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Philippine Institute for Development Studies

The Financial Structure and Performance of Philippine Credit Cooperatives

Gilberto M. Llanto

DISCUSSION PAPER SERIES NO. 94-04

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Philippine Institute for Development Studies

The Financial Structure and Performance of Philippine Credit Cooperatives

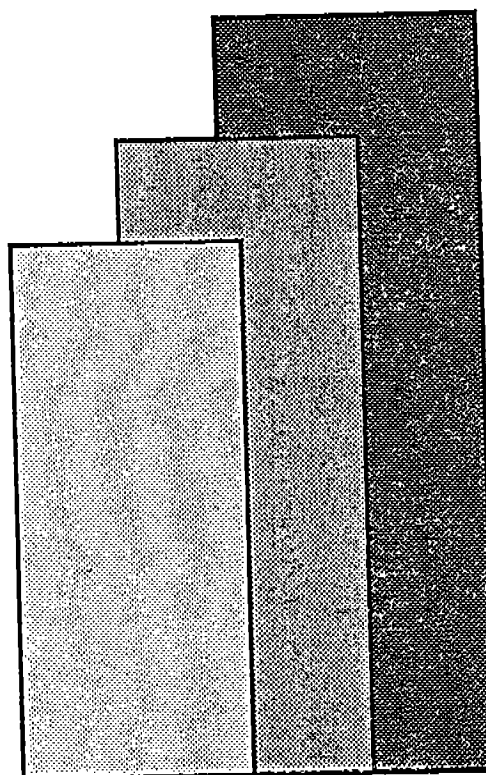
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Executive Summary

THE FINANCIAL STRUCTURE AND PERFORMANCE OF PHILIPPINE CREDIT COOPERATIVES

Gilberto M. Llanto¹

For more than three decades, Philippine credit cooperatives have grown in financial resources and membership. They help thousands of members build up their savings and access low cost credit for diverse needs. The credit cooperatives are community-based and grassroots financial institutions which operate in both rural and urban areas, providing those communities with a variety of financial services not otherwise available from the traditional lending institutions.

They have demonstrated self-reliance, depending strongly on members' savings with little external funding. Under the most demanding and adverse internal and external environment, they have sustained their financial services for members and managed to grow. Thus, they are important institutions in the Philippine financial markets. In some areas they are considered as the principal financial institutions serving the savings and credit needs of thousands of small savers and borrowers.

This study is an attempt to assess the importance and potential impact of any further development of the sector; identify development interventions that will result in a strong Filipino credit cooperative financial system; formulate policy recommendations that will support the further strengthening of the credit cooperative sector and encourage development assistance to credit cooperatives as a viable mechanism for a sustainable credit system in Philippine communities.

The study uses sample data from a survey of 104 credit cooperatives from nine regions of the country. Survey data were obtained from the sample credit cooperatives' audited financial statements and accounting records for fiscal years 1990-1992.

¹ Fellow, Philippine Institute for Development Studies.

This report was made possible through support, provided by the Office of Voluntary Cooperation, USAID Mission to the Philippines, Agency for International Development, under terms of contract no. IQC No. 492-0432-I-00-3039-00. The opinions expressed herein are those of the contractor and the author and do not necessarily reflect the views of the U.S. Agency for International Development.

The views expressed in this study are solely the responsibility of the author and do not represent the views of the Philippine Institute for Development Studies.

The research assistance of Marife Magno, Meanne Dizon, Chee-Chang Arellano are gratefully acknowledged.

A. Findings and Conclusions

The sample credit cooperatives had about 119,754 members or an average of 1,151 members per credit cooperative as of 1992. The credit cooperative is an organization of small borrowers and savers in both urban and rural communities, primarily small farmers, businessmen engaged in microenterprises and rank-and-file or middle level employees.

The survey provided so far the best picture of credit cooperatives' financial structure and performance, given the time and financial constraints of the survey. Based on several criteria such as capital adequacy and protection, asset quality, rate of return and costs, liquidity and solvency, it can be generally concluded that credit cooperatives were able to mobilize huge financial resources and to provide credit and savings services to a large mass base at a standard comparable to that of formal financial institutions. They are viable financial intermediaries in the countryside whose development must be strongly supported.

The credit cooperatives can grow into strong self-reliant and self-sustaining financial institutions given the proper supervisory and regulatory environment, efficient management policies and practices. They have the potential to provide self-sustaining financial services to small borrowers especially if capital is adequate and the members' share capital and deposits are sufficiently protected.

The study determined the following:

1. The credit cooperatives demonstrated their potential for increasing membership, mobilizing financial resources and providing financial services to small savers and borrowers on a sustained basis. In fact in the period 1990-1992, 16 of the sample 104 credit cooperatives "graduated" into becoming 4 large credit cooperatives and 12 medium credit cooperatives with more members and bigger financial resources.

2. Loans to members constituted the biggest use (about 78 percent) of asset use. Investments were a mere 4 percent of assets; shares in the federation, 1 percent and cash on hand and in banks, 7 percent. Borrowings were 17 percent of liabilities; savings and other deposits, 50 percent and other liabilities, 33 percent. Member share capital comprised 83 percent of total equity; general and statutory reserves, 10 percent; undivided earnings, 5 percent and other equity, 2 percent of total equity.

Share capital and deposits financed the loans and other services given to members of the credit cooperatives. Credit cooperatives, therefore, exist by virtue of the mass deposits and share capital mobilized from many small savers. They are self-reliant and self-sufficient institutions because they raise savings and share capital from members and recover the loans extended for various purposes.

3. Capital seems adequate although there was a slight decline in capital adequacy and protection in the period 1990-1992 as indicated by the decline in capital ratio and reserves-to-loan ratio. There was an insufficient loan loss allowance as of end 1992. Nevertheless, the credit cooperatives can still absorb the loan losses but continued deterioration of the loan portfolio would be unsustainable.

4. Credit cooperatives as a whole had positive net earnings on assets of about 14 percent as of end 1992. This is comparable to what the small saver or investor could earn from alternative financial instruments that are accessible to him.

5. The profitability picture has to be qualified by a consideration of the increase in operating expenses relative to operating income. In 1990 operating expenses were 61 percent of income but in 1992 these were 63 percent of income. A more serious concern is the need to set aside more reserves in view of potential delinquent loans and loan losses that would diminish the net profitability of credit cooperatives. At the moment, there seems to be an inadequate provision for probable loan losses.

6. Sixty percent of the total income of credit cooperatives came from lending activities. Some credit cooperatives also derived income from investments and other activities. The "other income" component of total income signifies a large involvement in and exposure of credit cooperatives to non-financial activities. Financial intermediation is a difficult enough business to pursue and the credit cooperatives may be devoting scarce management talent and technical skills to the non-financial activities to the detriment of more efficient and profitable financial intermediation.

7. Credit cooperatives were very liquid, judging from the computed liquidity ratios. Cash on hand, cash in bank and short term investments were four times as large as deposits and borrowings.

8. Limited data from 53 credit cooperatives seemed to indicate some probable solvency problem except for the large credit cooperatives. The deterioration of asset quality was very evident from data submitted by 53 credit cooperatives. Whether or not the rest of the sample suffered the same fate could not be determined at the moment. But the issues of loan delinquency rates among various types of credit cooperatives, the structure and extent of delinquent loans, among others, beg for further in-depth analysis because of their adverse impact on financial soundness and profitability. This is also to say that the credit cooperatives must put in place the appropriate remedial and preventive measures to arrest the decline in asset quality.

9. A laissez faire approach seems to characterize the policy towards credit cooperatives adopted by the credit cooperative movement itself and also by the concerned government agencies. It seems that the credit cooperatives had been left much to themselves in pursuing financial and non-financial activities that are thought to benefit the organization and its membership. Membership grew; capital expanded and profits were earned.

The absence of a supervisory and regulatory system magnifies the risks that members bear as the credit cooperative expands the scope and types of its business and economic activities and pursues unexamined financial management and lending policies.

10. There exists a strong case for establishing an appropriate supervision and regulatory system for credit cooperatives. The Cooperative Development Authority has the supervisory authority over these institutions. However, it is not appropriately equipped; it does not have the professional and institutional expertise to supervise a rapidly growing credit cooperative system. The Bangko Sentral has supervisory and regulatory authority only over the cooperative banks because this type of cooperative organization shares the nature and character of banks.

11. Appropriate supervision and regulation must also consider the broad macroeconomic and monetary policy thrusts of the government without losing sight of the peculiar characteristics of a credit cooperative organization. Unstable macroeconomic and monetary policies wreak havoc on financial institutions and credit cooperatives would not be the exception.

12. There is an equally strong case for reviewing the overall thrust of a cooperative organization involved in financial intermediation. This study submits the hypothesis that given the present stage of the cooperative movement and the requirements of efficient financial intermediation, credit cooperatives should devote themselves solely to financial intermediation activities. But this needs further verification.

13. The credit cooperatives must review their internal financial, credit and management policies and practices with a view to more efficiency, financial stability and soundness. In this respect the following must be considered:

- (a) Saving rates must be adjusted to yield positive real returns to members while the lending rate must adequately cover intermediation costs and inflation. Interest rate policy must, therefore, be reviewed periodically in order to maintain viability and promote growth of resources. Credit cooperatives could mobilize far greater resources and provide better and more financial services by providing positive real return to savings and following a market-oriented lending policy.
- (b) Loan delinquency must be addressed seriously. The deterioration of asset quality cannot be ignored without disastrous future consequences. While the loan delinquency rate may seem to be relatively low, appropriate steps must be taken to protect the real value of members' savings and capital. At the moment, the credit cooperatives have the resources to withstand loan losses without much difficulty. However, a continued deterioration of asset quality is unsustainable.

- (c) The reduction of unnecessary overhead expenses, concentration on financial services, and the utilization of computer technology will improve financial management and profitability and create the opportunity for further growth and expansion. Timely, accurate and reliable data will help management and the general assembly assess the quality of asset and loan portfolios and evaluate the operating performance and financial soundness of the organization. The credit cooperatives do not yet have systematic, dedicated and reliable accounting, auditing, management and monitoring systems to ensure accurate and timely reporting of financial and management data.

14. The credit cooperatives serve a particular market niche consisting of small savers and borrowers, both individuals and small business enterprises that would not have had access to reasonably priced credit and other financial services. They successfully adapt to the operating environment of credit markets which are characterized by loan default risks, asymmetric information and high transaction costs. The credit cooperatives are important financial institutions especially to small borrowers in the rural areas who do not have access to bank credit. Likewise, they provide access to small savers who would otherwise put their savings in non-productive forms such as jewelry. Based on past performance, they demonstrate the potential to be viable, self-sustaining and broad-based financial intermediaries.

15. The creation of a financial stabilization fund is necessary to improve the viability of credit cooperatives and to bolster confidence in this type of institutions. A corollary conclusion is the need to determine the appropriateness of a deposit insurance or guarantee scheme aimed at safeguarding member capital and savings as well as improving the viability of credit cooperatives.

16. A fine distinction must be made between (a) the credit cooperatives which have been organized from the voluntary and collective effort of individuals who united under a common bond to service the financial needs of members and (b) the "instant" cooperatives which have been organized by self-interested external parties and are motivated by the immediate and instant access to government credit programs. The study submits the hypothesis that the first type of credit cooperatives is more stable and can survive a financial crisis given the discipline and support of its officers and members.

Conversely, the second type while able to provide instant access to credit to its "members" will over time, face financial difficulties due to loan delinquency problems and diminishing support by "instant members." While the study did not have the data to validate this hypothesis, its findings on the first type of credit cooperatives (the subject matter of the study) were quite revealing. The first type of credit cooperatives has the potential to become financially stable and strong financial institutions because of the maturation and consolidation process that it and its members have undergone throughout the years. Thus, despite a decline in financial performance, they have the capability to bounce back and emerge as strong institutions.

This study shows how the maintenance of financial soundness and stability and the generation of positive real net surpluses for members have not been an easy task for legitimate credit cooperative organizations which have been in operation for several years now. The self-interested intervention of external parties to create or "help" organize cooperative organizations, including "credit cooperatives" while assuring these "organizations" an instantaneous access to extensive credit resources provided by government credit programs, cannot substitute for the tedious and painstaking process of nurturing the cooperative spirit and the long time it takes for a credit cooperative organization to develop financial discipline among members and efficient systems of financial intermediation.

Financial discipline and stability arise from a commitment to protect member share capital and deposits (mobilized through the years and nurtured by the members and their officers) and a serious concern with the integrity of the loan, i.e. its utilization for a purpose and repayment. If these basic twin driving forces, namely: commitment of member share capital and deposits and concern with loan integrity are absent, then the "instant" cooperative organization is not moored on solid foundations. It is bound to fail.

B. Recommendations

The recommendations consist of a set of policy measures and interventions that will create (1) a conducive environment for credit cooperatives and (2) a program that will institutionalize the interventions and advocate for continued support for their development. The conducive environment is composed of internal and external policies and institutions that will strengthen the credit cooperatives and upgrade their institutional capability as financial intermediaries. The advocacy and institutionalization program is comprised of institution or capability building on the part of the credit cooperatives and an advocacy scheme in support of the credit cooperative movement. Together these two sets of recommendations will address the following needs of the credit cooperatives as indicated by the study: safety and soundness of financial structure and operation, financial stabilization, institutional strengthening of the credit cooperatives and the creation of external supervisory and regulatory systems.

1. Establish accurate and current data on actual membership and financial resources and performance of credit cooperatives.

2. Conduct a periodic review of financial, credit and management policies to safeguard the real value of share capital and deposits; focus on financial intermediation; and eliminate unnecessary overhead expenses for increased efficiency and growth. This will require the credit cooperatives and the federation/federations to develop efficient financial management and investment policies and techniques that will ensure self-sustaining financial services to members. A pressing and particular need is to create adequate loan loss allowance to cover probable loan losses. The credit cooperatives must take appropriate steps to control loan delinquency and impose financial discipline among borrowers.

3. Increase institutional capital (reserves and retained earnings) to 8 percent, up to even 10 percent of total assets for increased stability and strength².

4. Establish efficient accounting, monitoring and auditing systems to enable the credit cooperatives to generate timely and accurate information for management and general assembly use. The computerization of the credit cooperatives will enhance the capability of credit cooperatives as financial intermediaries.

5. Professionalize the management and operating staff of credit cooperatives in view of their future expanded operations and the competition coming from other financial institutions in a deregulated financial marketplace.

6. Create a financial stabilization fund for credit cooperatives to be managed by the federation or a duly constituted body by the general assembly that will look after the needs of financially-distressed credit cooperatives or those in need of rehabilitation and/or restructuring; and cushion the impact of unexpected fluctuations in the inflation rate or the general interest rate level or of any financial crisis that would be beyond immediate control of credit cooperatives.

7. Determine the viability of a deposit insurance or guarantee coverage for credit cooperatives.

8. Create an adequate and appropriate supervisory and regulatory system that will conduct regular examination and review of financial policies and performance; impose prudential regulations for the protection of member share capital and deposits; and prescribe operating ratios for financial soundness and profitability.

9. The Cooperative Development Authority (CDA) must take steps to have the institutional and professional expertise to supervise credit cooperatives. Likewise, the Bangko Sentral, the CDA and the credit cooperative federation/federations must work together to find a common solution to the need to establish prudential regulations and effective supervision.

10. Institutionalize the recommended interventions and policy measures by building the capability of the credit cooperatives to implement those policy reforms and interventions. Training in such areas as electronic data processing, banking technology, among others is clearly required.

11. Create a dedicated advocacy program that will work in support of the sustained development of the credit cooperative movement. External resources that could be utilized to advance the interests of the credit cooperative movement are becoming scarcer because of competing demands from other developing and newly emerging economies. Likewise, local resources also face competing and equally meritorious demands. It is about time that those

² International banking standards now require institutional capital which is at least 8.75 percent of weighted risk assets.

meager resources must be carefully husbanded and used to create an institution building and advocacy program with a view to the future role of credit cooperatives in a rapidly changing financial marketplace.

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THE FINANCIAL STRUCTURE AND PERFORMANCE OF PHILIPPINE CREDIT COOPERATIVES

Gilberto M. Llanto¹

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I. INTRODUCTION

For more than three decades, Philippine credit cooperatives have grown in financial resources and membership². They help thousands of members build up their savings and access low cost credit for diverse needs such as medical and educational expenses, home building and improvements, financing business developments and other productive activities and other personal expenses. The credit cooperatives are community-based and grassroots financial institutions which operate in both rural and urban areas, providing those communities with a variety of financial services not otherwise available from the traditional lending institutions.

They have demonstrated self-reliance, depending strongly on members' savings with little external funding. Under the most demanding and adverse internal and external environment, they have sustained their financial services for members and managed to grow. Thus, they are important institutions in the Philippine financial markets and in some areas they are considered as the principal financial institutions serving the savings and credit needs of thousands of small savers and borrowers.³

¹ Fellow, Philippine Institute for Development Studies.

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The research assistance of Marife Magno, Meanne Dizon, Chee-Chang Arellano are gratefully acknowledged.

² In this study, the terms "credit unions" and "credit cooperatives" are used interchangeably. The Introduction draws from Angel Castro, "Orientation for Philippine Credit Union Survey," unpublished memorandum, October 1993.

³ More recently, the government has even tried to enlist the cooperative sector as credit delivery mechanisms in the countryside. The Land Bank of the Philippines has been a strong advocate of using the cooperative sector as credit channels in the rural financial markets. However, a distinction must be made between (i) those

Notwithstanding these achievements, the Philippine credit cooperative network has not yet been able to establish a comprehensive and reliable historical and current data base on principal characteristics such as its social base (membership), the magnitude of financial activity and its operating performance as financial intermediaries.

Strategic planning for expansion and financial development requires a comprehensive and reliable data base. The lack of a reliable data base also weakens the advocacy for the development of credit cooperatives even as the government and international development agencies have expressed interest in promoting the sector. With a clear understanding of the credit cooperatives' membership base, extent of financial resources and the quality of their performance as financial intermediaries, development planning and advocacy for the sector can become a more realistic and productive task.

recently organized at the instance of certain external agencies with a view to become credit conduits of directed credit programs.

II. PURPOSE OF THE SURVEY

The basic purpose of the survey was to collect basic membership and financial data base on the Philippine credit cooperatives that would allow the determination of the composition of the membership base, the magnitude of financial intermediation activity and the safety and soundness of their financial operations.

The survey output could be utilized as input to formulate a long range development strategy and program that will expand credit cooperatives' activities, increase the soundness and stability of their financial operations and provide a greater outreach to the small-scale productive sectors of Philippine society.

More specifically, the baseline survey aims to:

1. Assess the importance and potential impact of any further development of the sector;
2. Identify development interventions that will result in a strong Filipino credit cooperative financial system that secures the members' share capital and savings and serves the diverse financial needs of its members;
3. Formulate recommendations that will support the further strengthening of the credit cooperative sector and
4. Encourage development assistance to credit cooperatives as a viable mechanism for a sustainable credit system in Philippine communities.

III. SCOPE OF THE SURVEY

The survey consisted of two concurrent and complementary sub-activities that were designed to gather more complete and current information on the Philippine credit cooperatives as possible. These sub-activities were (1) credit cooperative call report and (2) supplementary credit cooperative data collection.⁴ The survey was conducted in November-December 1993 in nine regions of the Philippines, namely, Regions 2, 3, 4, 5, 7, 10, 11, 12 and the National Capital Region (NCR).

The credit cooperatives were classified into urban and rural; closed bond and open (community-based); small (i.e., those with assets of less than P5 million), medium (i.e., those with assets of P5 million to less than P20 million) and large (i.e., those with assets amounting to over P20 million) credit cooperatives. Credit cooperatives were also classified as PFCCO affiliates and those which were non-affiliates⁵.

For the purpose of this survey, the PFCCO classified as urban credit cooperatives those with registered addresses at any of the following cities/urban centers: National Capital Region/Metro Manila, Cities of Angeles, Lucena, Legaspi, Naga, Iriga, Metro Cebu (Cebu, Mandaue and Lapulapu) and Dumaguete. Otherwise, the credit cooperative was classified as a rural cooperative. A closed bond credit cooperative is an employee-based cooperative. An open credit cooperative is a community-based cooperative.

⁴ The call report refers to a specially-designed questionnaire that could be used to periodically gather uniform key financial data from credit cooperatives. The supplementary call report is a one page questionnaire that is intended to secure quickly key membership and financial data.

⁵ The survey revealed that many credit cooperatives claim membership or affiliation with different federations such as the Philippine Federation of Credit Cooperatives Inc. (PFCCO), the National Market Vendors Service Cooperatives (NAMVESCO), the Cooperative Union of the Philippines (CUP); National Cooperative Organization (NATCO) and others. There seems to be a considerable double counting of the credit cooperatives reported by the federations as members or affiliates.

IV. METHODOLOGY AND DATA

A call report was designed to gather membership and financial data from a sample of 132 credit cooperatives affiliated with the Philippine Federation of Credit Cooperatives and the National Market Vendors Service Cooperatives.⁶ A supplementary call report was prepared to gather aggregative data from the other affiliated members of PFCCO and other federation of credit cooperatives. However, the other federation of credit cooperatives did not provide the requested data despite an appeal made through a letter sent by PRAGMA Corporation. Instead, ninety-nine other members of PFCCO provided information through the one page supplementary call report. The total sample consisted of 231 credit cooperatives, of which 132 answered the call report and 99 accomplished the one page supplementary call report⁷.

The survey data were obtained from the audited financial statements and accounting records for fiscal years 1990-1992 by a group of survey volunteer enumerators from PFCCO and NAMVESCO. The PFCCO provided the survey supervisors who were tasked with assuring that accurate and quality data would be collected. The enumerators were trained on how to accomplish the call reports and on-site field visits to the credit cooperatives by the PFCCO field supervisors to ensure accurate reporting. Field verification and editing of call reports were done by the supervisors of the field enumerators and by the PFCCO Central Office in Manila before submission to the survey director for data processing and interpretation in accordance with the agreement between PFCCO and Pragma Corporation. A team of professional data processors was hired for processing the data.

Upon scrutiny and review by the survey director and his team, only data from 104 credit cooperatives were finally considered as data inputs to the analysis presented in this study. The 104 credit cooperatives submitted balance sheets and income statements as attachments to the call reports. Of the 104 credit cooperatives, only 53 submitted limited information on loan delinquency, loan purpose and other information. This is a limitation of the study. It would be important to secure a more comprehensive information on loan delinquency, the loan and investment portfolios and other information in the future. However, given time and budget constraints, the data generated by the survey presented the best information base so far on credit cooperatives.

⁶ The survey director prepared and submitted to PRAGMA Corporation a Survey Quality Control Manual and Software Design for the efficient conduct of the survey.

⁷ Only 104 of 132 call reports submitted by PFCCO were finally used in the analysis. The 99 one page supplementary report were not used because of incomplete reporting.

V. SAMPLING DESIGN

Considering the difficulty of establishing the universe of PFCCO and NAMVESCO credit cooperatives, purposive sampling was done by the Technical Advisor⁸ to draw a sample of credit cooperatives. Nine regions which had the largest concentration of affiliated credit cooperatives were selected as sample areas. A listing of credit cooperatives for each of these regions was provided by PFCCO and NAMVESCO. Only those credit cooperatives with declared assets were considered in the sampling frame. Due to time and budget constraints, a sample of 100 PFCCO-affiliated credit cooperatives was drawn.⁹ There were 61 regular members of the two federations (PFCCO and NAMVESCO) and 23 PFCCO associate members with assets amounting to P2.5 million and above. They were all included in the sample. Random sampling was done to select the remaining 16 sample respondents from the list of credit cooperatives with assets of less than P2.5 million. Likewise, with the same procedure 30 NAMVESCO respondents were selected out of 48 members with declared assets at end 1991.

The ninety-nine additional reporting credit cooperatives which accomplished the one page supplementary call report were selected by PFCCO.

⁸ Mr. Angel Castro, an independent consultant hired directly by the U.S. Agency for International Development (USAID) drew the sample from the list of credit cooperatives submitted by PFCCO.

⁹ During the survey proper, PFCCO added two more credit cooperatives. This resulted to a total sample of 132 respondents.

VI. FINANCIAL STRUCTURE AND PERFORMANCE OF CREDIT COOPERATIVES

The Cooperative Development Authority reports a total of 2,500 registered credit cooperatives in the country of which 1,500 are in operation. These credit cooperatives form federations or organizations basically for the following reasons: (1) to strengthen their operations and bargaining powers; (2) to have a more efficient sharing of technology and information; (3) to have a centralized office that will look after their training and information needs; and (4) to have a representative body which will represent them for in functions concerning credit cooperatives. The four existing credit cooperatives' federations include the following: (1) Philippine Federation of Credit Cooperatives (PFCCO); (2) Cooperative Union of the Philippines (CUP); (3) National Cooperative Organization (NATCO); and (4) National Market Vendors Cooperative (NAMVESCO). Credit cooperatives' membership in any of these federations is not exclusive, that is, they can be members in more than one federation at the same time. Entry and exit from a federation is upon the discretion of the credit cooperative on the basis of what federation would best suit its needs.

The credit cooperatives claim that they practice self-regulation through their federations. They claim to adhere to a uniform accounting and auditing set of rules and regulations prescribed by the federations. However, the claimed regulatory and supervisory functions of federations over their member-credit cooperatives are on general terms and do not seem to carry any power to apply sanctions to deviant members. It was reported that the federations have taken steps to provide members appropriate accounting and auditing services. A central finance facility (CFF) which is a pool of the credit cooperatives' surplus resources as well as a lending facility for member credit cooperatives has been established¹⁰. Member credit cooperatives deposit excess funds in the CFF to earn interest greater than that provided by banks. The interest earned is not subject to withholding tax. The PFCCO, in particular, reports the most number of credit cooperatives as members. At present, it reports a membership base of 630 credit cooperatives of which 132 were interviewed in this survey to obtain baseline information on their financial structure and operating performance.

¹⁰ This study does not review the performance of the PFCCO Central Finance Facility. The most recent assessment is that of Castro (1993) which noted that "the CFF has grown dramatically in response to promotional efforts by management staff and leadership reaching a reported P21.7 million in total shares and deposits by March 1993 (unaudited). . . Unfortunately the CFF appears to have a serious loan delinquency problem and thus, its effectiveness is compromised. This is in part because the CFF was designed to be a profit center and source of capital for the federation rather than a safe, liquid and relatively high yielding depository for credit unions."

A. CREDIT COOPERATIVES' MEMBERSHIP

The 104 sample credit cooperatives had 119,704 members or an average of 1,151 members per credit cooperative as of 1992 (Table VI.A-1). The call report was not designed to collect data on the socio-economic profile of the credit cooperatives' members. However, several studies indicate that those who joined credit cooperatives are primarily small farmers, businessmen engaged in microenterprises and rank-and-file or middle level employees. The credit cooperative is basically an organization of small borrowers and savers (in terms of asset size and relative access to private financial institutions) in both urban and rural communities.

B. CREDIT COOPERATIVES' AGGREGATE FINANCIAL STRUCTURE

Assets

As of end 1992, the total assets of the sample credit cooperatives amounted to ₱1.3 billion as compared to ₱770 million in 1990 (Table VI.B-1). As of end 1992 thirty eight credit cooperatives classified as rural had P349 million or 27.4 percent of total assets of sample credit cooperatives (Table VI.B-2). Sixty eight open credit cooperatives had P753 million or 59.2 percent of total assets. By size category, fifty small credit cooperatives had P159 million or 12.5 percent share; medium credit cooperatives had P390 million or 30.6 percent while the large credit cooperatives had P724 million or 56.9 percent share. It is interesting to note that in 1990, there were 66 small credit cooperatives with assets of P83 million; 28 medium credit cooperatives with assets of P167 million and 10 large credit cooperatives with assets of P236 million. The implication is that between 1990-1992, 16 small credit cooperatives experienced growth in asset size resulting into an additional 4 large and 12 medium credit cooperatives.

As of end 1992, cash on hand and in banks were 7 percent of total assets as compared to 8 percent in 1990. This was the general pattern by different classification of credit cooperatives in 1992.

Loans constituted the biggest use of credit cooperatives' resources. They amounted to P964 million in 1992 as compared to P636 million in 1990. They were as much as 78 percent of total assets in 1992 as compared to 80 percent in 1990. The shift towards more investments explained the slight decrease in loans as a percentage of total assets. However, the bulk of the credit cooperatives' resources was still in the form of loans to members. As of end 1992, rural credit cooperatives had a loans to assets ratio of 80 percent as compared to 78 percent for urban credit cooperatives. Open and closed bond credit cooperatives had more or less the same proportion of loans to assets. Small credit cooperatives had loans to assets ratio of 81 percent as compared to 76 percent for medium and 78 percent for large credit cooperatives. This is in contrast to the situation in 1990 when small and medium credit cooperatives had loans to assets ratio of 79 percent while large credit cooperatives had a ratio of 84 percent. The large credit cooperatives which are mostly urban-based had more investment opportunities in the capital markets which explains the reduction in their loans to assets ratio. On the other hand, small

borrowers had no other reasonable source of credit except their own credit cooperatives. Hence the increase in the loans to assets ratio of small credit cooperatives.

As of end 1992, rural banks had a loans to assets ratio of 68 percent while private development banks had 63 percent (Table VI.B-3). Commercial banks (KBs) with 40 percent, thrift banks (TBs) with 56 percent and specialized government banks (SGBs) with 57 percent had lower loans to assets ratios. Banks in general have access to alternative investment and loan opportunities; they also employ more sophisticated financial management policies and techniques than credit cooperatives which are traditionally loan-oriented institutions. In fact, many commercial banks earn sizeable income from off-balance sheet activities.

Despite the higher amount of credit cooperatives' assets devoted to loans to members, they allocated only 1 percent of total assets as allowance for loan losses. This was the same situation for credit cooperatives in 1990. Banks, on the other hand, allocated 2 to 5 percent of total assets for bad debts.

Credit cooperatives also had a smaller average loan size per member compared to banks. As of 1992, the average loan size per member in a credit cooperative is ₱10,300. Compared to the average loan size of millions for borrowers of commercial banks, the low average loan size of credit cooperatives indicates that they provide small borrowers access to credit that formal financial institutions like banks may find difficult to provide. While the small loan amount may suggest that borrowers are engaged in low level productive activities, it also indicates that the credit cooperative also meets other credit needs of members, e.g. emergency loans and other personal consumption needs, without necessarily putting the credit cooperative at great credit risk. It, thus, signifies the unique ability of credit cooperatives to cater to the small credit demands of members.

Investments were the second major use of credit cooperatives' resources. These investments were mainly in the form of time deposits in banks and cooperative rural banks. They amounted to P137 million in 1992 compared to P26.75 million in 1990. Investments constituted 4 percent of total assets in 1992 as compared to 2 percent in 1990, an improvement as the credit cooperatives tried to realize more income from investments in government securities and other debt instruments. Compared to banks, the investment opportunities of credit cooperatives are limited. In addition to commercial paper, short-term investments of banks also include treasury bills and money market investments. In 1992, the investment to asset ratio of banks was higher than that of the credit cooperatives. As of end 1992 specialized government banks (SGBs) registered the highest investment to asset ratio of 23 percent (Table VI.B-4). Commercial banks had 16.6 percent while thrift banks an investment to asset ratio of 15.1 percent. The rural banks' investment to asset ratio of 4.8 percent was comparable to that of the credit cooperatives. Private development banks had an investment to asset ratio of 10.3 percent.

As of end 1992, large credit cooperatives had higher investment to asset ratio at 9 percent as compared to 4 percent for medium credit cooperatives and 3 percent for small credit cooperatives. Closed and urban credit cooperatives had a 4 percent investment to asset ratio

compared to 3 percent for open and rural credit cooperatives. Large, closed and urban credit cooperatives had more investment opportunities than their counterparts. In 1990, the large credit cooperatives had a much lower investment to asset ratio of 4 percent; medium credit cooperatives had 4 percent while small credit cooperatives had 1 percent.

Credit cooperatives had shares in the cooperative federation amounting to ₦9.3 million in 1992 as compared to ₦2.6 million in 1990. The increase was realized after the campaign to increase the shares in the federation. The shares in the federation to assets ratio was 1 percent for all types of credit cooperatives in 1992, except for the large credit cooperatives which had the smallest amount set aside as shares in the federation. This overall 1992 ratio was the same ratio in 1990. As of end 1992, medium credit cooperatives had almost ₦7 million in shares in the federation; small credit cooperatives had ₦1.4 million while large credit cooperatives had ₦1.21 million. Urban credit cooperatives had ₦7.4 million as compared to ₦1.9 million of rural credit cooperatives. Open credit cooperatives had larger shares in the federation of ₦8 million as compared to ₦1.3 million of closed credit cooperatives.

As of end 1992 fixed and other assets amounted to ₦98 million as compared to ₦64 million in 1990. Fixed and other assets constituted almost 10 percent of total assets in both 1992 and 1990. As of end 1992, rural credit cooperatives had a slightly higher ratio of fixed assets and other assets to total assets than urban credit cooperatives. Open credit cooperatives had almost 10 percent of their assets devoted to fixed assets and other assets while closed credit cooperatives had about 12 percent. Medium credit cooperatives had the largest ratio (13 percent) among credit cooperatives classified by size of assets, followed by small credit cooperatives (10 percent) and large credit cooperatives (7 percent). The comparable fixed assets and other assets to total assets ratios of banks are shown in Table VI.B-5.

Liabilities

The total liabilities of the credit cooperatives amounted to ₦571 million as of 1992 as compared to ₦283 million in 1990 (Table VI.B-6). As of end 1992, large credit cooperatives had ₦378 million in total liabilities; medium credit cooperatives had ₦137 million and small credit cooperatives, ₦56 million. Urban credit cooperatives had ₦422 million while rural credit cooperatives had ₦149 million. Open credit cooperatives had ₦324 million while closed credit cooperatives had ₦247 million.

As of end 1992 borrowings comprised 17 percent of total liabilities; savings and other deposits, 50 percent and other liabilities, 33 percent, that is, accounts payable, accrued or undistributed interest, etc. In 1990, borrowings were 16 percent of total liabilities; savings and other deposits, 50 percent and other liabilities, 34 percent (Table VI.B-7). There was, therefore, a negligible shift from other liabilities to borrowings as credit cooperatives borrowed ₦57 million in 1992 as compared to ₦29 million in 1990.

As of end 1992 small credit cooperatives relied more on borrowings with a borrowing to total liabilities ratio of 21 percent as compared to 16 percent for medium credit cooperatives and 8 percent for large credit cooperatives. In 1990, small credit cooperatives had a borrowings to total liabilities ratio of 18 percent; medium credit cooperatives had 15 percent while large credit cooperatives had 6 percent. As of end 1992, urban credit cooperatives borrowed less than rural credit cooperatives while open credit cooperatives had higher borrowing to total liabilities ratio than closed credit cooperatives. In 1990, urban credit cooperatives had lower borrowings to liabilities ratio than rural credit cooperatives. Open credit cooperatives also had a higher ratio than closed credit cooperatives.

About 50 percent of total liabilities represented members' savings and other deposits. As of 1992, credit cooperatives had a deposit to asset ratio of almost 20 percent while most banks, had a deposit to asset ratio of more than 50 percent, except specialized government banks with 37 percent (Table VI.B-8). While credit cooperatives were able to mobilize a smaller volume of savings compared to banks, they seemed to be more successful in mobilizing savings from small savers. Small savers have on the average lower savings than the average bank depositor. The other reason is that banks can mobilize deposits from the general public while credit cooperatives rely mostly on member deposits¹¹. In 1992, the average savings per member of credit cooperatives was ₦3,000 in contrast to ₦2,000 per member in 1991. This indicates the ability of credit cooperatives to mobilize mass savings.

Despite the large membership base of credit cooperatives, total savings are relatively low. Increasing average deposits in credit cooperatives will require uplifting the economic conditions of the members to generate higher incomes and offering positive real return to savings as a motivation to save in the credit cooperatives. The improvement of the economic conditions of borrower members can be facilitated by a reorientation of credit cooperatives' lending activities towards more productive activities and a market-oriented interest rate policy. The savings rate of credit cooperatives ranged from 3 percent to 18 percent per annum. To increase the level of deposits, the credit cooperatives must maintain positive real savings rate. Unless this is done, the negative-real rates on savings would constitute an income transfer from savers to borrowers. It is a common observation that credit cooperatives are borrower-dominated institution; they tend to favor the borrower at the expense of the savers.

With regard to borrowings to total asset ratio, credit cooperatives had a lower ratio of 13.5 percent as compared to banks, except for commercial banks with 9.7 percent and thrift banks with 8.7 percent as of end 1992 (Table VI.B-9). The specialized government banks had the highest borrowing to asset ratio of 29 percent, followed by private development banks (21.8 percent) and rural banks (13.6 percent). The cooperatives' ratio of 13.5 percent indicates relatively less dependence on borrowed funds as compared to specialized government banks, private development banks and rural banks which because of their failure to mobilize deposits (as indicated by their lower deposits to assets ratio), had to rely on borrowed funds. Most of the borrowed funds come from government special credit programs which were re-lent to

¹¹ Some of the surveyed credit cooperatives reported non-member deposits.

borrowers through the conduit banks. In general, banks use "other people's money," to provide financial services to the public. The reliance on member deposits makes the credit cooperatives more stable and less costly to operate than banks which depend to a great extent on borrowed funds. This also means that the credit cooperatives are self-reliant organizations, able to mobilize mass savings and to transform them into useful financial products for members. This finding also indicates the lesser access by credit cooperatives to special credit programs of the government. Banks are traditionally used as conduits of government special credits to targeted sectors because of their reach and their experience with credit delivery. However, the lack of access to special credit programs of the government may have proven to be a blessing in disguise because the credit cooperatives learned how to be more self-reliant and more member-oriented than other institutions which became too dependent on special government concessional loans. When the concessional loans were stopped, those institutions floundered.

Other liabilities were ₱105 million in 1992 as compared to ₱66.5 million in 1990. Other liabilities were one third of the total liabilities of credit cooperatives. As of end 1992, urban credit cooperatives had a 39 percent share of other liabilities to total liabilities as compared to 23 percent for rural credit cooperatives. Closed credit cooperatives had a ratio of 53 percent (even bigger than savings at 33 percent and borrowings at 14 percent) as compared to 22 percent for open credit cooperatives. Small credit cooperatives had a 35 percent share of other liabilities to total liabilities as compared to 34 percent for medium and 24 percent for large credit cooperatives.

Equity

The total equity of credit cooperatives in 1992 amounted to P703 million as compared to ₱486 million in 1990 (Table VI.B-10). In 1992 large credit cooperatives had total equity of ₱346 million; medium credit cooperatives had ₱253 million while small credit cooperatives had ₱103 million. In contrast, in 1990 large credit cooperatives had total equity of ₱236 million; medium credit cooperatives had ₱168 million and small credit cooperatives had ₱83 million. As mentioned earlier, several small credit cooperatives "graduated" into the medium and large category as the members raised more share capital and deposits. In 1992, urban credit cooperatives had a higher total equity of ₱503 million as compared to ₱200 million for rural credit cooperatives. Closed credit cooperatives had ₱273 million as compared to ₱430 million for open credit cooperatives.

In 1992 eighty three percent of total equity came from members' share capital (Table VI.B-11). For large credit cooperatives the ratio at 85 percent was much higher. Small credit cooperatives had 82 percent of equity in the form of share capital while medium credit cooperatives had 83 percent. Closed credit cooperatives had 85 percent as compared to 82 percent for open credit cooperatives. Urban credit cooperatives had a ratio of 83 percent as compared to 82 percent for rural credit cooperatives. The interesting point here is that the credit cooperatives operate on the basis not only of member deposits which were earlier shown to be a substantial part of total liabilities, but also on the strength of the capital contributed by many

small members of the credit cooperatives. Share capital amounted to as much as ₦584 million in 1992 as compared to ₦405 million in 1990. As of end 1992, large credit cooperatives' share capital were ₦286 million as compared to ₦214 million for medium credit cooperatives and ₦84 million for small credit cooperatives. Open credit cooperatives had share capital amounting to ₦360 million as compared to ₦224 million for closed credit cooperatives. Urban credit cooperatives reported share capital of ₦414 million as compared to ₦170 million of rural credit cooperatives.

General and statutory reserves accounted for 10 percent of total equity in 1992 as compared to 8 percent in 1990. Reserves amounted to ₦61 million in 1992 as compared to ₦45 million in 1990, the credit cooperatives set aside more of their net income as reserves. The reserves are supposed to cover statutory obligations and to serve as cushion in the event of financial difficulties for the credit cooperative. In 1992 small credit cooperatives had 10 percent of total equity as reserves as compared to 11 percent for medium credit cooperatives and 7 percent for large credit cooperatives. The comparable figures in 1990 were 9 percent for small credit cooperatives; 7 percent for medium and 11 percent for large credit cooperatives. In 1992 urban credit cooperatives had a reserve to equity ratio of 10 percent as compared to 9 percent for rural credit cooperatives. Open and closed credit cooperatives had a 10 percent ratio.

Undivided earnings amounted to ₦21.45 million in 1992 as compared to ₦15.33 million in 1990. The credit cooperatives had 5 percent of total equity as undivided earnings in 1992 and 1990. While in general, the share of undivided earnings to total equity was the same in 1992 and 1990, there is some difference in this ratio among various classification of credit cooperatives. Large credit cooperatives had 2 percent of total equity as undivided earnings in 1992; medium credit cooperatives had 3 percent and small credit cooperatives, 7 percent. In 1990 small credit cooperatives had a 6 percent of total equity as undivided earnings while both medium and large credit cooperatives had 3 percent. It seems that the small credit cooperatives retained more out of net surplus in 1992 than in 1990. In contrast, the medium credit cooperatives maintained the same ratio while large credit cooperatives experienced a decline of undivided earnings as a percentage of total equity between 1990 and 1992. In 1992, rural credit cooperatives had 6 percent of total equity as undivided earnings; urban credit cooperatives had 4 percent. Open credit cooperatives had 5 percent in contrast to 4 percent of closed credit cooperatives. In contrast, urban and rural credit cooperatives had 5 percent in 1990 while open credit cooperatives had 6 percent and closed credit cooperatives, 4 percent.

Other equity amounted to ₦36 million in 1992 as compared to ₦21.3 million in 1990. Other equity was 3 percent of total equity in 1992 and 1990. In 1992 large credit cooperatives had 6 percent of total equity as other equity as compared to 3 percent for medium and 1 percent for small credit cooperatives. In 1990, small credit cooperatives had 1 percent; medium credit cooperatives had 6 percent while large credit cooperatives had 4 percent of total equity as other equity.

Total equity to total assets ratios of different banks are shown in Table VI.B-12. As a whole, banks have a 15 percent equity to assets ratio. Among banks, commercial banks have

the lowest ratio of only 4.5 percent while specialized government banks have the highest at 12 percent. In contrast, credit cooperatives have equity to asset ratio of 64.2 percent. The higher equity to total assets ratio in credit cooperatives implies that their assets are financed mainly by the members' share capital. In addition, reserves and undivided earnings which came from the net surplus generated by the credit cooperatives contributed to the high equity-asset ratio. The credit cooperatives are, thus, institutions that exist by virtue of the members' contributions i.e. by way of share capital; and reserves and undivided earnings generated partly from share capital.

As of end 1992, share capital of credit cooperatives amounting to ₦584.5 million were sufficient to cover their borrowings of ₦57 million. Combined borrowings and deposit liabilities of ₦465 million were 79 percent of share capital indicating that the debt absorption capacity of credit cooperatives is still high. With regard to reserves and undivided earnings to total assets ratio, credit cooperatives had a ratio of 9.24 percent in 1992 as compared to 8.72 percent in 1990 (Table VI.B-13).

C. FINANCIAL PERFORMANCE¹²

1. Capital Adequacy and Protection

Capital Ratio

Adequate capital is necessary to cover claims on assets which may arise from expected or unexpected losses. The safety of members' share capital and deposits are balanced by the benefits to members which are principally in terms of loans to members. The capital ratio or the ratio of equity and loan loss allowance to total assets declined from 68 percent in 1990 to 66 percent in 1991 and 65 percent in 1992. Total equity (comprised of share capital, reserves, undivided earnings and other equity accounts) plus the loan loss allowance were still substantial although the decline was not encouraging. The decline in capital strength requires a thorough and regular examination of the credit cooperatives' loan and investment portfolios in order to safeguard member deposits and share capital and the overall viability of the credit cooperatives.

Between 1990-1992, the overall decline was marked for rural credit cooperatives as compared to urban credit cooperatives; and more significant for open than closed credit cooperatives. Large credit cooperatives had a capital ratio of 56 percent in 1992 as compared to 65 percent in 1990. Medium credit cooperatives had a ratio of 62 percent in 1992 as compared to 66 percent in 1990. In contrast, small credit cooperatives experienced a slight increase in capital strength from a ratio of 69.2 percent in 1990, 67.1 percent in 1991 and 69.5 percent in 1992 (Table VI.C-1).

¹² This section uses some standard financial ratios as indicators of financial performance. The ratios are those that can be computed from the submitted data.

Reserves to Loans Ratio

The reserves to loans ratio is the ratio of capital reserves and loan loss allowance to total loans outstanding. It shows the capital strength relative to the credit cooperative's outstanding loans. The reserves to loans ratio was 9 percent in 1992 as compared to 10.4 percent in 1991 and 11 percent in 1990. In 1992, the reserves ratio ranged from 6 percent to 11 percent for credit cooperatives of different categories in contrast to 1990 when the reserves ratio ranged from 6.3 percent to 13.7 percent. Closed credit cooperatives experienced an increase in this ratio from 8.8 percent in 1990 to 9.7 percent in 1992. Similarly, medium credit cooperatives had an increase in this ratio from 7.1 percent in 1990 to 9.1 percent in 1992. All other types of credit cooperatives experienced a decline in the reserves ratio between 1990-1992 (Table VI.C-2).

Debt to Equity Ratio

As of end 1992 for the 104 credit cooperatives the debt to equity ratio was 97.1 percent as compared to 84.4 percent in 1991 and 74.9 percent in 1990 (Table VI.C-3). Credit cooperatives used member share capital rather than deposits to provide financial services to members. The flexible yields accorded to share capital make it a cheaper source of loanable funds than deposits which carry fixed rates. Credit cooperatives were less leveraged than private banks but provided more loans than the latter.

Borrowers from credit cooperatives were more favored than borrowers from banks because they could get lower rates and at the same time could enjoy interest rebates from the patronage refunds provided by their credit cooperatives. Because of this credit policy, the credit cooperatives favored borrowers over savers. The relatively low savings rate on deposits constitutes an income transfer from savers to borrowers.

Loan Loss Allowance to Loans Outstanding Ratio

As of end 1992 the surveyed credit cooperatives had loan loss allowance to loans outstanding ratio of 2 percent as compared to 1.4 percent in 1990 and 1.7 percent in 1991. Provision for loan losses increased only very slightly despite the deterioration in asset quality of many credit cooperatives as will be discussed below. In 1992 large credit cooperatives had a 2 percent ratio; the medium and small credit cooperatives had almost the same ratio. Urban, rural and open credit cooperatives had more or less the same ratio at 2 percent while closed credit cooperatives had only 0.8 percent in 1992. The latter seemed to rely on the payroll deduction system to collect outstanding loans which had been proven to be an effective loan collection scheme. However, the loan loss allowance was not a comfortable amount in view of possible loan delinquencies. On the other hand, banks in general set aside 5 percent of assets as loan loss allowance (Table VI.C-4).

2. Rates of Return and Costs

Earnings are the principal gauge of the financial performance of an institution. In this section, different ratios showing the rates of return and costs of credit cooperatives are presented. The general conclusion is that credit cooperatives are profitable businesses with a large potential for growth and expansion.

Rate of Return on Assets

Table VI.C-5 shows the rate of return on assets in 1991-1992. The rate of return on assets is the gross interest income yields from average total assets. Gross interest income yields consist of interest income from loans and investments. The rate of return on assets increased from 21.6 percent in 1991 to 22 percent in 1992. Urban, closed, small and medium credit cooperatives posted higher return on assets in 1992 than their counterparts. Their rate of return on assets was even higher than the average return for all types of credit cooperatives.

Rate of Return on Loans

Table VI.C-6 shows the rate of return on loans in 1991-1992. The rate of return on loan is the gross interest income yield from loans. There was an overall increase in return on loans from 25.5 percent in 1991 to 27.2 percent in 1992. The closed credit cooperatives had the highest return on loans because of the payroll deduction scheme that was used for loan repayment. Lending was a profitable activity for all the credit cooperatives as indicated by the double digit rate of return on loans.

The determination of lending rates by credit cooperatives does not follow any industrywide guidelines. Each individual credit cooperative determines its own lending rates based on its own policies as articulated during the annual general assembly and meetings as well as other criteria which are not necessarily related to prevailing market conditions. There seems to be no uniform method of calculating and applying interest rates. Methods vary from credit cooperative to credit cooperative. Given that many credit cooperatives discount from loan principal the total interest payment, the effective lending rates tend to be higher than the stated nominal lending rate. But higher effective lending rates may be insufficient to generate high real returns if they are below inflation and also, if loan delinquency rate is high. Many reporting credit cooperatives charged a lending rate ranging from 10 percent to 24 percent which was above the 1992 inflation rate of 8.9 percent. The weighted average interest rate of 10 selected commercial banks was 19.4 percent in 1992 and 23.5 percent in 1991 (Research Department, Bangko Sentral ng Pilipinas, 1994). The available data would suggest that in 1992 the majority of reporting credit cooperatives had lending rates that were below those prevailing in the banking system.

Net Earnings on Assets

This is the ratio of net earnings to average total assets. After taking into account the operating expenses and the extraordinary incomes and expenses of credit cooperatives, the net earnings on assets for all credit cooperatives was 14.2 percent in 1992 as compared to 14.4 percent in 1991. All types of credit cooperatives except open, small and large credit cooperatives experienced a slight dip in net earnings on assets between 1991-1992. As of end 1992, open credit cooperatives had a net earnings on assets of 13.1 percent as compared to 12.9 percent in 1991. Small credit cooperatives increased net earnings on assets from 15.4 percent in 1991 to 16.6 percent in 1992. Similarly, large credit cooperatives experienced an increase in net earnings on assets from 12.6 percent in 1991 to 13.4 percent in 1992.

The positive net earnings on assets definitely looked superior to the returns from alternative instruments available to the small saver/lender, e.g., bank savings and time deposits (Table VI.C-7).

The state of profitability of the credit cooperatives, had to be qualified by the quality the loan portfolio of credit cooperatives. The survey tried to gather aggregative data on the amount and structure of delinquent loans by various types of credit cooperatives in order to evaluate asset quality and to arrive at a more accurate picture of financial soundness and performance. The important information would be the growth of delinquent loans, the probability of collection of delinquent loans, the maturity structure of delinquent loans. However, only 53 credit cooperatives provided information. The next section below on Asset Quality discusses this point. This would serve to qualify previous statements on financial soundness and performance. The implication is that profitability and financial soundness may be overstated if one does not take full account of problems concerning loan delinquency and probable loan losses.

Interest Income from Loans to Operating Income Ratio

As of end 1992, interest income from loans was 60 percent of total income as compared to 59 percent in 1990 and 57.5 percent in 1991. Loans constituted the bulk of the earning assets of credit cooperatives and thus, most of their income would come from this source. In 1992 small credit cooperatives drew 57 percent of their income from loans as compared to 59 percent in 1990. Medium credit cooperatives had a larger share of interest income from loans to total

income in 1992 with 64 percent as compared to 58 percent in 1990. Large credit cooperatives which as pointed out earlier had wider investment opportunities had a lower ratio of 59 percent in 1992 as compared to 65 percent in 1990. Urban credit cooperatives had a higher ratio of 61 percent than rural credit cooperatives with 59 percent in 1992. Likewise, closed credit cooperatives had a higher ratio of 68 percent than open credit cooperatives with 55.7 percent. This same pattern was observed in 1990 (Table VI.C-8).

In contrast, banks which specialize and focus on financial activities had 75 percent to as much as 89 percent of total income from interest income (Table VI.C-9).

Interest Income from Investments to Total Income Ratio

As of end 1992 fifty two of the 104 sample credit cooperatives derived about 7 percent of their total income from interest income from investments, mostly from government securities and time deposits with banks. The comparable ratio in 1990 was 5.9 percent as reported by 47 credit cooperatives; in 1991 it was 6.7 percent as reported by 53 credit cooperatives. The available data seem to indicate that not all credit cooperatives had investments from which they derive interest income (Table VI.C-10).

Other Income to Total Income Ratio

As of end 1992 102 reporting credit cooperatives had other income which comprised 37 percent of their total income as compared to 38.4 percent in 1990 and 39 percent in 1991. The small credit cooperatives derived about 43 percent of income from sources other than loans and investments in 1992 as compared to 41 percent in 1990. The share of other income to total income of medium credit cooperatives declined from 35 percent in 1990 to 31.8 percent in 1992. Likewise, large credit cooperatives sourced 32 percent of income from other sources in 1990 as compared to 31 percent in 1992. Open credit cooperatives' other income was 41 percent of total income in 1992 while closed credit cooperatives had 29 percent. Rural credit cooperatives' other income was 39 percent of total income as compared to 36 percent for urban credit cooperatives in 1992 (Table VI.C-11).

The implication of the large share of other income to total income was that the credit cooperatives were also engaged in non-financial activities from which they derived substantial income. The PFCCO pointed out that "other income" included application fees for loans, service charges and other fees charged to borrowers. However, it is also equally true that the sample credit cooperatives were not solely focused on financial activities. They also derived income from a number of non-financial activities which made them more or less "multi-purpose" credit cooperatives. The allocation of scarce management and technical skills to non-financial activities would detract from the quality of financial intermediation of credit cooperatives. Comparable experience among Latin American credit unions/cooperatives shows that those which

did not focus solely on financial intermediation faced financial difficulties as time went on. Eventually, they failed¹³.

Net Operating Results After Reserves to Total Share Capital

Another dimension of profitability is the ratio of net operating results to total share capital. This indicates the return to share capital contributed by members after providing for reserves. As of end 1992, the overall ratio (for 94 reporting credit cooperatives) was 8.6 percent as compared to 9.2 percent (for 92 credit cooperatives) in 1990 and 7.7 percent (for 94 credit cooperatives in 1991). The 1992 figure was slightly bigger than the 1991 ratio but lower than that registered in 1990. In 1992 rural and urban credit cooperatives, closed and open credit cooperatives experienced a decline in this ratio relative to 1990 levels and an increase relative to 1991 levels, except for closed credit cooperatives which experienced an increase in this ratio between 1991-1992. Small credit cooperatives were more profitable in 1990 than in 1991 and 1992 although during the latter year, their profitability increased relative to the previous year, 1991. Medium credit cooperatives experienced a steady increase in profitability in the period 1990-1992 while large credit cooperatives experienced a decline in profitability.

The overall situation in 1992 was a decline in profitability from 1990 levels although relative to the situation in 1991, the credit cooperatives seemed to have started regaining the 1990 level of profitability although perhaps at a slower rate. This may be due to the loan delinquencies in 1992 as discussed below. An obvious reason for the decline in overall profitability was the increase in operating expenses relative to total income (Table VI.C-12).

Total Operating Expenses to Total Income Ratio

As of end 1992 the 104 sample credit cooperatives had a ratio of operating expenses to operating income of 63.3 percent as compared to 61 percent in 1990 and 63 percent in 1991. The large credit cooperatives, which were able to exploit economies of scale had a ratio of 59 percent as compared to 68.8 percent for medium credit cooperatives and 60.1 percent for small credit cooperatives in 1992. In general, large credit cooperatives were more efficient than small and medium credit cooperatives; urban credit cooperatives spent less (60 percent vs. 68.7 percent) than rural credit cooperatives for a given peso income while closed credit cooperatives spent P0.55 centavos as compared to P0.68 for open credit cooperatives for a given peso income (Table VI.C-13).

In contrast, banks had higher operating expenses to operating income ratios in both 1991 and 1992. Private development banks had a ratio of 85.6 percent; rural banks had 87.7 percent. The higher overhead expenses and bigger salaries of management and staff of banks were the main reasons for the higher operating expenses to operating income ratio (Table VI.C-14).

¹³ This experience was pointed out by Mr. Angel Castro.

3. Liquidity

Liquid Reserve Ratio

The ratio of aggregate cash (on hand and in banks) and short term investments to deposits, share capital and borrowings or the liquid-reserve ratio measures the liquidity of credit cooperatives. Table VI.C-15 shows the liquid reserve ratios for different categories of credit cooperatives. At end 1992 the surveyed credit cooperatives had a liquid-reserve ratio of 13.8 percent which was an improvement over the 13.3 ratio in 1991 but a decline relative to the 14 percent ratio in 1990. Urban credit cooperatives were slightly more liquid than rural credit cooperatives in 1992, the same situation in 1990. In 1991, urban credit cooperatives were more liquid. On the other hand, in 1992 open credit cooperatives were slightly more liquid than in 1991 although in 1990 their liquidity position looked better. Closed credit cooperatives had a steady increase in liquidity between 1990-1992. With respect to size classification, in 1992 small credit cooperatives suffered a decline in liquidity from both the 1990 and 1991 levels. The same was true of medium credit cooperatives in contrast to the large credit cooperatives (mostly urban and closed) which steadily built their liquidity position from 11.7 percent in 1990 to 16.4 percent in 1991 and 18.6 percent in 1992.

Loans to Assets Ratio

Table VI.C-16 shows the loans to assets ratio of credit cooperatives. At end 1992, the surveyed credit cooperatives had a ratio of 78.4 percent as compared to 79.5 percent in 1990 and 80 percent in 1991. The overall ratio in 1992 was exceeded only by the rural credit cooperatives (79.6 percent); open credit cooperatives (78.9 percent) and the small credit cooperatives (80.6 percent)¹⁴.

Loans to Savings and Share Capital Ratio

Table VI.C-17 shows the loans to savings and share capital ratio of credit cooperatives. At end 1992, credit cooperatives had a ratio indicating that loans exceeded the amount of total savings and share capital by 19 percent as compared to the excess of 26 percent in 1991 and 14.6 percent in 1990. Rural, open and small credit cooperatives were more aggressive lenders than their counterparts with loans exceeding the combined amount of savings and member share capital by as much as 24 percent to 33 percent. The urban, closed, medium and large credit cooperatives were not as highly leveraged as their counterparts and appeared to be more conservative. In 1992 the overall situation was an improvement over 1991 because credit cooperatives were more liquid but a decline relative to that in 1990 since these institutions were

¹⁴ The loans to assets ratio was discussed more fully in the section on financial structure. Here it was merely reiterated as a measure of liquidity.

less liquid in 1992 as compared to 1990. Being more liquid does not necessarily mean that the credit cooperatives are better off. It may mean that there are lost earning and investment opportunities by staying too liquid. On the other hand, being highly leveraged is not necessarily a virtue either because deteriorating asset quality which is brought about principally by loan delinquencies puts in risk the members' deposits and share capital. It is, thus, a question of balance between providing more loans, maintaining the quality of the loan portfolio and retaining the liquidity to cover loan defaults and to safeguard the viability of the credit cooperative.

CBI to Total Deposits and Borrowings Ratio

Table VI.C-18 shows the ratio of cash on hand and in banks plus short term investments (CBI) to total deposits and borrowings of 98 reporting credit cooperatives. At end 1992, 98 credit cooperatives had more than four times as much cash and short term investments as deposits and borrowings, indicating a highly liquid situation. This was a very significant improvement from the 1990 and 1991 situations. All categories of credit cooperatives except for rural, medium and large credit cooperatives were very liquid and would be able to service any immediate depositor or borrower needs.

4. Solvency

Solvency measures the credit cooperatives' ability to repay member share capital, deposits and other indebtedness. Two measures used in this study are: (a) the borrowings to deposits ratio which is the ratio of external borrowings to total deposits of the credit cooperatives; and (b) the solvency ratio which is the ratio of the sum of deposits, share capital, reserves, undivided earnings, other capital accounts net of delinquent loans to total deposits and share capital.

Borrowings to Deposits Ratio

The first ratio was computed for 104 credit cooperatives. Table VI.C-19 shows the ratio of borrowing to deposits ratio for 1990-1992. As of 1992, rural credit cooperatives had 37.5 percent while urban credit cooperatives had 7.5 percent. Closed credit cooperatives are more solvent with 3.6 percent as compared to open credit cooperatives with 23.8 percent. With respect to size, the large credit cooperatives were the most solvent 4.8 percent as compared to medium credit cooperative with 39 percent and to small credit cooperative with 47.5 percent. There was a slight increase in overall ratio, from 15.7 percent in 1990 to 16.9 in 1991 and a decline from 1991 to 13.9 in 1992. This is a clear indication that credit cooperatives were very solvent because of large deposits.

Solvency Ratio

The second ratio was computed only for 53 reporting credit cooperatives. Table VI.C-20 shows the computed solvency ratio for the 53 credit cooperatives. Only the large credit cooperatives with a ratio of 101 percent can easily repay share capital, deposits and other indebtedness. Small credit cooperatives with 91.3 percent solvency ratio and medium credit cooperatives with 97.1 percent may find it difficult to meet immediate repayment of share capital, deposits and indebtedness. The same would be generally true of other types of credit cooperatives. To repay obligations, the credit cooperative may have to preterminate short term investments and use the available cash on hand and in banks.

5. Asset Quality

There are several measures of asset quality: (a) delinquent loans to equity ratio; (b) delinquent loans to loans outstanding ratio; (c) loans charged-off ratio; (d) refinanced loans to total loans outstanding ratio and (e) the investment ratio. The first four ratios would require accurate information on the amount and ageing of delinquent loans while the investment ratio would require data on earnings from interest-earning assets and interest-costing funds. Only 53 credit cooperatives reported the required information that would be needed to evaluate asset quality and solvency¹⁵. The analysis in this sub-section uses only partial and unverified data.¹⁶ The following sub-section tries to assess the asset quality of 53 credit cooperatives.

Asset Quality

Fifty three credit cooperatives indicated that they had delinquent loans amounting to ₱65.1 million as of end 1992. Of these, 44 reported that in 1992 the total amount of ₱31.4 million represented delinquent loans of more than 12 months. Forty two reported that ₱14.8 million worth of loans were delinquent for at least 6 months to less than a year while 42 credit cooperatives had ₱18.9 million of loans that were delinquent for less than 6 months (Table VI.C-21). This is a serious problem affecting 22 small, 22 medium and 7 large credit

¹⁵ It can be argued that the other credit cooperatives may not necessarily have delinquent loans. But they could also have delinquent loans but did not care to report them to the survey enumerators. Unfortunately, this could not be verified.

¹⁶ As pointed out earlier this is a limitation of the study. The call report also asked for data on the following: (a) distribution of loans by guarantee and purpose; (b) distribution of savings and capital; (c) loans charged-off or written off; (d) refinanced loans; (e) loans to directors and employees; (f) distribution of investments; (g) structure of savings and lending rates. The sample credit cooperatives submitted very limited and at times inconsistent and obviously incorrect data. I decided to report only the loan delinquencies to illustrate the deterioration in asset quality which is a critical aspect of financial performance and viability. In the future, the credit cooperatives must submit data on the abovementioned areas in order to have an adequate analysis of their financial performance and to provide relevant recommendations and interventions.

cooperatives. Forty two open credit cooperatives and 11 closed credit cooperatives (despite its much vaunted payroll deduction scheme) are affected while there are 27 rural and 26 urban credit cooperatives that are affected. The loan delinquency problem did not, thus, spare any one of the different types of credit cooperatives.

On the assumption that delinquent loans which are more than a year old are uncollectible (already lost), that 40 percent of those delinquent loans of 6 months to less than a year would not be collected and that 20 percent of those less than one year would not be repaid, then the 53 reporting credit cooperatives face potential loan losses amounting to as much as P41.2 million. Applying these same assumptions on the percentage of uncollectible delinquent loans, Table VI.C-22 shows the estimated losses by different types of credit cooperatives. Urban credit cooperatives would be more severely affected because they would lose as much as ₱27.4 million as compared to ₱13.8 million for rural credit cooperatives; similarly open credit cooperatives would face huge loan losses of P38.1 million relative to closed credit cooperatives with P3.1 million. The large credit cooperatives would lose about P21.4 million as compared to P15 million for medium credit cooperatives and about P5 million for small credit cooperatives. Compared to the experience of rural banks and other banks, the probable loan losses of these credit cooperatives seem to be negligible since these would be only about 8 percent of total loans outstanding. However, from the equity viewpoint, the fact is that these loans were funded out of member share capital and deposits that were raised from many small savers. The losses would, thus, adversely affect the small savers. From the efficiency angle, the credit cooperatives could perhaps absorb the losses but they can sustain such losses in the long run without suffering serious impairment of capital.

It is interesting to note that the 53 affected credit cooperatives put up only about P8.7 million or 1.7 percent of loans outstanding as loan loss allowance. Their total loans outstanding amounted to P511.6 million in 1992. Total probable loss of P41.2 million would be about 8 percent of total loans outstanding and 6.6 percent of total assets. There was an insufficient loan loss allowance to cover delinquent loans and probable loan losses. Table VI.C-23 shows some indicators on the relative impact of these losses. These loan losses would impair members' share capital and deposits and affect the financial soundness of the 53 credit cooperatives. The indicators showed that the provision for loan losses and reserves would not be able to cover the probable losses. In the event of loan losses, one fourth of deposits and one fifth of share capital would be wiped out.

It is important to find out the reasons behind the loan delinquency of some members. This may be due not necessarily to any unwillingness to repay the loan but rather to the inability to produce the funds for loan repayment. It is a common policy of credit cooperatives to tie up the loanable amount to a multiple of a member's fixed deposits. Thus, a member may be given a loan which is twice as much as the amount of his fixed deposit regardless of his paying capacity or his ability to use the loan productively. If the member has a poor debt absorption capacity, i.e. capacity to use the loan productively and to service his debt, then he may incur loan delinquency. This implies the need to review the credit policy and practices of credit cooperatives.

VII. THE SUPERVISORY AND REGULATORY ENVIRONMENT OF CREDIT COOPERATIVES

Under the Cooperative Code of the Philippines (Republic Act 6938, 2 March 1990), all cooperative organizations must register with the Cooperative Development Authority (CDA) to legally operate. The Cooperative Code provides that CDA is the supervisory body for cooperative organizations in the Philippines. In the case of cooperative banks, supervisory authority is shared by the CDA and the Bangko Sentral ng Pilipinas. Under the Cooperative Code of 1990, cooperative banks enjoy certain privileges subject to the approval of the Bangko Sentral and compliance with applicable banking laws, rules and regulations such as the following:

- (1) The cooperative banks shall be given the same privileges granted to rural banks, private development banks, commercial banks and all other banks to rediscount notes with the Bangko Sentral, the Land Bank of the Philippines and other government banks;
- (2) They can act as depository of government funds.
- (3) The Bangko Sentral shall provide assistance to distressed cooperative banks or those needing assistance in the rehabilitation of their financial condition or those avoiding bankruptcy.

The Cooperative Code of 1990 provides for generous exemption from tax of cooperatives. The Code exempts from all national, city, provincial, municipal or barangay taxes of whatever name and nature cooperatives with accumulated reserves and undivided net savings of not more than P10 million. These cooperatives also enjoy exemption from customs duties, advance sales or compensating taxes on importation of machineries, equipment and spare parts for their own use and which are not available locally. Those cooperatives with accumulated reserves and undivided net savings of more than P10 million shall pay income tax on the amount allocated for interest on capital. However, all cooperatives regardless of classification are exempt from payment of income and sales taxes for ten years. They are also exempt from payment of local taxes and taxes on transactions with banks and insurance companies.

The Cooperative Code also allows second-tier organizations (federations) and third level organizations (cooperative unions) to provide support services to credit cooperatives, including insurance services and a central finance facility.

However, unlike the cooperative banks, the credit cooperatives are not supervised and regulated with respect to their financial intermediation activities. This may be because credit cooperatives are not financial institutions orientated towards the public unlike banks which are entities that supply loans and other financial services to the public and must, therefore, be supervised and regulated for public interest. Nevertheless, there exist risks to members' share capital and deposits in credit cooperatives that must be minimized and avoided through effective

supervision and prudential regulations. The survey has underscored the growth of credit cooperatives' membership, financial resource base, financial services to members and the active involvement, especially of the relatively poorer segments of society in the credit cooperatives' financial intermediation activities. The credit cooperatives have shown the capability to mobilize grassroots savings and to act as effective credit channels in countryside credit markets. But lacking effective supervision and prudential regulations, the credit cooperatives might engage in activities and pursue policies which could put at risk not only member share capital and deposits but their own viability as well.

Figure 1 shows the financial mechanisms providing banking and financial assistance to Philippine credit cooperatives. It also shows the credit cooperatives' interaction with individual borrowers, credit cooperatives, the banking system in general, and the government regulatory and supervisory institutions. Credit cooperatives participate in the formal financial system, raise deposits and provide loans but they are not formally supervised and regulated. They also create liabilities albeit to members and use share capital and deposits to finance their activities. This

This indicates that the credit cooperatives' viability and financial health are matters of "public interest" that the government can not ignore. The "public interest" dimension of a credit cooperative is a powerful argument for a viable and effective supervision and regulatory system for cooperative organizations performing financial intermediation activities.

This supervisory rule can be undertaken by the CDA but it does not currently have the budget and the expertise to effectively examine and supervise credit cooperatives or cooperative organizations performing financial intermediation activities. The various federations seem to have provided auditing services to their member cooperatives but these services are at best limited in scope and participation by the credit cooperatives is minimal. Strict compliance with financial reporting requirements and adherence to certain operating ratios to safeguard members' share capital and deposits pre-suppose the existence of a strong supervisory and regulatory system. This system is something the government should and could provide. The auditing services provided by the federations to members can not substitute for a formal supervision and regulation by an external and impartial body. This is because some of the federations also maintain activities such as the management of a central finance facility and insurance services which must also be supervised to protect the interests of member or affiliate credit cooperatives. In this light, the "supervisor" cannot be a self-interested entity.

The need for a strong supervision and regulatory system is underscored by the absence of defined financial reporting requirements and operating ratios. In theory, the general assembly could provide the check and balance to assure sound financial management of the credit cooperatives. However, in practice general assemblies are not as equipped and aware of financial control policies and techniques to effectively provide the counterleverage against unscrupulous directors and employees. In addition, general assemblies take place only once a year.

Credit cooperatives are subject to a general cooperative law which pertain to a variety of non-financial business activities. Credit cooperatives are allowed to engage in multiple businesses which dilute capital and distract management attention from productive and profitable savings and credit services. Unless there is adequate supervision, the involvement in a variety of financial and non-financial activities may create unnecessary risks that would undermine the viability of the credit cooperatives.

The Bangko Sentral regulates cooperative banks but not credit cooperatives. However, the imposition of bank regulation per se would be inappropriate. The examination, regulation and enforcement tools must be specifically designed for credit cooperatives because of their unique character as specialized, non-profit, retail financial service providers to small business and consumers. Regulation of certain operational aspects of credit cooperatives to ensure safety and financial soundness as financial intermediaries and to provide greater protection to members' share capital and deposits is required. In this respect, there is an immediate need for prudential regulations concerning the magnitude and type of investment exposure, the optimal mix of financial and non-financial activities, mandatory liquidity requirements for liquidity and solvency needs and the specific powers and responsibilities of the board of directors and the management. For example, the composition of the asset and loan portfolios of the credit cooperatives is a critical area of concern. The potential yields and costs of those portfolios must be balanced by the need to protect share capital and deposits.

Appropriate prudential regulations must be imposed because of the different character of credit cooperatives. They share with banks the ability to intermediate the resources of surplus units of the community into productive activities. They do so by mobilizing resources from the members and lenders, thereby creating certain types of liabilities and funding particular assets, such as loans. They are, therefore, potential creators of "net domestic credits," a role which can grow as they continuously expand in size and control over resources. The interesting issue here from the point of view of the Bangko Sentral is the potential impact of "net domestic credits" created by an expanding credit cooperative movement on monetary aggregates and liquidity management in the economy. The credit cooperative movement and the potential regulator must work for a mechanism that will address their common and diverse interests. More work has to be done in this area.

Another interesting issue concerns the needs of financially-distressed credit cooperatives or those requiring rehabilitation and restructuring. It is a common phenomenon in the financial marketplace to witness financial institutions encountering financial stress or even crisis. Banks, including cooperative banks have the Bangko Sentral as the institution to provide financial help and lender-of-last-resort services. However, credit cooperatives have no such institution to call upon in the event of a financial distress or crisis. The central finance facilities of the federations cannot provide the services required of a financial stabilization fund. Thus, the credit cooperatives would need financial stabilization fund that would function as a lender-of-last-resort.

A financial stabilization fund will help credit cooperatives face the vagaries of the financial marketplace and improve their ability to absorb financial distress without necessarily endangering member share capital and savings. The stabilization fund can also be used to strengthen the capital position of credit cooperatives through measures which involve low cost loans, share purchases to recapitalize insolvent institutions, direct operating and/or capital grants, conversion to cash of fixed and other non-earning assets, downsizing, mergers or consolidations and issuance of guarantees¹⁷. The bottomline is that the existence of a financial stabilization fund would bolster confidence in the credit cooperatives and hasten their growth and development and at the micro level, provide a mechanism to safeguard member share capital and savings.

Finally, an insurance or guarantee coverage of deposits in the credit cooperative must be explored. There is a recent initiative by the Philippine Deposit Insurance Corporation (PDIC) and NATCCO to provide insurance cover to member deposits in cooperative organizations¹⁸. This is a pilot project which seeks to determine the viability of deposit insurance for credit cooperatives and to identify the necessary conditions for its wider application. The deposit insurance or deposit guarantee scheme presupposes the existence of a strong and appropriate supervisory and regulatory body that will impose financial discipline among credit cooperatives. Among others, the following issues must be addressed: the actuarial risks faced by the PDIC in providing deposit insurance coverage to credit cooperatives, the actual number and historical financial performance of these institutions, the existence of an appropriate supervisory and regulatory system composed of operating institutions and rules and procedures, the insurance premium or fee to be paid by credit cooperatives and the increased capitalization requirements of PDIC which will now serve both banks and credit cooperatives.

¹⁷ From a discussion with Mr. Angel Castro on possible activities of the financial stabilization fund.

¹⁸ This information was provided by Mr. Angel Castro.

VIII. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

The survey provided so far the best picture of the credit cooperatives' financial structure and performance, given the time and financial constraints of the survey. Based on several criteria such as capital adequacy and protection, asset quality, rate of return and costs, liquidity and solvency, it can be generally concluded that those grassroots and member-owned financial institutions called the credit cooperatives were able to mobilize huge financial resources and to provide credit and savings services to a large mass base at a standard comparable to that of formal financial institutions. Under the most demanding and adverse internal and external environment, they have sustained their financial services to their members and managed to grow. They are viable financial intermediaries in the countryside whose development must be strongly supported.

Given the proper supervisory and regulatory environment and efficient policies and practices, the credit cooperatives could in time grow into financially stable and competitive financial institutions. They have the potential to provide self-sustaining financial services to small borrowers especially if capital is adequate and the members' share capital and deposits are sufficiently protected¹⁹.

More specifically, the study determined the following:

1. The credit cooperatives demonstrated their potential for increasing membership, mobilizing financial resources and providing financial services to small savers and borrowers on a sustained basis. In fact in the period 1990-1992, 16 of the sample 104 credit cooperatives "graduated" into becoming 4 large credit cooperatives and 12 medium credit cooperatives with more members and bigger financial resources.

2. Loans to members constituted the biggest use (about 78 percent) of asset use. Investments were a mere 4 percent of assets; shares in the federation, 1 percent and cash on hand and in banks, 7 percent. Borrowings were 17 percent of liabilities; savings and other deposits, 50 percent and other liabilities, 33 percent. Member share capital comprised 83 percent of total equity; general and statutory reserves, 10 percent; undivided earnings, 5 percent and other equity, 2 percent of total equity. Share capital and deposits financed the loans and other services given to members of the credit cooperatives. Credit cooperatives, therefore, exist by virtue of the mass deposits and share capital mobilized from many small savers. They are self-reliant and self-sufficient institutions because they raise savings and share capital from members and recover the loans extended for various purposes.

¹⁹ Right now, member share capital and deposits are protected in the sense that upon withdrawal or termination of membership with the credit cooperative, these can easily be funded.

3. Capital seems adequate although there was a slight decline in capital adequacy and protection in the period 1990-1992 as indicated by the decline in capital ratio and reserves-to-loan ratio. There was an insufficient loan loss allowance as of end 1992. Nevertheless, the credit cooperatives can still absorb the loan losses but continued deterioration of the loan portfolio would be unsustainable.

4. Credit cooperatives as a whole had positive net earnings on assets of about 14 percent as of end 1992. This is comparable to what the small saver or investor could earn from alternative financial instruments that are accessible to him.

5. The profitability picture has to be qualified by a consideration of the increase in operating expenses relative to operating income. In 1990 operating expenses were 61 percent of income but in 1992 these were 63 percent of income. A more serious concern is the need to set aside more reserves in view of potential delinquent loans and loan losses that would diminish the net profitability of credit cooperatives. At the moment, there seems to be an inadequate provision for probable loan losses.

6. Sixty percent of the total income of credit cooperatives came from lending activities. Some credit cooperatives also derived income from investments (7 percent of total income for 52 credit cooperatives) and other activities (37 percent of total income for 102 credit cooperatives). The "other income" component of total income signifies a large involvement in and exposure of credit cooperatives to non-financial activities. Financial intermediation is a difficult enough business to pursue and the credit cooperatives may be devoting scarce management talent and technical skills to the non-financial activities to the detriment of more efficient and profitable financial intermediation.

7. Credit cooperatives were very liquid, judging from the computed liquidity ratios. Cash on hand, cash in bank and short term investments were four times as large as deposits and borrowings.

8. Limited data from 53 credit cooperatives seemed to indicate some probable solvency problem except for the large credit cooperatives. The deterioration of asset quality was very evident from data submitted by 53 credit cooperatives. Whether or not the rest of the sample suffered the same fate could not be determined at the moment. But the issues of delinquency rates among various types of credit cooperatives, the structure and extent of delinquent loans, among others, beg further in-depth analysis because of their adverse impact on financial soundness and profitability. This is also to say that the credit cooperatives must put in place the appropriate remedial and preventive measures to arrest the decline in asset quality.

9. A laissez faire approach²⁰ seems to characterize the policy towards credit cooperatives adopted by the credit cooperative movement itself and also by the concerned government agencies. In general, it seems that the credit cooperative had been left much to itself in pursuing financial and non-financial activities that are thought to benefit the organization and its membership. Membership grew; capital expanded and profits were earned. Without external interference,²¹ the credit cooperatives found a workable solution to the problem of harnessing small savings and intermediating this surplus to serve the needs of thousands of small borrowers. However, as the credit cooperatives expanded, the public interest character of their activities also became evident.

These are, therefore, organizations with a "public character," especially so since their resource and membership base come from the broad masses of society. The stakeholder in the credit cooperatives is not the typical elite in the community or even in the offices but the ordinary small saver and borrower who contributes share capital and savings out of ordinary personal incomes. While to some extent, the laissez faire approach serves its purpose, the approach could not but have some actual and probable costs to the organization and members' share capital and deposits at some future time. This will come when the credit cooperatives grow rapidly in membership, financial base, activities and profitability but at a cost in terms of unnecessary risks to financial soundness and profitability that could be unwittingly or wittingly incurred.

The absence of a supervisory and regulatory system magnifies the risks that members bear as the credit cooperative expands the scope and types of its business and economic activities and pursues unexamined financial management and lending policies. However, the supervisory and regulatory system must suit the particular characteristics, objectives and philosophy of credit cooperatives. It will be equally risky to simply lump them altogether with other types of financial institutions for supervisory and regulatory purposes.

10. There exists a strong case for establishing an appropriate supervision and regulatory system for credit cooperatives. While strictly speaking they are not "public" fiduciary institutions like banks, still their broad and growing membership and expanding resource base demand that a system of safeguarding member share capital and deposits must be put in place. The Cooperative Development Authority has the supervisory authority over these institutions. However, it is not appropriately equipped; it does not have the professional and institutional expertise to supervise a rapidly growing credit cooperative system. The Bangko Sentral has supervisory and regulatory authority only over the cooperative banks because this type of cooperative organization shares the nature and character of banks.

²⁰ A "laissez faire" approach is Mr. Castro's description of the current policy approach to credit unions.

²¹ This refers only to those credit cooperatives which are privately-organized. This excludes those initiated or organized by external bodies such as a government agency or government bank.

11. Appropriate supervision and regulation must also consider the broad macroeconomic and monetary policy thrusts of the government without losing sight of the peculiar characteristics of a credit cooperative organization. Unstable macroeconomic and monetary policies wreak havoc on financial institutions and credit cooperatives would not be the exception.

12. There is a case for reviewing the overall thrust of a cooperative organization involved in financial intermediation. Would it be more efficient to have cooperative organizations specializing in and devoting their resources to financial intermediation? Would Philippine conditions rather warrant the existence of credit cooperative organizations with a mixed financial and non-financial activities? How much have non-financial activities diverted scarce management talent and financial skills? This study submits the hypothesis that given the present stage of the cooperative movement and the requirements of efficient financial intermediation, credit cooperatives should devote themselves solely to financial intermediation activities. But this needs further verification.

13. The credit cooperatives must review their internal financial, credit and management policies and practices with a view to more efficiency, financial stability and soundness. In this respect the following must be considered:

- (a) Saving rates must be adjusted to yield positive real returns to members while the lending rate must adequately cover intermediation costs and inflation. Interest rate policy must, therefore, be reviewed periodically in order to maintain viability and promote growth of resources. The credit cooperatives have been built upon members' share capital and deposits but at great cost to the real value of these resources. Credit cooperatives could mobilize far greater resources and provide better and more financial services by providing positive real return to savings and following a market-oriented lending policy.
- (b) Loan delinquency must be addressed seriously. The deterioration of asset quality cannot be ignored without disastrous future consequences. While the loan delinquency rate may seem to be relatively low, appropriate steps must be taken to protect the real value of members' savings and capital. At the moment, the credit cooperatives have the resources to withstand loan losses without much difficulty. However, a continued deterioration of asset quality is unsustainable.
- (c) The reduction of unnecessary overhead expenses, concentration on financial services, and the utilization of computer technology will improve financial management and profitability and create the opportunity for further growth and expansion. In this regard, timely, accurate and reliable data must be produced to help management and the general assembly assess the quality of asset and loan portfolios and evaluate the operating performance and financial soundness of the organization. The credit cooperatives do not yet have systematic, dedicated and reliable accounting, auditing, management and monitoring systems to ensure

accurate and timely reporting of financial and management data.

14. The credit cooperatives serve a particular market niche consisting of small savers and borrowers, both individuals and small business enterprises that would not have had access to reasonably priced credit and other financial services. They successfully adapt to the operating environment of credit markets which are characterized by loan default risks, asymmetric information and high transaction costs. The credit cooperatives are important financial institutions especially to small borrowers in the rural areas who do not have access to bank credit. Likewise, they provide access to small savers who would otherwise put their savings in non-productive forms such as jewelry. Thus, the credit cooperatives are strategically important financial institutions which must be supported and promoted. Based on past performance, they demonstrate the potential to be viable, self-sustaining and broad-based financial intermediaries.

15. The creation of a financial stabilization fund is necessary to improve the viability of credit cooperatives and to bolster confidence in this type of institutions. A corollary conclusion is the need to determine the appropriateness of a deposit insurance or guarantee scheme aimed at safeguarding member capital and savings as well as improving the viability of credit cooperatives.

16. Finally, I make a fine distinction between (a) the credit cooperatives which have been organized from the voluntary and collective effort of individuals who united under a common bond to service the financial needs of members and (b) the "instant" cooperatives which have been organized by self-interested external parties and are motivated by the immediate and instant access to government credit programs. I submit the hypothesis that the first type of credit cooperatives is more stable and can survive a financial crisis given the discipline and support of its officers and members. Conversely, the second type while able to provide instant access to credit to its "members" will over time, face financial difficulties due to loan delinquency problems and diminishing support by "instant members."

While the study did not have the data to validate this hypothesis, its findings on the first type of credit cooperatives (the subject matter of the study) were quite revealing. The first type of credit cooperatives has the potential to become financially stable and strong financial institutions because of the maturation and consolidation process that it and its members have undergone throughout the years. Thus, despite a decline in financial performance, they have the capability to bounce back and emerge as strong institutions.

Data generated by the survey show how the maintenance of financial soundness and stability and the generation of positive real net surpluses for members have not been an easy task for legitimate credit cooperative organizations which have been in operation for several years now. On the other hand, I hypothesize that the self-interested intervention of external parties to create or "help" organize cooperative organizations, including "credit cooperatives" while assuring these "organizations" an instantaneous access to extensive credit resources provided by government credit programs, cannot substitute for the tedious and painstaking process of

nurturing the cooperative spirit and the long time it takes for a credit cooperative organization to develop financial discipline among members and efficient systems of financial intermediation. This is a roundabout way of stating that such externally-motivated "credit cooperatives" are bound to suffer severe financial lapses in the near future because at their core could not be found the financial discipline and stability of real credit cooperatives.

Financial discipline and stability arise from a commitment to protect member share capital and deposits (mobilized through the years and nurtured by the members and their officers) and a serious concern with the integrity of the loan, i.e. its utilization for a purpose and loan repayment. If these basic twin driving forces, namely: commitment of member share capital and deposits and concern with loan integrity are absent, then the "instant" cooperative organization is not moored on solid foundations. It is bound to fail.²² Having said this, I submit that this hypothesis needs validation.

B. Recommendations

The recommendations consist of a set of policy measures and interventions that will create (1) a conducive environment for credit cooperatives and (2) a program that will institutionalize the interventions and advocate for continued support for their development. The conducive environment is composed of internal and external policies and institutions that will strengthen the credit cooperatives and upgrade their institutional capability as financial intermediaries. The advocacy and institutionalization program is comprised of institution or capability building on the part of the credit cooperatives and an advocacy scheme in support of the credit cooperative movement. Together these two sets of recommendations will address the following needs of the credit cooperatives as indicated by the study: safety and soundness of financial structure and operation, financial stabilization, institutional strengthening of the credit cooperatives and the creation of external supervisory and regulatory systems.

1. Establish accurate and current data on actual membership and financial resources and performance of credit cooperatives.

2. Conduct a periodic review of financial, credit and management policies to safeguard the real value of share capital and deposits; focus on financial intermediation; and eliminate unnecessary overhead expenses for increased efficiency and growth. This will require the credit cooperatives and the federation/federations to develop efficient financial management and investment policies and techniques that will ensure self-sustaining financial services to members. A pressing and particular need is to create adequate loan loss allowance to cover

²² Already, there is anecdotal evidence that many of the cooperatives organized by the Land Bank in the last few years (1987-1992) are facing serious financial difficulties. The loan delinquency rate seems to be high enough to cause serious concern in the Land Bank and its creditors. It can be pointed that during 1989-1992, the Agricultural Credit Policy Council expressed its concern over the speed with which Land Bank organized cooperatives. Its warning was never heeded.

probable loan losses. The credit cooperatives must take appropriate steps to control loan delinquency and impose financial discipline among borrowers.

3. Increase institutional capital (reserves and retained earnings) to 8 percent, up to even 10 percent of total assets for increased stability and strength²³.

4. Establish efficient accounting, monitoring and auditing systems to enable the credit cooperatives to generate timely and accurate information for management and general assembly use. The computerization of the credit cooperatives will enhance the capability of credit cooperatives as financial intermediaries.

5. Professionalize the management and operating staff of credit cooperatives in view of their future expanded operations and the competition coming from other financial institutions in a deregulated financial marketplace.

6. Create a financial stabilization fund for credit cooperatives to be managed by the federation or a duly constituted body by the general assembly that will look after the needs of financially-distressed credit cooperatives or those in need of rehabilitation and/or restructuring; and cushion the impact of unexpected fluctuations in the inflation rate or the general interest rate level or of any financial crisis that would be beyond immediate control of credit cooperatives.

7. Determine the viability of a deposit insurance or guarantee coverage for credit cooperatives.

8. Create an adequate and appropriate supervisory and regulatory system that will conduct regular examination and review of financial policies and performance; impose prudential regulations for the protection of member share capital and deposits; and prescribe operating ratios for financial soundness and profitability.

9. The Cooperative Development Authority (CDA) must take steps to have the institutional and professional expertise to supervise credit cooperatives. Likewise, the Bangko Sentral, the CDA and the credit cooperative federation/federations must work together to find a common solution to the need to establish prudential regulations and effective supervision.

²³ International banking standards now require institutional capital which is at least 8.75 percent of weighted risk assets.

10. Institutionalize the recommended interventions and policy measures by building the capability of the credit cooperatives to implement those policy reforms and interventions. Training in such areas as electronic data processing, banking technology, among others is clearly required.

11. Create a dedicated advocacy program that will work in support of the sustained development of the credit cooperative movement. External resources that could be utilized to advance the interests of the credit cooperative movement are becoming scarcer because of competing demands from other developing and newly emerging economies. Likewise, local resources also face competing and equally meritorious demands. It is about time that those meager resources must be carefully husbanded and used to create an institution building and advocacy program with a view to the future role of credit cooperatives in a rapidly changing financial marketplace.

Table VI.A-1
Credit Cooperatives' Membership

	As of 1992
Total Number of Members	119,754
Average Number of Members	1,151

Table VI.B-1
Composition of Assets
(In P Million)

CATEGORY	Cash and Banks			Investments			Total Loans Outstanding			Allowance for Loan Losses		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	14.28	17.66	24.42	9.00	11.01	16.39	156.65	214.67	280.76	1.06	1.43	1.47
Urban	30.74	41.17	51.06	17.75	54.46	121.03	478.28	563.88	683.21	4.10	5.74	8.97
Open	36.18	44.69	62.40	16.94	24.52	38.36	371.65	469.35	586.83	4.45	6.35	9.34
Closed	8.85	14.14	13.09	9.81	40.95	99.05	264.89	309.20	377.15	0.70	0.83	1.11
Small	10.13	10.91	11.10	1.75	2.20	3.03	102.57	116.90	130.95	1.09	0.96	0.94
Medium	16.88	22.65	26.70	9.82	10.17	15.29	200.04	268.25	295.19	1.56	2.59	3.08
Large	18.02	25.28	37.69	15.17	53.10	119.10	333.93	393.40	537.84	2.51	3.62	6.42
Total	45.03	58.84	75.49	26.75	65.47	137.42	636.54	778.55	963.98	5.16	7.18	10.44

Table VI.B-1 (continued)
Composition of Assets
(In P Million)

CATEGORY	Shares in the Federation			Fixed Assets			Other Assets			Total Assets		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	0.95	1.66	1.93	6.19	6.95	9.82	11.01	13.61	17.01	197.03	264.14	348.95
Urban	1.67	2.64	7.39	30.20	31.80	37.06	16.69	21.44	33.77	572.85	709.65	924.55
Open	2.34	3.65	7.98	32.96	34.36	40.88	15.87	19.40	26.30	471.48	589.63	753.50
Closed	0.29	0.66	1.34	3.43	4.38	6.00	11.84	15.65	24.47	298.40	384.15	520.00
Small	0.90	1.44	1.40	3.32	3.14	5.05	8.19	10.11	8.45	125.76	143.73	159.13
Medium	0.98	1.94	6.71	14.44	15.80	20.87	14.85	20.02	28.10	255.45	336.24	389.77
Large	0.75	0.92	1.21	18.63	19.80	20.96	4.67	4.92	14.22	388.67	493.81	724.60
Total	2.63	4.30	9.32	36.39	38.74	46.88	27.71	35.06	50.77	769.88	973.78	1,273.50

Table VI.B-2
Composition of Assets
(In Ratio)

CATEGORY	Cash and Banks			Investments			Total Loans Outstanding			Allowance for Loan Losses		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	0.11	0.08	0.08	0.02	0.02	0.03	0.77	0.81	0.80	0.00	0.01	0.00
Urban	0.07	0.07	0.07	0.02	0.03	0.04	0.81	0.80	0.78	0.01	0.01	0.01
Open	0.09	0.08	0.08	0.02	0.03	0.03	0.79	0.80	0.79	0.01	0.01	0.01
Closed	0.07	0.07	0.06	0.03	0.03	0.04	0.80	0.80	0.78	0.00	0.00	0.00
Small	0.09	0.08	0.07	0.01	0.02	0.03	0.79	0.81	0.81	0.01	0.01	0.01
Medium	0.07	0.07	0.07	0.04	0.03	0.04	0.79	0.79	0.76	0.01	0.01	0.01
Large	0.06	0.06	0.07	0.04	0.08	0.09	0.84	0.80	0.78	0.01	0.01	0.01
Total	0.08	0.08	0.07	0.02	0.03	0.04	0.80	0.80	0.78	0.01	0.01	0.01

Table VI.B-2 (continued)
Composition of Assets
(In Ratio)

CATEGORY	Shares in the Federation			Fixed Assets			Other Assets		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	0.01	0.01	0.01	0.04	0.03	0.04	0.05	0.05	0.05
Urban	0.00	0.01	0.01	0.04	0.04	0.04	0.06	0.07	0.07
Open	0.01	0.01	0.01	0.05	0.04	0.05	0.05	0.05	0.05
Closed	0.00	0.01	0.01	0.02	0.02	0.02	0.08	0.08	0.10
Small	0.01	0.01	0.01	0.03	0.02	0.03	0.07	0.07	0.07
Medium	0.01	0.01	0.01	0.05	0.05	0.05	0.05	0.06	0.08
Large	0.00	0.00	0.00	0.06	0.06	0.04	0.01	0.01	0.03
Total	0.01	0.01	0.01	0.04	0.03	0.04	0.06	0.06	0.06

Table VI.B-3
Loans to Total Assets Ratio

	1990	1991	1992
Specialized Government Banks	0.57	0.56	0.57
Commercial Banks	0.39	0.39	0.40
Thrift Banks	0.62	0.60	0.56
Rural Banks	0.70	0.67	0.68
Private Development Banks	0.54	0.60	0.63
Credit Cooperatives	0.80	0.80	0.78

Table VI.B-4
Investment to Total Assets Ratio

	1990	1991	1992
Specialized Government Banks	0.26	0.22	0.23
Commercial Banks	0.13	0.17	0.17
Thrift Banks	0.08	0.13	0.15
Rural Banks	0.04	0.05	0.05
Private Development Banks	0.16	0.12	0.10
Credit Cooperatives	0.02	0.03	0.04

Table VI.B-5
Fixed Assets to Total Assets Ratio

	1990	1991	1992
Specialized Government Banks	0.02	0.01	0.01
Commercial Banks	0.03	0.03	0.04
Thrift Banks	0.03	0.02	0.03
Rural Banks	0.03	0.02	0.03
Private Development Banks	0.03	0.02	0.05
Credit Cooperatives	0.04	0.03	0.04

Table VI.B-6
Composition of Liabilities
(In P Million)

CATEGORY	Borrowings			Savings and Deposits			Other Liabilities			Total Liabilities		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	15.55	25.54	32.92	46.18	63.26	87.87	13.12	17.07	27.91	74.85	105.87	148.70
Urban	13.86	19.35	24.02	141.13	202.23	320.65	53.38	60.96	77.40	208.38	282.54	422.08
Open	26.56	40.34	49.66	121.40	159.18	208.50	36.07	42.49	65.53	184.03	242.00	232.69
Closed	2.85	4.55	7.28	65.91	106.32	200.03	30.44	35.53	39.78	99.20	146.41	247.09
Small	11.19	18.41	12.73	20.38	21.24	26.78	10.78	11.46	16.66	42.35	51.11	56.18
Medium	12.30	17.28	29.63	53.72	67.55	75.94	22.14	26.42	31.07	88.17	111.24	136.61
Large	5.91	9.20	14.58	113.21	176.71	305.80	33.59	40.15	57.58	152.71	226.06	377.99
Total	29.41	44.89	56.94	187.31	265.50	408.52	66.51	78.02	105.31	283.23	388.41	570.78

Table VI.B-7
Composition of Liabilities
(In Ratio)

CATEGORY	Borrowings			Savings and Deposits			Other Liabilities		
	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	0.24	0.27	0.25	0.50	0.52	0.52	0.26	0.22	0.23
Urban	0.11	0.13	0.13	0.50	0.47	0.49	0.39	0.40	0.39
Open	0.19	0.21	0.19	0.58	0.57	0.59	0.24	0.22	0.22
Closed	0.11	0.12	0.14	0.35	0.34	0.33	0.54	0.55	0.53
Small	0.18	0.23	0.21	0.46	0.42	0.45	0.36	0.35	0.35
Medium	0.15	0.13	0.16	0.52	0.55	0.50	0.34	0.32	0.34
Large	0.06	0.07	0.08	0.69	0.68	0.68	0.25	0.25	0.24
Total	0.16	0.18	0.17	0.50	0.49	0.50	0.34	0.33	0.33

Table VI.B-8
Deposit Savings to Total Assets Ratio

	1990	1991	1992
Specialized Government Banks	0.28	0.35	0.37
Commercial Banks	0.58	0.61	0.62
Thrift Banks	0.73	0.73	0.65
Rural Banks	0.50	0.54	0.56
Private Development Banks	0.65	0.62	0.54
Credit Cooperatives	0.18	0.19	0.20

Table VI.B-9
Borrowings to Total Assets Ratio

	1990	1991	1992
Specialized Government Banks	0.12	0.22	0.29
Commercial Banks	0.12	0.11	0.10
Thrift Banks	0.04	0.06	0.09
Rural Banks	0.18	0.16	0.14
Private Development Banks	0.10	0.16	0.22
Credit Cooperatives	0.13	0.15	0.13

Table VI.B-10
Composition of Equity
(In ₦ Million)

CATEGORY	Shares			Reserves			Undivided Earnings			Other Equity			Total Equity		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	103.05	133.90	170.25	10.87	13.68	15.66	5.62	7.49	9.00	2.64	2.83	5.31	122.18	158.27	200.22
Urban	302.10	357.09	414.25	34.01	36.73	45.23	9.71	10.83	12.45	18.65	22.39	30.51	364.48	427.11	502.47
Open	239.32	292.54	360.24	26.12	30.46	35.20	12.06	13.45	15.55	9.95	10.81	18.79	287.45	347.63	429.78
Closed	165.83	198.45	224.26	18.77	19.96	25.69	3.27	4.87	5.90	11.34	14.41	17.03	199.20	237.74	272.91
Small	71.14	77.51	84.09	7.51	8.90	11.80	4.22	5.12	6.23	0.54	0.66	0.80	83.41	92.62	102.95
Medium	142.78	192.37	213.93	11.75	17.30	23.18	4.10	6.70	7.29	8.65	8.62	8.73	167.28	225.00	253.13
Large	191.23	221.11	286.47	25.62	24.21	25.91	7.01	6.50	7.93	12.11	15.93	26.30	235.96	267.75	346.61
Total	405.15	490.99	584.50	44.88	50.41	60.89	15.33	18.32	21.29	21.95	25.22	35.82	486.65	585.38	702.69

Table VI.D-11
Composition of Equity
(in Ratio)

CATEGORY	Shares			Reserves			Unvlded Earnings			Other Equity		
	1990	1991	1992	1990	1991	1992	1990	1991	1992	1990	1991	1992
Rural	0.85	0.83	0.82	0.07	0.08	0.09	0.05	0.04	0.06	0.03	0.02	0.03
Urban	0.84	0.83	0.83	0.09	0.10	0.10	0.05	0.05	0.04	0.02	0.02	0.02
Open	0.83	0.82	0.82	0.08	0.09	0.10	0.06	0.05	0.05	0.03	0.03	0.03
Closed	0.85	0.85	0.85	0.09	0.09	0.10	0.04	0.04	0.04	0.01	0.01	0.01
Small	0.84	0.83	0.82	0.09	0.09	0.10	0.06	0.06	0.07	0.01	0.01	0.01
Medium	0.84	0.85	0.83	0.07	0.08	0.11	0.03	0.04	0.03	0.06	0.04	0.03
Large	0.82	0.84	0.85	0.11	0.10	0.07	0.03	0.02	0.02	0.04	0.05	0.06
Total	0.84	0.83	0.83	0.08	0.09	0.10	0.05	0.05	0.05	0.03	0.02	0.03

Table VI.B-12
Equity to Total Assets Ratio
of Different Banks

	1990	1991
Specialized Government Banks	0.3146	0.2551
Commercial banks	0.1129	0.1081
Thrift Banks	0.1231	0.1079
Private Development Banks	0.1716	0.1410
Credit Union	0.6750	0.6558

Table VI.B-13
Reserves and Undivided Earnings to Total Assets Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.07	0.07	0.07
Urban	0.10	0.10	0.10
Open	0.08	0.08	0.08
Closed	0.10	0.10	0.11
Small	0.10	0.10	0.12
Medium	0.07	0.08	0.08
Large	0.09	0.07	0.05
Total	0.09	0.09	0.09

Table VI.C-1
Capital Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.62	0.59	0.58
Urban	0.71	0.71	0.69
Open	0.65	0.62	0.60
Closed	0.75	0.74	0.74
Small	0.69	0.67	0.69
Medium	0.66	0.67	0.62
Large	0.65	0.59	0.56
Total	0.68	0.66	0.65

Table VI.C-2
Reserves to Loan Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.06	0.06	0.06
Urban	0.14	0.13	0.11
Open	0.12	0.11	0.09
Closed	0.09	0.09	0.10
Small	0.13	0.12	0.10
Medium	0.07	0.08	0.09
Large	0.10	0.08	0.07
Total	0.11	0.10	0.09

Table VI.C-3
Debt to Equity Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	1.03	1.24	1.43
Urban	0.59	0.62	0.70
Open	0.88	1.01	1.16
Closed	0.51	0.53	0.62
Small	0.80	0.94	0.65
Medium	0.65	0.61	1.25
Large	0.67	1.05	1.30
Total	0.75	0.84	0.97

Table VI.C-4
Loan Loss Allowance to Loans Outstanding Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.02	0.02	0.02
Urban	0.01	0.02	0.02
Open	0.02	0.02	0.03
Closed	0.01	0.01	0.01
Small	0.02	0.02	0.02
Medium	0.01	0.02	0.02
Large	0.01	0.01	0.02
Total	0.01	0.02	0.02

Table VI.C-5
Real Rate of Return on Assets, 1991-1992

CATEGORY	1991	1992
	Ratio	Ratio
Rural	0.2102	0.2140
Urban	0.2185	0.2229
Open	0.2002	0.2093
Closed	0.2443	0.2392
Small	0.2168	0.2202
Medium	0.2178	0.2260
Large	0.2010	0.1992
Total	0.2155	0.2196

Table VI.C-6
Real Rate of Return on Loans, 1991-1992

CATEGORY	1991	1992
	Ratio	Ratio
Rural	0.2442	0.2631
Urban	0.2608	0.2766
Open	0.2307	0.2550
Closed	0.3002	0.3030
Small	0.2601	0.2715
Medium	0.2562	0.2881
Large	0.2213	0.2252
Total	0.2547	0.2716

Table VI.C-7
Net Earnings on Assets

CATEGORY	1991	1992
	Ratio	Ratio
Rural	0.11	0.12
Urban	0.16	0.16
Open	0.13	0.13
Closed	0.17	0.16
Small	0.15	0.17
Medium	0.13	0.12
Large	0.13	0.13
Total	0.14	0.14

Table VI.C-8
Interest Income from Loans to
Total Income Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.57	0.55	0.59
Urban	0.60	0.59	0.61
Open	0.53	0.51	0.56
Closed	0.70	0.70	0.68
Small	0.59	0.57	0.57
Medium	0.58	0.57	0.65
Large	0.64	0.60	0.59
Total	0.59	0.58	0.60

Table VI.C-9
Interest Income to Operating Income Ratio

	1990	1991	1992
Specialized Government Banks	0.8307	0.8942	0.8787
Commercial Banks	0.7555	0.8269	0.7545
Thrift Banks	0.8840	0.9290	0.8895
Rural Banks	0.8242	0.8352	0.8039
Private Development Banks	0.7861	0.9064	0.8528
Credit Union	0.5889	0.5754	0.6012

Source: DER, Bangko Sentral ng Pilipinas

Table VI.C-10
Interest Income from Investments to
Total Income Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.04	0.05	0.05
Urban	0.07	0.08	0.08
Open	0.08	0.07	0.07
Closed	0.02	0.06	0.08
Small	0.02	0.04	0.05
Medium	0.10	0.08	0.06
Large	0.05	0.12	0.12
Total	0.06	0.07	0.07

Table VI.C-11
Other Income to Total Income Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.41	0.42	0.39
Urban	0.36	0.37	0.36
Open	0.43	0.45	0.41
Closed	0.29	0.27	0.29
Small	0.41	0.41	0.43
Medium	0.35	0.38	0.31
Large	0.32	0.30	0.31
Total	0.38	0.39	0.36

Table VI.C-12
Net Operating Results after Reserves to
Total Share Capital Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.09	0.08	0.08
Urban	0.09	0.08	0.09
Open	0.09	0.07	0.09
Closed	0.09	0.09	0.08
Small	0.10	0.08	0.09
Medium	0.07	0.07	0.08
Large	0.08	0.09	0.08
Total	0.09	0.08	0.09

Table VI.C-13
Total Operating Expenses to Total Income

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.65	0.69	0.68
Urban	0.59	0.60	0.60
Open	0.64	0.67	0.68
Closed	0.56	0.55	0.55
Small	0.60	0.63	0.60
Medium	0.66	0.66	0.69
Large	0.56	0.58	0.59
Total	0.61	0.63	0.63

Table VI.C-14
Percentage of Operating Expenses
To Operating Income

	1991	1992
Specialized Government Bank	0.6642	0.7445
Commercial Banks	0.8081	0.8019
Thrift Banks	0.8375	0.8247
Rural Banks	0.7931	0.8771
Private Development Banks	0.8748	0.8564
Credit Union	0.6305	0.6326

Source: DER, Bangko Sentral ng Pilipinas

Table VI.C-15
Liquidity Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.17	0.12	0.14
Urban	0.12	0.14	0.14
Open	0.15	0.14	0.14
Closed	0.12	0.12	0.13
Small	0.14	0.13	0.13
Medium	0.15	0.14	0.14
Large	0.12	0.16	0.19
Total	0.14	0.13	0.14

Table VI.C-16
Loans to Assets Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.77	0.81	0.80
Urban	0.81	0.80	0.78
Open	0.79	0.80	0.79
Closed	0.80	0.80	0.78
Small	0.79	0.81	0.81
Medium	0.79	0.79	0.76
Large	0.84	0.80	0.78
Total	0.80	0.80	0.78

Table VI.C-17
Loans to Savings and Shares Capital Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	1.20	1.48	1.33
Urban	1.11	1.14	1.11
Open	1.17	1.34	1.24
Closed	1.10	1.13	1.10
Small	1.18	1.41	1.27
Medium	1.09	1.07	1.15
Large	1.09	1.02	1.02
All	1.15	1.26	1.19

Table VI.C-18
CBI to Total Deposits and Borrowings Ratio

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	1.19	0.78	0.63
Urban	1.02	0.35	6.46
Open	0.77	0.64	5.59
Closed	1.77	0.22	1.39
Small	1.37	0.48	7.98
Medium	0.65	0.59	0.98
Large	0.40	0.46	0.43
Total	1.08	0.51	4.26

Table VI.C-19
Borrowings to Deposits Ratio, 1990-1992

CATEGORY	1990	1991	1992
	Ratio	Ratio	Ratio
Rural	0.3367	0.4037	0.3746
Urban	0.0982	0.0957	0.0749
Open	0.2188	0.2534	0.2382
Closed	0.0432	0.0428	0.0364
Small	0.5491	0.8668	0.4754
Medium	0.2290	0.2558	0.3902
Large	0.0522	0.0521	0.0477
Total	0.1570	0.1691	0.1394

Table VI.C-20
Solvency Ratio (53 CUs)

CATEGORY	1992
Rural	1.00
Urban	0.91
Open	0.97
Closed	0.91
Small	0.91
Medium	0.97
Large	1.02
Total	0.95

Table VI.C-21
Amount of Loan Delinquency (53 CUs)

CATEGORY	1992			
	2 - 6 months	6 - 12 months	12 months	Total
Rural	8.13	8.25	8.90	25.28
Urban	10.76	6.52	22.57	39.85
Open	17.73	13.06	29.27	60.06
Closed	1.15	1.71	2.19	5.05
Small	2.46	1.79	3.58	7.83
Medium	7.56	6.87	10.75	25.18
Large	8.87	6.12	17.14	32.13
Total	18.89	14.77	31.45	65.12

Table VI.C-22
Estimated Loan Losses of Credit Cooperatives
(In ₪ Million)

CATEGORY	TOTAL ESTIMATED LOSS
Rural	13.8
Urban	27.4
Open	38.1
Closed	3.1
Small	4.8
Medium	15.0
Large	21.4
Total	41.2

Table VI.C-23
Selected Indicators on Loan Losses of 53
Credit Cooperatives, 1992

Indicator	Percent
Loan Losses to Total Assets	6.6
Loan Losses to Allowance for Loan Losses	572.2
Loan Losses to Total Loans Outstanding	8.0
Loan Losses to Total Deposits	25.7
Loan Losses to Total Share Capital	21.2
Loan Losses to Total Reserves	230.2
Loan Losses to Cash in Bank	88.8

* Computed by Author.