

Review Article

# A Review on Establishing a Multipurpose Credit Cooperative: A Case of MSU-IIT Coop's Legalities and Its Relevance to Socio-demographic Attributes

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## Abstract

Cooperative operates as a service organization and as a business institution as it extended credit facilities to member-borrowers through credit policy. This paper described some demographic attributes of the member-borrowers that could be influential as to the operation of the cooperative. In terms of civil status, it responded to the most urgent family's basic financial needs like purchase of foods, payments for children's education, purchase of medicine for sick members of the family, house rental payments and other forms of expenditures. Employment defined the paying capabilities of members either in permanent or job order work status. Moreover, number of dependent children and monthly expenditures within the family could influence the probability to experience problems in the collection of monthly loan amortization and in following up delinquent borrowers. This is in response to addressing basic needs such as food, clothing, education, medicines, and other miscellaneous expenses. Lastly, member-borrowers' who had existing loans from other credit or lending institutions affects their capacity to settle and pay the scheduled regular monthly amortization. It can be argued, logically, that borrowers' existing loans are influential to the cooperatives' loan delinquency problems. As such, it is very important for prospective planners on establishing cooperatives that very important and relevant attributes of the community or groups be assessed properly to refrain from financial failures and bankruptcy in the future. **Copyright © IJEBF, all rights reserved.**

**Keywords:** cooperatives, MSU-IIT coop, socio-demographics, loans, expenditures

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## INTRODUCTION

### Coop's Overview and Legalities

In contrast with the European and North American credit union movements, here in the Philippines, the first type of coops that were organized was agricultural cooperatives by Dr. Jose Rizal in Dapitan which left no much record having

assumed to have died with his execution in 1896. The first cooperative law passed was known as the Agricultural Credit Coop Law for the purpose of organizing rural cooperative associations that would promote thrift and extend credit to members. The first of such cooperative was formed in Cabanatuan, Nueva Ecija. Within a few years, there were 544 coops organized but many of them collapsed because of insufficient capital, poor and inefficient management, member-borrowers spent money obtained from loan for non-productive purposes and lack of cooperative education. The cooperative leaders in the Philippines, with the recreation of democratic space in 1986, lobbied aggressively for the adoption of cooperative-friendly legislation. They got all out support of Senators Aquilino Pimentel, Jr. and Agapito Aquino in having the bill passed and signed as a law known as the Cooperative Code of the Philippines or the Republic Act No. 6938 by President Corazon C. Aquino on March 10, 1990.

A companion law, the Republic Act No. 6939, was also passed creating the Cooperative Development Authority (CDA) which provided the abolition of Bureau of Agricultural Cooperatives. With the passage of this code, a powerful instrument for economic progress and development has been placed in the hands of the people. On February 17, 2009, an Act amending the Republic Act No. 6938 was signed by President Gloria Arroyo known as the Philippine Cooperative Code of 2008 or the Republic Act No. 9520. Cooperative forms of social and economic organizations exist throughout the world, engendered and molded by often quite dissimilar social, economic and political traditions. No single definition of "cooperative" would be adequate to describe the diverse activities that have been labeled "cooperative." But it is possible to identify certain common characteristics of cooperative organizations. Cooperatives are private, voluntary and independent associations of persons joined together to achieve a common economic objective. They are democratically-controlled, for-profit business organizations whose members make equitable contributions to capital. They are normally operated on the principle of "one member - one vote," and benefits are distributed in proportion to the contributions of individual members. Along with freedom to join and bring assets into the organization, is the freedom to leave and take assets out. In some cases, restrictions may apply to asset removal, but if so, this is known and freely accepted as a condition of membership when members join.

Chapter I, Article 3 of R.A. 9520 states that a cooperative is an autonomous and duly registered association of persons, with a common bond of interest who have voluntarily joined together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles. By forming a cooperative, it's a pooling of money, human resources and talent to build capital, and work together to produce more goods and raise incomes. Through cooperatives, a borrower can look for other sources of loans at low interest rates instead of borrowing from informal lenders or usurers. The cooperative can also be a mechanism for marketing borrower's products. Cooperatives in the Philippines follow certain operational practices. These are practical responses to local needs. Some are adopted from standard international practices, while others are ideal innovations. All are aimed at perfecting cooperatives. Capital structure is a factor that highly influences the success and failure of cooperatives.

Past failures served as strong bases for the recommendations that capital should really be contributed by the members. When money of members forms the capital of the association, there would be better cooperation to ensure success. Cooperatives were encouraged to cooperative in unison and bring their joint power in the market up to the level achieved by enterprises that are operated for the benefit of other stakeholders. Consumers cooperate to get better deal from manufacturers and suppliers. Credit cooperatives are formed to counter the power of large scale financial institutions. It promotes thrift and savings among its members and creates funds in order to grant loans for productive and provident purposes. MSU-IIT Multi-Purpose Cooperative (MSU-IIT MPC) is an institution which operates not only as a service organization but also as a business institution. It extended credit facilities to the member-borrowers in good standing and following the procedures and guidelines of the present credit policy manual developed last 2007. The policy manual and its employees of the organization have in part or in whole, contributed to its successful operation. The stable operations of the cooperative has been attributed to the policies it implemented to sustain the capability of its credit operations.

MSU-IIT Multipurpose Cooperative's official publication of PAKIGSAYUD volume XXVIII No. 4 as of June 30, 2011, the cooperative has an Asset of P655 million; share capital and deposits of P158 million and P370 million respectively. Declaring a net surplus of P12.45 million after generating a loan portfolio of P337 million and with a Portfolio at Risk (PAR) of 12.03% after six (6) months operations. The figures are steadily increasing as shown in the trend for the last five years (2007-2011) except for the net surplus and the Portfolio at Risk (PAR) figures. The increase of PAR value has necessitated because of the provision for loan loss allowances in accordance with the standards set

by the Cooperative Development Authority. This provision correspondingly reduced the net surplus declared for the year 2011. The management were task to double their efforts to catch up with the targeted net surplus and the PAR before the year ends and is continuously studying the need to provide or allocate more allowance to cover the maturing obligations for the special savings products. The management is asking the CDA to allow in amortizing the same within the next 5 to 10 years.

## **Socio-demographic profile of member-borrowers of Credit and Multipurpose Cooperatives**

Studies under review revealed that socio-demographic factors determine the member-borrowers' loan delinquency status and the credit cooperatives' financial standing.

### **Civil status**

Credit cooperatives were established primarily to meet the needs of each member especially in responding to the most urgent family's basic financial needs. As revealed, the basic motive of every cooperative in granting loans to its member-borrowers is to empower and develop the members' potential to put up capital for more productive investments to meet the family's basic financial needs such as for the purchase of foods, payments for children's education, purchase of medicine for sick members of the family, house rental payments, and the like. In a research conducted by Acosta (2012) revealed that, majority of members of credit and multipurpose cooperatives were married with dependent children of school age. This means that foods and education are the basic necessities of the family that the member-borrower has to be immediately responded. Consequently, Mendoza (2010) emphasized that membership to credit and multipurpose cooperatives are open to single and married individuals provided otherwise they meet the basic qualifications set forth by the constitution and by-laws or cooperatives' manual. In addition, it was argued that both members either married and single have the same basic financial needs. Thus, to augment the fixed monthly income and respond to unanticipated monthly expenses, members have to borrow money from the cooperatives to build up capital for productive activity either for agricultural or commercial purposes. However, it was revealed by Acosta (2012), monthly income and unanticipated monthly expenses or expenditures are factors that affect loan borrowers' ability to meet the loan's monthly amortizations and payments.

This finding was supported by Quiño (2010) who argued that married member-borrowers with dependent children of school age are most likely to experience unanticipated monthly expenditures that resulted to delinquency in the payments of their loans' monthly or quarterly amortizations. According to Soliven (2011), married member-borrowers with dependent children of school age are more delinquent in their monthly loan amortization compared to single member-borrowers. This is evidenced by their unstable financial needs and unanticipated expenditures which will result to their loan payments delinquency.

### **Employment**

Livelihood or types of employment determines the member-borrowers' capacity to meet their monthly loan amortizations. As revealed by Acosta (2012) member-borrowers who are employed with regular and permanent work status are most likely to meet their monthly loan amortization because they receive their monthly salary on a regular basis compared to job order employees whose services are hired only when funds are available and when there is an exigency of needs. This finding was supported by Magadan (2011) who exemplified that collection of monthly loan amortization for member-borrowers of credit and multipurpose cooperatives is easy for permanent and regular employees because collections are usually done through payroll deductions.

However, for credit and multipurpose cooperatives which extend agricultural and short-term commercial loans to interested individuals in the community, the probability to experience problems in the collection of monthly loan amortization and in following up delinquent borrowers is moderately high. In a similar investigation, Acosta (2012) pointed out that the financial interest of credit and multipurpose cooperatives can be best protected if cooperatives adopt a policy that requires permanent employment of creditors in granting credit solutions and loan services. Consequently, Magadan (2011) argued that said policy delimits the legitimate purpose as well as the objectives of credit and multipurpose cooperatives which were established to provide opportunities to citizens and empower them

to build up capital for more productive and entrepreneurial activities. Loan delinquency is more prevalent to loan borrowers which were engaged in agricultural production and processing of seasonal commodities. As Rivas (2011) puts it, cooperatives granting loan solutions to self-employed farmers and small-business entrepreneurs experienced low financial turn-over due to loan payment delinquencies. This suggests that the probability of loan repayments is relatively low to self-employed compared to regularly employed borrowers because financial returns to self-employed borrowers are subject to socio-economic and environmental factors while employed borrowers received regular compensation and salaries.

### **Number of Dependent Children**

Number of dependent children logically influences the family's monthly expenditures for basic needs such as food, clothing, education, medicines, and other miscellaneous expenses. Cruz (2010) reported that Filipino household with an average of five children living above poverty threshold had difficulty of meeting the family's basic daily needs. According to Magadan (2011), the family with more dependent children is most likely to experience intricacies in providing and satisfying the children's basic economic and social needs. Subsequently, Magadan's finding was supported by Rivas (2011) who logically stated that loan borrowers engaged in small-scale business with more than five dependent children of school age were more delinquent in paying their monthly loan amortizations.

In a similar investigation, Soliven (2011) emphasized that married member-borrowers with dependent children of school age are more delinquent in their monthly loan amortization compared to single member-borrowers. This is evidenced by their unstable financial needs and unanticipated expenditures which will result to their loan payments delinquency.

### **Member-borrowers' Monthly Income**

Monthly income is associated to cooperative member-borrowers' capacity to settle on time their monthly loan amortization. Studies revealed that monthly income is significantly related to loan delinquency of loan borrowers. As revealed by Acosta (2012), member-borrowers with regular monthly salary had higher probability of paying their loan monthly amortizations compared to loan borrowers with no regular monthly salary. In addition, Soliven (2011) revealed that creditors engaged in small-scale business with regular daily and monthly income had higher probability of paying their daily or monthly loan amortizations compared to creditors engaged in agricultural loans. Further, it was emphasized by Soliven (2011) that borrowers for agricultural loans had higher probability of failures to meet the loan repayment schedules and terms because agricultural production is highly seasonal and yields are greatly influenced by climatic and environmental conditions.

This finding implies that agricultural credit solution has higher probability of repayment delinquencies because monthly return is highly irregular and volatile. In a similar investigation, Rivas (2011) reported that loan delinquency is more prevalent to loan borrowers which were engaged in agricultural production and processing of seasonal commodities. Credit cooperatives granting loan solutions to self-employed farmers and non-fixed earners creditors experienced low financial turn-over due to loan payment delinquencies.

Consequently, Deriada, et al (2011) accentuate that credit cooperatives have to review their credit policies especially the provisions on loan security and credibility of loan borrowers as requisites to granting of loans. Moreover, it was emphasized that proper and comprehensive credit education should be given to borrowers so that they will appreciate the role of credit cooperatives in facilitating creditors' productive activities through credit solutions.

### **Family Monthly Expenditures**

Escalating monthly expenditures due to unstable and unpredictable prices of basic commodities in the market coupled with unforeseen needs and demands of the family affect creditors' budgetary allotment and adversely influenced their capacity to meet their loan amortization (Deriada, et al., 2011). In a similar investigation, Acosta (2012), reported that unanticipated monthly expenses is one of the factors that influenced loan borrowers' ability to meet the loan's monthly amortizations and payments. This finding was supported by Quiño (2010) who argued that borrowers with higher

monthly expenses are more delinquent in paying their loans' monthly or quarterly amortizations. In the earlier-cited studies, married borrowers with dependent children of school age were said to have higher monthly expenditures which were singly or collectively associated with the greater number of loan delinquencies of credit and multipurpose cooperatives.

As revealed by Soliven (2011), married member-borrowers with dependent children of school age have significantly and relatively higher monthly expenditures compared to single with no dependent borrowers and were more delinquent in the repayments of their monthly loan amortizations. This claim was evidenced by their unanticipated expenditures due to their escalating and unpredictable basic needs coupled with the increasing price of the basic commodities in the market which resulted to their loan repayments delinquency.

### **Member-borrowers' Existing Loans**

The unsound credit policy of allowing member-borrowers to grant credit to borrowers with existing loans from other credit and lending institutions has significantly influenced the loan repayment delinquencies and the eventual collapse of several numbers of credit and multipurpose cooperatives in the country today. Deriada, et al (2011) reported that unsound credit policies of credit cooperatives especially on granting of loans and evaluation of credit standing of the borrowers were significantly related to delinquency problems of cooperatives. This finding was supported by Magadan (2011) who exemplified that member-borrowers with existing loans from other credit and financial institutions had difficulty in paying their monthly loan amortizations. It was further revealed that borrowers' failure to pay their monthly amortization on time significantly contribute to loan delinquency problems of credit cooperatives.

Consequently, Rivas (2011) revealed that loan restructuring as one of the services extended by credit cooperatives has very negligible and insignificant influence to loan delinquency of credit cooperatives. However, it was also reported that multiple restructured loans of borrowers from other credit and lending institutions is significantly related to loan delinquency problems of credit and multipurpose cooperatives.

In a similar investigation, Acosta (2012) revealed that the borrowers' existing loans from other credit or lending institutions affects their capacity to settle and pay the scheduled regular monthly amortization. It can be argued logically based on findings of the studies under review that borrowers' existing loans is significantly related to cooperatives' loan delinquency problems.

### **IMPLICATIONS AND RECOMMENDATIONS**

Cooperative operates as a service organization and also as a business institution since it extended credit facilities to member-borrowers as guided by the credit policy. This is to sustain the capability of its credit operations. To this, some demographic attributes of the member-borrowers could be influential as to the operation of the cooperative. For instance, in terms of civil status, it influenced the credit cooperatives in response to the most urgent family's basic financial needs like purchase of foods, payments for children's education, purchase of medicine for sick members of the family, house rental payments and other forms of expenditures. As to employment, employed members with regular and permanent work status are most likely to meet their monthly loan amortization because they received their monthly salary on a regular basis compared to job order employees whose services are hired only when funds are available and when there is an exigency of needs. Moreover, number of dependent children and monthly expenditures within the family could influence the probability to experience problems in the collection of monthly loan amortization and in following up delinquent borrowers. Number of dependent children logically influences the family's monthly expenditures for basic needs such as food, clothing, education, medicines, and other miscellaneous expenses, and therefore, might have bearing to families living below the poverty threshold. Lastly, member-borrowers' who had existing loans from other credit or lending institutions affects their capacity to settle and pay the scheduled regular monthly amortization. It can be argued, logically, that borrowers' existing loans are influential to the cooperatives' loan delinquency problems. As such, it is very important for prospective planners on establishing cooperatives that very important and relevant attributes of the community or groups be assessed properly to refrain from financial failures and bankruptcy in the future.

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