

San Vicente Multipurpose Cooperative: An alternative rural financing system for small farmers?*

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Introduction

While an objective of government policy is to increase the flow of capital into agriculture to spur agricultural development, its realization is hampered by the fact that the intended beneficiaries - the small farmers - have difficulty accessing financial institutions. Often enough, financial institutions close their doors to small farmers whom they consider unreliable as borrowers. This creates a vacuum for credit which cooperatives may fill as an alternative rural financing system for small farmers. Thus, one of the issues that confronts policymakers now is whether the cooperative can serve as an alternative financial institution.

In a long list of cooperatives, many of which have failed, the San Vicente Multipurpose Cooperative in Sta. Maria, Bulacan is one of the few that show success.

What features make this cooperative stand above the rest? What benefits do farmers derive from the organization and its leadership? What lessons can be drawn from the experience of success of this cooperative? Can the San Vicente Multipurpose Cooperative serve as a blueprint for an alternative rural financing system?

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This paper hopes to provide some answers to these questions. The paper shall examine some of the factors that can account for the success of this cooperative, i.e., its historical formation, family relationships, religious affiliation, policy on loans and screening of members, and the commitment of the members to the organization.

Research locale

San Vicente is one of the twenty-four barangays of Santa Maria. It has eight sitios, namely: *Luwasan, Kay Pulong, Pasong Kasoy, Kamandalaan, Gulod, Gitnang Bukid, Sampaguita* and *Bahay Tianak*. As shown in the latest socioeconomic report by the Population Outreach Worker and the MPDS 1990 survey, San Vicente has a total population of 3,825, most of whom are below fourteen years of age. There are more females than males, more married than single.

Agrarian history

During the Spanish regime, lands in San Vicente were owned by the Dominican friars. Rich ilustrados who were influential with the friars managed to acquire large tracts of land. From 1906-1910, some of the lands were bought by the government and were sold to people who could afford to buy them (Huerte, 1855:1-2). From 1936-1960s, San Vicente's lands were owned by just four people, namely: Francisco Perez from San Luis, the Ocampos from Meycauayan; and Lucas Herrera and Teofilo Santiago from Poblacion Santa Maria. Most of the farmers interviewed recalled good relationships between the landlords and the tenants although some older farmers narrated how they were exploited by the landlords.

The two largest peasant organizations in 1960 were the Federation of Free Farmers (FFF) and the *Malayang Samahang Magsasaka* (MASAKA). The majority of the farmers were members of these organizations. The MASAKA grew directly out of the *Huk* movement (Kervliet, 1979: 268). Historical records attest to the fact that the San Vicente farmers participated in peasant organizations with ideological orientations.

In the 1960s the farmers practiced the *suyuan* or the *batarisan* whereby they helped one another for free in planting and harvesting *palay*. This was done in the spirit of *bayanihan*. The farmer whose crop was to be harvested provided the food during the *batarisan* of his ricefield. This was a practice when only the carabao, the harrow and the plow were used in farming.

With the introduction of new rice varieties such as IR-8 and the use of mechanized farm implements, the farmers began to do away with the *batarisan*. This increased the need for small farmers to look for sources of

capital for their production needs. Credit was then provided by the landlords to whom payment was made in kind after harvest. Later, the farmers had to borrow money from traders and representatives of rice cartels (Floro, 1987: 26).

Life was difficult for the small farmers because of the usurious rates imposed by moneylenders. Meanwhile, even formal sources of credit such as rural banks restricted the farmers' access to credit on account of their inability to present the necessary collaterals.

The seventies witnessed two important developments in agriculture. The first was the implementation of PD. 27 in rice and corn lands. This affected the production relation between the landlords and the tenants. Another significant development was the adoption of high yielding rice varieties, the production of which requires higher capital input.

With the advent of the Aquino administration, the Comprehensive Agrarian Reform Program envisioned several support systems for agriculture which include increased financial assistance to the farmers through the Land Bank and other development banks. Cooperatives, as well as self-help groups and other nongovernment institutions, became intermediaries between the financial system and the small farmers. Again, the question of how far these intermediaries can become an alternative rural financing system remains to be answered.

The establishment of the San Vicente cooperative

On September 11, 1973, a *Samahang Nayon* was organized by farmers in San Vicente, Santa Maria, Bulacan. This *Samahang Nayon* failed because of mismanagement. Cavans of rice belonging to the farmer-members of the *Samahang Nayon* which were stored in Plaridel, Bulacan under the Central Bulacan Area Marketing Cooperative (CBAMC) were burned. The farmers believed that prior to the fire incident, the rice was replaced with rice chaff. It was made to appear that the cavans of rice were the ones that got burned.

Up to now the members have not been paid for the losses they incurred. On November 27, 1987, fifteen farmers under the leadership of one Ka Doming organized the San Vicente Multipurpose Cooperative based on their felt needs. These were: having an organization that would lessen the control of private moneylenders over the small farmers, an organization that would represent them in matters of agrarian reform disputes, and a cooperative that would help provide for their production, livestock and emergency needs. The first fifteen members were former members of the MASAKA, all of whom were also affiliated with the religious group *Iglesia ng Dios Kay Hesus, Haligi at Suhay ng Katotohanan* (IDKHHSK).

At first, there was difficulty in recruiting members as the farmers had not overcome their negative experience with the unsuccessful *Samahang Nayon*. "*Sila ay para bang dalang-dala na. Ayaw nilang magkaroon ng samahan at sinasabi pa nila na baka kaparis din ng dati na nadispalko.*"

In August 1988, the cooperative was registered as the San Vicente *Samahang Nayon* with thirty-nine members. The amount of seventy pesos or 1/2 cavan of rice was required from each member as initial contribution. Later, the membership fee was fixed at ten pesos with a capital share of five hundred pesos (now increased to six hundred pesos). On May 29, 1989, the cooperative was registered as a full-fledged multipurpose cooperative.

Presently, there are 109 members: 60 percent are farmers and 40 percent are professionals, businessmen and other non-farmers. The heterogeneity among members could also account for the success of the cooperative (Reyes, 1988:52). The professionals have given their capital share in cash. A majority of the farmer-members belong to the 36-40 age level. There are farmers who belong to the 21-25 and 31-35 age levels but very few belong to the 61-65 age level. Among farmer members, around ten percent are landowners and 90 percent are leaseholders with land areas ranging from one half to two hectares. Recruitment of members is no longer a problem; interested farmers and people of the community go to their office to join the organization. Of the 109 members, twenty are women.

Accomplishments of the cooperative

From 1987-1991, the San Vicente Multipurpose Cooperative accomplished the following:

1) *Acquisition of two threshers.* These are rented out and earn money for the cooperative. The profit is given to members under the scheme *balik kita pakinabang sa Kasapi.*

2) *Acquisition of a 250 sq.m. land.* On this land they have a small *bodega* where they store up to 700 cavans of *palay*. Farmer members are encouraged to store their *palay* there and wait for higher prices before selling.

3) *Construction of consumers' store.* The land where the store stands, however, is not owned by the cooperative. The cooperative gives incentives for the farmer-members to patronize their store. For example, the cooperative sponsors an annual raffle contest. For every one hundred pesos worth of groceries, one is entitled to a raffle coupon. Last year, the prize for the winning raffle coupon was a sprayer which cost around ₱1,700; other prizes consisted of a bag of fertilizer and a bag of groceries. All the prizes were donated.

4) *Regional award for the best cooperative.* The San Vicente Multipurpose Cooperative won an award from the Department of Agriculture (DA) on October 30, 1991, for being a model cooperative for Region 3. A farmer-member also won the Outstanding Farmer Award for adopting the intergrated farming sytem. He is presently the vice-president of the cooperative.

5) *The record of one hundred percent repayment of loans by farmer-members and one hundred percent repayment of loans from the Land Bank.* This is something that they are proud of. While other cooperatives have problems paying back their loans, the San Vicente Multipurpose Cooperative still maintains a one hundred percent repayment of its loans.

The high rate of repayment

One factor that explains the high repayment rate on loans is the type of family relationships of farmer-members. As is common in rural barangays, almost everybody is related to everybody else. This is shown by the identical family names of many members. Members have to pay their loans so as not to put their families to shame. Due to close family ties, other family members tend to assume the payment of any unpaid loans of relatives.

Another explanatory factor is religion. When asked about the role of religion in their cooperative, the manager indirectly admitted that in the process of screening members, they deem it better to admit members belonging to their religious sect, as they would know the applicants' character and capacity to pay back their loan. This explains why most of the farmers (90 percent) are associated with the *Iglesia ng Dios Kay Kristo Hesus, Haligi at Buhay ng Katotohanan (IDKHHK)*.

Constant reminders given to members during their monthly meetings and regular church services on their obligation to pay back their loans are an effective means to ensure repayment. Although nonrepayment of a loan is not considered a sin, their religion emphasizes that what has been borrowed should be returned.

Monitoring collection is effected by sending out written reminders and visiting the borrower at home before the due date of payment. The small size of membership makes repayment easier to monitor and manage.

Farmer-members are encouraged to pay back their loans because having a good track record with the cooperative facilitates the approval of subsequent loans.

Members work hard to maintain the viability of the cooperative so as not to repeat the same mistake of the *Samahang Nasyon*. Held high as a model cooperative, the members are conscious not to taint this honor.

The leadership of *Ka Doming* is another important factor. He has diplomatic ways of reminding debtors of their obligation although he complements these with stern reminders of the power of the cooperative to terminate the borrowers' right to till the leased farm in cases of non-repayment.

The diversification of crops of the members also contributes to the high rate of repayment. Since the place is a rainfed, agricultural area, sixty percent of the farmers involve themselves in the diversification of crops. From January to March, farmers engage in vegetable and watermelon planting. During December, they plant string beans.

In fact, two farmers were able to acquire a jeepney. The first one was able to acquire a jeepney because of his watermelon plantation. With capital amounting to twenty thousand pesos, he was able to earn more than one hundred twenty thousand pesos. The other farmer acquired his jeepney because of his *maisan* (corn) and *talong* (eggplant) projects. He earned an income of P25,000 per cropping from planting corn and *palay*. Then, he shifted to different crops. In March 1991, he planted *patola* and got an income of P7,000 per cropping. Another farmer, *Ka Jose*, a recipient of production and emergency loans for his livestock projects, earns one hundred pesos daily from selling camote tops taken from his vegetable garden.

Incentive structures

What incentive structures does the San Vicente cooperative have which makes this cooperative different from other cooperatives? Or what innovative features are present in the cooperative?

Cooperative leadership

Ka Doming, a religious man, was formerly an active member of the MASAKA. He is presently the Barangay (Agriculture Reform) Chairman of San Vicente. He is sought after not only by members of the cooperative but also by other non-members in relation to their problems regarding leaseholds. Known for his charismatic ways, he has been elected for the third time as president of the cooperative. With his two-hectare land and a successful piggery, he enjoys a comfortable life. All his twelve children, six boys and six girls, have their own sources of income. While he can be considered a rich person in San Vicente, he still wants to have a cooperative to uplift the conditions of the small farmers. He believes that his

transformation from a poor farmer to a successful farmer can also be achieved by other farmers in his community. His being a leader of the cooperative keeps the cooperative moving in the right direction.

What will happen to the cooperative when he is no longer the president? Can leadership be institutionalized? How can good leadership traits be handed down from one generation to the next?

According to Ka Doming, he is sure that somebody, perhaps the present vice-president, can take his place. One of the programs that they have decided on during their board meeting is to train young members to assume the responsibilities of being future officers of the cooperative.

Screening of members

Membership is open to any person who is a resident of San Vicente. He should undergo a seminar before becoming a member. Both the president and the manager admitted that they give priority to their own *samahan* or religious members since they know them personally. Thus, in the process of admitting members, personal knowledge about the future member is an important consideration. The future member should also possess the capacity to pay the membership fee and the capital share. He must be disciplined and industrious so that the cooperative is assured of his capacity to repay his loans.

Organizational structure

The cooperative is composed of a general assembly which is the highest policymaking body. The members have free elections to choose their board of directors which is composed of the president, vice-president, treasurer, secretary, assistant secretary and four councilors. There are eight *lupons* (committees), namely: *lupon ng pag-aaral* (study committee), *lupon ng pagsusuri* (assessment committee), *lupon ng pagpapalano* (planning committee), *lupon ng pagpapautang* (loan committee), *lupon ng paniningil* (collection of payment committee), *lupon ng halalan* (election committee), *lupon ng pagbababalita at lupon ng tagapamahala* (communications and administration committee). The descriptive names of each *lupon* indicate their functions in the cooperative. In each committee, there is a president, a secretary and a councilor.

Decision-making

Decision-making is done through democratic consultation at monthly meetings held every second Tuesday of the month. There is also a meeting of the board every third Friday of the month. Meetings are held in the evening since it is difficult for the members to have common free time during the day.

One can observe the great influence of *Ka Doming* whenever he presents issues that will be decided on by the members. There was a time though that his decision regarding the dispersal program of two piglets was questioned by two farmers. After *Ka Doming* talked with the dissatisfied farmers, the problem was settled.

Policy on loans

The loan application of a member is received by the members of the committee on loans, subject to the approval of the board of directors. If there is any complaint regarding the decision made by the committee on loans, such issue is decided on by the assessment committee, the decision of which is considered final. In applying for a loan, the borrower is required to specify the purpose of his loan. If there is any misrepresentation or lying regarding the loan application, the borrower is required to return the amount immediately.

Monitoring of loans

As soon as the borrower gets the loan, some kind of investigation is conducted to determine whether the loan was really used for its avowed purpose. There is a committee on collection of payment of loans which monitors the collection. This committee prepares a letter reminding the borrower of the due date of the loan. Aside from sending this letter two weeks before the due date, members of the committee visit the borrower to remind him of the deadline.

Kinds of loans

1) Production loans

From the time the cooperative was registered, it has acquired loans from the Land Bank. From January to April 1991, the cooperative got a loan from the Land Bank amounting to one hundred thousand pesos. The last loan that they acquired was in the amount of P189,000.

For a two-hectare farm, the maximum loan that a member can get is ten thousand pesos and the minimum is P2,500. The coop members are required to submit their residence certificates and declare the size of their farms for verification by the Department of Agriculture (DA). The amount of loan a farmer-member can get is contingent on the size of his farm. The bigger the size of the farm, the bigger the loan. This is understandable since the larger the size of land, the greater the harvest.

The interest on the loan is 22 percent per annum: ten percent for the Land Bank and 12 percent for the cooperative. Often, farmers pay after only six months, thus reducing the interest to 12 percent, distributed as follows: six percent for the Land Bank; two percent for expenses of travel in going to the DA, the Department of Agrarian Reform (DAR), and the Land Bank; two percent for notary expenses; and two percent for the cooperative. Payment is usually made after harvest. Farmers can also pay the cooperative in the form of *palay* which is stored in their small warehouse. The cooperative issues payment to the Land Bank in cash.

2) *Livestock loans*

These are small loans for hog fattening and broilers' feed. The loans are taken from the funds of the cooperative. Members can get a loan of up to three or four sacks of feeds payable after four months when they have sold their pigs or poultry.

Loan contracts are signed by the borrower with the wife or mother as co-signatories. In the contract, another member of the family serves as a guarantor in case the borrower defaults on his loan payments.

The cooperative directly deals with Best Mix, a seller of feeds and fertilizers in Sta. Maria, with whom they have a consignment contract. This means that the sacks of fertilizer and feeds are delivered to their cooperative directly. The cooperative cannot get another order unless all the sacks delivered are paid for. The consignment agreement with Best Mix should be settled one month after delivery.

3) *Emergency loans*

These are loans available to members and non-members in case of death, sickness and accident involving family members. The biggest amount is five hundred pesos and the smallest amount is two hundred pesos. The interest on the loan is 22 percent per annum and is payable on the date agreed upon, but not exceeding one year.

Expenses and income of the farmers

San Vicente has rainfed agricultural lands. Very few of its farmers engage in the so-called *palagad*, a term used to describe those who plant beyond the regular months of June and July. (This is only possible if the farmer's field is situated near a brook or if there is an irrigation pump system.)

One hectare needs around three cavans of *palay* seeds costing ₱750. If one uses manual labor or *araro* in the preparation of the land, it will cost ₱900. The rent for a hand tractor which is faster and easier to handle than the *araro* would cost two thousand pesos. For every one hectare, around five bags of fertilizer are consumed. One bag of fertilizer costs ₱370 (for the duration of my research, the price of fertilizer increased three times). The farmer then spends ₱1,850 for each hectare of land.

Around 120 cavans of *palay* are harvested per hectare. From the 120 cavans, the farmer nets 100 cavans. Twenty cavans are given as payment for the one who harvests the crop and for the use of the thresher. The money value is equivalent to twenty-five thousand pesos. The farmer pays his production credit of eight thousand pesos, leaving his net income at seventeen thousand pesos for the whole year, if he does not engage in *palagad* or second crop. The income from his farm is around ₱1,416 per month.

As reported in the 1990 study of the Department of Agriculture (DA), if the farmer depends only on farming, it will be very difficult for him to survive. The farmer gets an average of 60 cavans per hectare which is equivalent to four thousand pesos. This amount is not enough to meet his expenses for six months. He therefore resorts to diversification of crops and livestock projects to increase his income.

San Vicente farmers are very industrious and well disciplined. Most of the time they are busy working in their vegetable gardens or cleaning their piggens and chicken coops. Seldom do the farmers engage in drinking and gambling.

Problems of farmers

The biggest problem of the farmers is meeting their production needs. Because this is a rainfed agricultural area they need to have water pumps for irrigation especially during the dry season. Many farmers complain that the production loan given to them is not enough to cover their production costs. The rent of a tractor is ₱250 an hour. While it is true that the cooperative has two threshers rented at ₱110 an hour, these cannot service the demand of all the farmer-members.

Another problem is the galloping price of fertilizers. Some farmers have come to realize the bad effect of overfertilizing their farms. They are now contemplating the use of organic fertilizers.

Another problem is the pollution of rivers caused by the 200 to 500-head piggeries of rich and influential people in the area. These rivers are the main sources of water for irrigation. Some farmers have joined a cause-oriented group known as the *Nagaalaga ng Kapaligiran at Likas Yaman Pilipino* (NAKALIYAP) in holding protest rallies against pollution in the Poblacion.

Farmers also have to deal with various diseases confronting their livestock. They complain about the prohibitive cost of medicines for their sick animals. Compounding this problem is the fact that they are seldom visited by Bureau of Animal Industry (BAI) technicians.

Their problem with the National Food Authority (NFA) is that, oftentimes, their *palay* is bought at a low price, sometimes for as low as three pesos per kilo. Worse, sometimes the NFA has no money at all to pay for their *palay*. Problems are also brought on by an alternating succession of natural calamities: typhoon Saling in 1985, drought in 1987, and typhoon Unsang in 1988.

Another problem farmers encounter is the delayed release of their loans by the Land Bank.

Where does the cooperative get its financial resources? The farmer members point to the Land Bank as the financial institution that gives loans for their production needs. But what will happen to this cooperative if the Land Bank stops providing funding support for the cooperative? What internal resources can they count on?

Internal funds

As mentioned earlier, the members are required to pay a capital share of six hundred pesos each. They have two threshers and a consumers' store that earn money for the cooperative. Their total assets amount to almost a million pesos. Despite these gains, the cooperative cannot embark on bigger projects, such as acquiring irrigation pumps, more threshers and expanding their small warehouse. All these would need bigger financial support.

It should be mentioned that aside from the Land Bank, the cooperative is also assisted by the Livelihood Enhancement for Agricultural Development (LEAD) program of the Department of Agriculture (DA). They also have established links with government agricultural technicians, representatives of the Bureau of Animal Industry (BAI) as well as representatives of the Center for Environment Concerns, a nongovernment organization. Unfortunately, their linkage with local government officials is weak. It was noted by cooperative members that their mayor, for example, does not extend any support to them. Some members of the board said that if their cooperative could be

linked to financial institutions that would give long-term and low interest loans, they could buy more pre-harvest as well as post-harvest facilities. However, they are not interested in grants nor dole-outs.

Conclusion

Going back to the issue of whether or not a cooperative can serve as an alternative rural financing system, this study of the San Vicente Multipurpose Cooperative shows that it can be successful in certain areas such as assisting the farmer-members in the availment of credit for their production, livestock and emergency needs. Although other sources of credit such as private moneylenders and store owners still exist, these merely serve as a secondary source of credit. The reduced dependence on usurious sources of credit is evident.

Factors such as the historical development of the place, to a certain extent, contributed to the formation of credit awareness among farmers in Sta. Maria, Bulacan. Their long period of tenancy forced the farmers to a life of continuous borrowing from the landlord, which made them conscious of their obligation to pay whatever they borrowed. This factor partly explains the good repayment record of the cooperative's members.

Other success factors include strong family relations, religious affiliation, democratic leadership and management style, and the commitment of the members to continue the spirit of cooperativism.

Signs of initial success, however, need to be validated. It would be good to go back to this cooperative five years from now to find out whether it will still be existing the way it is performing today. For most of the farmer-members, there is no doubt that the San Vicente Multipurpose Cooperative will not only continue to exist but will move forward. In spite of present problems, they are proud to have a cooperative that is already responding to their production needs.

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