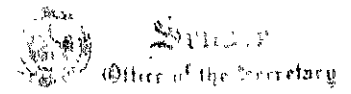


SIXTEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Third Regular Session)



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SENATE

S.B. No. 2909

RECEIVED BY: _____

(In Substitution of SB No. 2218)

PREPARED BY THE COMMITTEE ON TRADE, COMMERCE & ENTREPRENEURSHIP JOINT WITH THE
COMMITTEES ON BANKS, FINANCIAL INSTITUTIONS AND CURRENCIES; & WAYS AND
MEANS WITH SENATOR AQUINO IV AS AUTHOR THEREOF

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
ENTREPRENEURS, 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;

1 **SECTION 1. Title.** — This Act shall be known as the "Credit Surety Fund Cooperative
2 Act of 2015".

3 **SEC. 2. Declaration of Policy.** - The State hereby recognizes the need to foster national
4 development, promote inclusive growth, and reduce poverty by promoting the growth of micro,
5 small and medium enterprises (MSMEs) that facilitate local job creation, production and trade in
6 the country. Moreover, the State affirms its declared policy to foster the creation and growth of
7 cooperatives as a practical vehicle for promoting self-reliance for the attainment of economic
8 development and social justice. Further, it is the State's policy to strengthen the cooperative
9 movement in the Philippines by empowering the Cooperative Development Authority and
10 providing it with the necessary powers and resources to fulfill its mandate.

11 To attain these objectives, the State shall encourage and assist in the creation and
12 organization of special cooperatives to be known as Credit Surety Fund Cooperative (CSF

1 Cooperative) which shall be primarily tasked with administering their respective Credit Surety
2 Fund (CSF). The CSF is designed to provide MSMEs, cooperatives, and non-government
3 organizations (NGOs) with more inclusive access to bank credit, thereby enhancing their
4 sustainability and growth.

5 **SEC. 3. *Statement of Objectives.*** - The purposes of this Act are as follows:

6 (a) Encourage, promote and assist in the creation and organization of a special
7 cooperative, the CSF Cooperative, which shall be vested with juridical personality
8 and enjoy all the rights and privileges of cooperatives under Republic Act No.
9 9520, otherwise known as the Cooperative Code of 2008.

10 (b) Enhance the credit worthiness of member-MSMEs, cooperatives, and NGOs, and
11 broaden their access to the credit facilities of banks.

12 (c) Sustain the continuous flow of credit in the countryside through the establishment
13 of well and prudently managed CSFs which shall serve as surety covers.

14 (d) Build up the capability of cooperatives and NGOs in the areas of credit
15 evaluation, loan and risk management, and good governance principles.

16 (e) Generate more employment and contribute to the poverty alleviation program of
17 the government through increased investments and economic activities.

18 (f) Strengthen the Cooperative Development Authority by providing it with powers
19 and resources to enable it to effectively regulate cooperatives, including CSF
20 Cooperatives.

21 **SEC. 4. *Definition of Terms.*** – As used in this Act:

22 (a) **Articles of Cooperation** shall refer to the articles of cooperation registered with
23 the CDA and includes any registered amendment thereof.

24 (b) **Bangko Sentral** - the *Bangko Sentral ng Pilipinas* with powers and
25 responsibilities as defined under Republic Act No. 7653, also known as the New
26 Central Bank Act.

1 (c) **Board of Directors** - the governing body of the CSF Cooperative. It is entrusted
2 with the sound and prudent administration of the CSF Cooperative pursuant
3 to this Act, its implementing rules and regulations, its articles of cooperation and
4 by-laws.

5 Its members consist of the elected representatives of member-
6 cooperatives, and the authorized representative/s of NGOs, GFIs and LGUs as
7 Independent Directors with voting rights.

8 (d) **By-laws** - the by-laws registered with the CDA and include any registered
9 amendment thereof.

10 (e) **Cooperative** – an autonomous and duly registered association of persons, with a
11 common bond of interest, who have voluntarily joined together to achieve their
12 social, economic and cultural needs and aspirations by making equitable
13 contributions to the capital required, patronizing their products and services and
14 by accepting a fair share of the risks and benefits of the undertaking in accordance
15 with universally accepted cooperative principles.

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

- 17 (1) Primary — the members of which are natural persons;
18 (2) Secondary — the members of which are primaries; and
19 (3) Tertiary — the members of which are secondary cooperatives

20 (f) **Cooperative Development Authority (CDA)** - the lead government agency
21 implementing this Act and which is responsible for the registration, regulation,
22 monitoring and supervision of CSF Cooperatives.

23 (g) **Credit Surety Fund (CSF)** - a fund generated from the contributions of well-
24 capitalized and well-managed member-cooperatives, qualified NGOs, GFIs and
25 LGUs. The CSF shall serve as security for the loans that will be obtained by
26 qualified borrowers from lending banks by way of a surety cover issued by the
27 Board of Directors of the CSF Cooperative in lieu of hard collaterals.

1 (h) **Credit Surety Fund Cooperative or CSF Cooperative** – a special cooperative
2 comprised of well-capitalized and well-managed member-cooperatives that meet
3 the criteria and qualifications prescribed by the CDA, qualified NGOs, GFIs and
4 LGUs, all of which shall make contributions to the CSF as defined and prescribed
5 by this Act.

6 A CSF Cooperative shall be established for the primary and exclusive
7 purpose of administering the CSF as provided for in this Act and by its
8 implementing rules and regulations.

9 (i) **Endorsers** - entities, which attest to the CSF Cooperative the creditworthiness of
10 its member-borrowers and assures that such are eligible to avail of a loan
11 covered by its CSF. On account of the Surety Agreement, endorsers obligate
12 themselves to be jointly and severally liable with the borrower in the event of the
13 latter's default. They are the following:

14 (1) A primary cooperative, which is a member of the CSF Cooperative,
15 endorsing for this purpose its MSME member; and

16 (2) A secondary or tertiary cooperative, which is a member of the CSF
17 Cooperative, endorsing for this purpose its primary or secondary member-
18 cooperatives.

19 (j) **Government Financial Institutions (GFIs)** - financial institutions or
20 corporations in which the government directly or indirectly owns majority of the
21 capital stock and which are registered with or directly supervised by the *Bangko*
22 *Sentral*. For purposes of this Act these are, but not limited to, the Development
23 Bank of the Philippines, Land Bank of the Philippines and the Industrial
24 Guarantee and Loan Fund (IGLF). GFIs may contribute funds to the CSF either in
25 the form of investment or special contribution, thus, they shall be considered as
26 members of the CSF Cooperative.

27 (k) **Investments** - the contributions of the cooperatives and NGOs to the CSF
28 Cooperative, which shall share in the earnings/losses of the CSF in proportion to

1 their contributions. It also includes contributions of the LGUs or GFIs that want
2 their contributions to be treated as investments.

3 (l) **Lending Bank** - any authorized banking institution with a rediscounting line with
4 the *Bangko Sentral* and other banking institutions.

5 (m) **Local Government Unit (LGU)** - the provincial or city government that is
6 authorized under this Act to contribute to the CSF established by the CSF
7 Cooperative in their locality either in the form of investment or special
8 contribution, in an amount at least equal to the total contribution of the member-
9 cooperatives and NGOs.

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

13 (n) **Members of the CSF Coop** – cooperatives, NGOs, GFIs and LGUs that
14 contributed to the CSF and who, adhering to the principles set forth in the
15 Cooperative Code of 2008 and in the articles of cooperation, have been admitted
16 by the CSF Cooperative as its members.

17 (o) **Micro, Small and Medium Enterprise (MSME)** - any business activity or
18 enterprise engaged in industry, agri-business and/or services, whether a single
19 proprietorship, cooperative, or partnership whose total assets, inclusive of those
20 arising from loans but exclusive of the land on which the particular business
21 entity's office, plant and equipment are situated, must have value falling under the
22 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 |

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

8

(p) **Non-Government Organization (NGO)** - non-stock, non-profit organizations
9 duly registered with the Securities and Exchange Commission (SEC), focusing on
10 the upliftment of the basic or disadvantaged sectors of society by providing
11 advocacy, training, community organizing, research, access to resources,
12 provision of microfinance programs and services, or other similar activities.

13

(q) **Qualified Borrowers** - refer to the following:

- 14 (1) An MSME-member of a cooperative-member of the CSF Cooperative;
15 (2) A cooperative that is a member of the CSF Cooperative; and
16 (3) A NGO that is a member of the CSF Cooperative.

17

(r) **Registration** - the operative act of granting juridical personality to a proposed
18 CSF Cooperative and is evidenced by a certificate of registration.

19

(s) **Special Contribution** – contributions of LGUs and GFIs given to the CSF as
20 grant. This shall not share in the earnings of the fund but the residual value shall
21 be returned once the CSF is dissolved.

22

(t) **Surety Agreement** - the agreement executed by the proper parties as defined by
23 this Act and its implementing rules and regulations, in favor of the lending bank,
24 whereby the surety obligates itself to be jointly and severally liable with a
25 qualified borrower in the event that the latter defaults; Provided, that a surety
26 agreement shall not be deemed to be an insurance contract and the issuance
27 thereof pursuant to this Act, and those previously issued and to be issued by the
28 Oversight Committees of existing Credit Surety Funds, shall not be considered as

1 doing an insurance business under Republic Act No. 10607, or any applicable
2 law.

3 A Surety Agreement, for purposes of this Act, shall be endorsed by the
4 endorser to the CSF Cooperative. However, in cases where a cooperative has no
5 Endorser, the CSF Cooperative, subject to the implementing rules and regulations,
6 may solely execute a Surety Agreement in favor of the lending bank.

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

12 **SEC. 5. Credit Surety Fund Cooperative or CSF Cooperative.** - The CSF Cooperative
13 shall be organized as a special cooperative in accordance with the Cooperative Code of 2008 and
14 the implementing rules and regulations to be promulgated by the CDA.

15 A CSF Cooperative may be established in a province or in a city.

16 **SEC. 6. Articles of Cooperation.** - A CSF Cooperative shall file its articles of
17 cooperation and by-laws for registration, and any amendments of the same, with the CDA. Its
18 articles of cooperation shall be signed by the shareholders acknowledged by them before a notary
19 public.

20 The articles of cooperation shall set forth the Items required by the implementing rules
21 and regulations.

22 **SEC. 7. By-laws.** - A CSF Cooperative formed and organized under this Act shall adopt
23 by-laws not inconsistent with the provisions of this Act and its implementing rules and
24 regulations. The by-laws shall be filed at the same time as the articles of cooperation and shall
25 contain items required by the implementing rules and regulations.

1 **SEC. 8. Registration.** - A CSF Cooperative formed and organized under this Act acquires
2 juridical personality from the moment the CDA issues a certificate of registration under its
3 official seal. A certificate of registration issued by the CDA under its official seal shall be
4 conclusive evidence that the CSF Cooperative is duly registered unless it is proven that the
5 registration thereof has been cancelled.

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

8 **SEC. 9. Board of Directors.** - The members of the Board of Directors shall consist of the
9 representatives of the member-cooperatives duly elected in the general assembly in such number
10 and in such manner as may be agreed therein, provided that it will not contravene with the
11 implementing rules and regulations as may hereafter be formulated.

12 It shall also include the authorized representatives from the LGUs, NGOs, and GFIs as
13 Independent Directors with voting rights.

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

16 **SEC. 10. Powers and Responsibilities of the Board of Directors.** - The Board of
17 Directors shall have the following powers and responsibilities:

- 18 (a) Determine and formulate the general policies and guidelines on the proper
19 administration of the CSF Cooperative;
- 20 (b) Act as Manager of the CSF until such time that trustee banks is/are designated or
21 appointed as manager;
- 22 (c) Designate bank/s duly licensed by the *Bangko Sentral* to perform trust and other
23 fiduciary functions as trustee bank/s or investment manager/s, which will, among
24 others, manage the investment, reinvestment and disposition of the fund as
25 provided under Republic Act No. 8791, otherwise known as the General Banking
26 Law of 2000;

- 1 (d) Promulgate such rules and guidelines governing the infusion of additional
2 contributions to the CSF, admission of new members and acceptance of additional
3 contributions, in the form of investments or special contributions;
- 4 (e) Enter into contracts and transactions involving, affecting or relating to the CSF,
5 including but not limited to the issuance of the Surety Agreement in favor of
6 lending banks;
- 7 (f) Sue and be sued in behalf of the CSF in all transactions to which the CSF is
8 involved;
- 9 (g) Periodically review the CSFs and be responsible for taking appropriate action on
10 the audit of the financial condition and operations of the CSF;
- 11 (h) Create committees and appoint other officers subject to the qualifications
12 provided by the CSF Cooperative's Board of Directors and by-laws;
- 13 (i) Delegate to the Chairman, Vice-Chairman, or any member of the Board of
14 Directors, any of its powers whenever deemed necessary for the best interest of
15 the CSF and as allowed by law;
- 16 (j) Exercise general supervision of all the affairs of the CSF Cooperatives including
17 the issuance of policies, rules and regulations governing the operations of the CSF
18 and be directly accountable to the general membership of the CSF Cooperatives;
- 19 (k) Issue the Surety Agreement jointly and severally with the endorsing entity in
20 favor of the lending bank to secure the loans of qualified borrowers; and
- 21 (l) Perform such acts and exercise such powers and duties as may be necessary and
22 proper in order to achieve the purpose for which the CSF was created or for any
23 purpose which will redound to the benefit of the members of the CSF
24 Cooperatives.

25 **SEC. 11. *Authorized, Subscribed and Paid-Up Capital of CSF Cooperatives.*** -
26 Notwithstanding the provisions of Republic Act No. 9250, at least twenty-five percent (25%) of
27 the authorized capital share as stated in the articles of cooperation must be subscribed at the time
28 of registration, and at least twenty-five percent (25%) of the total subscription must be paid upon

1 subscription. In no case shall the paid-up capital share be less than five thousand pesos
2 (Php5,000.00). Provided, also, that the required paid-up share capital for CSF Cooperatives may
3 be increased every five (5) years, when necessary, upon determination by the CDA.

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

6 **SEC. 12. *Establishment of a Credit Surety Fund (CSF).*** - A CSF Cooperative shall set
7 up one CSF, which shall be created to provide alternative means of collateral cover for the loans
8 or credit accommodations obtained by qualified borrowers from lending banks. The initial
9 contributions to the CSF shall come from participating member-cooperatives, NGOs and MFIs in
10 a province and/or city.

11 Pursuant to the Cooperative Code of 2008, which provides that the government and all its
12 branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical
13 guidance, financial assistance and other services to enable cooperatives to develop into viable
14 and responsive economic enterprises, an LGU may contribute to the CSF in the form of an
15 investment or special contribution, in an amount at least equal to the total contributions of the
16 member cooperatives and NGOs. Contributions from LGUs shall be exempted from the
17 provisions of Republic Act. No. 7656 or the Dividend Law.

18 GFIs may also contribute to the CSF in the form of investment or special contribution,
19 which may or may not be equal to the total contributions of the member cooperatives and NGOs.
20 Contributions from GFIs to the CSF Cooperative shall likewise be exempted from the provisions
21 of RA 7656 or the Dividend Law.

22 **SEC. 13. *Composition of the CSF.*** -

23 (a) The CSF shall primarily consist of contributions of the member-cooperatives and
24 NGOs in each province and/or city.

25 (b) It includes the counterpart contribution of the LGU in an amount at least equal to
26 the initial total contributions of the member-cooperatives and NGOs.

1 (c) It also includes the contribution of the GFIs which may or may not be equal to the
2 total contributions of the member-cooperatives and NGOs.

3 Any increase in the contribution of existing or new member-cooperatives, NGOs, LGUs,
4 GFIs and other qualified investors or donors shall likewise form part of the CSF.

5 **SEC. 14. *Usage of the Fund.*** - The contributions pooled from the abovementioned
6 parties shall constitute the CSF, to be used as surety for the loans of qualified borrowers from
7 lending banks. The CSF shall be deposited in trustee bank/s as herein defined, and shall only be
8 invested or placed in safe and high-yielding instruments such as government securities.

9 **SEC. 15. *Administration of the Fund.*** - The CSF operation shall be administered by the
10 CSF Cooperatives, which is governed by the Board of Directors. The Board of Directors shall
11 designate bank/s, authorized by the *Bangko Sentral* to engage in trust and other fiduciary
12 business under Republic Act No. 8791, otherwise known as the General Banking Law of 2000,
13 to act as trustee bank/s and manage the CSF subject to additional eligibility requirements as may
14 be provided for in the implementing rules and regulations.

15 **SEC. 16. *Withdrawal of Contributions.*** - Subject to the procedure and requirements
16 stated in the implementing rules and regulations, a member-cooperative or NGO may withdraw
17 all or part of its contributions provided that it has no outstanding obligation on account of the
18 surety agreements issued and subject to such reasonable terms and conditions such as, among
19 others, the liquidity of the Fund.

20 **SEC. 17. *Cooperative Development Authority.*** - Pursuant to its constitutional mandate
21 to promote the viability and growth of cooperatives as instruments of equity, social justice and
22 economic development under Republic Act No. 6939 otherwise known as the Act Creating the
23 Cooperative Development Authority, the CDA shall be the government entity in charge of
24 registration, regulation and supervision of CSF Cooperatives. In order to implement the
25 provisions of this Act, authority is hereby granted for CDA to re-organize itself including, but
26 not limited to, creating an additional department specifically designated for CSF Cooperatives.

1 **(a) REGULATION**

2 (1) CDA shall formulate policies on the registration of CSF Cooperatives,
3 including the setting of criteria and qualifications for cooperatives and NGOs
4 that are interested to join the CSF; and

5 (2) CDA shall issue, with the assistance of the *Bangko Sentral*, the Implementing
6 Rules and Regulations implementing the provisions of this Act.

7 **(b) SUPERVISION and MONITORING**

8 The CDA shall enforce and monitor compliance of CSF Cooperatives to this Act
9 and its Implementing Rules and Regulations to promote the stability and sustainability of
10 the Fund. Thus, the CDA shall:

11 (1) Supervise the activities of the CSF to ensure compliance with this Act.

12 (2) Investigate and impose sanctions, including the suspension of operations of
13 erring CSF Cooperatives, for violation of laws, rules and orders.

14 (3) Require the annual, semi-annual or quarterly submission, as the case may be,
15 of reports, financial statements, board resolutions and such other documents as
16 may be deemed by CDA as necessary to ensure compliance with this Act,
17 Implementing Rules and Regulations and other rules.

18 (4) Conduct regular examination or inspection of the above documents to check
19 validity of reports submitted.

20 (5) Set the performance standards for the proper operation of all CSF
21 Cooperatives.

22 **SEC. 18. *Role of the Bangko Sentral.*** - Pursuant to its mandate to provide policy
23 direction in the areas of money, banking and credit under Republic Act No. 7653, otherwise

1 known as the New Central Bank Act, and to enhance credit creation in the rural areas and
2 achieve a more inclusive financial system, the *Bangko Sentral* shall have the following powers:

- 3 (a) Spearhead the promotion, encouragement, creation and organizational
4 development of CSF Cooperatives all over the country;
- 5 (b) Facilitate the acquisition by CSF Cooperatives of technical assistance such as
6 training and seminars in coordination with other public or private stakeholders for
7 purposes of the CSF; and
- 8 (c) Assist the CDA in setting the criteria and qualifications for CSF Cooperatives and
9 provide such other forms of assistance as maybe determined by the Monetary
10 Board to be consistent with its mandate.

11 **SEC. 19. *Books of Accounts, Records, Reportorial Requirements and Administrative***
12 ***Fees.*** - Subject to the requirements stated in the implementing rules and regulations, the CSF
13 Cooperative shall set and keep accurate accounts and internal financial controls.

14 The reportorial requirements and administrative fees required from CSF Cooperatives,
15 taking into consideration their unique character and purposes, shall be provided in the
16 implementing rules and regulations.

17 **SEC. 20. *Implementing Rules and Regulations.*** - Within sixty (60) days from the
18 effectivity of this Act, the CDA shall draft and issue the rules and regulations to implement all
19 the provisions of this Act.

20 **SEC. 21. *Governing Law.*** - The provisions of this Act and its implementing rules and
21 regulations shall primarily govern the organization, establishment, governance and operation of
22 CSF Cooperatives. The provisions of the Cooperative Code of 2008 shall apply only insofar as
23 they are not inconsistent herewith.

24 **SEC. 22. *Interpretation and Construction.*** - In case of doubt as to the meaning of any
25 provision of this Act or the regulations issued in pursuance thereof, the same shall be liberally
26 construed and resolved in favor of the establishment of the CSF Cooperatives.

1 **SEC. 23. *Transitory Provisions.*** - All existing CSF agreements established prior to the
2 effectivity of this Act, pursuant to the *Bangko Sentral's* CSF Program are hereby deemed eligible
3 to be registered at the CDA as CSF Cooperatives, subject to the rules of registration as provided
4 by this Act, Republic Act No. 9520 and this Act's implementing rules and regulations.

5 **SEC. 24. *Amendatory Clause.*** - The pertinent provisions of Republic Act No. 6938, as
6 amended by Republic Act Nos. 9520, 8523, 3844, 7160, as well as all other laws, presidential
7 decrees, rules and regulations, executive orders or parts thereof that are inconsistent with the
8 provisions of this law shall be deemed amended accordingly.

9 **SEC. 25. *Separability.*** - Should any provision of this Act be declared unconstitutional,
10 the other provisions not affected thereby shall continue to be in full force and effect.

11 **SEC. 26. *Effectivity Clause.*** - This Act shall take effect fifteen (15) days after its
12 publication in the Official Gazette or in two (2) newspapers of general circulation

13 Approved,