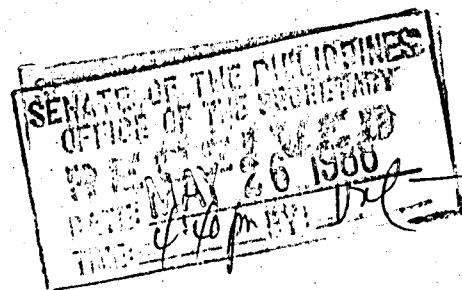


Congress of the Philippines)
First Regular Session)



S E N A T E

S. No. 573

Introduced by Senators Aquino & Pimentel

EXPLANATORY NOTE

The proposed measure seeks to provide a simplified general organic law for all types of cooperatives. It recognizes cooperatives essentially as non-profit private service organizations dealing only with their members, facilitating the latter's access to information, technology, and economic opportunities by the extensive use of the techniques of economies of scales, cost-sharing and risk-sharing; treats them as a separate class of juridical persons on the same legal footing as corporations and partnerships, and enables them to likewise function with complete autonomy and independence for the benefit of their members in all areas of the national economy.

Designed principally to meet the long-felt need of cooperatives for autonomy and organizational integrity, the Code constitutes a self-executory law and it does not need any regulation or other implementing device to put into effect its provisions except in those few instances wherein regulations are allowed to be promulgated by the government agency concerned under strict rules in order to ensure the greatest public participation and quality regulations. That details on the internal structures, administration and operations of cooperatives shall be prescribed in their by-laws; and their external relations with other persons, natural or juridical, shall be governed by this Code and the general legal system existing in the Philippines. By this means, the people and their cooperatives enjoy the widest latitude in determining and conducting their affairs under their own control and directions devoid of any interference into their internal activities or external operations by parties or agencies having neither legal nor moral authority to do so.

History shows that since the beginning, the government has been sponsoring cooperatives as institutional vehicles to implement government programs such as the provisions of credit facilities; supply and distribution of production inputs, raw materials and other requirements; and the provision of essential services to the people. While the government's efforts are very laudable, it should be noted that whenever the government program is terminated or runs into difficulties, the cooperatives involved invariably falter and die. Contemporary examples of these are the FACOMAS under the ACCFA and ACA programs and the Samahang Nayan and area marketing cooperatives of the previous regime. On the other hand, history also shows that many cooperatives organized through the private initiative, resources, and will of the people have (on most cases) shown success in their operations despite the general absence of government help. Under this

category fall the credit unions, consumers cooperatives, agricultural cooperatives (who are not covered by the government cooperative develop program), industrial and service cooperatives and many others.

The marked difference between the two groups of cooperatives referred to above lies in their satisfactory responsiveness to the felt needs of their members, the key to cooperative success. In the first group, the organization of such cooperatives finds justification only in the satisfaction of the need of the government program to be implemented quickly and economically by channelling through such cooperatives credit, and essential services. All too often, the people are alienated by the fact that they have little control, if any, over the affairs of those cooperatives since the government agencies concerned having control over the program using such cooperatives as vehicles naturally control the direction and affairs of said cooperatives. This largely explains the propensity of cooperatives in the first group to fail.

In the second group, however, the people organize the cooperatives to satisfy their own felt needs which range from credit, marketing and supply services, and essential services. Such cooperatives are capitalized, fully owned and controlled by the members; and their programs of action are drawn up, approved and implemented by the said members through their own elected and paid officials and staff. There exists in this group of cooperatives that sense of ownership and belonging which constitute powerful driving forces that propel cooperatives concerned to heights of success.

The Code adopts the model of the second group of cooperatives which reflects the true and correct cooperative model in the light of the history of the world cooperative movement and makes allowances for particularized situations wherein the model drawn from the first group may be resorted to in highly justifiable circumstances on a long, medium, or short term basis with adequate safeguards against the faults and weaknesses of the first group of cooperatives.

Enactment of the proposed Cooperative Code of the Philippines into law will enable the people in the middle and low income sectors of the population to participate in the social and economic development of the country through their cooperatives. Needless to state cooperatives promote greater income and productivity among the people; increase their purchasing power; and help equitably distribute the income and wealth they generate. They achieve these through their built-in mechanisms or economies of scale, cost-sharing, and risk-sharing under an atmosphere of justice, equity and fair play.

Favorable consideration and immediate enactment of this measure is strongly recommended.

AGAPITO A. AQUINO
Senator

AQUILINO G. PIMENTEL, JR.
Senator

Republic of the Philippines)
First Regular Session)

SENATE OF THE PHILIPPINES
OFFICE OF THE SECRETARY
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SENATE

S. NO. 573

AN ACT TO ORDAIN A COOPERATIVE CODE OF
THE PHILIPPINES, PROVIDE APPROPRIATIONS
THEREFOR, AND FOR OTHER PURPOSES

Introduced by Senators Aquino and Pimentel

CHAPTER I - General Concepts and Principles

1 ARTICLE 1. Title. - This Act shall be known as the
2 "Cooperative Code of the Philippines."

3 ARTICLE 2. Policy. - It is hereby declared the policy
4 of the State to encourage the people to develop their
5 enterprises on a cooperative basis to strengthen their
6 economic independence within the framework of this Code by
7 the promotion of effective groupings of people on a
8 cooperative basis for the common operation of their own
9 enterprises in any social and economic field of human
10 endeavor and for the performance of essential services
11 mutually beneficial to and needed by them in order to
12 improve their standard of living, contribute to the
13 equitable distribution of the national wealth and income,
14 and help fully develop the national economy.

15 In this respect, it is important that the State
16 recognizes the principles of subsidiarity primarily in
17 cooperative activities particularly in the promotion,
18 organization, training, consultancy, information gathering,
19 and audit.

20 Since the development of people through the
21 cooperatives will be beneficial to the State, it is the
22 responsibility of the State to assist the cooperative

1 programs and encourage activities that are self-reliant.

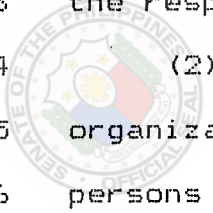
2 ARTICLE 3. General Concepts. - (1) A cooperative is an
3 association of persons, with a common bond of interest, and
4 who have voluntarily joined together to achieve a common
5 social or economic end, making equitable contributions to
6 the capital required and accepting a fair share of the risks
7 and benefits of the undertaking in accordance with
8 universally accepted principles of cooperation and duly
9 registered under this Code.

10 (2) Cooperative basis means the carrying on of an
11 enterprise organized, operated and administered in
12 accordance with the principles, methods and philosophy of
13 cooperation.

14 ARTICLE 4. Cooperative Principles. - Every cooperative
15 shall conduct its affairs in accordance with Filipino
16 culture and experience and the universally accepted
17 principles of cooperation which include the following:

18 (1) Open and Voluntary Membership. Membership in a
19 cooperative shall be voluntary and available without
20 artificial restriction or any social, political, racial or
21 religious consideration or discrimination, to all persons
22 who can make use of its services and are willing to accept
23 the responsibilities of membership.

24 (2) Democratic Control. Cooperatives are democratic
25 organizations. Their affairs shall be administered by
26 persons elected or appointed in a manner agreed by the
27 members and accountable to them. Members of primary
28 cooperatives who are natural persons shall enjoy equal
29 rights of voting (one member, one vote) and participation in
30 decisions affecting their societies. In secondary and
31 tertiary cooperatives, the administration shall be conducted



1 on a democratic basis in a suitable form.

2 (3) Limited Interest in Capital. Share capital shall
3 only receive a strictly limited rate of interest, if any.

4 (4) Equitable Division of Surplus. The economies
5 arising out of the operations of a cooperative belong to the
6 members of that cooperative and shall be distributed in such
7 a manner that no member shall gain at the expense of others.

8 This may be done by decision of the members as follows:

9 (a) By provision for development of the business
10 of the cooperative;

11 (b) By provision for common services; or

12 (c) By distribution among the members in
13 proportion to their transactions with the cooperative.

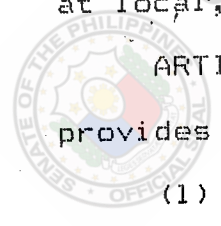
14 (5) Cooperative Education. All cooperatives shall
15 make provision for the education of their members, officers
16 and employees and of the general public based on the
17 principles and techniques of cooperation, both economic and
18 democratic.

19 (6) Cooperation Among Cooperatives. All cooperatives,
20 in order to best serve the interest of their members and
21 communities shall actively cooperate with other cooperatives
22 at local, national, and international levels.

23 ARTICLE 5. Definition of Terms. - Unless the context
24 provides otherwise, the following terms shall mean -

25 (1) "Member" includes a person either natural or
26 juridical, who subscribes to the articles of incorporation
27 of a cooperative; and a person who applies for and is
28 admitted to membership after registration of the cooperative
29 under this Code.

30 (2) "General Assembly" shall mean the membership
31 of the Cooperative duly assembled as a formal body and is



/page 4

1 empowered to exercise the rights of ownership over the
2 affairs of the said cooperative on behalf of all members of
3 record under the Articles of Incorporation and By-Laws;

4 (3) "Board of Directors" shall mean that body
5 entrusted with the management of the affairs of the
6 cooperative under its Articles of Incorporation and By-Laws;

7 (4) "Committee" shall refer to any body entrusted with
8 specific functions and responsibilities under the By-Laws
9 and resolutions of the General Assembly or board of
10 directors;

11 (5) "Articles of Incorporation" means the articles of
12 incorporation registered under this Code and includes a
13 registered amendment thereof;

14 (6) "By Laws" means the By-Laws registered under this
15 Code and includes a registered amendment thereof;

16 (7) "Registration" means the operative act granting
17 juridical personality to a proposed cooperative and is
18 evidenced by a Certificate of Registration;

19 (8) "Authority" means the government agency in charge
20 of the registration and regulation of cooperatives as such;
21 and

22 (9) "Universally accepted principles" means that body
23 of principles adhered to by the world cooperative movement
24 through its duly constituted authority.

25 ARTICLE 6. Transfer of Registration. - (1) Every
26 cooperative existing at the time of the approval of this
27 Code which has been registered under existing cooperative
28 laws shall be deemed to be registered under this Code and
29 its Articles of Incorporation and By-laws shall, so far as
30 they are not inconsistent with the provisions of this Code

1 continue in force and be deemed to be registered under this
2 Code;

3 (2) All executive and administrative orders, rules
4 regulations, and notices issued, all transactions entered
5 into, and suits and proceedings instituted under existing
6 laws on cooperatives shall be deemed to have been issued,
7 entered into or instituted under this Code.

8 ARTICLE 7. Legal Reference. - Upon the approval of
9 this Code, all references to existing laws affecting
10 cooperatives shall be construed as reference to this Code
11 and no proceedings instituted and pending, or anything done
12 shall be deemed to have been invalid on the ground that such
13 laws did not refer to this Code.

14 CHAPTER II

15 ORGANIZATION AND REGISTRATION

16 ARTICLE 8. Organization of Cooperatives. - A
17 Cooperative may be organized and registered by at least
18 fifteen (15) persons who have for their common objective any
19 lawful purpose or purposes in accordance with this Code. A
20 cooperative may be organized for any or all of the following
21 purposes:

22 (1) To encourage thrift and savings mobilization among
23 the members;

24 (2) To generate funds and extend credit to the members
25 for productive and provident purposes;

26 (3) To encourage among members systematic production
27 and marketing;

28 (4) To provide goods and services and other
29 requirements to the members;

30 (5) To build houses or to acquire lands for the
31 members;

1 (6) To insure against losses of the members;

2 (7) To promote and advance the economic, social and
3 educational condition of the members;

4 (8) To establish, own, or operate cooperative banks,
5 cooperative wholesale and retail complexes, insurance, and
6 agricultural/industrial processing enterprises, own or
7 operate/lease public markets.

8 (9) To coordinate and facilitate the activities of
9 cooperatives;

10 (10) To undertake any and all other activities
11 calculated to help the members to satisfy their other needs
12 and to solve their problems on a cooperative basis; and

13 (11) To undertake any and all activities consistent
14 with this Code.

15 ARTICLE 9. Objective of Cooperative. - The primary
16 objective of every cooperative shall be to provide goods and
17 services to its members and thus enable the latter to attain
18 increased savings, investments, productivity, income and
19 purchasing power and promote among them equitable
20 distribution of net savings through maximum utilization of
21 economies of scale, cost-sharing and risk-sharing without
22 conducting the affairs of the cooperative for charitable
23 purposes.

24 A cooperative of any kind shall have as its objectives:
25 the desire to provide maximum economic benefits to its
26 members; teach them efficient ways of doing things in a
27 cooperative manner; and propagate cooperative techniques and
28 practices in answer to its members' desires to acquire new
29 ideas in business, management, and organizations; allow the
30 lower income groups to increase their ownership in the
31 wealth of this nation; and to serve as the countervailing

/page 7

1 force in checking the excesses of capitalism and state
2 socialism.

3 ARTICLE 10. Organizing a Primary Cooperative. -
4 Fifteen or more persons, who are citizens of the
5 Philippines, having a common bond of interest, who are
6 either consumers or producers and residing or working in the
7 proposed area of operation may organize a cooperative under
8 this Code.

9 ARTICLE 11. Economic Survey. - Every group of persons
10 or cooperative contemplating the organization of a
11 cooperative under this Code shall submit a proposed plan on
12 the organization, operation, and projected expansion of the
13 cooperative, indicating the area of operation, the field of
14 membership - initial and potential - and other data to be
15 submitted to the Authority to indicate the economic need,
16 feasibility, and advisability of registering the proposed
17 cooperative.

18 ARTICLE 12. Liability. A cooperative may be
19 registered under this Code, with limited or unlimited
20 liability. However, the liability of a federation or union
21 shall be limited.

22 ARTICLE 13. Articles of Incorporation. - (1) Articles
23 of Incorporation of the cooperative applying for
24 registration shall be signed by each of the incorporators
25 and acknowledged by them if natural persons, and by the
26 presidents or secretaries, if juridical persons, before a
27 notary public.

28 (2) The articles of incorporation shall set forth:

29 (a) The name of the cooperative which may include
30 the word "cooperative"; the cooperative registered with
31 unlimited liability shall include at the end of its

/page 8

1 name the word "unlimited;"

2 (b) The purpose or purposes and scope of business
3 for which the cooperative is to be registered;

4 (c) The term of existence of the cooperative;

5 (d) The area of operation and the postal address
6 of its principal office;

7 (e) The names, nationality, and the postal
8 addresses of the registrants;

9 (f) The field of common bond of membership;

10 (g) The list of names of the directors who shall
11 manage their cooperative;

12 (h) A statement of whether the cooperative is to
13 be registered with or without capital stock and the
14 number of shares of stock subscribed if with capital
15 stock, or membership shares pledged if without capital
16 stock;

17 If the cooperative is to be registered with capital
18 stock, a statement of the amount of authorized capital, the
19 number and types of shares and the par value thereof, the
20 rights, preferences and restrictions of each type of share;
21 the number and amount of capital stock subscribed for, and
22 the amount paid therein by each member, indicating their
23 names and postal addresses;

24 If the cooperative is to be registered without capital
25 stock, a statement of whether the property rights of members
26 shall be equal or unequal, and, if unequal, the general rule
27 or rules by which the rights and interest of each member
28 shall be determined and fixed;

29 (3) The Articles of Incorporation may also contain any
30 other provisions not inconsistent with this Code or any
31 related law.

1 (4) Four copies each of the proposed Articles of
 2 Incorporation, By-Laws, and the plans for the organization,
 3 operation, and projected expansion of the applicant
 4 cooperative shall be submitted.

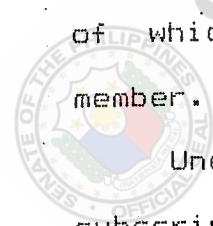
5 (5) No cooperative shall be registered unless the
 6 Articles of Incorporation is accompanied with the bonds of
 7 the accountable officers and a sworn statement of the
 8 treasurer elected by the subscribers showing:

9 a) In the case of the cooperative with capital
 10 stock, that at least twenty five (25%) per cent of the
 11 authorized capital stock of the cooperative has been
 12 subscribed and at least twenty five (25%) per cent of
 13 the total subscription has been paid in actual cash
 14 and/or in property, the fair valuation of which is
 15 equal to twenty five (25%) per centum of the said
 16 subscription;

17 b) In the case of a cooperative without capital
 18 stock, the number of members and the amount of each
 19 member's capital contribution either paid to him in
 20 cash or that there has been transferred to him in trust
 21 and received by him such property, the fair valuation
 22 of which is equal to the capital contribution of the
 23 member.

24 Under both classes (a) and (b) of this
 25 subscription, for the benefit and to the credit of the
 26 cooperative, the Authority shall satisfy itself that
 27 the capital contribution of members under these
 28 subsections are sufficient for the initial operation of
 29 the cooperative.

30 ARTICLE 14. By-Laws. - (1) Each cooperative to be
 31 registered under this Code, shall adopt for its management



1 By-Laws not inconsistent with the provisions of this Code.
 2 The By-Laws shall be filed at the same time as the Articles
 3 of Incorporation.

4 (2) The By-Laws of each cooperative shall provide
 5 for -

6 a) The qualifications for admission to membership
 7 and the payment to be made or interest to be acquired
 8 as a condition for the exercise of the right of
 9 membership;

10 b) The rights and liabilities of membership;

11 c) The circumstances under which membership is
 12 acquired, maintained and lost;

13 d) The procedure to be followed in cases of
 14 termination of membership;

15 e) The conditions under which the transfer of a
 16 share or interest of the members shall be permitted;

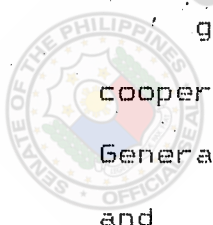
17 f) The rules and procedures on the agenda, time,
 18 place and manner of calling, convening, conducting
 19 meetings, quorum requirements, voting systems, and
 20 other matters relative to the business affairs of the
 21 General Assembly, board of directors, and committees;

22 g) The general conduct of the affairs of the
 23 cooperative; including the powers and duties of the
 24 General Assembly; the board of directors, committees
 25 and the officers, and their qualifications and
 26 disqualifications;

27 h) The manner in which the capital may be raised
 28 and the purposes for which it can be utilized;

29 i) The mode of custody and of investment of
 30 surplus funds;

31 j) The system of accounting and auditing systems;



1 k) The manner of loaning and borrowing; including
2 limitations thereof:

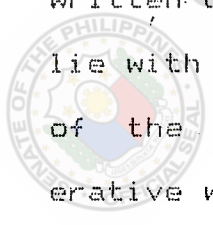
3 l) The method of distribution of net savings;

4 m) The manner of adopting, amending, repealing,
5 and abrogating By-Laws; and

6 n) Other matters incident to the purposes and
7 activities of the cooperative.

8 ARTICLE 15. Registration. - A cooperative that has
9 complied with the provisions of this Code and whose proposed
10 Articles of Incorporation and By-Laws are not contrary
11 thereto, shall be registered within thirty (30) calendar
12 days from the date of such compliance. The Articles of
13 Incorporation and By-Laws shall become operative under this
14 Code only upon registration and issuance of a certificate to
15 that effect by the Authority. Registration of a proposed
16 cooperative shall vest the same with juridical personality
17 with powers to enter into contracts, sue and be sued, and to
18 do all other acts and things necessary and incidental to
19 the exercise of said powers.

20 If the registering officer refuses to register a
21 cooperative and/or its amendments, he shall state in a
22 written order the reasons for such refusal. An appeal shall
23 lie with the governing board of the Authority from the order
24 of the registering officer refusing to register a coop-
25 erative within thirty (30) days from the date of receipt
26 of such order by the Secretary of the proposed cooperative.
27 The governing Board of the Authority shall make a decision
28 within thirty (30) days from the date of receipt of an
29 appeal and such decision shall be final. If after thirty
30 (30) days no decision has been made, the cooperative and/or
31 its amendments shall be registered automatically.



1 ARTICLE 16. Certificate of Registration. - A
 2 certificate of registration issued by the Authority under
 3 its official seal shall be conclusive evidence that the
 4 cooperative therein mentioned is duly registered unless it
 5 is proved that the registration thereof has been cancelled.

6 ARTICLE 17. Amendment of Articles of Incorporation and
 7 By-Laws. - The Articles of Incorporation and By-Laws may be
 8 amended, repealed or abrogated by the General Assembly and
 9 shall take effect upon registration thereof and the issuance
 10 of the corresponding certificate by the Authority.

11 ARTICLE 18. Change of Liability. - A cooperative may,
 12 subject to the provisions of this Code change its liability
 13 by amending its Articles of Incorporation and By-Laws,
 14 provided that: -

15 (1) The cooperative shall give notice, both by
 16 publication in a newspaper of general circulation and by
 17 posting in a conspicuous place in the locality where the
 18 cooperative has its principal office, of its intention to
 19 change its liability to all its members and creditors.

20 (2) Any member or creditor shall, notwithstanding any
 21 By-Laws or contract to the contrary, have the option of
 22 withdrawing his interest in the cooperative within three
 23 (3) months from the service of such notice;

24 (3) Any member or creditor who does not exercise his
 25 option within the aforesaid period shall be deemed to have
 26 assented to the change; and

27 (4) The change shall take effect at once if all the
 28 members and creditors assent thereto.

29 ARTICLE 19. Division of Cooperatives. Any registered
 30 cooperative may by a resolution approved by a vote of three-
 31 fourths (3/4) of the members present, and eligible to vote

1 at a General Assembly resolve to divide itself into two or
 2 more cooperatives. The procedures for such division shall
 3 be prescribed in the regulations of the Authority. The new
 4 cooperatives shall become legally established upon
 5 registration with the Authority.

6 ARTICLE 20. Transfer of Assets and Liabilities,
 7 Merger. -

8 (1) Any registered cooperative may by resolution
 9 approved by a vote of three-fourths (3/4) of the members
 10 present and eligible to vote at a General Assembly resolve to
 11 transfer its assets and liabilities to any other cooperative
 12 which has expressed willingness to accept them by a three-
 13 fourths (3/4) vote of its General Assembly. The transfer
 14 shall become effective upon approval by the Authority and
 15 cancellation of the registration of the cooperative
 16 transferring its assets and liabilities.

17 (2) Any two or more cooperatives registered under this
 18 Act may, by a resolution approved by a vote of three-fourths
 19 (3/4) of members present in a General Assembly of each such
 20 cooperative resolve to join together as a single
 21 cooperative. The merger shall become effective upon the
 22 approval and registration of the new cooperative with the
 23 Authority and the cancellation of the registration of the
 24 merging cooperatives.

25 (3) The procedure to be followed under this section
 26 shall be prescribed in the regulations to be issued by the
 27 Authority.

28 ARTICLE 21. - Types and Categories of Cooperatives.

29 (1) TYPES OF COOPERATIVES - Cooperatives may fall
 30 under any of the following types:

31 (a) Credit Cooperative Union - is one which

1 promotes thrift among its members and creates funds in
2 order to grant loans for productive and provident
3 purposes.

4 (b) Consumers Cooperative - is one of which the
5 primary purpose is to procure and distribute prime
6 commodities to members and non-members.

7 (c) Producers Cooperative - is one that
8 undertakes joint production whether agricultural or
9 industrial.

10 (d) Marketing Cooperative - is one which engages
11 in the supply of production inputs to members and
12 markets their products.

13 (e) Service Cooperative - is one which engages in
14 medical and dental care, hospitalization,
15 transportation, insurance, housing, labor, electric
16 light and power, and other services.

17 (f) Multi-purpose cooperative - is one which
18 combines two or more of the business activities of
19 these different types of cooperatives.

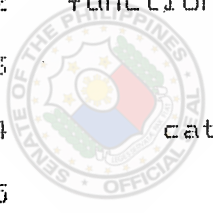
20 (2) CATEGORIES OF COOPERATIVES - Cooperatives shall be
21 categorized according to membership, territorial, and
22 functional considerations as follows:

23 (a) In terms of membership, cooperative shall be
24 categorized into:

25 (i) Primary - the members of which are
26 natural persons

27 (ii) Secondary - the members of which are
28 primaries.

29 (iii) Tertiary - the members of which are
30 secondaries, and so on upward to an
31 apex organization.



Senate Archives (LRAS)

1 Those cooperatives the members of which are
2 cooperatives shall be known as federations or unions
3 (associations), as the case may be.

4 (b) In terms of territory, cooperatives shall be
5 categorized according to areas of operations which
6 normally coincide with the territorial jurisdiction of
7 the nation and;

8 (c) In terms of functional considerations,
9 cooperatives shall be categorized into business and
10 non-business.

11 Business functions shall mean production,
12 marketing, distribution, credit, banking, housing,
13 insurance, trading, transportation, labor, utilities,
14 and such other activities that are being undertaken by
15 the different types of cooperatives herein defined.

16 Non-business functions shall mean promotion,
17 organization and development, training and education,
18 auditing, legal services and legislation, research,
19 monitoring and evaluation, consultancies and policy
20 formulation, member and public relations, and
21 international relations.

22 ARTICLE 22. Federation of Cooperatives. - (1) In a
23 cooperative, where members are primary and/or secondary
24 cooperatives of the same business type, a federation of
25 cooperatives may be registered under this Code for any or
26 all of the following purposes:

27 (a) Primary Purpose -

28 To carry on any cooperative enterprise
29 authorized under Article 8;

30 (b) Secondary Purpose -

31 i) To carry on, encourage, and assist educational

/page 16

- 1 and advisory work relating to its member cooperatives;
- 2 ii) To render services designed to encourage
- 3 simplicity, efficiency, and economy in the conduct of
- 4 the business of its member cooperatives and to
- 5 facilitate the implementation of their bookkeeping,
- 6 accounting, and other systems and procedures;
- 7 iii) To print, publish, and circulate any
- 8 newspaper or other publication in the interest of its
- 9 member cooperatives and enterprises;
- 10 iv) To coordinate and facilitate the activities
- 11 of its member cooperatives and do all other things
- 12 incidental and conducive to the attainment of its
- 13 objectives;
- 14 v) To enter into joint ventures with national or
- 15 international cooperatives of other countries in the
- 16 manufacture and sale of products and/or services in the
- 17 Philippines and abroad; and
- 18 vi) To perform such other functions as may be
- 19 necessary to attain its objectives.

20 A federation of cooperatives may be registered by

21 carrying out the formalities for registration of a

22 cooperative.

23 (2) Registered cooperatives may organize a federation

24 at the provincial, city, regional, and national levels

25 according to the type of business carried on.

26 ARTICLE 23. Cooperative Unions. - Registered

27 cooperatives and federations at the appropriate levels may

28 organize or join cooperative unions to represent the

29 interest and welfare of all types of cooperatives at the

30 provincial, city, regional, and national levels.

1 Cooperative unions may have the following purposes:

2 (a) To represent all the cooperatives in the
3 province, city, region, or in the Philippines and
4 abroad, as the case may be;

5 (b) To acquire, analyze, and disseminate
6 economic, statistical, and other information relating
7 to all types of cooperatives within its area of
8 operation;

9 (c) To sponsor the conduct of studies in the
10 economic, legal, financial, social and other phases of
11 cooperation, and publish the results thereof;

12 (d) To promote the knowledge of cooperative
13 principles and practices;

14 (e) To develop the cooperative movement in their
15 respective jurisdiction;

16 (f) To advise the appropriate authorities on all
17 questions relating to cooperatives;

18 (g) To raise funds through membership fees, dues
19 and contributions, donations, and subsidies from
20 local and foreign sources whether private or
21 government. The existing National Cooperative Union
22 shall continue the administration of the Cooperative
23 Education and Training Fund; and

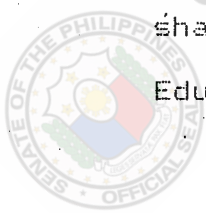
24 (h) To do and perform such other activities as
25 may be necessary to attain the foregoing objectives.

26 Cooperative unions may assist the national and local
27 governments in the latter's development activities in their
28 respective jurisdictions.

29 CHAPTER III

30 MEMBERSHIP

31 ARTICLE 24. Who may be members of cooperatives. - Any



1 natural person, who is a citizen of the Philippines,
 2 cooperative, or non-profit organization with juridical
 3 personality shall be eligible for membership in a
 4 cooperative if the applicant meets the qualifications
 5 prescribed in the By-Laws.

6 ARTICLE 25. Kinds of Membership. - A cooperative may
 7 have two kinds of members: (1) Regular members; and
 8 (2) Associate members. A Regular member is one who is
 9 entitled to all the rights and privileges of membership. An
 10 Associate member is one who has no right to vote nor be
 11 voted upon and shall be entitled only to such rights and
 12 privileges as the By-Laws may provide.

13 Minors. A cooperative organized by minors shall be
 14 considered a laboratory cooperative and must be affiliated
 15 to a registered cooperative. A laboratory cooperative shall
 16 be governed by special regulation to be promulgated by the
 17 Authority.

18 ARTICLE 26. Government Officers and Employees. - (1)
 19 Any officer or employee of the Authority shall be
 20 disqualified to be elected or appointed to any position in a
 21 cooperative; (2) Officials of the Government whether
 22 elective or appointive, shall be ineligible to become
 23 officers and directors of cooperatives except for barangay
 24 officials; (3) Any government employee may, in the discharge
 25 of his duties as member in the cooperative, be allowed by
 26 the head of office concerned to use official time for
 27 attendance at the General Assembly, board and committee
 28 meetings of cooperatives as well as cooperative
 29 seminars, conferences, workshops, technical meetings, and
 30 training courses locally or abroad, provided that the opera-
 31 tions of the office concerned are not adversely affected.

/page 19

1 ARTICLE 27. Application. - An applicant for
2 membership shall be deemed a member after approval of his
3 membership by the board of directors and shall exercise the
4 rights of member after having made such payments to the
5 cooperative in respect to membership or acquired interest in
6 the cooperative as may be prescribed in the By-Laws. In
7 case membership is refused or denied by the board of
8 directors, an appeal may be made to the General Assembly and
9 the latter's decision shall be final.

10 ARTICLE 28. Liability of Members. - (1) In the case of
11 a cooperative with limited liability, a member shall be
12 liable for the debts of the cooperative to the extent of his
13 total subscription to the capital stock or to the membership
14 capital.

15 (2) In the case of a cooperative with unlimited
16 liability, a member shall, upon the liquidation of the
17 cooperative, be jointly and severally liable for the debts
18 of the cooperative.

19 ARTICLE 29. Termination of Membership. (1) Subject to
20 the approval of the Board, a member may terminate his
21 membership by giving a minimum of sixty (60) days notice,
22 which shall be effective from the date indicated therein.
23 The payment of such member's interest in cash or in kind
24 shall not be made if on account of such payment the value of
25 the assets of the cooperative would be less than the aggregate
26 amount of its debts and liabilities exclusive of subscribed
27 capital or pledged capital contribution.

28 (2) The death, dissolution, insanity, interdiction or
29 expulsion of a member shall be considered an automatic
30 termination of membership.

31 (3) A member may be terminated by a vote of the

1 majority of all the members of the board of directors for
2 any of the following causes:

3 i) when a member has not patronized the services
4 of the cooperative for an unreasonable period of time
5 as may be fixed by the board of directors;

6 ii) when a member has continuously failed to
7 comply with his obligations;

8 iii) when a member has acted in violation of the
9 By-Laws and the rules of the cooperative; and

10 iv) for any act or omission injurious or
11 prejudicial to the interest or the welfare of the
12 cooperative.

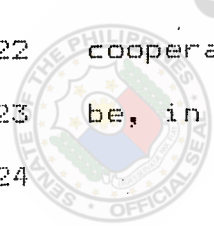
13 A member whose membership the board of directors may
14 wish to terminate shall be informed of such intended action
15 in writing and shall be given an opportunity to be heard
16 before the said board makes its decision. The decision of
17 the board shall be appealable to the General Assembly whose
18 decision thereon shall be final.

19 ARTICLE 30. Refund of Interests. - All sums estimated
20 in accordance with the By-Laws to be due from a cooperative
21 to a former member, shall be paid to him either by the
22 cooperative or by the approved transferee, as the case may
23 be, in accordance with this Code.

24 CHAPTER IV - ADMINISTRATION

25 ARTICLE 31. Composition of the General Assembly. - The
26 General Assembly shall be composed of such members as are
27 entitled to vote under the By-Laws.

28 ARTICLE 32. Powers of General Assembly. - Subject to
29 the provisions of law and its By-Laws, the ultimate
30 authority in every cooperative shall be vested in the
31 General Assembly of the members duly assembled as a formal



1 body. As such, it shall represent all members and shall
 2 have the power to adopt, elect, and/or appoint the officers,
 3 directors, and committee members of the cooperative provided
 4 in the By-Laws and remove them for cause as provided by law,
 5 after due process; approve the goals and objectives of the
 6 operations of the cooperative; act upon the management
 7 report of the board of directors and other reports by the
 8 various committees, and exercise such other powers conferred
 9 upon it under this Code. The General Assembly may delegate
 10 to the board of directors such powers as may be necessary
 11 for better management of the affairs of the cooperative.

12 ARTICLE 33. Meetings. - (1) A regular meeting shall be
 13 held annually by the General Assembly. It shall be called
 14 by the board of directors within ninety (90) days after the
 15 close of each fiscal year.

16 (2) Whenever necessary, a special meeting of the
 17 General Assembly may be called at any time by a majority
 18 vote of the board of directors. However, a special meeting
 19 shall be called by the board of directors within one month
 20 after receipt of a request in writing from at least ten per
 21 centum (10%) of the total members to transact specific
 22 business covered by the call.

23 If the board fails to call a regular or a special
 24 meeting within the given period, the committee or group
 25 requesting the meeting shall have the power to convene such
 26 meeting.

27 (3) In the case of a newly approved cooperative, a
 28 special General Assembly shall be called within ninety (90)
 29 days from such approval.

30 (4) The Authority may call a special meeting of the
 31 cooperative:

1 a) for the purpose of reporting to the members
 2 the result of any audit, examination, or other
 3 investigation of the cooperative affairs ordered or
 4 made by him; or

5 b) when the cooperative fails to hold an annual
 6 General Assembly during the period required, for the
 7 purpose of enabling members to secure any information
 8 regarding the affairs of the cooperative and benefits
 9 that they are entitled to receive pursuant to this
 10 Code.

11 ARTICLE 34. Voting Systems. - (1) Each member of a
 12 primary cooperative shall have only one vote. A cooperative
 13 other than a primary cooperative shall have voting rights as
 14 prescribed in the By-Laws.

15 (2) No voting agreement or other device to evade the
 16 one-member one-vote provision, except as provided under sub-
 17 section (1) hereof shall be enforceable.

18 (3) No member shall be permitted to vote by proxy.

19 (4) The By-Laws may provide for voting by mail and by
 20 units of membership. If a cooperative has provided for
 21 voting by mail, the votes cast by the members shall be
 22 deemed to include the votes cast by mail.

23 (5) If a cooperative has provided for voting by
 24 delegates, votes cast by delegates shall be deemed as votes
 25 cast by the members. No delegate shall vote by mail.

26 ARTICLE 35. Composition of the Board of Directors. -
 27 The conduct and management of the affairs of a cooperative
 28 shall be vested in a board of directors which shall be
 29 composed of not less than five (5) nor more than fifteen
 30 (15) members elected by the General Assembly for a term fixed
 31 in the By-Laws but not exceeding a term of four (4) years and

/page 23

1 shall hold office until their successors are duly elected
2 and qualified, or until duly removed. However, no director
3 shall serve for more than four (4) consecutive years. The
4 By-Laws may provide for a method of allocating the number of
5 directors among the units of membership into which the
6 cooperative may be divided and for the election of
7 directors by respective units to which they are allocated.

8 ARTICLE 36. Powers of Board of Directors. - The board
9 of directors shall direct and supervise the business and
10 property of the cooperative and may, by resolution, exercise
11 all such powers of the cooperative as are not reserved for
12 the General Assembly under this Code and the By-Laws.

13 ARTICLE 37. Directors. - (1) Any member of a
14 cooperative who has acquired the right to vote and who
15 possesses all of the qualifications and none of the
16 disqualifications provided in the laws or the By-Laws shall
17 be eligible for election as director.

18 (2) The By-Laws may provide that a director, when
19 necessary, be appointed by any financing institution from
20 which the cooperative received financial assistance, solely
21 to provide technical knowledge not available within its
22 membership. Such director need not be a member of the
23 cooperative, and shall have no powers, rights, nor
24 responsibilities except to provide assistance as required by
25 the cooperative.

26 ARTICLE 38. Vacancy in the Board. - When a vacancy in
27 the board of directors occurs other than by expiration of
28 term, the remaining members of the board, by a majority
29 vote, shall fill the vacancy, unless the By-Laws provide for
30 an election of directors by units of members. In such case,
31 the board of directors shall immediately call a special

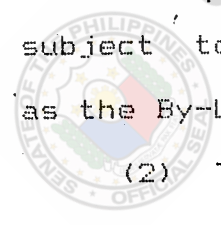
1 meeting of the members entitled to vote in that unit of
 2 membership to fill the vacancy. The director so elected or
 3 appointed shall serve until the next General Assembly where
 4 a special election if necessary shall be held to fill such
 5 vacancy.

6 ARTICLE 39. Officers of the Cooperative. - The board
 7 of directors shall elect from among themselves only the
 8 president and vice-president and elect or appoint other
 9 officers of the cooperatives from outside of the board in
 10 accordance with their By-Laws. All officers shall serve
 11 during good behaviour and shall not be removed except for
 12 cause after due hearing. Loss of confidence shall not be a
 13 valid ground for removal unless evidenced by acts or
 14 omissions causing loss of confidence in the honesty and
 15 integrity of such officer. No two or more persons
 16 related up to the second degree by consanguinity or
 17 affinity shall serve on the board or as elective/appointive
 18 officers in the cooperative.

19 ARTICLE 40. Committees of Cooperatives. - (1) An
 20 executive committee of the board of directors may be created
 21 by the board in such manner and with such powers and duties,
 22 subject to the general direction and control of the board,
 23 as the By-Laws may prescribe.

24 (2) The By-Laws shall also provide for the creation of
 25 an audit and inventory committee/supervisory committee and
 26 may provide for the creation of such other committees to
 27 exercise such powers and perform such duties as may be
 28 conferred or imposed by this Code, and the By-Laws of a
 29 cooperative.

30 In case of vacancy in said committees, the By-Laws
 31 shall provide for the filling up of the vacancy.



1 ARTICLE 41. Functions and Responsibilities of
 2 Officers, Directors, and Committee Members. - The functions
 3 and responsibilities of directors, officers, and committee
 4 members shall be prescribed in detail in the By-Laws of a
 5 cooperative.

6 ARTICLE 42. Liability of Directors and Committee
 7 Members. - The directors and committee members shall, in the
 8 discharge of their respective duties, be personally, jointly
 9 and severally responsible, for any transaction, act or
 10 omission made in violation of laws, the regulations of this
 11 Code, the By-Laws, the resolutions of the General
 12 Assemblies, the board of directors, or the rules of the
 13 cooperative except those who entered a written protest at
 14 the time when such transaction, act or omission was acted
 15 upon or within fifteen (15) days from discovery thereof.

16 ARTICLE 43. Compensation. - The By-Laws may authorize
 17 the board to recommend a fair-remuneration for time actually
 18 spent by its directors, committee members, officers, and
 19 employees in its service subject to the approval of the
 20 General Assembly.

21 ARTICLE 44. Prohibition Against Contract For Profit.
 22 No director, officer, committee member, employee, or his
 23 relative up to the second degree of consanguinity or
 24 affinity, during the term of his office, shall be a party to
 25 contract for profit with the cooperative. However,
 26 contracts ordinarily entered into by the members with the
 27 cooperative may be entered into by the same director,
 28 officer or committee member or employees.

29 ARTICLE 45. Illegal Use of Confidential Information.
 30 (1) A director or officer, or an associate of a
 31 director or officer, who, in connection with a transaction

1 relating to shares of a cooperative or a debt obligation of
2 a cooperative, makes use of confidential information for the
3 benefit or advantage of himself or an associate that, if
4 generally known, might reasonably be expected to affect
5 materially the value of the share or the debt obligation
6 shall be held:

7 a) Liable to compensate any person for a direct
8 loss suffered by that person as a result of the
9 transaction, unless the information was known or
10 reasonably should have been known to the person at the
11 time of the transaction; and,

12 b) Accountable to the cooperative for any direct
13 benefit or advantage received or yet to be received by
14 him or his associate, as a result of the transaction.

15 (2) The cooperative shall take the necessary steps to
16 enforce the liabilities described in subsection A.

17 ARTICLE 46. Removal. - An elective officer, director,
18 or committee member may be removed by a vote of the majority
19 of the voting members present and constituting a quorum, in
20 a regular or special General Assembly meeting called for the
21 purpose. The person involved shall be given an opportunity
22 to be heard at said assembly.

23 CHAPTER V

24 RESPONSIBILITIES, RIGHTS AND PRIVILEGES OF COOPERATIVES

25 ARTICLE 47. Address. - Every cooperative shall have an
26 official postal address registered with the Authority to
27 which all notices and communications shall be sent, and
28 shall send to the Authority notice of every change thereof.

29 ARTICLE 48. Books to be Kept Open. - (1) Every
30 cooperative shall keep open to its members and
31 representatives of the Authority for inspection during

1 reasonable office hours at its official address:

2 (a) A copy of this Code and all other laws;

3 (b) A copy of the regulations of the Authority;

4 (c) A copy of the Articles of Incorporation and By-
5 Laws of the cooperative;

6 (d) A register of members;

7 (e) The books of the minutes of the meetings of the
8 General Assembly, board of directors and committees;

9 (f) Stock books, where applicable;

10 (g) Financial statements; and

11 (h) Such other documents as may be prescribed by laws
12 or the By-Laws.

13 (2) The president/chief executive officer of a
14 cooperative shall be responsible for the up-to-date keeping
15 of books, records of account in accordance with generally
16 accepted cooperative accounting practices, and shall be
17 responsible for the production of the same at the time of
18 audit or inspection.

19 (3) Each cooperative shall maintain records and
20 accounts in such a manner that the true and correct
21 condition and the results of the operation of the
22 cooperative may be ascertained therefrom at any time. The
23 financial statements, audited according to generally
24 accepted auditing standards, principles and practices, shall
25 be published annually.

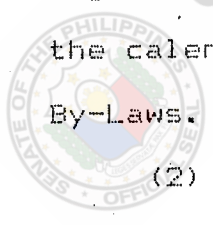
26 (4) A cooperative may dispose by way of burning or
27 other method of complete destruction any document, record or
28 book pertaining to its corporate, financial, and non-
29 financial operations which are already more than five (5)
30 years old except those relating to transactions which are
31 the subject of civil, criminal, and administrative

1 proceedings, subject to existing laws.

2 An inventory of the audited documents, records, and
3 books to be disposed of shall be drawn up and certified to
4 by the corporate secretary and the accountant of the
5 cooperative and presented to the board of directors which
6 may thereupon approve the disposition of said records.

7 ARTICLE 49. Annual Reports. - (1) Every cooperative
8 shall draw up an annual report of its affairs as of the end
9 of every fiscal year, and publish the same furnishing copies
10 to all its members of record. A copy thereof shall be filed
11 with the Authority within one hundred twenty (120) days from
12 the end of every fiscal year or within the extension period
13 which may be granted by the government in exceptional cases.
14 The report shall present the operational performance of the
15 cooperative during the last year compared with the previous
16 year; accompanied with the duly audited financial statements
17 for the previous years; and a projection of its operations
18 and financial statement for the following year. The form
19 and manner of presentation of the annual report including
20 additional information shall be prescribed in the
21 regulations. The fiscal year of every cooperative shall be
22 the calendar year except as may be otherwise provided in the
23 By-Laws.

24 (2) If any cooperative fails to make, publish and file
25 the report required herein, or fails to include therein any
26 matter required by this Code, the Authority shall within
27 fifteen (15) days from the expiration of the prescribed
28 period send such cooperative a registered notice directed to
29 its official postal address stating the delinquency and its
30 consequences. If the cooperative fails to make, publish or
31 file a copy of the report within thirty (30) days from



1 receipt of such notice, any member of the cooperative or the
 2 government may petition the court for mandamus to compel
 3 the cooperative and its officers to make, publish, and file
 4 such report, as the case may be and require the cooperative
 5 or the officers at fault to pay all the expenses of the
 6 proceeding, including counsel fees when the filing is made
 7 by a member.

8 ARTICLE 50. Bonding of Accountable Officers. - Every
 9 director, officer, and employee handling funds, securities
 10 or property on behalf of any cooperative shall execute and
 11 deliver adequate bonds for the faithful performance of his
 12 duties and obligations. The board of directors shall
 13 determine the adequacy of such bonds.

14 ARTICLE 51. Preference of Claims. - (1)
 15 Notwithstanding the provisions of existing laws, rules and
 16 regulations, but subject to the prior claim of the
 17 Authority, in respect to any sum recoverable as a public
 18 demand, or of Government financing institutions for whatever
 19 amount they have extended as loans in connection therewith,
 20 any debt due a cooperative from a member shall be first lien
 21 upon any raw materials, production inputs, and products
 22 produced; or any land, building, facilities, equipment,
 23 goods or services acquired and held, by such member through
 24 the proceeds of the loan or credit granted by the
 25 cooperative to him for as long as the same is not fully
 26 paid.

27 (2) No property or interest in property which is
 28 subject to a lien under subsection (1) shall be sold nor
 29 conveyed to third parties without the previous permission of
 30 the cooperative. The lien upon the property or interest
 31 shall continue to exist even after the sale or conveyance.

/page 30

1 thereof until such lien has been duly extinguished.

2 (3) Notwithstanding the provisions of any law, any
3 sale or conveyance made in contravention of subsection (2)
4 hereof shall be void.

5 ARTICLE 52. Instrument for Salary or Wage Deduction. -

6 (1) A member of a cooperative may, notwithstanding the
7 provisions of existing laws, execute an instrument in favor
8 of the cooperative authorizing his employer to deduct from
9 the salary or wages payable to him by the employer such
10 amount as may be specified to the cooperative in
11 satisfaction of any debt or other demand due from the member
12 to the cooperative.

13 (2) Upon the execution of such instrument and as may
14 be required by the cooperative contained in a written
15 request, the employer shall make the deduction in accordance
16 with the agreement and remit forthwith the amount so
17 deducted to the cooperative. The employer shall make the
18 deduction for as long as such debt or other demand or any
19 part of it remains unpaid by the employee.

20 (3) The term "employer" as used in this article shall
21 include all private firms and the national and local
22 governments and government-owned or controlled corporations
23 who have under their employ a member of a cooperative.

24 (4) The provision of this article shall also apply to
25 all such agreements of the nature referred to in sub-section
26 (1) as were in force on the date of the approval of this
27 Act.

28 ARTICLE 53. Absolute Lien. - A cooperative shall have
29 an absolute lien upon the capital, deposits or interest of a
30 member for any debt due to a cooperative from such a member,
31 either as principal or as a surety, and may set off any sum

1 credited or payable to a member in or towards payment of any
2 such debt.

3 ARTICLE 54. Non-Taxable Transactions. - All
4 transactions between a cooperative duly registered under
5 this Code in good standing as certified by the Authority (with
6 single primary purpose and/or dual primary purposes of a
7 complementary nature) and its regular members and/or
8 associate members who are natural persons and citizens of
9 the Philippines as well as any income derived therefrom,
10 shall not be subject to any form of taxation.

11 ARTICLE 55. Tax and Other Exemptions. - (1)
12 Transactions of a cooperative duly registered under this
13 Code in good standing as certified by the
14 Authority, regardless of classification, with not more than
15 five million pesos (P5,000,000.00) of accumulated reserves
16 and undivided net savings with third parties in so far as
17 these are undertaken to attain its primary objectives will
18 enjoy the following tax exemptions privileges, provided that
19 a substantial portion of the net income of the cooperative
20 is returned to members in the form of interests and/or
21 patronage refunds; Provided, further that the taxable income
22 shall mean that portion of the cooperative's income after
23 deducting the interest paid to members and patronage
24 refunds:

25 (a) Exemption from the value added tax (VAT) which are
26 directly payable by the cooperative. Purchases from exempt
27 cooperatives are presumed to have paid VAT, so long as the
28 covering invoices are marked "exempt per certificate no.
29 ____." Provided, that, non-cooperatives which sell to
30 cooperatives shall be entitled to tax refund equivalent to
31 the VAT payable on items sold to cooperatives.

1 (b) Exemption to the extent of one hundred per cent
2 (100%) from customs duties payable thereon on importations
3 covering machinery and equipment and accompanying spare
4 parts made by cooperatives, provided that the aforesaid
5 importations shall comply with the following conditions:

6 i) They are, not manufactured domestically in
7 sufficient quantity, of comparable quality and at
8 reasonable prices as determined by the Authority or its
9 duly designated representative;

10 ii) They will be exclusively used by the cooperative
11 in pursuance of its primary purpose/s;

12 iii) The approval of the Authority or its duly
13 designated representative is obtained by the
14 cooperative prior to the importation of such machinery
15 and equipment and accompanying spare parts;

16 iv) If the cooperative sells, transfers or disposes of
17 these machinery and equipment and accompanying spare
18 parts without the prior approval of the Authority or
19 its duly designated representative within five (5)
20 years from the date of acquisition, the cooperative and
21 the vendee, transferee, or assignee shall be solidarily
22 liable to pay twice the amount of tax and duty
23 exemptions to it.

24 (c) Exemptions from income taxes and sales taxes .

25 (d) Any judge in his capacity as notary public, ex-
26 officio shall render service, free of charge, to any person
27 or group of persons requiring either the administration of
28 oath or the acknowledgement of Articles of Incorporation of
29 a cooperative applicant for registration and instruments of
30 loan from cooperative not exceeding fifty thousand pesos
31 (P50,000.00).

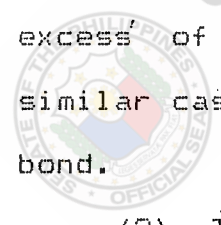
1 (e) Any register of deeds shall accept for
 2 registration, free of charge, any instrument relative to a
 3 loan made under this Act which does not exceed fifty
 4 thousand pesos (P50,000.00) or the deeds of title of any
 5 property acquired by the cooperative or any paper or
 6 document drawn in connection with any action brought by the
 7 cooperative or with any court judgment rendered in its favor
 8 or any instrument relative to a bond of any accountable
 9 officer of a cooperative for the faithful performance of
 10 his duties and obligations.

11 (f) Cooperatives shall be exempt from the payment of
 12 all court and sheriff's fees payable to the Philippine
 13 government for and in connection with all actions brought
 14 under this Code, or enforce the payment of obligations
 15 contracted in favor of the cooperative, and where such an
 16 action is brought by the Authority before the court, it
 17 shall, likewise, not be required to pay any such fees.

18 (g) Cooperatives shall be exempt from putting up a
 19 bond for bringing an appeal against the decision of an
 20 inferior court or for seeking to set aside any third party
 21 claim. Provided, that a certification of the Authority
 22 showing, that the net assets of the cooperative are in
 23 excess of the amount of the bond required by the court in
 24 similar cases shall be accepted by the court as a sufficient
 25 bond.

26 (2) The abovementioned tax exemption privileges shall
 27 be governed by the following guidelines:

28 (a) Incentives shall be given for a period of
 29 five (5) years within which a cooperative should grow
 30 and become self-sufficient and self-reliant, from the
 31 date of registration with the Authority.



1 (b) Incentives could be extended beyond the
 2 prescribed period only in cases of natural calamities
 3 beyond the control of the cooperative and/or its
 4 members. However, such an extension should only
 5 correspond to the number of affected months or years.

6 (c) The maximum number of years that incentives
 7 can be extended beyond the prescribed original period
 8 of five (5) years, is another five (5) years.

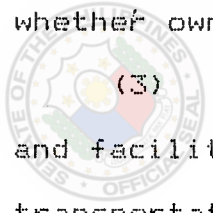
9 ARTICLE 56. Special Privileges. - Cooperatives
 10 registered under this Code shall, notwithstanding the
 11 provisions of any law, be accorded also the following
 12 privileges:

13 (1) Cooperatives shall enjoy the privilege of
 14 depositing their sealed cash boxes or containers, documents,
 15 or any valuable papers in the safes of the municipal or city
 16 treasurers and other government offices free of charge, and
 17 the custodian of such articles shall issue a receipt
 18 acknowledging the articles received witnessed by another
 19 person.

20 (2) Cooperatives organized among government employees,
 21 notwithstanding any law or regulation to the contrary, shall
 22 enjoy the free use of any available space in their agency,
 23 whether owned or rented by the government.

24 (3) Cooperatives rendering special types of services
 25 and facilities such as cold storage, ice plant, electricity,
 26 transportation, and similar services and facilities shall
 27 secure a franchise therefor and, that such cooperative
 28 shall open their fields of membership to all persons
 29 qualified in their areas of operation.

30 (4) In areas where appropriate cooperatives exist, the
 31 rights of first refusal to supply to government



1 institutions and agencies, rice, corn and other grains, fish
2 and other marine products, meat, eggs, milk, vegetables,
3 tobacco and other agricultural commodities produced by their
4 members shall be granted to the cooperatives concerned.

5 (5) Cooperatives and their federations such as market
6 vendor cooperatives shall have preferential rights in the
7 management of public markets and/or lease of public market
8 facilities, stalls, or spaces.

9 (6) Credit cooperatives and/or federations, shall be
10 entitled to loans, credit lines, rediscounting of their loan
11 notes and other eligible papers with the Development Bank of
12 the Philippines, the Philippine National Bank, the Land Bank
13 of the Philippines, and other financial institutions except
14 the Central Bank of the Philippines.

15 (7) Whenever a Cooperative Bank organized under this
16 Code is distressed or may need assistance in the
17 rehabilitation of its financial condition or to avoid
18 bankruptcy, the Central Bank of the Philippines shall take
19 over such banks, including interim take over or management
20 of said banks pursuant to the provisions of Section 29
21 Republic Act No. 265, as amended.

22 (8) In bidding for purchases of requirements of
23 government entities, subdivisions, units, departments, or
24 government owned or controlled corporations, cooperatives
25 will be given a ten percent (10%) advantage over other local
26 suppliers, and twenty percent (20%) over foreign suppliers
27 (including the present ten percent (10%) under the Flag
28 Law), so long as the products being bid are normally
29 produced in pursuance of the primary purpose/s of the
30 cooperative. If a cooperative cannot supply the entire

1 requirement, this privilege will still be extended but only
 2 to the extent of the cooperative's ability to produce on its
 3 own the items being bid out. This privilege shall apply
 4 only to cooperatives which have passed the pre-
 5 qualification stage.

6 CHAPTER VI - Dissolution of Cooperatives

7 ARTICLE 57. Voluntary Dissolution Where no Creditors
 8 are Affected. - If the dissolution of a cooperative does not
 9 prejudice the rights of any creditor having a claim against
 10 it, the dissolution may be effected by a majority vote of
 11 the board of directors, and by a resolution duly adopted by
 12 the affirmative vote of the stockholders owning at least
 13 two-thirds (2/3) of the outstanding capital stock or of at
 14 least two-thirds (2/3) of the members at a meeting to be
 15 held upon call of the directors after publication of the
 16 notice of time, place and object of the meeting for three
 17 (3) consecutive weeks in a newspaper published in the place
 18 where the principal office of said cooperative is located;
 19 and if no newspaper is published in such place then in a
 20 newspaper of general circulation in the Philippines, after
 21 sending such notice to each stockholder or member either by
 22 registered mail or by personal delivery at least thirty (30)
 23 days prior to said meeting. A copy of the resolution
 24 authorizing the dissolution shall be certified by a majority
 25 of the board of directors and countersigned by the secretary
 26 of the cooperative. The Authority shall thereupon issue
 27 the certificate of dissolution.

28 ARTICLE 58. Voluntary Dissolution Where Creditors Are
 29 Affected. - Where the dissolution of a cooperative may
 30 prejudice the rights of any creditor, the
 31 petition for dissolution shall be filed

/page 37

1 with the Authority. The petition shall be signed by a
2 majority of its board of directors or other officers having
3 the management of its affairs verified by its president
4 or secretary or one of its directors and shall set forth all
5 claims and demands against it, and that its dissolution was
6 resolved upon by the affirmative vote of the stockholders
7 representing at least two-thirds (2/3) of the outstanding
8 capital stock or by at least two-thirds (2/3) of the
9 members, at a meeting of its stockholders or members called
10 for that purpose.

11 If the petition is sufficient in form and substance,
12 the Authority shall, by an order reciting the purpose of the
13 petition, fix a date on or before which objections thereto
14 may be filed by any person, which date shall not be less
15 than thirty (30) nor more than sixty (60) days after the
16 entry of the order. Before such date, a copy of the order
17 shall be published at least once a week for three (3)
18 consecutive weeks in a newspaper of general circulation
19 published in the municipality or city where the principal
20 office of the cooperative is situated, or if there be no
21 such newspaper, then in a newspaper of general circulation
22 in the Philippines, and a similar copy shall be posted for
23 three (3) consecutive weeks in three (3) public places in
24 the municipality or city.

25 Upon five (5) days notice, given after the date on
26 which the right to file objections as fixed in the order has
27 expired, the Authority shall proceed to hear the petition
28 and try any issue made by the objections filed; and if no
29 such objection is sufficient, and the material allegations
30 of the petition are true, it shall render judgement
31 dissolving the cooperative and directing such disposition of

1 its assets as justice requires, and may appoint a receiver
2 to collect such assets and pay the debts of the cooperative.

3 ARTICLE 59. Involuntary Dissolution. - A cooperative
4 may be dissolved by the Authority upon filing of a verified
5 complaint and after proper notice and hearing on the grounds
6 of (1) violation of any law, regulation, or provisions of
7 its By-Laws; (2) insolvency; or (3) its continued operation
8 is harmful to the interest or welfare of the general public;
9 (4) non-user of its charter.

10 ARTICLE 60. Cooperative Liquidation. - Every
11 cooperative whose charter expires by its own limitation or
12 is annulled by forfeiture or otherwise, or whose cooperative
13 existence for other purposes is terminated in any other
14 manner, shall nevertheless be continued as a body
15 cooperative for three (3) years after the time when it would
16 have been so dissolved, for the purpose of prosecuting and
17 defending suits by or against it and enabling it to settle
18 and close its affairs, to dispose of and convey its
19 property and to distribute its assets, but not for the
20 purpose of continuing the business for which it was
21 established.

22 At any time during said three (3) years, said
23 cooperative is authorized and empowered to convey all of its
24 property to trustees for the benefit of stockholders,
25 members, creditors, and other persons in interest. From and
26 after any such conveyance by the cooperative of its
27 property in trust for the benefit of its stockholders,
28 members, creditors and others in interest, all interest
29 which the cooperative had in the property terminates, the
30 legal interest vests in the trustees, and the beneficial
31 interest vests in the stockholders, members, creditors or

/page 39

1 other persons in interest.

2 Upon the winding up of the cooperative affairs, any
3 asset distributable to any creditor or stockholder or member
4 who is unknown or cannot be found shall be given to the
5 federation, union or association to which the cooperative is
6 affiliated or to the movement.

7 Except by decrease of capital stock and as otherwise
8 allowed by this Code, no cooperative shall distribute any of
9 its assets or property except upon lawful dissolution and
10 after payment of all its debts and liabilities.

11 CHAPTER VII

12 AUDIT, INQUIRY AND MEMBERS' RIGHT TO EXAMINE

13 ARTICLE 61. - (1) Annual Audit.- Cooperatives under
14 this code shall be subject to an annual audit by an auditor.
15 A person is qualified to become an auditor of the
16 cooperative if he:

17 a) is independent of the cooperative, the
18 directors and officers of a cooperative or its
19 subsidiary being audited;

20 b) is a member of any recognized accounting
21 professional or cooperative auditors' association with
22 similar qualifications;

23 (2) For purposes of this Article, "independence" shall
24 be deemed a question of fact, and a person shall not be
25 deemed independent if he:

26 a) is a business partner, director, officer or
27 employee of a cooperative or any of its subsidiaries,
28 or

29 b) beneficially owns or controls directly or
30 indirectly a material interest in the securities of the
31 cooperative or any of its subsidiaries; or

/page 40

1 c) had been a liquidator, administrator, receiver or
2 a trustee in bankruptcy proceeding of the cooperative
3 or any of its subsidiaries within two years prior to
4 his appointment as auditor.

5 ARTICLE 62. Inquiry. - The Authority or its represen-
6 tative shall examine and conduct an inquiry into a cooperative.

7 1) upon sworn statement or complaint of any aggrieved
8 member or

9 2) upon an adverse report on audit.

10 Said inquiry shall be conducted in accordance with the
11 regulations promulgated by the Authority.

12 ARTICLE 63. Cost of Inquiry. - The Authority may
13 prescribe the cost of inquiry or inspection which will be
14 borne by a cooperative if the findings of the inquiry are
15 well-founded, otherwise, the applicant will bear the
16 expense. If the result of the inspection or inquiry under
17 Article 62 discloses certain defects or irregularities in
18 the cooperative, the Authority shall bring such defects or
19 irregularities to the attention of such cooperative, and to
20 the cooperative federation/union where a cooperative is a
21 member.

22 ARTICLE 64. Auditing Reports.

23 (1) The external auditor shall submit:

24 a) to the audit committee, a report on the
25 financial statements;

26 b) to the audit committee, a management letter in
27 accordance with the requirements established
28 in the regulations; and

29 c) furnish copies of the documents mentioned in
30 clauses (a) and (b) to the Authority.

31 (2) The external auditor of a cooperative is entitled



/page 41

1 to receive notice of every meeting of the audit committee
2 and, at the expense of the cooperative, to attend and be
3 heard at a meeting of the audit committee.

4 (3) Every audit committee shall review with the
5 auditor the scope of the audit before he commences his
6 duties; and ensure that the recommendations of the auditor
7 receive the attention of the managers of the cooperative.

8 (4) Where a member of the audit committee requests,
9 the auditor shall attend every meeting of the committee held
10 during his term of office.

11 (5) The auditor of a cooperative or a member of the
12 audit committee may call a meeting of the committee.

13 (6) A director or an officer of a cooperative shall
14 immediately notify the audit committee, and the auditor, of
15 any error or misstatement which he becomes aware of in a
16 financial statement that the auditor or a former auditor has
17 reported on.

18 (7) Where the auditor or former auditor or a
19 cooperative is notified or becomes aware of an error or
20 misstatement in a financial statement on which he has
21 reported and, in the opinion of the auditor, such error or
22 misstatement is material, he shall inform each director of
23 the error.

24 (8) Where, pursuant to Subsection 7, the auditor or
25 former auditor informs the directors, or the directors
26 otherwise have knowledge of an error or misstatement in a
27 financial statement, the directors shall:

- 28 a) prepare and issue revised financial
29 statements; or
30 b) inform the Authority immediately and the
31 members at or before the next general meeting

1 of the error or misstatement.

2 ARTICLE 65. - Non-Liability for Defamation. An
3 auditor is not liable to any person in an action for
4 defamation based on any act done, or not done, or any
5 statement made by him in good faith in connection with any
6 matter he is authorized or required to do pursuant to this
7 Code.

8 ARTICLE 66. Members' Right to Examine. -

9 (1) Members shall examine the records of the
10 cooperative during the regular business hours of the
11 cooperative and may take extracts of these records without
12 charge.

13 (2) Upon request, a member is entitled to one copy of
14 the Articles of Incorporation and By-Laws by paying a small
15 fee.

16 (3) Every member is entitled to a statement of his
17 transaction with the cooperative.

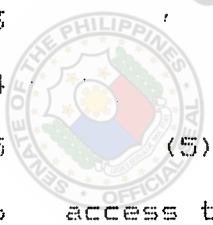
18 (4) A cooperative shall give access to the records
19 mentioned in subsection 1 at all reasonable times to:

- 20 a) A director who has been authorized by
- 21 resolution of the board to be given said
- 22 access;
- 23 b) The Auditor; and
- 24 c) The Authority or its duly authorized agent.

25 (5) Employees of the cooperative shall likewise have
26 access to the records if authorized by the board or manager
27 of the cooperative as being necessary for carrying out their
28 duties.

29 ARTICLE 67. Safety of Records. - The cooperative
30 shall take reasonable precaution to:

- 31 (1) Prevent loss or destruction;



- 1 (2) Prevent falsification; and
2 (3) Facilitate detection and correction of
3 inaccuracies in the register and other
4 records required by this Code to be prepared
5 and maintained.

6 CHAPTER VIII

7 CAPITAL, PROPERTY, AND FUNDS

8 ARTICLE 68. Capital. - The capitalization of
9 cooperatives and the accounting therefor shall be governed
10 by the provisions of this Code and the regulations issued
11 thereunder.

12 ARTICLE 69. Capital Sources. - Cooperatives registered
13 under this Code may derive their capital from:

- 14 (a) Members' share capital/capital contribution in
15 the form of shares with or without capital stock;
16 (b) Loan capital, including deposits;
17 (c) Retained earnings or common reserves
18 authorized on a percentage or per unit basis;
19 (d) Revolving capital by deferment of the payment
20 of patronage refunds, interest on share capital/capital
21 contributions, or by authorized retains or all of them;
22 and
23 (e) Fees, dues, subsidies, donations, legacies,
24 grants, and such other sources from any local or
25 foreign institution whether private or government.

26 ARTICLE 70. Limitation on Capital Holdings. - No
27 member of a cooperative other than a cooperative shall own
28 or hold more than twenty per centum (20%) of the subscribed
29 or pledged share capital of the cooperative.

30 ARTICLE 71. Interest on Capital. - Interest on share
31 capital shall not exceed the normal rate of return on

/page 44

1 investments as determined by the Authority and such interest
2 shall be non-cumulative.

3 ARTICLE 72. Shares. - The term "share" refers to a
4 unit of capital, the par value of which may be fixed at any
5 figure but not less than one peso. The share capital of a
6 cooperative with capital stock is the money paid for,
7 authorized, or required to be paid for to conduct its
8 operations. The share capital of a cooperative without
9 capital stock is the money paid or required to be paid and
10 is not limited by any authorized amount. The method of
11 issuing the contents of stock or membership certificates may
12 be prescribed in the regulations of the cooperative.

13 ARTICLE 73. Fines. - The By-Laws of a cooperative may
14 prescribe a fine on unpaid subscribed capital/pledged capital
15 contributions following standardized guidelines of the
16 Authority.

17 ARTICLE 74. Investment of Funds. - (1) A cooperative
18 may invest or deposit its funds:

19 (a) In the shares or debentures or the securities
20 of any other cooperative with limited liability; or

21 (b) In any reputable bank in the locality, or any
22 cooperative;

23 (c) In the securities issued or guaranteed by the
24 Government;

25 (d) In real estate; or

26 (e) In any other manner authorized in the By-
27 Laws.

28 ARTICLE 75. Revolving Fund. - The General Assembly of
29 any cooperative may authorize the board of directors in its
30 By-Laws to raise a revolving capital to strengthen the
31 capital structure of their cooperative by deferring the

1 payment of patronage refunds and interest on capital/capital
 2 contribution or by the authorized deduction of a percentage
 3 from the proceeds of products sold or per unit of product
 4 handled. The board of directors shall issue revolving fund
 5 certificates with serial number, name, amount, and rate of
 6 interest to be paid and shall distinctly set forth that the
 7 time of retirement of such certificates and the amounts to
 8 be returned are at the discretion of the board of directors.

9 CHAPTER IX

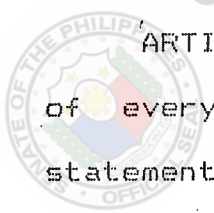
10 ALLOCATION AND DISTRIBUTION OF SAVINGS

11 ARTICLE 76. Computation of Savings. - Notwithstanding
 12 the provisions of existing laws, the computation of savings
 13 for cooperatives shall be as prescribed in the By-Laws.
 14 Every cooperative shall compute the savings at least once at
 15 the close of every fiscal year and at such other time as may
 16 be prescribed by the By-Laws.

17 ARTICLE 77. Net Savings. -The net savings shall not be
 18 construed as profits but as excess of payments made by the
 19 members for the loan borrowed, or the goods and services
 20 bought by them from the cooperative and which shall be
 21 deemed to have been returned to them if the net savings are
 22 distributed as prescribed herein.

23 ARTICLE 78. Order of Distribution. - The net savings
 24 of every cooperative as reflected in its audited financial
 25 statements shall be distributed as follows:

- 26 (1) Reserve Fund, at least ten per cent (10%).
 27 (a) The Reserve Fund shall be a reserve which shall be
 28 used for the stability of the cooperative and to meet net
 29 losses in its operations. The General Assembly may decrease
 30 the proportion of the net savings to be set aside when
 31 reserve fund exceeds the subscribed capital/pledged capital



1 contribution.

2 Any sum recovered on items previously charged to the
3 reserve fund shall be credited to such fund.

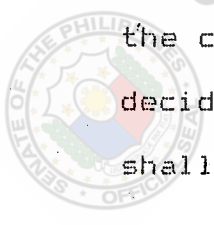
4 (b) The Reserve Fund shall not be utilized for
5 investment, other than those mentioned in this Code. Such
6 sum of the Reserve Fund in excess of the amount equal to the
7 subscribed capital/pledged capital contribution may be used
8 at anytime by resolution of the members for any project that
9 would expand the operations of the cooperative.

10 (c) On the dissolution of the cooperative, the Reserve
11 Fund shall not be divisible among the members. The General
12 Assembly may resolve:

13 i) To establish a usufructuary trust fund for any
14 federation or union of the cooperative for the
15 improvement of the cooperative movement, with the
16 Reserve Fund to eventually go to the federation, union
17 or association to which the cooperative is affiliated
18 or to the movement, and/or

19 ii) To donate, contribute, or otherwise dispose
20 of the amount for the establishment of a usufructuary
21 community trust fund which would improve the economic
22 and social condition of the community in the area of
23 the cooperative. If the members do not meet or cannot
24 decide upon the disposal of the Reserve Fund, the same
25 shall be adjudicated in favor of the federation, union,
26 or association to which the cooperative is affiliated
27 or to the movement.

28 (2) Education and Development Fund, at least ten per
29 centum (10%). The By-Laws may provide that certain given
30 fees or fines or a portion thereof shall be credited to such
31 fund.



1 (a) Half of the amounts transferred to the
 2 Education and Development Fund annually under this
 3 subsection may be spent by the cooperative for
 4 education and training and other purposes; while the
 5 other half shall be credited to the Education and
 6 Development Fund administered by the National
 7 Cooperative Union;

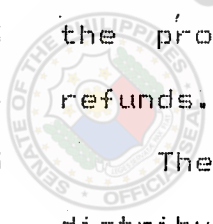
8 (b) On the dissolution of a cooperative, the
 9 unexpended balance of the Education and Development
 10 Fund appertaining to the cooperative shall be credited
 11 to the Cooperative Education and Development Fund.

12 (3) An optional fund, a Land and Building, Community
 13 Development, and any Other Necessary Fund the total of which
 14 may not exceed ten per centum (10%).

15 (4) The remaining net savings shall be made available
 16 for interest on share capital/capital contribution not to
 17 exceed the normal rate of return in investments and
 18 patronage refunds. Cooperatives with unlimited liability
 19 shall not pay interest on capital nor distribute patronage
 20 refunds unless the total amount of the reserve fund exceeds
 21 the combined amount of the subscribed capital and the total
 22 outstanding liabilities of the cooperative as of the date of
 23 the proposed payment of interest on capital and patronage
 24 refunds.

25 The sum allocated for patronage refunds shall be
 26 distributed at the same rate to all patrons of the
 27 cooperative in proportion to their individual patronage;
 28 Provided, That:

29 (a) In the case of a member patron with fully
 30 paid up share or capital contribution, his
 31 proportionate amount of patronage refund shall be paid



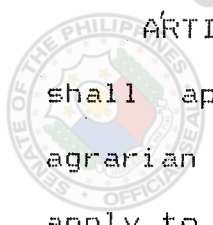
1 to him unless he agrees that the cooperative should
 2 credit the amount to his account toward the purchase of
 3 an additional share or shares or other capital;

4 (b) In the case of a member-patron who has not
 5 yet fully paid up his shares, his proportionate amount
 6 of patronage refund shall be credited to his account
 7 until his capital contribution has been paid;

8 (c) In the case of a non-member patron, his
 9 proportionate amount of patronage refund shall be set
 10 aside in a general fund for such patrons and shall be
 11 allocated to individual non-member patrons only upon
 12 request and presentation of evidence of the amount of
 13 his patronage. The amount so allocated shall be
 14 credited to such patron toward payment of the minimum
 15 capital contribution for membership. When a sum equal
 16 to his amount has accumulated at any time within a
 17 period of time specified in the By-Laws, such patron
 18 shall be deemed to become a member of the cooperative
 19 if he so agrees or requests and complies with the
 20 provisions of the By-Laws for admission to membership.

21 CHAPTER X - SPECIAL PROVISIONS RELATING TO AGRARIAN
 22 REFORM COOPERATIVES

23 ARTICLE 79. Coverage. - The provisions of this Chapter
 24 shall apply only to cooperatives organized as vehicles for
 25 agrarian reform and the other provisions of this Code may
 26 apply to such cooperatives unless the same are inconsistent
 27 herewith. Nothing in this Chapter, however, shall preclude
 28 the organization of cooperatives among agrarian reform
 29 beneficiaries by the cooperative movement under the other
 30 provisions of the Code provided the same do not compete with
 31 the operations of the cooperatives organized under this



1 Chapter.

2 ARTICLE 80. Agrarian Reform Cooperatives. -

3 Cooperatives organized under this Chapter shall be referred
4 to as "agrarian reform cooperatives." The majority of
5 the membership in this cooperative shall be agrarian reform
6 beneficiaries. Such cooperatives may be organized and
7 registered in accordance with this Code for any or all of
8 the following purposes:

9 (1) Development of the most suitable and appropriate
10 system of land tenure, land development, land consolidation
11 and/or land management in areas subjected to agrarian
12 reform;

13 (2) Coordinate and/or facilitate the scientific
14 production, storage, transport, marketing, and supply
15 requirements of agrarian reform beneficiaries and their
16 immediate family members, hereinafter referred to as
17 "beneficiaries";

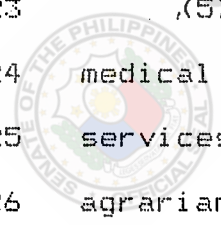
18 (3) Provide financial facilities to beneficiaries for
19 provident or productive purposes at reasonable costs;

20 (4) Arrange and facilitate the expeditious transfer of
21 appropriate and suitable technology to beneficiaries at the
22 lowest possible cost;

23 (5) Provide social security services, health and
24 medical services and facilities, social insurance, and other
25 services that would promote the general welfare of the
26 agrarian reform beneficiaries;

27 (6) Provide education, training, and extension
28 services to beneficiaries on better living and livelihood;

29 (7) Act as channels for external assistance and
30 services to beneficiaries along their lines of economic or
31 social activity;



1 (8) Undertake the comprehensive and integrated
 2 planning and development of communities at the barangay and
 3 municipal levels in agrarian reform and resettlement areas
 4 with special concern for the development of agro-based,
 5 marine-based, and cottage-based industries;

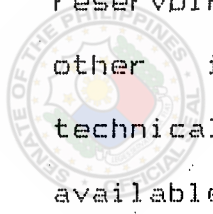
6 (9) Act as representative of the beneficiaries on any
 7 or all matters delegated to it by them;

8 (10) Conduct such other economic or social activities
 9 as may be necessary or incidental to the exercise of the
 10 foregoing functions.

11 ARTICLE 81. Cooperative Estates. - Landholdings like
 12 plantations, estates or haciendas acquired by the State for
 13 the benefit of the workers in accordance with the
 14 Comprehensive Agrarian Reform Program shall be owned
 15 collectively by the workers-beneficiaries who shall form a
 16 cooperative or association, if it is not economically
 17 feasible and sound to divide the land.

18 ARTICLE 82. Infrastructure. - In agrarian reform and
 19 resettlement areas, the government shall grant to agrarian
 20 reform cooperatives preferential treatment, if necessary,
 21 the authority to construct, maintain, and manage with
 22 government funding, roads, bridges, canals, wharves, ports,
 23 reservoirs, irrigation systems, waterworks systems, and
 24 other infrastructure. For this purpose, government
 25 technical assistance, facilities and equipment shall be made
 26 available to such agrarian reform cooperatives for their
 27 use.

28 ARTICLE 83. Land Grants. - The government may award
 29 such land grants as may be reasonable and available to any
 30 agrarian reform cooperative on a ten (10) year or twenty-
 31 five (25) year period subject to renewal for another twenty



1 five (25) years only. Provided that the application for
2 renewal shall be made one (1) year before the expiration of
3 the term and, provided further that such land grant shall be
4 for the exclusive use and benefit of the beneficiaries
5 subject to the provisions of the Comprehensive Agrarian
6 Reform Program.

7 ARTICLE 84. Public Services. - (1) In agrarian
8 reform areas, preferential rights may be granted to agrarian
9 reform cooperatives in the grant of franchises and
10 certificates of public convenience and necessity in the
11 operation of communications, land, sea, or air passenger or
12 cargo transport, waterworks systems, and such other public
13 utilities and services requiring the grant of a franchise or
14 certificate of public convenience and necessity shall be
15 granted for a period of not less than ten (10) years
16 renewable for the same periods, subject to such terms and
17 conditions as the Authority may reasonably impose.

18 (2) Electric service agencies shall, upon request of
19 agrarian reform cooperatives, immediately provide electric
20 services to agrarian reform areas. If the electric
21 service agencies concerned fails for any reason to provide
22 the services requested within a period of one (1) year from
23 receipt thereof, the agrarian reform cooperative concerned
24 may provide the electric services in the agrarian reform
25 area directly through its own resources and shall continue
26 to do so until such time that the electric service agency
27 concerned purchases all the investments made by the agrarian
28 reform cooperative in the electrification of the agrarian
29 reform areas.

30 ARTICLE 85. Exclusive Channel of Economic and Social
31 Activity. - Subject to such reasonable terms and conditions

1 as the Department of Agrarian Reform and the Authority may
2 impose, agrarian reform cooperatives may be given the
3 exclusive right to do any or all of the following for such
4 periods as may be agreed upon among the members and by said
5 agencies and the agrarian reform cooperatives concerned in
6 agrarian resettlement areas.

7 (1) Supply and distribution of consumer, agricultural,
8 aquacultural, and industrial goods, production inputs, and
9 raw materials and supplies, machinery, equipment, facilities
10 and other services and requirements of the beneficiaries in
11 the agrarian reform areas at reasonable prices;

12 (2) Marketing of the products and services of the
13 beneficiaries on the local and foreign markets;

14 (3) Processing of the members' products into finished
15 consumer or industrial goods for domestic consumption or for
16 export;

17 (4) Provision of essential public services at cost
18 such as power, irrigation, potable water, passenger and/or
19 cargo transportation by land, sea, or air, communication
20 services, and public health and medical care services;

21 (5) Management, conservation, and commercial
22 development of marine, forestry, mineral, water, and other
23 natural resources subject to compliance with the laws and
24 regulations on environmental and ecological controls;

25 (6) Provision of financial, technological, and other
26 services and facilities required by the beneficiaries in
27 their daily lives and livelihood.

28 The Government shall provide the necessary financial
29 and technical requirements directly to the agrarian reform
30 cooperatives to enable them to discharge effectively its
31 authority and responsibility under this Article.

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CHAPTER XI

SPECIAL PROVISIONS ON PUBLIC SERVICE TYPES
OF COOPERATIVES

ARTICLE 86. Coverage. - The provisions of this Chapter shall apply only to cooperatives rendering public services for which an exclusive franchise is granted or for which certificates of public convenience and necessity are issued such as, but not limited to the following types of services:

(1) Power generation, transmission, and/or distribution. Electric cooperatives organized under the provisions of P.D. No. 269, as amended, shall be governed under this Chapter;

(2) Electric, ice plants and cold storage services;

(3) Communications services including telephone, telegraph, and telecommunications;

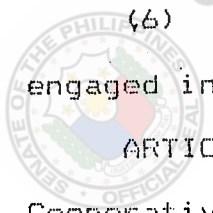
(4) Land, sea, and air transportation cooperatives for passenger and/or cargo. Transport cooperatives organized under the provisions of Executive Order No. 898, series of 1983, shall be governed by this Chapter;

(5) Public markets, slaughter houses and other similar services; and

(6) Such other types of public service as may be engaged in by any cooperative.

ARTICLE 87. Registration of Public Service Cooperatives. - No public service type of cooperative shall be registered as such unless the same satisfies the following requirements:

(1) That the public service cooperative carries the favorable endorsement of the government agency in charge of granting franchise or certificates of public convenience or



1 necessity and regulating companies engaged in similar public
2 service activities;

3 (2) That the Articles of Incorporation and By-Laws of
4 such cooperative provide for membership therein by the users
5 and/or producers of the services of such cooperative; and

6 (3) That it satisfies such other requirements as may
7 be imposed by the other pertinent government agencies
8 concerned.

9 (4) In case there are two (2) or more applicants for
10 the same public service franchise, other things being equal,
11 preference should be given to cooperatives.

12 ARTICLE 88. Regulation of Public Service
13 Cooperatives.

14 (1) The administration and management of the internal
15 affairs of public service cooperatives such as the rights
16 and privileges of membership; systems and procedures for
17 meetings of the General Assembly, board and committees;
18 terms of reference for the election and qualifications of
19 officers, directors, and committee members; allocation and
20 distribution of surpluses; and all other matters relating to
21 the institutional character of such cooperatives shall be
22 governed by this Code.

23 (2) All matters relating to the franchise or
24 certificate of public service cooperatives such as
25 capitalization and investment requirements, equipment and
26 facilities, frequencies, rate-fixing, and such other matters
27 having to do with technical operations of such cooperatives
28 shall be governed by the pertinent public service law and
29 regulated by the Government public service agency concerned.

30 (3) The Authority and the Government public service
31 agency concerned shall jointly issue the necessary

1 regulations to implement this Chapter.

2 CHAPTER XII

3 SPECIAL PROVISIONS RELATING TO COOPERATIVE BANKS

4 ARTICLE 89. Governing Law. - The special provisions
5 under this Chapter shall apply only to cooperative banks
6 registered under this Code and the other provisions of this
7 Code shall apply to them only in so far as they are not
8 inconsistent with the provisions contained in this Chapter.
9 The term "Cooperative Bank" shall include "Cooperative Rural
10 Banks."

11 ARTICLE 90. Purposes. - (1) The purpose of
12 cooperative banks are to facilitate the operation of
13 cooperatives by furnishing credit for the cooperative
14 movement at the national and local levels. (1) The
15 Cooperative Bank at the national level may:

16 (a) Carry on banking and credit business for the
17 cooperatives;

18 (b) Receive financial aid or loans from the Government
19 and the Central Bank of the Philippines for and on behalf of
20 the cooperative banks and primary cooperatives and their
21 federations engaged in business and supervise the lending
22 and collection of loans;

23 (c) Mobilize savings for the benefit of the
24 Cooperative Movement;

25 (d) Act as a balancing medium for the surplus funds of
26 cooperatives and their federations;

27 (e) Discount bills and promissory notes issued and
28 drawn by cooperatives;

29 (f) Issue drafts on demand to facilitate the
30 activities of cooperatives;

31 (g) Issue debentures with the approval of and under

1 conditions and guarantees to be prescribed by the
2 Government;

3 (h) Borrow money from other banks within the limit to
4 be prescribed by the Central Bank;

5 (i) Supervise the lending and collection of funds by
6 the cooperative banks;

7 (j) Provide for the training of its employees and of
8 the cooperatives; and

9 (k) Carry on all other projects as may be prescribed
10 by the Authority and/or the Central Bank.

11 (2) The local cooperative banks may in addition to
12 its functions noted in clauses (a), (c), (d) and (f) of sub-
13 section (1) of this Article may -

14 (a) Act as agents of the proposed cooperative bank
15 at the national level;

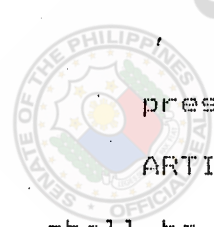
16 (b) Supervise the lending and collection of funds
17 borrowed by cooperatives;

18 (c) Receive financial aid from the Government and
19 Central Bank of the Philippines through the cooperative
20 bank at the national level;

21 (d) Provide for the training of its employees and
22 the employees of the cooperatives;

23 (e) Carry on all other functions as may be
24 prescribed by the Authority and/or the Central Bank.

25 ARTICLE 91. Registration. - No cooperative bank
26 shall be registered by the Authority unless the Articles of
27 Incorporation and the By-Laws of such bank have been
28 approved by the Central Bank of the Philippines and the
29 cooperative bank satisfies all requirements for registration
30 as a cooperative. There may be registered one cooperative
31 bank at the national level to serve as the central



1 cooperative bank. Since a cooperative bank deals with
2 certain peculiarities, the registration of the cooperative
3 bank can only be effective if conditions concerning the
4 financial requirements of the organization can be
5 satisfactorily met in accordance with the regulations of the
6 Central Bank.

7 ARTICLE 92. Membership. - Membership of cooperative
8 banks shall include only cooperatives, federations of
9 cooperatives, and those cooperatives who join in the
10 Articles of Incorporation of the cooperative bank and
11 cooperatives, federations of cooperatives admitted to
12 membership by the board of directors of such bank after
13 registration. The principle of allowing members to have
14 limited voting rights in cooperatives against the corporate
15 practice of voting based on share holdings shall be observed.

16 ARTICLE 93. Board of Directors. - The number,
17 composition, and voting rights of the board of directors
18 shall be defined by the bank's Articles of Incorporation and
19 By-laws, notwithstanding provisions of this Code to the
20 contrary.

21 ARTICLE 94. Loans. - Only the cooperatives
22 affiliated, not its individual members, can transact loans
23 from a cooperative bank. All loans which shall be granted by
24 the cooperative banks to the affiliated cooperatives shall
25 be for short, intermediate, and long terms which shall be
26 brought to the notice of the Central Bank of the
27 Philippines.

28 ARTICLE 95. Regulation. - The cooperative banks
29 registered under this Code shall submit to the regulation of
30 the Authority in respect of its internal administration and
31 management. The Central Bank together with the Authority

1 and the cooperative movement shall formulate guidelines to
2 regulate banking transactions and operations of cooperative
3 banks.

4 ARTICLE 96. Capitalization. - (1) The national
5 cooperative bank shall have an authorized capital of not
6 less than One Hundred Million Pesos (P100,000,000.00)
7 divided into shares of one thousand pesos (P1,000.00) par
8 value each.

9 (2) Each regional cooperative bank shall have an
10 initial authorized capital of not less than ten million
11 pesos (P10,000,000.00) divided into shares of one thousand
12 pesos (P1,000.00) par value each.

13 ARTICLE 97. Distribution of Savings. - The provisions
14 of this Code on the allocation and distribution of savings
15 shall apply.

16 ARTICLE 98. Privileges. - In addition to the
17 privileges granted to cooperatives under this Code,
18 cooperative banks shall have the following privileges:

19 (1) The cooperative banks registered under this Code
20 shall be given the same privilege granted to the rural
21 banks, private development banks, commercial banks, and all
22 other banks under the banking laws including the right to
23 rediscount notes with the Central Bank, the Land Bank of the
24 Philippines, and other Government banks without affecting in
25 any way the provisions of this Code, and

26 (2) To act as a depository of Government funds. For
27 this purpose, all Government departments, agencies and units
28 of the national and local Governments, including Government
29 owned and controlled corporations are hereby authorized to
30 deposit their funds in any cooperative bank.

1 CHAPTER XIII - SPECIAL PROVISIONS RELATING
2 TO CREDIT COOPERATIVES

3 ARTICLE 99. Coverage. - This chapter shall apply only
4 to Credit Cooperatives and the rest of the provisions of
5 this Code shall apply to them insofar as the same are not
6 inconsistent with the provision of this Chapter.

7 ARTICLE 100. Credit Cooperative. - The term "Credit
8 Cooperative" shall mean a cooperative financial organization
9 owned and operated on a "not-for-profit" basis by its
10 members according to democratic principles, with the
11 objectives of encouraging savings among their members,
12 creating a pool of such savings from which loans for
13 productive or provident purposes may be granted to them, and
14 providing related services to enable such members to
15 maximize the benefits from such loans. The term includes
16 credit cooperatives that operate as credit unions.

17 ARTICLE 101. Operating Principles. - In addition to
18 the general concepts and principles on cooperatives
19 contained in Chapter I of this Code, Credit Cooperatives
20 shall be governed by the following principles:

21 (1) Democratic Structure.

22 (a) Open and Voluntary Membership. - Membership
23 in a credit cooperative shall be voluntary and open to
24 all within the accepted common bond association that
25 can make use of its services and are willing to accept
26 the corresponding responsibilities.

27 (b) Democratic Control. - Credit cooperative
28 members shall enjoy equal rights to vote (one member,
29 one vote) and participate in decisions affecting the
30 credit cooperative, without regard to the amount of
31 savings or deposits or the volume of business. Voting

1 in credit cooperative support organizations or
 2 associations may be proportional or representational,
 3 in keeping with democratic principles. The credit
 4 cooperative is autonomous, within the framework of law
 5 and regulation, recognizing the credit cooperative as a
 6 cooperative enterprise serving, and controlled by, its
 7 members. Credit cooperative elective officers are
 8 volunteers and should not receive salaries.

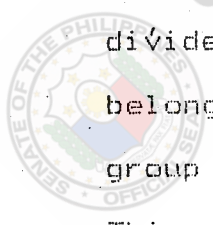
9 (c) Non-Discrimination. Credit Cooperatives
 10 shall be non-discriminatory in respect of race,
 11 nationality, sex, religion and politics.

12 (2) Service to Members.

13 (a) Service to Members. Credit cooperative
 14 services shall be directed to improve the economic and
 15 social well-being of all members.

16 (b) Distribution to Members. To encourage thrift
 17 through savings and thus to provide loans and other
 18 member services, a fair rate of interest shall be paid
 19 on savings and deposits, within the capability of the
 20 credit cooperative. The surplus arising out of the
 21 operations of the credit cooperative after ensuring
 22 appropriate reserve levels and after payment to limited
 23 dividends on permanent equity capital where it exists,
 24 belongs to and benefits all members with no member or
 25 group of members benefiting to the detriment of others.
 26 This surplus may be distributed among members in
 27 proportion to their transactions with the credit
 28 cooperative as interest or patronage refunds, or
 29 directed to improved or additional services required by
 30 the members.

31 (c) Building Financial Stability. - The prime



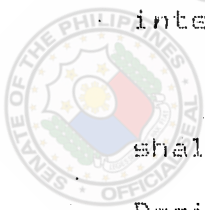
1 concern of the credit cooperative shall be to build
2 financial strength, including adequate reserves and
3 internal controls that will ensure effective and
4 continued service to members.

5 (3) Social Concern.

6 (a) On-Going Education. A credit cooperative
7 shall actively promote the education of their members,
8 officers, and employees along with the public in
9 general, in economic, social, democratic and mutual
10 help principles of credit cooperatives. The promotion
11 of thrift and the wise use of credit, as well as
12 education on the rights and responsibilities of
13 members, are essential to the dual social and economic
14 character of credit cooperatives in serving the needs
15 of their members and shall, therefore, be the prime
16 concern of credit cooperatives.

17 (b) Cooperation among Cooperatives. In keeping
18 with their philosophy and the pooling practices of
19 cooperatives, credit unions within their capability
20 may actively cooperate with other credit unions,
21 cooperatives and their associations at local, national,
22 and international levels in order to best serve the
23 interests of their members and their communities.

24 (c) Social Responsibility. Credit cooperatives
25 shall bring about human and social development.
26 Decisions shall be taken with full regard for the
27 interest of the broader community within which the
28 credit cooperative and its members reside. The credit
29 cooperative is ideal to extend service to all who need
30 and can use it. Every person is either a member or a
31 potential member and appropriately part of the credit



1 cooperative sphere of interest and concern.

2 ARTICLE 102. Organization and Registration. - Credit
3 cooperatives shall be organized and registered in accordance
4 with the general provisions of this Code.

5 ARTICLE 103. Support Organizations. Credit
6 cooperatives may organize chapters, leagues, and federations
7 for the purpose of providing commonly needed essential
8 services including but not limited to the following:

- 9 1) Interlending of surplus funds;
- 10 2) Mutual Benefits;
- 11 3) Deposit Guarantee;
- 12 4) Bonding;
- 13 5) Education and Training;
- 14 6) Professional and Technical Assistance;
- 15 7) Research and Development;
- 16 8) Representation; and
- 17 9) Other services needed to improve their
18 performance.

19 Existing support organizations such as federations of
20 credit cooperatives, credit cooperatives at the provincial,
21 regional and national levels may continue as such under this
22 Code.

23 ARTICLE 104. Prohibition. - The term "Credit
24 Cooperative" shall be used exclusively by those who are duly
25 registered under this Chapter, and no person or group of
26 persons, or organizations shall use the said term unless
27 duly registered herein.

28 CHAPTER XIV

29 MISCELLANEOUS PROVISIONS

30 ARTICLE 105. Compliance with other laws. - (1) The
31 Labor Code and all other labor laws shall apply to all

1 cooperatives and cooperative corporations;

2 (2) The Social Security Act, the Medical Care Act, and
3 all other social legislations shall apply to all
4 cooperatives and cooperative corporations;

5 (3) All other laws and executive orders applicable to
6 cooperatives duly registered under this Code.

7 ARTICLE 106. Register of Cooperatives. - The
8 Authority shall establish a Register which shall contain a
9 chronological entry of the name of every cooperative
10 registered or dissolved under this Code together with basic
11 information required for registration or dissolution and
12 any other information considered useful. The Authority
13 shall publish every year a list of cooperatives in
14 existence, under dissolution and whose registration is
15 cancelled during the year together with such information on
16 each of them as may be prescribed in the regulations.

17 ARTICLE 107. Acts Done in Good Faith. - (1) No act of
18 a cooperative or board or committee or of any officer done
19 in good faith in the course of the business of the
20 cooperative shall be deemed to be invalid by reason only of
21 some defect subsequently discovered in the registration of
22 the cooperative or in the convening of the General Assembly,
23 board, or committee, or in the appointment or election of
24 directors, committee members, or officer or on the ground
25 that such person was disqualified for his appointment.

26 (2) No act done in good faith by a person appointed
27 under this Code shall be invalid by reason only of the fact
28 that his appointment has been cancelled by or in consequence
29 of any order subsequently issued under this Code.

30 (3) The Courts shall decide whether any act done was
31 in good faith under this Section.

1 ARTICLE 108. Settlement of Disputes. - Disputes among
 2 or between members, officers, directors, and/or committee
 3 members in a cooperative, shall be settled where possible,
 4 by the General Assembly or where otherwise, by a
 5 conciliation/mediation/arbitration panel composed of at
 6 least three (3) disinterested persons, preferably officers of
 7 its umbrella cooperative organization. Should such
 8 conciliation/mediation/arbitration proceeding fail, the
 9 matter shall be referred to the Authority. The By-Laws or
 10 the General Assembly may provide for the rules of procedure
 11 to govern the internal settlement proceedings.

12 ARTICLE 109. Appeals and Revisions of Orders. - (1)
 13 Within thirty (30) days from notice of an order issued by
 14 the Authority in a proceeding under this Code, any person
 15 aggrieved thereby may obtain a review of such order to the
 16 court of competent jurisdiction. Upon such petition for
 17 review the Court shall have the power to affirm, modify, or
 18 set aside, in whole or in part, any order appealed from;

19 (2) The Authority may at any time review, revise,
 20 modify or revoke any order issued by it prior to
 21 commencement of the judicial review in subsection (1)
 22 hereof, Provided, That, before any order is made under
 23 subsections (1) or (2) the Authority shall afford to any
 24 person, likely to be affected adversely by such order, an
 25 opportunity to be heard.

26 CHAPTER XV

27 FINAL PROVISIONS

28 ARTICLE 110. Regulations. - (1) The Authority
 29 concerned with registration and regulation of cooperatives
 30 may issue regulations to implement the provisions of this
 31 Code.



1 (2) No regulation shall be issued nor become effective
2 under this Code unless the following requirements are
3 present:

4 (a) Public announcements on the intention to
5 issue regulations describing the subject matter to be
6 dealt with attaching a copy of the proposed
7 regulations, inviting the public to make known their
8 views thereon and submit positions in respect thereof.
9 The announcement shall be published in a daily
10 newspaper of national general circulation at least once
11 a week for four (4) consecutive weeks prior to the
12 intended date of commencement of the public hearing
13 thereon, specifying the date, time and place of the
14 public hearing.

15 (b) The public hearing shall be conducted at the
16 head office of the Authority on cooperatives and the
17 proceedings thereof shall be duly recorded. Minutes of
18 the public hearing shall be made available to the
19 public at cost. The public hearing may be held in
20 several sessions provided that no session shall be
21 conducted unless the summaries of all other previous
22 sessions have been made available.

23 (c) The proposed regulations shall be supported
24 by a memorandum of justification for every provision
25 thereof which shall include citation of the legal bases
26 therefor, the reasons for such provision and the
27 expected results therefrom.

28 (d) The regulations shall be recommended by the
29 Authority registering and regulating cooperatives and
30 approved by the Office of the President, and the same
31 shall take effect thirty (30) days after publication

1 thereof in a national newspaper of general circulation.

2 ARTICLE 111. Penal Provisions. - The following acts
3 or omissions affecting cooperatives or cooperative
4 corporations are hereby prohibited:

5 (1) The use of the word "cooperative" by any person, or
6 group of persons or organization, domestic or foreign unless
7 duly registered as a cooperative or cooperative corporation
8 under this Code, without prejudice to vested rights. In
9 case of violation hereof, the violator shall, upon
10 conviction, suffer the penalty of imprisonment for one (1)
11 year and a fine of one thousand (P1,000.00) pesos, or both
12 in the discretion of the court.

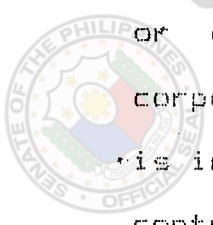
13 (2) Direct or indirect interference or intervention by
14 any public official or employee connected with any
15 government department or agency or office registering or
16 regulating cooperatives, into the internal affairs of
17 cooperatives such as, but not limited to the following:

18 (a) Influencing the election, or appointment of
19 officers, directors, committee members and employees
20 through public or private endorsement or campaign for
21 or against any person or group of persons;

22 (b) Requiring prior clearance for any policies
23 or decision within the cooperative or cooperative
24 corporation except in cases where government financing
25 is involved in which case such clearance shall be on a
26 contractual basis;

27 (c) Requesting or demanding for the creation of
28 positions or organizational units, or recommending any
29 person for appointment, transfer, or removal from his
30 position; or

31 (d) Any other acts inimical or adverse to the



1 autonomy and independence of cooperatives.

2 In case of violation of any provision of this
3 subsection, the violator shall, upon conviction by a court,
4 suffer a penalty of not less than one (1) year but not more
5 than five (5) years imprisonment or a fine in the amount of
6 not less than five thousand (P5,000.00) pesos, or both in
7 the discretion of the Court.

8 (3) Any violation of any provision of this Code for
9 which no penalty is imposed shall be punished by
10 imprisonment of not less than six (6) months nor more than
11 one (1) year and a fine of not less than one thousand
12 (P1,000.00) pesos, or both in the discretion of the Court.

13 ARTICLE 112. Printing and Distribution. - (1) The
14 Government Printing Office shall publish this Code in the
15 Official Gazette in full within sixty (60) days from the
16 date of approval thereof. Copies of this Code shall be
17 given to every department, agency and instrumentality of the
18 national Government, including regional, provincial offices
19 and local Governments including Government owned and
20 controlled corporations.

21 (2) All duly registered cooperatives and their
22 federations, unions, and associations, and cooperative
23 corporations shall be given one (1) copy each at cost.
24 Thereafter, every newly registered cooperative or
25 cooperative corporation shall be issued at cost a copy of
26 this Code and the regulations promulgated thereon together
27 with its certificate of registration.

28 ARTICLE 113. Appropriations. - (1) There is hereby
29 appropriated out of funds in the National Treasury not
30 otherwise appropriated, the sum of FIVE MILLION
31 PESOS (P5,000,000.00) for the following purposes:

| | | |
|---|-------------------------------------|----------------------|
| 1 | (a) To defray the cost of printing | |
| 2 | and distribution of the Cooperative | |
| 3 | Code at cost | P2,500,000.00 |
| 4 | (b) To finance the cost of edu- | |
| 5 | cational campaigns and seminars on | |
| 6 | the provisions of the Code | 2,500,000.00 |
| 7 | TOTAL | <u>P5,000,000.00</u> |

8 ARTICLE 114. Interpretation and Construction. - In
 9 case of doubt as to the meaning of any provision of this
 10 Code or the regulations issued in pursuance thereof, the
 11 same shall be resolved liberally in favor of the
 12 cooperatives or cooperative corporations.

13 ARTICLE 115. Repeals. Presidential Decree No. 175,
 14 as amended, Presidential Decree No. 269, as amended,
 15 Presidential Decree No. 775, as amended, Executive Order No.
 16 898, s. 1983, Letter of Implementation No. 7, Letter of
 17 Implementation No. 23, as amended, and all other Acts or
 18 parts thereof, Decrees, Executive Orders, General Orders,
 19 Letters of Implementation, Letters of Instruction,
 20 Administrative Orders or other Government issuances
 21 inconsistent with any of the provisions of this Code are
 22 hereby repealed.

23 ARTICLE 116. Separability. Should any part of this
 24 Code be declared unconstitutional, the rest of the
 25 provisions shall not be affected thereby.

26 ARTICLE 117. Effectivity. - This Code shall take
 27 effect fifteen (15) days from its publication in a newspaper
 28 of general circulation.

29 Approved.