatives with certain provisions of the Cooperative Code and CDA publications related to statutory funds. It was intended to determine actual practices of cooperatives as compared to the provisions of their respective by-laws that were prepared based on the provisions of the Cooperative Code.

Having this in mind, the consistency of cooperative compliance with the provisions of the Cooperative Code as reflected in their by-laws and reports was evaluated. On the part of the CDA as the implementing agency, the method of implementation of the provisions of the cooperative Code is partly evaluated.

While the main objective of the study was for completion of academic requirements, the results of the study served as inputs in the effort to monitor the performance of cooperatives as regards statutory funds at the Cordillera Administrative Region. It is gratifying to note that the awareness level of both the CDA and cooperative stakeholders were partly addressed as the study provided information that answered some undocumented observations.

The provisions of the Cooperative Code being the main reference of most cooperatives and stakeholders served its purpose as an enacted law when its provisions are properly considered and

implemented. This study might not have comprehensively dealt with the Cooperative Code but the results discussed in the following Chapters of this paper are encouraging.

## **Abstract**

The study evaluated cooperatives' compliance based on the provisions of the Philippine Cooperative Code and cooperative by-laws on order of distribution, allocation and utilization of their statutory funds [general reserve fund {GRF}, cooperative education and training fund {CETF}, optional fund {OF}, and community development fund {CDF}]. Fifty (50) cooperatives in Baguio and Benguet served as participants. Ninety-eight percent (98%) up to 100% percent complied with the order on distribution of statutory funds in their respective by-laws consistent with the Philippine Cooperative Code. Based on records and interviews, one cooperative sourced the GRF from credit and consumer operations and not from the consolidated financial operations, thus the rate used was lower. From the Audited Financial Statement and other reports submitted to CDA, compliance with funding statutory funds is about 78%-98% with GRF (98%) as the most funded followed by CDF (92%); OF (84%) and CETF (78%) respectively. From interviews, key informants reveal that they directly charge training fees to operational expenses, hence reducing the allocation in the by-laws as observed in the data with only 26 participants that used the 10% maximum provision in their by-laws. Utilization of statutory funds was between fourteen and eighty-two percent (14%-82%) with CETF (82%) as the most utilized and GRF (14%) as the least utilized. The low utilization of the GRF shows compliance with legal provisions of law making it a restricted fund to cover operational losses. There was significant difference on the utilization of statutory funds but not on the order of distribution and funding. Based on interviews, medium and large cooperatives allocate lower rates in their CETF; cooperatives use their OF to acquire real estate properties; other cooperatives deposit their statutory funds in banks and other high yielding investments; for others, they do not know how to treat their optional fund. For the community development fund of three percent, 92 percent of participants complied with the provision of their by-laws and only about 72 percent utilized their community development fund. As explained by key informants, changes in the composition of officers along with background and work experiences affected the full utilization of the community development fund.

Keywords: Compliance, allocation, funding, utilization

## **Introduction**

The 1987 Philippine Constitution particularly Section 15, Article XII mandates that "Congress shall create an agency to promote the viability and growth of cooperatives as instruments for social justice and economic development". Promulgated on March 10, 1990 was Republic Act (RA) 6939 or Cooperative Development Authority (CDA) with the power to register and regulate cooperatives and to adopt and implement national development plans for the cooperative movement; and Republic Act (RA) 6938 "Cooperative Code of the Philippines" as amended by Republic Act (RA) 9520 or Philippine Cooperative Code of 2008.

Mendoza (1997) claimed that since 1853, almost 5,000 pieces of legislation on cooperation have been promulgated in different countries of the world. Understandably, the cooperative statutory provisions vary from one country to another. This is because the cooperative law necessarily has to be attuned to a number of factors or conditions in a particular country. The most pertinent of these factors are the type of government, customs, traditions, history and culture, kind and level of economy, cooperative goals of development, stage of cooperatives development, and the degree of understanding of and belief in cooperation by policy makers.

Further, Article 4 of the Philippine Cooperative Code states that “every cooperative shall conduct its affairs in accordance with Filipino culture, good values and experience and the universally accepted principles of cooperation which include, but are not limited to the following: 1. Voluntary and Open Membership; 2. Democratic Member Control; 3. Member Economic Participation; 4. Autonomy and Independence; 5. Education, Training and Information; 6. Cooperation among Cooperatives. 7. Concern for Community.

Based on personal observations on the development of cooperatives in the Cordillera Administrative Region (CAR) not all cooperatives comply with the provisions of their respective by-laws. Some cooperatives submit incomplete returns and do not conform to standards set by law and CDA issuances. The non-compliance of cooperatives to the provisions of their by-laws and the Code affects the authority in coming up with good reports on the performance of cooperatives in the region. CDA personnel issue notice of non-compliance to erring cooperatives that compel them to submit the required reports but beyond the required 120 days after close of Calendar Year.

Since the passage of the Cooperative Code that took effect on March 22, 2009, there had been no studies conducted to specifically look into the compliance of cooperatives in terms of the allocation and distribution of net surplus, funding and utilization of statutory funds in relation to cooperative by-laws, audited financial statements and the Code.

This study was guided by Article 86 of the Philippine Cooperative Code that provides for the order of distribution and states “The net surplus of every cooperative shall be distributed as follows: 1. An amount for the general reserve fund which shall be at least ten percentum (10%) of net surplus: Provided, that in the first five (5) years of operation after registration, this amount shall not be less than fifty percentum (50%) of the net surplus; 2. An amount for the education and training fund shall not be more than ten percentum (10%) of the net surplus. The by-laws may provide that certain fees or a portion thereof be credited to such fund. The fund shall provide for the training, development and similar other cooperative activities geared towards the growth of the cooperative movement. Half of the amount transferred to education and training fund annually under the subsection shall be spent by the cooperative for education and training purposes; while the other half may be remitted to a union or federation chosen by the cooperative or of which it is a member. The amount for the community development fund shall not be less than three percentum (3%) of the net surplus. The community development fund shall be used for projects or activities that will benefit the community where it operates. 4. The optional fund, a land and building and any other necessary funds shall not exceed seven percentum (7%). The remaining net

surplus shall be made available to the members in the form of interest on share capital not to exceed the normal rate of return on investments and patronage refunds. Provided, that any amount remaining after the allowable interest and the patronage refund have been deducted shall be credited to the reserve fund.”

The study was conducted to evaluate the compliance of cooperatives in Baguio City and Benguet Province in relation to the provisions of the participants’ cooperative by-laws; content of Audited Financial Statements and Philippine Cooperative Code on the order of distribution, funding, and utilization of statutory funds. The study sought to answer the following questions:

- a. What is the extent of compliance of cooperatives to Philippine Cooperative Code with the order of distribution, funding and utilization of statutory funds?
- b. What is the extent of compliance of cooperatives with their by-laws provision on the allocation of the statutory funds as reflected in the participants audited financial statements?
- c. What is the extent of compliance on the utilization of the cooperatives statutory funds based on the audited financial statements?
- d. Are there differences on the compliance of the cooperatives in the order of distribution; funding; and utilization of statutory funds?

This tested the hypothesis that there are significant differences in the compliance of the cooperatives on the order of distribution, funding and utilization of statutory funds for cooperatives that operated for more than one year.

The research intended to greatly benefit the Cooperative Development Authority officials and personnel and other regulatory agencies; Cooperatives and shareholders; Community; Academe/Schools; Researcher and future researchers in the planning implementation, monitoring and policy-making as regards statutory funds.

### **Design and Methodology**

The study made use of qualitative and quantitative methods. Content analysis, interviews, observations and focus group discussions were utilized. Records of the participant cooperatives submitted to the Cooperative Development Authority were individually examined to come up with the required data that were presented, analyzed and interpreted using appropriate statistical tools. Below is the list of top 50 cooperatives based on assets with principal offices located in Baguio City and Benguet Province that served as participants.

**Table 1. List of participant cooperatives**

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**City/Province/Name of Cooperative**

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## A. Baguio City

1. Baguio Benguet Community Credit Cooperative
2. Texins Multipurpose Cooperative
3. Mothers and Family Multipurpose Cooperative
4. The Moog Credit Cooperative
5. Baguio Vegetable Retailers Savings and Credit Cooperative
6. Baguio General Hospital and Medical Center Employees Multipurpose Cooperative
7. SLU-SVP Housing Cooperative
8. Baguio Market Vendors Multipurpose Cooperative
9. Baguio Entrepreneurs Credit Cooperative
10. BAMAPCOM Entrepreneurs Multipurpose Cooperative
11. Baguio City School Teachers and Employees MPC
12. San Vicente Savings and Credit Cooperative
13. DENR-CAR Employees Multipurpose Cooperative
14. Taloy Norte Farmers Multipurpose Cooperative
15. Baguio Colleges Foundation Credit Cooperative
16. BARP Multipurpose Cooperative
17. Baguio City National High School MPC
18. Timber and Lime Multipurpose Cooperative
19. Baguio Maharlika Multipurpose Cooperative

20. Cordillera Overseas Contract Workers and Families Multipurpose Cooperative

21. Marie Eugenie Cooperative Development Center

22. United Natonin Credit Cooperative

23. RHO-CAR Employees Multipurpose Cooperative

24. Bagong Pag-asa Entrepreneurs Savings and Credit Cooperative

25. Pines City National High School Teachers and

Employees Multipurpose Cooperative

Sub-total: 25

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**City/Province/Name of Cooperative**

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**B. Benguet Province**

1. Benguet State University Multipurpose Cooperative

2. Philex Community Credit Cooperative

3. La Trinidad Vegetable Trading Post MPC

4. Bad-ayan Buguias Development MPC

5. Benguet Provincial Government Employees MPC

6. Kabayan Multipurpose Cooperative

7. Philex Mines Community Consumers Cooperative

8. BATJODA Multipurpose Cooperative

9. Thanksgiving Multipurpose Cooperative

10. Multipurpose Cooperative of COA CAR Employees

11. Benguet Operators and Drivers MPC

- 12.Taba-ao Cuba Multipurpose Cooperative
- 13.Universal Multipurpose Cooperative
- 14.Hydro Group Employees Multipurpose Cooperative
- 15.Seeds and Fruits Multipurpose Cooperative
- 16.CBB Employees and Friends Multipurpose Cooperative
- 17.La Trinidad Municipal Employees MPC
- 18.Trinidad Based Agawa Multipurpose Cooperative
- 19.Mabuhay Multipurpose Cooperative
- 20.Bahong Multipurpose Cooperative
- 21.Kibungan Employees Multipurpose Cooperative
- 22.Drivers Operators Employees Residents and Other Sectors Multipurpose Cooperative
- 23.Benguet Traders Multipurpose Cooperative
- 24.La Trinidad Strawberry Multipurpose Cooperative
- 25.Tomay Credit Cooperative

Sub-total: 25

Grand Total: 50

CDA records that contained information on total assets of cooperatives, order of distribution and amount of allocation of net surplus, funding and utilization of statutory funds were thoroughly examined and supplemented by interviews with key informants from the participant cooperatives, unions and federations to whom they are affiliated with. Information on the actual provisions on statutory funds derived from the by-laws of the participant cooperatives and compared to the order of distribution of the net surplus. Actual data on General Reserve Fund, Education and Training Fund, Community Development Fund and Optional Fund were obtained from the Audited Financial Statements, Cooperative Annual Progress Report, Social Audit Report and Performance Report of each participant cooperative. Descriptive and inferential statistics were used to describe prevailing conditions as needed based on the specific problems. Statistical tools used were frequency count, ranking, percentage and chi-square test. Megastat 10.1, an add-in feature of MS Excel was used to test the validity of the data. The Input-Process-Output-Outcome (IPOO) Model guided the study.

## RESULTS AND DISCUSSIONS

### Compliance on Order of Distribution of Statutory Funds

Cooperatives are required to distribute net surplus every year based on the provisions of approved by-laws that must be in consonance with the provisions of the Philippine Cooperative Code.

In the distribution also called allocation, there are provisions of the Code pertaining to the minimum and maximum amount to be followed. Often, the order of distribution in the cooperative by-laws are patterned or copied from the Cooperative Code. Provision for general reserve fund shall not be less than 10% for old cooperatives but 50% for the first five years of operation for newly registered cooperatives; cooperative education training fund shall not be more than 10%; community development fund shall not be less than 3% and optional fund shall not exceed 7%.

### General Reserve Fund

The provisions on general reserve fund in the by-laws of the fifty (50) participants were compared to the provisions in the Philippine Cooperative Code. Forty-six (46) participants used the ten percent (10%) minimum provision; one cooperative used 15%; one cooperative, 20%; one cooperative, 25% and one newly registered cooperative, 50% respectively.

The contents of the by-laws of the participants on reserve fund were compared to the provisions in the Code to assess how many of them complied as to order of distribution of general reserve fund. It was revealed that all the participants complied with the provisions of Philippine Cooperative Code.

About 46 cooperatives or 92% conformed to the minimum 10% provision for general reserve fund as mandated under Article 86 of the Philippine Cooperative Code. Of the four cooperatives that used higher rate of allocation, one cooperative provided the fifty (50)% rate since it is a newly registered cooperative. The other cooperatives used 15% followed by 20% and 25% respectively but they are still within the acceptable provisions consistent with the Philippine Cooperative Code. The varying rates used by the different cooperatives can be attributed to the provision of RA 9520 that provided leeway as it did not set an absolute rate to be used but instead provided the minimum rate of fifty (50)% for newly registered cooperative for the first five years of operation upon registration and 10% for those that had been previously registered under previous law like Presidential Decree 175 issued on April 14, 1973, RA 6938 of 1990 and RA 9520 of February 22, 2009. Such provisions provide flexibility on the part of cooperatives to use different rates of allocation on the condition that they are congruent with existing provisions of the Code. Data on the fifty (50) participants indicate that these cooperatives located in Baguio City and Benguet Province have high regard on the provisions of the Code given the favorable level of compliance to allocate reserve fund that is required under Article 86 of RA 9520. The four cooperatives with high rates for general reserve fund based in Baguio City belong to large (with assets of Php 100 million or more) and medium (with assets of Php 15,000,001 to Php 100 million) cooperatives. One of the possible reasons is the stiff competition among financial players wherein the possibility of

high delinquency and losses can affect operations and the need to strengthen institutional capital is a necessity. Also, cooperatives understood the importance of securing funds through accumulation of buffer funds to cover potential losses that may occur in their respective cooperatives. This is due to the fact that no other means of security to protect the funds are in place except those covered by insurance companies and accounts deposited in banks covered by the Philippine Deposit Insurance Corporation (PDIC). Moreover, cooperatives have limited options when they experience illiquidity especially when banks or financial institutions consider them as non-bankable. The option is for them to have sufficient fund to cover unforeseen problems that can affect the business enterprise of the cooperative. The experiences of some cooperatives in Baguio City and Benguet Province related to huge business losses had served as eye opener for some of these cooperatives to fund their respective general reserve fund.

### **Cooperative Education Training Fund**

Results on the provisions on cooperative education training fund (CETF) in the by-laws of the fifty (50) participants were compared with the 10% maximum provision on CETF under Article 86 of the Philippine Cooperative Codereveal that thirty-two (32) participants adopted the 10% maximum rate; About 18 cooperatives used 8%(1);7%(2);6%(2);5% (8);(1)3%; (2) 2%; (1) 1.5% and (1) 1% respectively.

Assessment of records indicated that all the participants provided CETF provisions that are consistent with the provisions of RA 9520. 32 or 64% of the cooperatives adopted the 10% maximum rate for cooperative education and training fund. Eighteen cooperatives constituting 36% used lower rates but were still within the range provided for in the law.

The conduct of Pre-Membership Education Seminar (PMES) before registration of a cooperative, the status or category of the cooperative having attained medium or large status, and differing interpretations on the provisions of the law are some of the factors that will explain the different rates of allocation implemented by cooperatives for their cooperative education and training fund. Interview with participants revealed that some cooperatives directly charge training and allocations to operational expenses. This leads some cooperatives to reduce provisions in their respective by-laws.

Cooperatives cannot be blamed for such practices as the Code provided flexibility in the rates to be used provided it is not higher than 10%. Although there are differing rates of allocation used by the participants, the result of the study showed that they conformed to the provisions of Article 86 of RA 9520 that provides 10% as the maximum amount of provisions for cooperative education and training fund. The favorable allocation of provisions for CETF by participants attest to the level of understanding of cooperatives on the importance of allocating funds for cooperative education and training fund that supports Principle No. 5 of the universally accepted principles of cooperative.

In 1995, the International Cooperative Alliance (ICA) adopted the principle that “cooperatives shall provide education and training for their members, elected and appointed representatives, managers and employees so that they can contribute effectively and efficiently to the development of their cooperatives” putting emphasis on the importance of education, training and information. It is also

important that members, officers and staff of cooperatives are enlightened on their respective roles in the organization so they can discharge their functions accordingly.

### **Optional Fund (OF)**

The provisions on optional fund in the by-laws of the fifty (50) participants were compared to the seven (7%) maximum provision in the Philippine Cooperative Code. Results show that thirty-nine (39) cooperatives adopted the 7% maximum provision on optional fund. About 11 participants provided lower rates 5% (6); 4% (1); 3%(1) and 2%(3) in their by-laws provisions.

The optional fund provisions in the by-laws of the fifty (50) cooperatives as compared to the rates provided in the Philippine Cooperative Code shows that all participants followed the required provisions of the Code on optional fund provisions as gleaned in their respective by-laws. Out of the fifty (50) by-laws evaluated, 39 cooperatives constituting 78% of the study's cooperatives adopted the 7% maximum provision on optional fund. While about 11 cooperatives or 22% provided lower rates in their by-laws, they are still within the realm of the law on statutory funds. The varying rates used by the eleven cooperatives can be attributed to the different categories of the participants: small, medium and large cooperatives. Usually medium and large cooperatives allocate lower rates when they acquired real estate properties like land and buildings and they perceive allocating a lesser amount is enough.

When income of cooperatives reach millions, having huge allocation for institutional capital like optional fund results to higher amount deducted from the net surplus. Another reason is that these cooperatives know the advantages of investing in real estates that can sustain the operations when properly managed.

Moreover, the positive results on the order of distribution of optional fund in the by-laws of the different cooperatives shows high level of understanding of cooperatives in Cordillera Region on optional fund. The data manifest the ability of the participants to comply with the provisions of the Code and their respective by-laws.

### **Community Development Fund (CDF)**

Review of the participant cooperatives' by-laws show that except for one cooperative that used 10% allocation the 49 participants adopted the 3% provisions of Philippine Cooperative Code on community development fund in their respective by-laws.

Review of the cooperative by-laws of the fifty (50) participants showed that 49 (98%) of the participants adopted provisions of RA 9520 on community development fund. One cooperative used 10% provision in its by-laws that is higher than the minimum required provision on CDF in the Code. Interview with a key informant from the said cooperative showed that they were unaware of such provision and were not notified until it was pointed out by the researcher. Amendment to the by-laws of the cooperative was proposed with General Assembly approval.

While there is no issuance that sets the maximum limit on provisions for CDF, discussions with persons involved in the crafting of the implementing rules and regulations of the Philippine Cooperative Code indicated that the CDF originally belongs to the optional fund that was pegged at 10% under RA 6938. However, under RA 9520, the provision for optional fund was divided and a separate provision for community development fund was created. As a result, cooperative experts argued that when the provisions for CDF and optional fund are added, it must not exceed 10% as originally stated under the original provisions of RA 6938.

Since the 10% order of distribution for community development fund of one cooperative when combined to its optional fund provision of 7% exceeds the 10% limit, it can be considered that the cooperative is not compliant on the order of distribution on community development fund. Community development fund is intended to meet the social responsibility of the cooperative within the community where it operates. The cooperative needs to demonstrate how it addresses concerns within and outside its membership while sustaining its commitment to meet organizational goals.

The projects and activities funded by the community development fund is geared toward assisting community residents especially non-members to feel the real meaning of cooperative. Having projects that address the felt needs and touch the lives of people within the community increases awareness level that promotes solidarity based on organized action.

Support for advocacy for community development by government, non-government organizations, academe and other stakeholders can be realized through partnership or joint undertakings using the community development fund of cooperatives when pooled together. Results of the study reveal the strong determination of the cooperative sector to contribute to positive changes in the community in their respective areas of operation by allocating funds for such purpose. This can be attested by the practices of two large cooperatives in Benguet Province. These two cooperatives partner with the local government unit in funding some projects that are identified by the cooperative and implemented in coordination with local officials and community residents. Another large cooperative in Benguet Province set aside a yearly allocation to be given to two requesting barangays. This had been a tradition that started twenty 20 years ago. The granting of request occurs in a cycle among the fourteen barangays of the municipality where each barangay has the chance to be given financial assistance for any projects that can benefit the community residents.

The established tradition of cooperatives to help communities in various ways indicates high compliance of cooperatives to Principle No. 6 on “Concern for the Community of the ICA Cooperative Principles.”

Likewise, allocating funds for the community development funds shows the willingness of cooperatives to abide with the by-laws and directives of the Cooperative Development Authority in managing their community development fund.

## **Compliance on Extent of Funding of Statutory Funds**

### **General Reserve Fund**

Except for one cooperative that used 9.42% allocation of General Reserve Fund in its Audited Financial Statement, all the forty-nine (49) participants adopted in the allocation of funds the 10% provision for general reserve fund as provided in their by-laws.

Based on the 2014 Audited Financial Statement (AFS) of the fifty (50) participants, the said cooperatives allocated reserve fund based on their by-laws. The study revealed that 98% or 49 participants complied with the allocation of funds for general reserve fund. One cooperative allocated 9.42% which is below the minimum rate.

An interview with a key informant from the concerned cooperative revealed that the cooperative took its general reserve fund from its credit and consumers operation only and not on the consolidated financial operations. The cooperative has other services like transport service, rice mill, tram line and tractor operations but no amount for general reserve fund are taken from these operations. This explains why the amount of allocation is below the 10% provision in its by-laws. However, such explanation cannot be accepted by regulators on the premise that it is a violation of the provisions of its by-laws and the Code.

Two cooperatives allocated higher amounts that correspondingly violated the rate that was provided for general reserve fund in their by-laws leading to higher amount of allocation. However, this was attributed to the co-operative incurring losses in previous years' operations that led to the utilization of allocated reserve funds to cover operational losses.

The situation of the two cooperatives is an exception to the rule as these cooperatives followed the provisions of CDA Memorandum Circular 2000-08. Item 3 of CDA M.C. 2000-08 states "Since the Reserve Fund account is intended, among others to meet operational losses, all losses incurred by the cooperatives in their business operations shall therefore be charged against this fund". Further, item 4 of the same circular provides "Consistent with the accounting principles of conservatism and the going concern, all charges against the Reserve Fund shall subsequently be offset by the following modified allocation and distribution of net surplus until such time that the debit balance of the Reserve Fund account shall have been fully offset, viz: (a) Reserve Fund – not more than sixty-five percentum (65%) of the net surplus; . . .".

### **Cooperative Education Training Fund**

The allocation on cooperative education and training fund of the fifty participants in the by-laws were compared to the rate of allocation used in the Audited Financial Statements. Results indicate that thirty-nine (39) participants adopted the 10% provisions on cooperative education and training fund as provided in their respective by-laws. Eleven (11) participants used lower rates like 8%(1); 7%(1); 6%(1); 5.40%(1); 5%(11); 3%(2);2.5%(1);2%(2);1.5%(1) and 1%(3) on education and training fund as provided in their by-laws.

Financial records indicated that eleven (11) cooperatives constituting 22% of the participants deviated from the provisions on education and training fund as provided in their by-laws.

It was noted that the eleven participants used different rates in the allocation of net surplus that led to reduction in the amount intended for the education and training fund.

The variance in the amount allocated for cooperative education and training fund can be attributed to several factors that affected the cooperatives. Such observations on non-conformity with the provision of the by-laws of some participants contradicts internal and external rule in funding education and training fund that is stipulated in the by-laws of each cooperative.

The results showed some violations incurred by eleven cooperatives, however, a greater number of the participants followed the provisions of their by-laws so indicating a higher compliance rate in the funding of cooperative education and training fund.

Some factors that could have affected the provisioning is the desire of some officers and management staff to project a higher amount for interest on share capital and patronage refund on the assumption that they can allocate within the range of 10% and below as the provision of the law is not absolute. The absence of education training plan, lack of appreciation on the importance of training, the orientation or misconception of some members, officers and management staff who give more importance to financial satisfaction rather than funding statutory funds are some of the possible reasons why lower rates are allocated for CETF.

### **Optional Fund**

The provisions on optional fund of the fifty participants in the by-laws were compared to the rate of allocation used in the Audited Financial Statements. Data reveal that 42 participants funded their optional fund using the 7% provisions of their respective by-laws. But eight cooperatives used lesser or greater rates (12% (1); 10% (1); 9% (1); 6% (1); 5% (5); 4% (1); 3% (2); 2% (2) and 1% (1).

The amount of funds allocated for optional fund in the financial statements of the fifty (50) cooperatives was analyzed by looking into the net surplus and its order of distribution. Data revealed that 42 participants constituting 84% funded their optional fund in consonance to the provisions of their respective by-laws while eight cooperatives or 16% deviated and used lesser or higher rates in the allocation of net surplus.

Of the eight non-compliant cooperatives, four cooperatives used lower rates while the other four applied higher rates than were provided in their respective by-laws. It was found out that one of the participants used 10% in the allocation instead of 7%. The other cooperative allocated 3% as shown in its Audited Financial Statement instead of 7% provision of its by-laws on optional fund. The highest amount allocated for optional fund was 12% that exceeded the maximum rate required in the by-laws of one cooperative.

The optional fund represents institutional capital intended for land, building, and acquisition of equipment, members' benefits and other purposes based on the Code and Standard Chart of Accounts for Cooperatives. The practices of some participants confirmed the findings of Lamén (1991). According to her study, she found that the policies adopted by cooperatives with regard to their idle funds are deposited in banks and invested in stocks. Idle funds are deposited in banks so that they will earn interest during the time when these funds are not utilized.

Interviews with participants reveal that they deposit their statutory funds in the banks and some claimed they invested in high yielding investments. However, only few cooperatives have separate accounts for each of the required statutory funds as most often it is included in the cash in bank that becomes part of the operating capital. Such practice often results to the difficulty of monitoring fund balances especially when ledgers are not periodically updated showing how funds are used.

### **Community Development Fund**

The provisions on community development fund of the fifty participants in the by-laws were compared to the rate of allocation used in the Audited Financial Statements. Data reveal that 46 participants funded their community fund using the 3% provisions of their respective by-laws. But four cooperatives used lesser and greater rates such as 7% (1); 3%(1); 2%(1); 0%(1).

Further, records of the fifty (50) participants indicated that forty-six (46) cooperatives or 92% complied with the funding of community development fund that conforms with the provisions of their by-laws. One cooperative failed to fund its CDF. Another cooperative provided below the required provision. One cooperative also exceeded the provision stated in its by-laws by using 7% instead of 3% as stated in its by-laws and one cooperative opted to use the 3% minimum instead of the 10% provision of its by-laws. In the case of the cooperative that provided 3% provision in its by-laws, it used 7% provision in the allocation. It was found later that in the preparation of financial statements, the provisions for CDF and optional fund were interchanged when the computation was done. However, this indicates some gaps on the part of management and the external auditor on the basis of the computation of statutory funds that was not verified in the by-laws of the cooperative. In the case of the participant cooperative that failed to allocate funds for its community development fund, it was noticed that it has provided 10% optional fund in its by-laws and funded such as observed in its financial statement. Its funding can be justified but the cooperative erred in terms of consistently following the provisions of its by-laws and the Code when it failed to segregate the allocated funds as observed in the AFS presentation.

In addition, the cooperative practice contradicts the provisions of the Memorandum Circular on Standard Chart of Accounts when it apportioned funds that are inconsistent with the by-laws. Provisions of the by-laws are approved by the General Assembly and cannot just be altered by any officer or staff considering that it requires approval of 2/3 vote of all members with voting rights based on the provisions of the Cooperative Code.

## **Compliance on the Extent of Utilization of Statutory Funds**

### **General Reserve Fund**

Data reveal that seven participants utilized their allocated reserve fund but (forty-three) 43 cooperatives did not use the allocated provisions on general reserve fund as provided in financial records of their cooperatives.

The Audited Financial Statement of the fifty (50) participants was analyzed together with the Cooperative Annual Progress Report (CAPR) to know whether they have used their reserve fund. It was found that 14% or seven participants utilized their allocated reserve fund. 86% or 43 cooperatives complied with the provisions of their by-laws and the Code. These cooperatives did not use their reserve fund that are intended as buffer funds and can only be used by the cooperative when it incurs operational losses.

The extent of utilization was based on records of participants only and no further inquiry on the details of how the funds were utilized by the seven cooperatives was conducted as the study only focused on the documents available related to the use of the funds.

Records also indicated that few participants utilized their reserve fund showing the ability of cooperatives to comply with the provisions of their respective by-laws and that of the Code. The results confirmed the observation of Biety (2003) as cited by Gatawa (2015) that liquidity management means maintaining the ability of the institution to meet future demands for funds. It means ensuring that the institution maintain sufficient cash and liquid assets to satisfy client demand for loans, savings withdrawal, and institution's expenses. It involves the daily analysis and detailed estimation of the size and timing of cash inflows and outflows over the coming days and weeks to minimize the risk that future disbursements will incur. The above illustration shows the importance of cash and liquid assets. It is a clear demonstration on the need for cooperatives to have a reserve fund for future expenses. It can be said that Baguio City and Benguet Province cooperatives are aware of the importance of maintaining cash balance and that out of the fifty (50) participants, only seven cooperatives or 14% utilized their reserve fund. It might be premature to conclude but further studies on general reserve funds may be undertaken to ascertain preparedness of cooperatives on future cash shortages as limited literature was noted along this interest.

### **Cooperative Education Training Fund**

Data generated from the AFS indicate that forty-one (41) participants utilized their education and training fund while nine (9) cooperatives did not use their allocated education and training fund.

Data generated from the AFS indicated that forty-one (41) participants or 82% utilized its education and training fund while nine cooperatives or 18% did not use its allocated education and training fund. One of the possible reasons in the high utilization of cooperative education and training fund is the provision of Rule 7 of the Implementing Rules and Regulations of RA 9520 that required all cooperatives to undergo mandatory training. The compliance of participants to the provisions of RA 9520

and its IRR has affected the spending of cooperatives. Further, the issuance of CDA Memorandum Circular Number 2011-27 entitled “Implementation of Training Requirements for Cooperative Officers” that reiterated the provisions of Article 44 of RA 9520 and Rule 7 of the Implementing Rules and Regulations triggered the use of funds that compelled officers of cooperatives to undergo trainings in order for them to be elected as officers of their respective cooperative. In addition, the accreditation of different training providers that catered to the needs of the cooperatives facilitated the use of cooperative education and training fund.

### **Optional Fund**

Data reveal that 22 participants used the allocated amount for optional fund while 28 cooperatives did not use its allocated optional fund.

Utilization of the optional fund was analyzed by looking into the Audited Financial Statement and CAPR of the cooperatives. Data revealed that twenty-two (22) participants constituting 44% used the allocated amount for optional fund while twenty-eight (28) cooperatives or 56% did not use its allocated optional fund. The utilization and non-utilization can be attributed to the fact that cooperatives cannot simultaneously spend their resources as anchored on the principle of conservatism.

Results of interviews also show that most participants relied on policies regarding optional fund provided in their by-laws and the Code. Only few participants have specific guidelines on how to utilize such funds.

One of the participant cooperative interviewed shared their experience on the difficulty of how to treat the optional fund in its book of accounts. As a result, they did not use it to purchase land for the cooperative. While cooperatives can spend their optional fund, the possibility that these funds are plowed back as operating capital cannot be discounted given the absence of clear cut policies governing the use of optional funds except that of the use stipulated under the by-laws and the Philippine Cooperative Code.

### **Community Development Fund**

Results show that 36 participants utilized allocation for community development fund while about 14 participants did not utilize their community development fund.

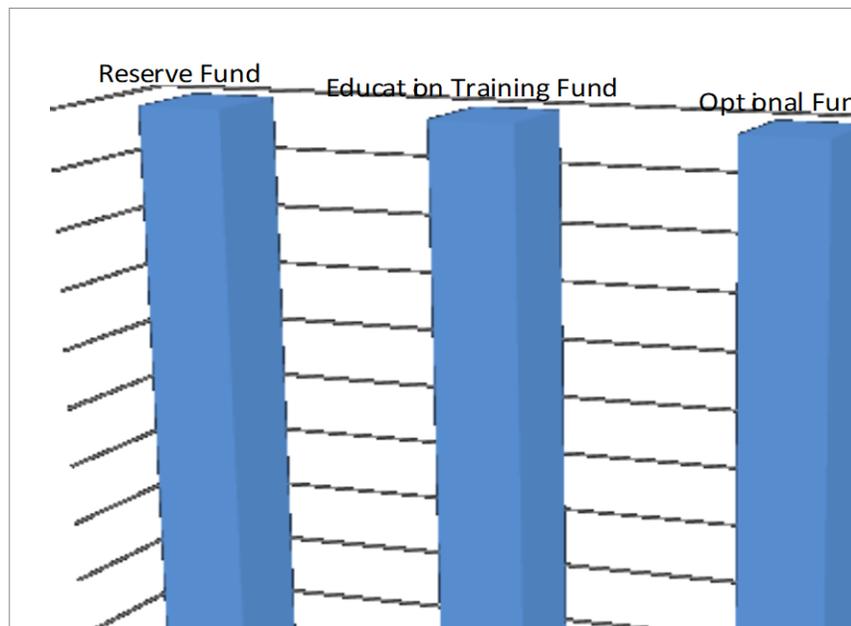
Results show that thirty-six (36) participating cooperatives or 72% utilized allocation for community development fund. Fourteen (14) participants or 28% failed to utilize their community development fund. The higher percentage of utilization of funds is an indication that cooperatives are aware of their social responsibility to the community and its members. Results of interview among key informants of the participants indicated that some cooperatives have projects related to health, education, environment, children’s welfare, senior citizens and mutual aid to members and community residents. Support to schools, church and its workers, barangay infrastructure projects and footpaths are among other projects or activities funded through community development fund. However, results of interviews

revealed that some of the participants have no clearly stated guidelines on how to utilize their community development fund except those provided under the Cooperative Code that were adopted in their by-laws. The varying projects implemented by the participants can bolster the observation on the absence of a uniform policy on the utilization of funds. However, utilization depends on the priority projects identified by cooperative officers and employees incorporated in their respective development plans. Changes in the composition of officers along with their background or work experiences may have an effect in the utilization of funds and some policies. Take for example one of the participants with Board of Directors composed mostly of teachers. In the determination of projects, their focus was on support to school-related programs or activities. This observation jibes with the observations of Lamien (1991) when she recommended that policies regarding terms of office of elected officers should consider training taken by incumbent officers so that frequent turnover will be minimized.

## Differences on the Order of Distribution, Funding and Utilization of Statutory Funds

### Order of Distribution

Generally, all the participants complied with the order of distribution of statutory funds like general reserve fund, education and training fund, optional fund and community development fund as gleaned in their by-laws. Except for one cooperative that provided 10% provision for its community development fund, all 49 cooperatives followed the required order of distribution of community development fund in their by-laws wherein 7% is the maximum amount to be provided.



*Chi-square value=0.75 df=3 p value = 0.8605 \*not significant*

**Figure 2.** Statutory Funds and the Extent of Compliance in the Order of Distribution

The provision might have been overlooked as piles of documents were submitted for evaluation and limited persons were involved in the process of evaluating voluminous documents on amendments.

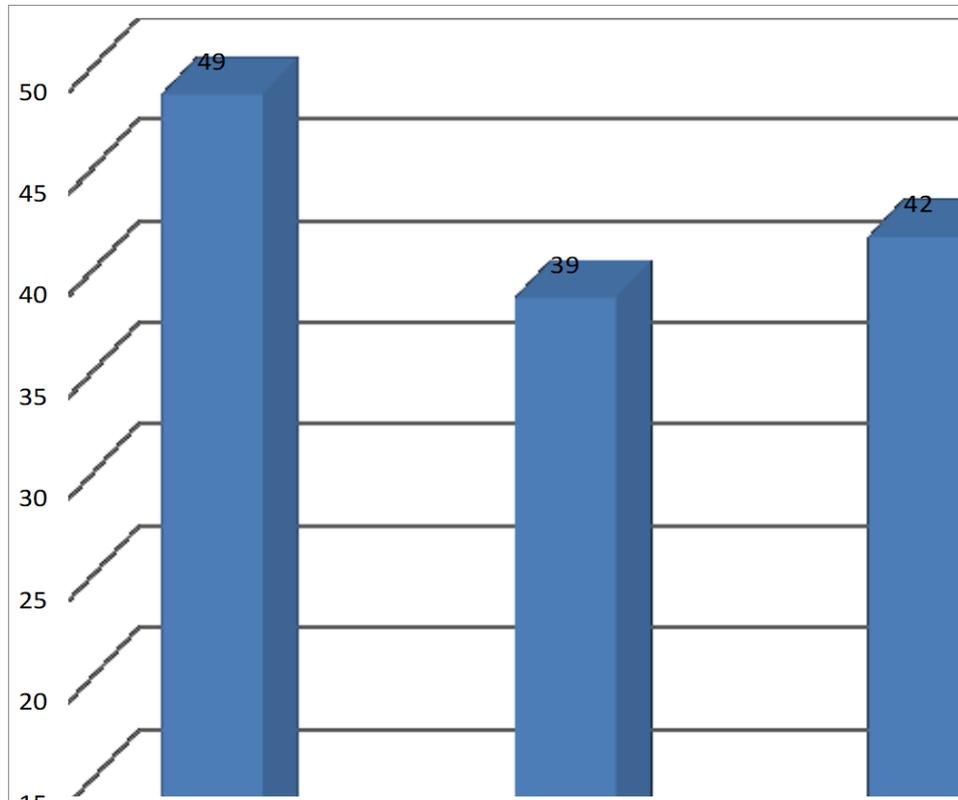
Statistical analysis reveals that there is no significant difference on the statutory funds and level of compliance on the order of distribution because the p-value of .8605 is greater than 0.05 level of significance (Appendix B).

The statistical result proves that cooperatives are compliant in terms of following standard formats or templates in the registration of cooperative documents including amendments thereof.

Given the minimal difference on the number of non-compliant cooperatives and the not significant difference, Baguio City and Benguet Province cooperatives subscribe to established rules and regulations especially those in the order of distribution as required under RA 9520.

### **Funding of Statutory Funds**

Forty-nine (49) or 98% of the participants funded their general reserve fund following the provisions of their by-laws (Figure 3). One cooperative provided 9.42% in its audited financial statement that is lower amount than the rate provided in its by-laws. Cooperatives funded community development fund wherein 46 cooperatives applied the provisions of their by-laws. Four cooperatives provided lesser and greater allocation than the by-laws provision. About forty-two (42) cooperatives applied the provision of optional fund as provided in their by-laws while eight cooperatives used amounts lesser than what should have been allocated. Thirty-nine (39) participants funded their CETF in accordance with their by-laws provision while 11 cooperatives used different rates that is lesser or greater than their by-laws provision.



Chi-square value=2.07 df value=3 p-value=.5576 \*not significant

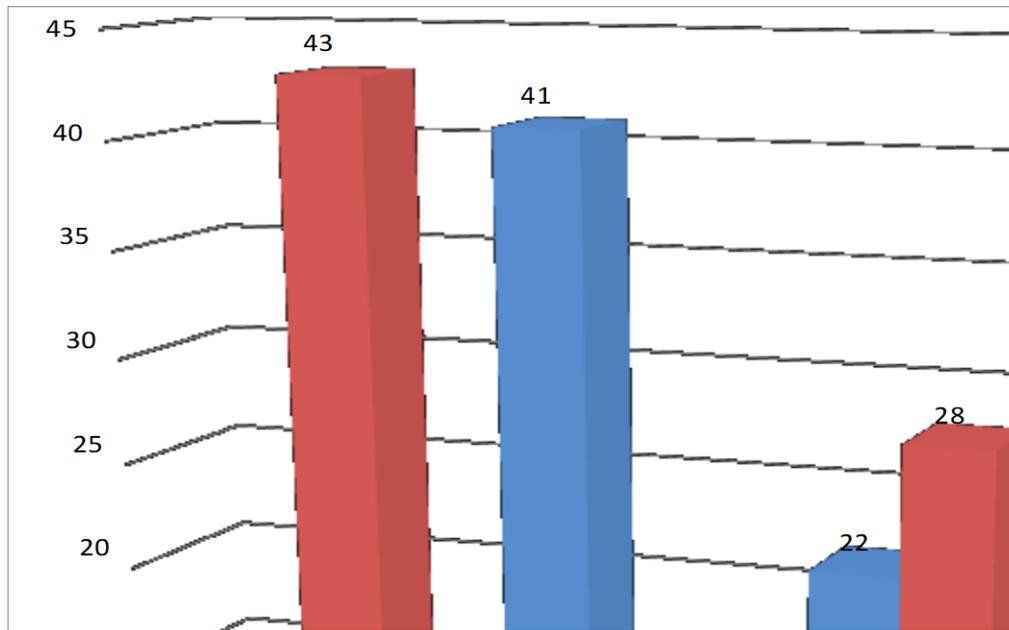
**Figure 3.** Statutory Funds and the Extent of Compliance on Funding

Furthermore, 39 participants funded its CETF in accordance with the provision of its by-laws while 11 cooperatives failed to comply according to by-laws provision. The non-compliant cooperatives deviated from the provisions in their respective by-laws and used lower rates. No significant differences were observed in the funding of statutory funds (Appendix B).

### Utilization of Funds

Figure 4 shows that Cooperative Education Training Fund (CETF) is the fund that is most utilized by the 41 participants as observed in their audited financial statements. This was followed by community development fund wherein 36 participants used their funds for projects and activities that benefited the members and communities where they operate. About 22 cooperatives used their optional fund that is intended for land, building and other necessary fund while 7 participants utilized their allocated general reserve fund.

The result corroborates the findings of Lumbag (2000) showing that continuing education as well as other trainings for incumbent members, staff and officers is being implemented by cooperatives.



Chi-square value=14.07 df value= 3 p-value=.0028 \* significant

**Figure 4.** Statutory Funds and the Extent of Compliance on Utilization.

Community development fund followed wherein 36 participants used their funds for projects and activities that benefitted the members and communities where they operate. Utilization of community development funds that finance various projects like scholarship programs, support to school improvement, infrastructure projects, clean and green programs, medical and dental missions, and tree planting manifest commitment of cooperatives to sustain the 7<sup>th</sup> Cooperative Principle which is “Concern for the Community.”

Also, about twenty-two (22) cooperatives used their optional fund that is intended for land, building and other necessary fund while 28 participants had not utilized their allocated optional fund. The above observation corroborates the findings of Lumbag (2000) showing that continuing education as well as other trainings for incumbent members, staff and officers is being implemented by cooperatives but contradicted Torres’ (1984) claim stipulating that financing is the most acute problem of cooperatives.

Of the fifty (50) participants only seven cooperatives used their reserve fund that is intended for operational losses. The low utilization of reserve fund conforms to the intention of the law on the Order of Distribution of Net Surplus by putting up buffer funds for operational losses.

While all the funds were utilized at varying levels, utilization of the reserve fund, education and training fund, optional fund, and community development fund depends on the decision of officers and management staff that proposes projects and activities related to such fund.

Statistical analysis reveal that there is a significant difference on the statutory funds and level of utilization because the p-value of 0.0028 is lesser than .05 level of significance.

Fund utilization depends on implementation of identified activities embodied in annual, medium and long term-plans. In the case of the fifty(50) participants, the level of utilization comes at various intensities.

Among the possible activities that triggered the significant differences in the utilization of statutory funds may include the following factors:

a) Innovations in policy issuances related to cooperatives both at the local and international level led to higher awareness level on cooperative development. Given advance infrastructure technology, cooperatives nowadays can access information from different parts of the world. The changes introduced at the local and international settings have direct and indirect effect in the performance of cooperatives. An accurate example is the treatment of cooperatives as business enterprises. Unlike in the early parts of the 1990's, cooperatives were portrayed as "not for profit but for service". In 2012, the United Nations declared it as International Year of Cooperatives with the theme "Cooperative enterprises build a better world". Having several activities that motivated participation of cooperative members, leaders and staff to various activities brought in positive changes on the perception of stakeholders giving heightened expending of resources that includes statutory funds;

b) Crafting of new report forms and enhanced standard reports like Social Audit Report, Performance Audit Report, Report on List of Officers and Trainings Attended, Mediation and Conciliation Report, Cooperative Annual Progress Report, and Audited Financial Statements that must be SCA compliant and be audited by duly accredited External Auditors. These reports introduced to the cooperative created awareness that may have influenced the utilization of idle funds of the cooperatives as they need to perform activities that require funding;

c) CDA requires different plans like Annual Plan and Budget, Medium and Long Term Development Plans, Social Development Plan, Education Training Plan or Program, Succession Plan, etc. These are required when CDA personnel conduct inspection or visits to cooperatives as embodied under CDA issuances based on RA 9520 and 6939 or the CDA Law. When these plans are implemented the statutory funds applicable to the said specific plans are utilized especially the education and training, community development and possibly the optional fund;

d) Accreditation of Cooperative External Auditors that look into the financial records of cooperatives. Employment of the services of external auditors requires funding and some of the cooperatives charged professional fees against optional fund under other services;

e) Accreditation of Training Providers by CDA. The issuance of CDA Memorandum Circular No. 2011-01 on the accreditation of cooperative training providers paved the way for the increase in number of institutions engaged in training. These included federations, unions, cooperative development officers of local government units, non-government organizations, State Universities and Colleges, foundations and other institutions with cooperative programs helped in the conduct of various trainings based on the

CDA prescribed curricula. Use of cooperative education and training funds to pay the services of trainers' or seminar fees increased as the participants attended the offered trainings by these providers;

f) Issuance of different circulars related to the strengthening of cooperative operations, compliance to government social and legislative laws, rules and regulations. The series of issuances for the past five years since the approval of RA 9520 and its implementing rules and regulations had brought in positive changes in the utilization of funds. The issuance of CDA Memorandum Circular No. 2011-14 that prescribed the Standard Training Curricula and CDA M.C. 2011-27 entitled "Implementation of Training Requirements for Cooperative Officers" facilitated the realization of the provisions of the Cooperative Code on training requirements and education and training funds were used by officers in attending to the required trainings;

g) Active partnerships among CDA and other line agencies, local government units, academe, and non-government organizations in the promotion, organization and implementation of cooperative plans and programs. Cooperatives utilized their community development funds to conduct projects and activities jointly with other institutions. As partnerships were established, resources of cooperatives along statutory funds are utilized to attain established goals;

h) Creation of plantilla positions, appointment and designation of cooperative development officers by different provincial and municipal government units. The appointment and designation of cooperative officers by some heads of local government units helped primary cooperatives as link between the cooperative sector and the government. It facilitated the attendance of cooperatives situated in far flung areas to trainings, conferences, congress and summits;

i) Allocation of funds for cooperative trainings and activities by local government units. The allocation of funds by local government units intended for cooperatives based in Baguio City and Benguet Province could have facilitated the utilization of education and training fund. Allowances and miscellaneous expenses of cooperative officers and personnel are charged under education and training fund when they attend such activities; and

j) Conduct of monitoring and inspection of cooperatives by CDA personnel. The annual inspection of cooperatives using carefully designed inspection instruments provide recommendations to officers and management staff to comply with their deficiencies among which include the funding of statutory funds and the use of funds to support the implementation of plans. Compliance to such issuances encourages the cooperative officers and staff to charge funds against the CETF, optional fund, and community development fund where applicable activities were undertaken.

Finally, the results on the utilization of funds were based primarily on cooperative records especially Audited Financial Statements. Focus group discussions and inputs from persons knowledgeable on cooperatives were solicited that formed part of the study.

## SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

The following are the major findings of the study:

1. On the compliance of the fifty (50) participants to the order of distribution of statutory funds, 100% compliance to the order of distribution of general reserve fund; education and training fund; optional fund and 98% of participants complied with the provision on community development fund.
2. On the extent of funding of statutory funds, forty-nine (49) participants complied with provisions on general reserve fund; forty-six (46) or 92% cooperatives complied with community development fund allocation; forty-two (42) or 84% of the participants complied with optional fund allocation, and thirty-nine (39) or 78% of the participants complied with cooperative education and training fund allocation.
3. On the extent of utilization of statutory funds, 82% of the fifty (50) participants utilized their cooperative education and training fund, 36 (72%) cooperatives utilized their community development fund, 22 (44%) cooperatives utilized their optional fund, and only seven (14%) cooperatives utilized their general reserve fund.
4. As to differences on the order of distribution, funding and utilization of statutory funds, there were differences noted on the order of distribution and funding as regard general reserve fund, cooperative education and training fund, optional fund, and community and development fund but the differences are not significant. As to utilization of statutory funds, significant differences exist on the utilization of the general reserve fund, cooperative education and training fund, optional fund, and community and development fund.

Cooperatives in Baguio City and Benguet Province are compliant on the order of distribution of statutory funds based on by-laws provision and Philippine Cooperative Code; compliant on funding statutory funds as gathered from audited financial statements; but not fully compliant in the utilization of statutory funds as reflected in financial reports and interview with key informants. No significant differences were noted in terms of order of distribution and funding but significant differences were observed in the utilization of funds.

### Recommendations

1. In the order of distribution of statutory funds in the cooperative by-laws, cooperatives need to sustain their full compliance in consonance with the provisions of the Philippine Cooperative Code.
2. Cooperatives to sustain best practices and strictly adhere to the provisions in the allocation and funding of statutory funds based on their respective by-laws, CDA issuances; and the Cooperative Code and reflect them in their annual financial reports.
3. For cooperatives to fully allocate and utilize their statutory funds in conformity with the provisions of their respective by-laws; CDA issuances and Republic Act 9520.

4. Cooperatives to craft policy guidelines to supplement provisions of the Code at the cooperative level or on a national scale. Attached is a proposed guideline for consideration by the cooperatives and CDA officials (Appendix C).
5. Cooperative Development Authority, Cooperative federations, unions, accredited training providers, academe, cooperative external auditors and other stakeholders to sustain the conduct of technical assistance through trainings, coaching, and mentoring to the different cooperatives and come up with appropriate tools that will help in the monitoring of performance of cooperatives in relation to compliance on statutory funds.
6. An in-depth study on the allocation and utilization of cooperative education training fund; community development fund; and optional fund to help attain genuine socio-economic development through cooperative undertakings is also recommended.
7. CDA should establish a data bank on the order of distribution, funding and utilization of statutory funds of all registered cooperatives that is readily accessible as basis in monitoring and evaluating compliance of cooperatives to their by-laws provisions.
8. Local government units, community and other civic organizations should tap the existing resources and services of cooperatives to augment existing resources especially in the delivery of basic services in rural areas.

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