

Republic of the Philippines

House of Representatives
Quezon City



SIXTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. **278**

**Introduced by Honorable Cresente C. Paez and Honorable
Anthony M. Bravo**

EXPLANATORY NOTE

Data from the DTI in 2004 shows that there are 783,923 registered firms and 99.6% are owned by the micro, small and medium entrepreneurs (MSMEs), including cooperatives and non-government organizations which also employ 70% of the Philippine workforce.

Extension of credit has been very burdensome to these sectors because of lack of acceptable collaterals, unstable income or cash flows, lack of business experience or track record, among others. This bill then proposes for the creation and organization of a special cooperative, the Credit Surety Fund (CSF) Coops specifically to build up the capability of member MSMEs, cooperatives and non-government organizations in the areas of credit evaluation, loan and risk management, and good governance. It can broaden their access to the credit facilities of banks, sustain the continuous flow of credit in the countryside and generate more employment and support the poverty alleviation program of the government.

With the declaration of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance for the attainment of economic development and social justice, it is high time that the passage of this bill be immediately sought.


HON. CRESENTE C. PAEZ


HON. ANTHONY M. BRAVO

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HOUSE BILL NO. _____

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**AN ACT PROVIDING FOR THE CREATION AND ORGANIZATION OF
CREDIT SURETY FUND COOPERATIVES
TO MANAGE AND ADMINISTER CREDIT SURETY FUNDS
TO ENHANCE THE ACCESSIBILITY OF MICRO, SMALL AND MEDIUM
ENTERPRENEURS, COOPERATIVES AND NON-GOVERNMENT
ORGANIZATIONS
TO THE CREDIT FACILITY OF BANKS AND FOR OTHER PURPOSES**

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Title.

This Act shall be known as the "CSF Coop and Credit Surety Fund Act of 2013".

SECTION 2. Declaration of Policy.

The State hereby recognizes the need to promote comprehensive development in order to attain a more equitable distribution of opportunities, income and wealth, a sustained increase in the amount of goods and services produced in the economy; and in increasing productivity as a key to raising the quality of life for all. Moreover, the State affirms its declared policy to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance for the attainment of economic development and social justice.

To attain these objectives, the State shall encourage and assist in the creation and organization of special cooperatives to be known as Credit Surety Fund Cooperatives (CSF Coops) which shall be primarily tasked with administering and managing their respective Credit Surety Fund (CSF). The CSF is designed to provide micro, small, and medium enterprises (MSMEs), cooperatives and non-government organizations more inclusive access to bank credit, thereby enhancing their sustainability and growth.

SECTION 3. Statement of Objectives.

The purposes of this Act are as follows:

1. Encourage, promote and assist in the creation and organization of a special cooperative, the CSF Coop, which shall be vested with juridical personality and enjoy all the rights and privileges of cooperatives under Republic Act No. 9520, otherwise known as the Cooperative Code of 2008.
2. Enhance the credit worthiness of member-MSMEs, cooperatives and non-government organizations, and broaden their access to the credit facilities of banks.
3. Sustain the continuous flow of credit in the countryside through the establishment of well and prudentially-managed CSFs which shall serve as surety covers.
4. Build up the capability of cooperatives and non-government organizations in the areas of credit evaluation, loan and risk management, and good governance principles.
5. Generate more employment and support the poverty alleviation program of the government through increased investments and economic activities.

SECTION 4. Definition of Terms.

1. **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 by accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles.

A cooperative as used in this Act, may either be:

- a. Primary – the members of which are natural persons;
- b. Secondary – the members of which are primaries; and
- c. Tertiary – the members of which are secondary cooperatives.

2. **Credit Surety Fund Coop or CSF Coop** - is a special cooperative comprised of well-capitalized and well-managed member-cooperatives that meet the criteria and qualifications prescribed by the Bangko Sentral in coordination with the Cooperative Development Authority (CDA), qualified non-government organizations (NGOs), government financial institutions (GFIs) and local government units (LGUs), all of which shall make contributions to the CSF as defined and prescribed by this Act.

A CSF Coop shall be established for the primary and exclusive purpose of managing and administering the CSF as provided for in this Act and by the implementing rules and regulations.

3. **Credit Surety Fund, Surety Fund, Fund or CSF** – refers to a fund generated from the contributions of well-capitalized and well-managed member-cooperatives, qualified NGOs, GFIs and LGUs. The CSF shall serve as a security for the loans that will be obtained by qualified borrowers from lending banks by way of a surety cover issued by the Fund in lieu of hard collaterals.

4. **Members of the CSF Coop** - shall include the cooperatives, NGOs, GFIs and the LGU that contributed to the CSF and who, adhering to the principles set forth in the Cooperative Code of 2008 and in the articles of cooperation, have been admitted by the CSF Coop as its members.

5. **Board of Directors** – refers to the governing body of the CSF Coop. It is entrusted with the sound and prudent management and administration of the CSF pursuant to this Act, its implementing rules and regulations, its articles of cooperation and by-laws.

Its members consist of the elected representatives of member-cooperatives/NGOs and the authorized representative/s of GFIs and the LGU as ex-officio members.

6. **Articles of Cooperation** – refers to the articles of cooperation registered with the CDA and includes any registered amendment thereof.

7. **By-laws** - refers to the by-laws registered with the CDA and includes any registered amendment thereof.

8. **Registration** - refers to the operative act granting juridical personality to a proposed CSF Coop and is evidenced by a certificate of registration.

9. **Cooperative Development Authority (CDA)** - refers to the lead government agency implementing this Act and which is responsible for the registration, regulation and supervision of CSF Coops.

10. **Bangko Sentral** – refers to the Bangko Sentral ng Pilipinas with powers and responsibilities as defined in this Act and the implementing rules and regulations.

11. **Non-Government Organization (NGO)**– refers to any non-profit, voluntary citizens' group that contributes to, or participates in cooperation projects, education, training or other humanitarian, progressive, or watchdog activities.

12. **Local Government Unit (LGU)** – refers to the provincial or city government that is authorized under this Act to contribute to the CSF established by the CSF Coop in their locality in the form of investment, in an amount at least equal to the total contributions of the member-cooperatives/NGOs.

Provided, that a municipality may also contribute to a CSF which is administered and managed by a provincial CSF Coop, which contribution shall be deemed as part of the contribution of the province.

13. **Government Financial Institutions (GFIs)** – for purposes of this Act, refer to financial institutions or corporations in which the government directly or indirectly owns majority of the capital stock and which are registered with or directly supervised by the Bangko Sentral. For purposes of this Act these are, but not limited to the Development Bank of the Philippines (DBP), the Land Bank of the Philippines (LBP) and the Industrial Guarantee and Loan Fund (IGLF). GFIs may contribute funds to the CSF, in which case it shall be a member of the CSF Coop.

14. **Surety Agreement** – refers to the agreement executed by the proper parties as defined by this Act and its implementing rules and regulations, in favor of the lending bank, obligating themselves to be jointly and severally liable with a qualified borrower in the event of default.

A Surety Agreement, for purposes of this Act, shall be endorsed jointly and severally by the endorsing entity and the CSF Coop. However, in cases where the primary cooperative has no endorser, subject to implementing rules and regulations, the CSF may solely execute a Surety Agreement in favor of the lending bank.

15. **Qualified Borrowers** - as defined in this Act and in the implementing rules and regulation, qualified borrowers refer to the following:

- a. An MSME-member of a cooperative-member, as defined herein;
- b. A cooperative - member of the CSF Coop;
- c. An NGO that is a member of the CSF Coop;

16. **Micro, Small and Medium Enterprise ("MSME")** – refers to any business activity or enterprise engaged in industry, agri-business and/or services, whether a single proprietorship, cooperative, or partnership whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Category	Asset
Micro	Not more than P3,000,000
Small	P3,000,001 - P15,000,000
Medium	P15,000,001 - P100,000,000

The above definitions shall be subject to review and adjustment by the Micro, Small and Medium Enterprises Development (MSMED) Council under Section 6 of Republic Act No. 6977, as amended, otherwise known as "The Magna Carta for Small Enterprises" or upon recommendation of sectoral organizations concerned, taking into account, inflation and other economic indicators. The MSMED Council may use other variables such as number of employees, equity capital and assets size.

17. **Endorsers** - as defined in this Act and in the implementing rules and regulations, refer to entities, which attest to the CSF Coop the creditworthiness of its member-borrowers and assures that such are eligible to avail of a loan covered by its CSF. On account of the Surety Agreement, endorsers obligate themselves to be jointly

and severally liable with the borrower in the event of the latter's default. They are the following:

a. A primary cooperative which is a member of the CSF Coop endorsing for this purpose, its MSME member;

b. A secondary or tertiary cooperative which is a member of the CSF Coop endorsing for this purpose, its primary or secondary member-cooperatives;

18. **Lending Bank** – refers to any authorized banking institution with a rediscounting line with the Bangko Sentral, that is willing to grant credit accommodations to the qualified borrowers as defined in this Act.

19. **Trustee Bank/s** – refers to the bank/s designated by the Board of Directors to manage the CSF. Such bank/s must be authorized by the Bangko Sentral to engage in trust and other fiduciary business under Republic Act No. 8791, otherwise known as the General Banking Law of 2000. The implementing rules and regulations shall also provide for additional eligibility requirements for trustee banks.

SECTION 5. Credit Surety Fund Coop or CSF Coop.

The CSF Coop shall be organized as a special cooperative in accordance with the Cooperative Code of 2008 and the implementing rules and regulations to be promulgated by the Bangko Sentral in coordination with the CDA.

Only one CSF Coop may be established in a province, which shall be located in a component city or municipality. A CSF Coop may also be established in each chartered city of that province.

SECTION 6. Articles of Cooperation.

A CSF Coop must first secure a clearance from the Bangko Sentral before filing its articles of cooperation and by-laws for registration, and any amendments of the same, with the CDA. Its articles of cooperation shall be signed by the representatives of the member-cooperatives, NGOs, GFIs and LGU acknowledged by them before a notary public.

The articles of cooperation shall set forth the items required by the implementing rules and regulations.

SECTION 7. By-laws.

A CSF Coop to be registered under this Act shall adopt by-laws not inconsistent with the provisions of this Act and its implementing rules and regulations. The by-laws shall be filed at the same time as the articles of cooperation and shall contain items required by the implementing rules and regulations.

SECTION 8. Registration.

A CSF Coop formed and organized under this Act acquires juridical personality from the moment the CDA issues a certificate of registration under its official seal. A certificate of registration issued by the CDA under its official seal shall be conclusive evidence that the CSF Coop is duly registered unless it is proved that the registration thereof has been cancelled.

Upon registration with the CDA, a CSF Coop shall enjoy all the rights and privileges of cooperatives as provided for by the Cooperative Code of 2008.

SECTION 9. Board of Directors

The members of the Board of Directors shall consist of the representatives of the member-cooperatives and NGOs, duly elected in the general assembly in such number and in such manner as may be agreed therein, provided that it will not contravene with the implementing rules and regulations as may hereafter be formulated.

It shall also include the authorized representative of the LGU and representatives of the contributing GFIs as ex-officio members.

Each member shall be entitled to only one (1) vote, regardless of the amount of its respective contribution.

SECTION 10. Powers and Responsibilities of the Board of Directors.

The Board of Directors shall have the following powers and responsibilities:

1. Determine and formulate the general policies and guidelines on the proper administration and management of the CSF and authorize its investment, reinvestment and disposition;
2. Act as administrator of the CSF until such time that trustee bank/s is/are designated or appointed as administrator;
3. Designate bank/s duly licensed by the Bangko Sentral to perform trust and other fiduciary functions as trustee bank/s or investment manager/s as provided under Republic Act No. 8791, otherwise known as the General Banking Law of 2000;
4. Promulgate such rules and guidelines governing the infusion of additional contributions to the CSF, admission of new members and acceptance of additional contributions, investments or donations;
5. Enter into contracts and transactions involving, affecting or relating to the CSF, including but not limited to the issuance of the Surety Agreement in favor of lending banks;

6. To sue and be sued in behalf of the CSF in all transactions to which the CSF is involved;

7. Periodically review the CSF's assets as well as its investment, reinvestment and disposition and is responsible for taking appropriate action on the audit of the financial condition and operations of the CSF;

8. Create committees and appoint officers subject to the qualifications provided by the CSF Coop's Board of Directors and by-laws;

9. Delegate to the Chairman, Vice-Chairman, or any member of the Board of Directors, any of its powers whenever deemed necessary for the best interest of the CSF and as allowed by law;

10. Exercise general supervision of all the affairs of the CSF Coop including the issuance of policies, rules and regulations governing the operations of the CSF and shall be directly accountable to the general membership of the CSF Coop;

11. Issue the Surety Agreement jointly and severally with the endorsing entity in favor of the lending bank to secure the loans of qualified borrowers; and

12. Perform such acts and exercise such powers and duties as may be necessary and proper in order to achieve the purpose for which the CSF was created or for any purpose which will redound to the benefit of the members of the CSF Coop as well as any acts necessary or incidental to achieve the foregoing purposes.

SECTION 11. Authorized, Subscribed and Paid-Up Capital of CSF Coop.

Notwithstanding the provisions of Republic Act No. 9250, at least twenty-five percent (25%) of the authorized capital share as stated in the articles of cooperation must be subscribed at the time of registration, and at least twenty-five (25%) of the total subscription must be paid upon subscription. In no case shall the paid-up capital share be less than five thousand pesos (P5,000.00). Provided, also, that the required paid-up share capital for CSF Coops may be increased every five (5) years, when necessary, upon determination by the Bangko Sentral in consultation with the CDA.

For purposes of this Act, the CSF shall not be deemed as part of the authorized capital stock.

SECTION 12. Establishment of a Credit Surety Fund (CSF)

A CSF Coop shall set up one CSF which shall be created to provide alternative means of collateral cover for the loans or credit accommodations obtained by qualified borrowers from lending banks. The initial contributions to the CSF shall come from participating member-cooperatives and NGOs in a province and/or a chartered city.

Pursuant to the Cooperative Code of 2008, which provides that the Government and all its branches, subdivisions, instrumentalities and agencies shall ensure the

provision of technical guidance, financial assistance and other services to enable cooperatives to develop into viable and responsive economic enterprises, an LGU may contribute to the CSF as an investment, in an amount at least equal to the total contributions of the member-cooperatives. Provided, that if the funds are not sufficient to invest in the CSF, the LGU may request the national government for subsidy or assistance.

GFIs such as the DBP, LBP and the IGLF may contribute to the CSF which may or may not be equal to the total contributions of the cooperatives, in the form of investment.

SECTION 13. Composition of the CSF

CSF is composed of the following:

1. The CSF shall primarily consist of initial contributions from the member-cooperatives and NGOs in a province and/or a chartered city.
2. It includes the counterpart contribution of the LGU in an amount at least equal to the initial total contributions of the member-cooperatives/NGOs.
3. It also includes the contribution of the GFIs such as the DBP, LBP, and the IGLF that may or may not be equal to the total contributions of the cooperatives.
4. Any increase in the contribution of existing or new member-cooperatives, NGOs, LGU, GFIs and other qualified investors or donors.

SECTION 14. Usage of the Fund.

The contributions and donations pooled from the abovementioned entities shall constitute the CSF, to be used as surety for the loans of qualified borrowers from lending banks. The CSF shall be deposited in trustee bank/s as herein defined, and shall only be invested or placed in safe and high-yielding instruments such as government securities.

SECTION 15. Administration of the Fund

The CSF operation shall be administered by the CSF Coop which is governed by the Board of Directors. The Board of Directors shall designate bank/s, authorized by the *Bangko Sentral* to engage in trust and other fiduciary business under Republic Act No. 8791, otherwise known as the General Banking Law of 2000, to act as trustee bank/s and as administrator of the CSF subject to additional eligibility requirements of the *Bangko Sentral*, as may be provided for in the implementing rules and regulations.

SECTION 16. Withdrawal of Contributions

Subject to the procedure and requirements stated in the implementing rules and regulations, a member -cooperative or NGO may withdraw all or part of its contributions

to the CSF subject to such reasonable terms and conditions as shall be imposed by the Board of Directors taking into consideration, among others, the liquidity of the CSF, the interests of the lending banks/creditors and the withdrawing member's outstanding executed Surety Agreements.

SECTION 17. Cooperative Development Authority

Pursuant to its constitutional mandate to promote the viability and growth of cooperatives as instruments of equity, social justice and economic development under Republic Act No. 6939 otherwise known as the Act creating the Cooperative Development Authority, the CDA shall be the government entity in charge of registration, regulation and supervision of CSF Coops.

SECTION 18. *Bangko Sentral*

Pursuant to its mandate to provide policy direction in the areas of money, banking and credit under Republic Act No. 7653, otherwise known as the New Central Bank Act, and to enhance credit creation in the rural areas and achieve a more inclusive financial system, the Bangko Sentral shall have the following powers as defined in the implementing rules and regulations:

1. Spearhead the promotion, encouragement, creation and organizational development of CSF Coops all over the country;
2. Provide technical assistance such as training, seminars and facilitation measures in coordination with other public or private stakeholders as it may deem necessary to achieve the objectives and purposes of this Act; and
3. Monitor the performance, effectiveness and operations of the CSF Coops in coordination with the CDA.
4. Set the performance standards for the proper operation of all CSFs.

SECTION 19. Books of Accounts, Records, Reportorial Requirements and Administrative Fees.

Subject to the requirements stated in the implementing rules and regulations, the CSF Coop shall set and keep accurate accounts and internal financial controls and shall appoint an external auditor acceptable to the Bangko Sentral.

Notwithstanding the provisions of Republic Act No. 9520, to minimize the transactional costs of CSF Coops, the Bangko Sentral shall solely prescribe in the implementing rules and regulations, the reportorial requirements and administrative fees required from CSF Coops, taking into consideration their unique character and purposes.

Section 20. Tax Incentives.

Considering that the stakeholders of the Surety Fund are mostly cooperatives that play a vital role in the attainment of economic development and social justice and are given support only by the donors, all donations to, and income of the Surety Fund, shall be exempt from tax.

SECTION 21. Implementing Guidelines.

Within sixty (60) days from the effectivity of this Act, the *Bangko Sentral* in consultation with the CDA, shall draft and issue the rules and regulations to implement the provisions of this Act.

SECTION 22. Governing Law.

The provisions of this Act and its implementing rules and regulations shall primarily govern the organization, establishment, governance and operation of CSF Coops. The provisions of the Cooperative Code of 2008 shall apply only insofar as they are not inconsistent herewith.

SECTION 23. Interpretation and Construction.

In case of doubt as to the meaning of any provision of this Act or the regulations issued in pursuance thereof, the same shall be liberally construed and resolved in favor of the establishment of the CSF Coops.

SECTION 24. Transitory Provisions

All existing CSF agreements established prior to the effectivity of this Act, pursuant to the *Bangko Sentral's* CSF Program are hereby deemed eligible to be registered at the CDA as CSF Coops, subject to the rules of registration as provided by this Act, Republic Act No. 9520 and this Act's implementing rules and regulations.

SECTION 25. Separability.

Should any provision of this Act be declared unconstitutional, the other provisions not affected thereby shall continue to be in full force and effect.

SECTION 26. Effectivity Clause

This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in two (2) newspapers of general circulation.

Approved,