



HOUSE OF REPRESENTATIVES

H. No. 6007

BY REPRESENTATIVES PAEZ, BRAVO (A.), COLLANTES, PAGDILAO, CORTUNA,
DELA CRUZ, TAMBUNTING, GATCHALIAN (W.), RODRIGUEZ (R.), CO,
TEJADA, GERON, BATOCABE AND VILLARICA, PER COMMITTEE REPORT
No. 827

AN ACT PROVIDING FOR THE CREATION AND ORGANIZATION OF
CREDIT SURETY FUND COOPERATIVES TO MANAGE AND
ADMINISTER CREDIT SURETY FUNDS TO ENHANCE THE
ACCESSIBILITY OF MICRO, SMALL AND MEDIUM
ENTREPRENEURS, COOPERATIVES AND NONGOVERNMENT
ORGANIZATIONS TO THE CREDIT FACILITIES OF BANKS

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

1 SECTION 1. *Title.* – This Act shall be known as the “Credit Surety
2 Fund Cooperative Act”.

3 SEC. 2. *Declaration of Policy.* – The State recognizes the need to
4 promote comprehensive development in order to attain a more equitable
5 distribution of opportunities, income and wealth; a sustained increase in the
6 amount of goods and services produced in the economy; and in increasing
7 productivity as a key to raising the quality of life for all. Moreover, the State
8 affirms its declared policy to foster the creation and growth of cooperatives as

1 a practical vehicle for promoting self-reliance for the attainment of economic
2 development and social justice.

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

10 SEC. 3. *Statement of Objectives.* – The purposes of this Act are as
11 follows:

12 (a) Encourage, promote and assist in the creation and organization of
13 special cooperatives, the CSF Coops, which shall be vested with juridical
14 personality and enjoy all the rights and privileges of cooperatives under
15 Republic Act No. 9520, otherwise known as the “Philippine Cooperative Code
16 of 2008”;

17 (b) Enhance the credit worthiness of member-MSMEs, cooperatives
18 and NGOs, and broaden their access to the credit facilities of banks;

19 (c) Sustain the continuous flow of credit in the countryside through the
20 establishment of well and prudentially managed CSFs which shall serve as
21 surety covers;

22 (d) Build up the capability of cooperatives and NGOs in the areas of
23 credit evaluation, loan and risk management, and good governance principles;
24 and

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

1 SEC. 4. *Definition of Terms.* –

2 (a) *Articles of Cooperation* refers to the articles of cooperation
3 registered with the Cooperative Development Authority (CDA) and includes
4 any registered amendment thereof;

5 (b) *Cooperative* refers to an autonomous and duly registered
6 association of persons, with a common bond of interest, who have voluntarily
7 joined together to achieve their social, economic and cultural needs and
8 aspirations by making equitable contributions to the capital required,
9 patronizing their products and services, and by accepting a fair share of the
10 risks and benefits of the undertaking in accordance with universally accepted
11 cooperative principles;

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

- 13 (1) Primary – the members of which are natural persons;
14 (2) Secondary – the members of which are *primaries*; and
15 (3) Tertiary – the members of which are secondary cooperatives.

16 (c) *Credit Surety Fund (CSF)* refers to a fund generated from the
17 contributions of well-capitalized and well-managed member-cooperatives,
18 qualified NGOs, government financial institutions (GFIs) and local
19 government units (LGUs). The CSF shall serve as security for the loans that
20 will be obtained by qualified borrowers from lending banks by way of a surety
21 cover issued by the Fund in lieu of hard collaterals.

22 (d) *Credit Surety Fund Coop* or *CSF Coop* refers to a
23 special cooperative comprised of well-capitalized and well-managed
24 member-cooperatives that meet the criteria and qualifications prescribed by the
25 CDA: *Provided*, That qualified NGOs, GFIs and LGUs may make
26 contributions to the CSF without voting rights as defined and prescribed by this
27 Act;

1 A CSF Coop shall be established for the primary and exclusive purpose
2 of administering the CSF as provided for in this Act and its implementing rules
3 and regulations (IRR).

4 (e) *Endorsers* refer to entities which attest to the CSF Coop the credit
5 worthiness of their member-borrowers and assure that such are eligible to avail
6 of a loan covered by its CSF. On account of the surety agreement, endorsers
7 commit themselves to assist in the collection of loan in the event of default.
8 Endorsers may be:

9 (1) A primary cooperative which is a member of the CSF Coop
10 endorsing for this purpose its MSME member; or

11 (2) A secondary or tertiary cooperative which is a member of
12 the CSF Coop endorsing for this purpose its primary or secondary
13 member-cooperatives.

14 (f) *Lending bank* refers to any authorized banking institution with a
15 rediscounting line with the *Bangko Sentral*, which is willing to grant credit
16 accommodations to the qualified borrowers as defined in this Act;

17 (g) *Local government unit (LGU)* refers to the provincial or city
18 government that is authorized under this Act to contribute to the CSF
19 established by the CSF Coop in the locality either in the form of investment or
20 grant, in an amount at least equal to the total contribution of the
21 member-cooperatives/NGOs: *Provided*, That a municipality may also
22 contribute to a CSF which is administered and managed by a provincial CSF
23 Coop, which contribution shall be deemed part of the contribution of the
24 province;

25 (h) *Members of the CSF Coop* refer to cooperatives as regular members
26 with voting rights, NGOs, GFIs and LGUs that contributed to the CSF and
27 who, adhering to the principles set forth in the Philippine Cooperative Code of

1 2008 and in the articles of cooperation, have been admitted by the CSF Coop
2 as its members without voting rights;

3 (i) *Micro, small and medium enterprise (MSME)* refers to any business
4 activity or enterprise engaged in industry, agribusiness and/or services, whether
5 single proprietorship, cooperative, or partnership whose total assets, inclusive
6 of those arising from loans but exclusive of the land on which the particular
7 business entity's office, plant and equipment are situated, must have value
8 falling under the following categories:

9 Category	Asset
10 Micro	Not more than P3,000,000
11 Small	P3,000,001 - P15,000,000
12 Medium	P15,000,001 - P100,000,000

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

20 (j) *Nongovernment organization (NGO)* refers to any nonprofit,
21 voluntary citizens' group that contributes to, or participates in, cooperative
22 projects, education, training or other humanitarian, progressive, or watchdog
23 activities;

24 (k) *Qualified borrowers* refer to the following:

- 25 (1) An MSME – member of a cooperative-member, as defined herein;
- 26 (2) A cooperative – member of the CSF Coop; and
- 27 (3) An NGO that is a contributor to the surety fund;

1 (l) *Surety agreement* refers to the agreement executed by the proper
2 parties as defined in this Act and its IRR, in favor of the lending bank, whereby
3 the surety obligates itself to be jointly and severally liable with a qualified
4 borrower in the event that the latter defaults: *Provided*, That a surety
5 agreement shall not be deemed to be an insurance contract and the issuance
6 thereof pursuant to this Act, and those previously issued and to be issued by
7 the Oversight Committees of existing credit surety funds, shall not be
8 considered as doing an insurance business under Presidential Decree No. 612,
9 as amended, otherwise known as “The Insurance Code” or any applicable law.

10 A surety agreement, for purposes of this Act, shall be endorsed by the
11 endorser to the CSF Coop. However, in cases where a cooperative has no
12 endorser, the CSF Coop, subject to the IRR, may solely execute a surety
13 agreement in favor of the lending bank; and

14 (m) *Trustee bank/s* refer/s to the bank/s designated by the Board of
15 Directors to manage the CSF. Such bank/s must be authorized by the *Bangko*
16 *Sentral* to engage in trust and other fiduciary business under Republic Act
17 No. 8791, otherwise known as “The General Banking Law of 2000”.

18 SEC. 5. *Credit Surety Fund Coop or CSF Coop.* -- The CSF Coop
19 shall be organized as a special cooperative in accordance with the Philippine
20 Cooperative Code of 2008 and the IRR of this Act to be promulgated by the
21 CDA.

22 Only one CSF Coop may be established in a province, which shall be
23 located in a component city or municipality. A CSF Coop may also be
24 established in a chartered city.

25 SEC. 6. *Articles of Cooperation.* -- A CSF Coop must file its articles
26 of cooperation and bylaws for registration, and any amendments of the same,
27 with the CDA. Its articles of cooperation shall be signed by the representatives

1 of the member-cooperatives, NGOs, GFIs and LGUs acknowledged by them
2 before a notary public.

3 The articles of cooperation shall set forth the items required in the IRR
4 of this Act.

5 SEC. 7. *Bylaws.* – A CSF Coop formed and organized under this Act
6 shall adopt bylaws not inconsistent with the provisions of this Act and its IRR.
7 The bylaws shall be filed at the same time as the articles of cooperation and
8 shall contain items required in the IRR of this Act.

9 SEC. 8. *Registration.* – A CSF Coop formed and organized under this
10 Act acquires juridical personality from the moment the CDA issues a
11 certificate of registration under its official seal. A certificate of registration
12 issued by the CDA under its official seal shall be conclusive evidence that the
13 CSF Coop is duly registered, unless it is proved that the registration thereof has
14 been cancelled.

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

18 SEC. 9. *Board of Directors.* – The members of the Board of Directors
19 shall consist of the representatives of the member-cooperatives, duly elected in
20 the general assembly in such number and in such manner as may be agreed
21 therein.

22 It shall also include the authorized representative of the NGO and
23 representatives of the contributing LGUs and GFIs as *ex officio* members
24 without voting rights.

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

1 SEC. 10. *Powers and Responsibilities of the Board of Directors.* –

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

4 (a) Determine and formulate the general policies and guidelines on the
5 proper administration of the CSF Coop;

6 (b) Act as manager of the CSF until such time that trustee banks are
7 designated or appointed as manager;

8 (c) Designate bank/s duly licensed by the *Bangko Sentral* to perform
9 trust and other fiduciary functions as trustee bank/s or investment manager/s,
10 which shall, among others, manage the investment, reinvestment and
11 disposition of the fund as provided under Republic Act No. 8791;

12 (d) Promulgate such rules and guidelines governing the infusion of
13 additional contributions to the CSF, admission of new members and
14 acceptance of additional contributions, investments or donations;

15 (e) Enter into contracts and transactions involving, affecting or
16 relating to the CSF, including, but not limited to, the issuance of the surety
17 agreement in favor of lending banks;

18 (f) To sue on behalf of the CSF in all transactions to which the CSF is
19 involved;

20 (g) Periodically review the CSFs and is responsible for taking
21 appropriate action on the audit of the financial condition and operations of the
22 CSF;

23 (h) Create committees and appoint other officers subject to the
24 qualifications provided by the CSF Coop's Board of Directors and bylaws;

25 (i) Delegate to the Chairperson, Vice Chairperson, or any member of
26 the Board of Directors, any of its powers whenever deemed necessary for the
27 best interest of the CSF and as allowed by law;

1 (j) Exercise general supervision over all the affairs of the CSF Coop
2 including the issuance of policies, rules and regulations governing the
3 operations of the CSF, and shall be directly accountable to the general
4 membership of the CSF Coop;

5 (k) Issue the surety agreement jointly and severally with the endorsing
6 entity in favor of the lending bank to secure the loans of qualified borrowers;
7 and

8 (l) Perform such acts and exercise such powers and duties as may be
9 necessary and proper in order to achieve the purpose for which the CSF was
10 created or for any purpose which will redound to the benefit of the members of
11 the CSF Coop as well as any act necessary or incidental to achieve its mandate.

12 SEC. 11. *Authorized, Subscribed and Paid-Up Capital of CSF Coop.*
13 ~ Notwithstanding the provisions of Republic Act No. 9520, otherwise known
14 as the "Philippine Cooperative Code of 2008", at least twenty-five percent
15 (25%) of the authorized capital share as stated in the articles of cooperation
16 must be subscribed at the time of registration, and at least twenty-five percent
17 (25%) of the total subscription must be paid upon subscription. In no case shall
18 the paid-up capital share be less than five thousand pesos (P5,000.00):
19 *Provided*, That the required paid-up capital share for CSF Coops may be
20 increased every five (5) years, when necessary, upon determination by the
21 CDA.

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

24 SEC. 12. *Establishment of a Credit Surety Fund (CSF).* - A CSF
25 Coop shall set up one CSF which shall be created to provide alternative means
26 of collateral to cover for the loans or credit accommodations obtained by
27 qualified borrowers from lending banks. The initial contributions to the CSF

1 shall come from participating member-cooperatives and NGOs in a province
2 and/or chartered city.

3 Pursuant to the Philippine Cooperative Code of 2008 which provides
4 that the Government and all its branches, subdivisions, instrumentalities and
5 agencies shall ensure the provision of technical guidance, financial assistance
6 and other services to enable cooperatives to develop into viable and responsive
7 economic enterprises, an LGU may contribute to the CSF either as an
8 investment or a grant, in an amount at least equal to the total contributions of
9 the member-cooperatives: *Provided*, That if the funds are not sufficient to
10 invest in the CSF, the LGU may request the national government for subsidy or
11 assistance.

12 GFIs such as the Development Bank of the Philippines (DBP), Land
13 Bank of the Philippines (LBP) and the Industrial Guarantee and Loan Fund
14 (IGLF) may invest in the CSF an amount that may or may not be equal to the
15 total contributions of the cooperatives.

16 SEC. 13. *Composition of the CSF.* – The CSF shall primarily consist
17 of the contributions of participating cooperatives and NGOs in each province
18 and/or chartered city. It shall include the counterpart contribution of the LGU
19 in an amount at least equal to the initial total contributions of the
20 member-cooperatives/NGOs. Contributions of the GFIs such as the DBP, LBP
21 and the IGLF that may or may not be equal to the contributions of the
22 cooperatives are likewise included.

23 Any increase in the contribution of existing or new
24 member-cooperatives, NGOs, LGU, GFIs and other qualified investors or
25 donors shall be treated as part of the CSF.

26 SEC. 14. *Usage of the Fund.* – The contributions pooled from the
27 abovementioned parties shall constitute the CSF, to be used as surety for the
28 loans of qualified borrowers from lending banks. The CSF shall be deposited

1 in trustee bank/s as herein defined, and shall only be invested or placed in safe
2 and high-yielding instruments such as government securities.

3 SEC. 15. *Administration of the Fund.* – The operation of the surety
4 fund shall be administered by the CSF Coop which is governed by its Board of
5 Directors. The Board of Directors shall designate bank/s authorized by the
6 *Bangko Sentral* to engage in trust and other fiduciary business under Republic
7 Act No. 8791 to act as trustee bank/s and manage the CSF subject to additional
8 eligibility requirements as may be provided for in the IRR.

9 SEC. 16. *Withdrawal of Contributions.* – A member-cooperative or
10 NGO may withdraw all or part of its contributions: *Provided,* That it has no
11 outstanding obligation on account of the surety agreements issued, and subject
12 to such reasonable terms and conditions such as, among others, the liquidity of
13 the Fund.

14 SEC. 17. *Cooperative Development Authority (CDA).* – Pursuant to its
15 mandate to promote the viability and growth of cooperatives as instruments of
16 equity, social justice and economic development under Republic Act No. 6939
17 creating the CDA shall be the government entity in charge of registration,
18 regulation and supervision of CSF Coops.

19 SEC. 18. *Additional Powers of the Bangko Sentral.* – Pursuant to its
20 mandate to provide policy direction in the areas of money, banking and credit
21 under Republic Act No. 7653, otherwise known as The New Central Bank Act,
22 and to enhance credit creation in the rural areas and achieve a more inclusive
23 financial system, the *Bangko Sentral* shall have the following additional
24 powers:

25 (a) Spearhead the promotion, encouragement, creation and
26 organizational development of CSF Coops all over the country;

1 (b) Facilitate the acquisition by CSF Coops of technical assistance
2 such as training and seminars in coordination with other public or private
3 stakeholders for purposes of the CSF; and

4 (c) Assist the CDA in setting the criteria and qualifications for CSF
5 Coops.

6 SEC. 19. *Books of Accounts and Reportorial Requirements.* – The
7 CSF Coop shall set and keep accurate accounts and internal financial controls
8 and shall appoint an external auditor.

9 *The reportorial requirements and administrative fees required from CSF*
10 *Coops, taking into consideration their unique character and purposes, shall be*
11 *provided in the IRR.*

12 SEC. 20. *Implementing Rules and Regulations.* – Within sixty (60)
13 days from the effectivity of this Act, the CDA shall issue the rules and
14 regulations to implement the provisions of this Act.

15 SEC. 21. *Governing Law.* – The provisions of this Act and its IRR shall
16 primarily govern the organization, establishment, governance and operation of
17 CSF Coops. The provisions of the Philippine Cooperative Code of 2008 shall
18 apply only insofar as they are not inconsistent herewith.

19 SEC. 22. *Interpretation and Construction.* – In case of doubt as to the
20 meaning of any provision of this Act or the regulations issued in pursuance
21 thereof, the same shall be liberally construed and resolved in favor of the
22 establishment of the CSF Coops.

23 SEC. 23. *Transitory Provisions.* – All existing CSF agreements
24 established prior to the effectivity of this Act, pursuant to the CSF Program of
25 the *Bangko Sentral* are hereby deemed eligible to be registered with the CDA
26 as CSF Coops, subject to Republic Act No. 9520 and the IRR of this Act.

1 SEC. 24. *Separability Clause.* – Should any provision of this Act be
2 declared unconstitutional, the other provisions not affected thereby shall
3 continue to be in full force and effect.

4 SEC. 25. *Repealing Clause.* – The pertinent provisions of Republic
5 Acts Numbered 9520, 8523, 3844, and 7160, as well as all other laws,
6 presidential decrees, rules and regulations, executive orders or parts thereof
7 that are inconsistent with the provisions of this Act shall be deemed amended
8 insofar as these apply to the CSF.

9 SEC. 26. *Effectivity.* – This Act shall take effect fifteen (15) days after
10 its publication in the *Official Gazette* or in a newspaper of general circulation.

11 Approved,

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