

STRENGTHENING THE COOPERATIVE MOVEMENT

PRESIDENTIAL DECREE NO. 175, April 14, 1973

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WHEREAS, a parallel measure to the emancipation of tenant-farmers from feudal bondage, as provided for in Presidential Decree No. 27, dated October 21, 1972, is a provision for a strong social and economic organization and system to ensure that they will enjoy on a lasting basis the benefits of agrarian reform;

WHEREAS, there are equally less fortunate segments of our society who are in need of social and economic amelioration and should have the right to enjoy the privilege of self-development, social growth and economic independence under a truly just and democratic society;

WHEREAS, there is a need to increase income and purchasing power of the low-income sector of the population in order to attain a more equitable distribution of income and wealth;

WHEREAS, the cooperative institution is a means of attaining a more equitable distribution of income and wealth and providing the common man a dignified level of existence; and

WHEREAS, the Bayanihan Spirit is an inborn trait of the Filipino people which if properly guided can serve as a strong foundation of cooperative institutions;

NOW, THEREFORE, in order to effect the desired changes and reforms in the economic, social and political structure of our society, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers in me vested by the Constitution as Commander-in-Chief of all the Armed Forces of the Philippines, and pursuant to Proclamation No. 1081, dated September 21, 1972, and General Order No. 1, dated September 22, 1972, do hereby order and decree the following:

SECTION 1. Declaration of Policy. — It is hereby declared the policy of the State to foster the creation and growth of cooperatives as a means of increasing income and purchasing power of the low-income sector of the population in order to attain a more equitable distribution of income and wealth.

SEC. 2. Cooperative Defined. — Cooperative shall mean only organizations composed primarily of small producers and of consumers who voluntarily join together to form business enterprises which they themselves own, control and patronize.

A small producer shall mean a self-employed individual who, by himself or with his family provides the primary labor requirements of his business enterprise or one who earns at least fifty percent of his gross income from the payment proceeds or income of the labor he provides.

SEC. 3. Cooperative Principles. — A cooperative shall be governed by the following principles:

- (a) Open membership — Membership in a cooperative should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership;
- (b) Democratic control — In primary cooperatives irrespective of the number of shares owned, each member can only cast one vote in deciding upon the affairs of the cooperative. The affairs of the cooperative shall be

administered by persons elected or appointed in a manner agreed by the members and accountable to them. In other than primary cooperatives, administration shall be conducted in a suitable democratic form;

(c) Limited interests to capital — Share capital shall earn only limited interests, the maximum rate of interests to be established by the Department of Local Government and Community Development from time to time; and

(d) Patronage refund — Net income after the interest on capital has been paid shall be redistributed among the members in proportion to their patronage.

SEC. 4. Powers of Cooperatives. — Cooperatives shall have the following powers:

- (a) To exercise the same rights and privileges given to persons, partnerships and corporations provided under existing laws;
- (b) To establish and operate business enterprises of all kinds as their needs dictate and their capabilities allow subject to the provisions of existing laws;
- (c) To establish rural banks under the Rural Bank Act and/or to purchase government held preferred shares of rural banks which may be converted to voting common stocks, under the rules and regulations to be promulgated by the Monetary Board of the Central Bank and the Agrarian Reform Fund Commission;
- (d) To enjoy all the privileges and incentives granted by the NACIDA Act and those granted by all government agendas to business organizations under existing laws, provided that all requirements are met;
- (e) To petition the Government to expropriate idle urban or rural lands for agricultural production, cottage industry, business or housing purposes; and
- (f) To own and dispose of property, to enter into contract, to sue or be sued, and to do and perform such other acts as may be necessary in the pursuit of its objectives.

SEC. 5. Privileges of Cooperatives. — Cooperatives shall enjoy the following privileges:

- (a) Exemption from income taxes and sales taxes provided that a substantial portion of the net income of the cooperative is returned to members in the form of interests and/or patronage refunds: Provided, further, That for income tax purposes, non-agricultural cooperatives shall be exempt for a period of five (5) years and agricultural cooperatives for a period of ten (10) years reckoned from the date of registration with the Department of Local Government and Community Development: Provided, finally, That the taxable income shall mean that portion of the cooperative's income after deducting the interest paid to members and patronage refunds;
- (b) In areas where appropriate cooperatives exist, the preferential right to supply rice, corn and other grains, fish and other marine products, meat, eggs, milk, vegetables, tobacco and other agricultural commodities produced by members of the cooperatives concerned to State Agencies administering price stabilization programs; and
- (c) In appropriate cases, exemption from the application of the Minimum Wage Law upon the recommendation of the Bureau of Cooperatives Development subject to the approval of the Secretary of Labor.

SEC. 6. Financial Assistance to Cooperatives. — There is hereby created a Cooperative Development Loan Fund for the development of the cooperative movement.

(a) Sources of funds — This Fund shall be financed from the following sources:

- 1) General appropriations;
- 2) Proceeds of sales of US Public Law 480 commodities;
- 3) Foreign loans or proceeds of sales of commodity loans;
- 4) Grants and donations;
- 5) Levies imposed by existing laws on agricultural commodities for the development of cooperatives; and
- 6) Such other sources as are now provided for by existing laws or as may be provided for in the future.

(b) Uses — This Fund shall be utilized for the following purposes: 1) Source of loanable funds to cooperatives; 2) Serve as a guarantee for loans granted to cooperatives; and 3) Source of advances to cooperatives for the purchase

of equity of rural banks.

In no case shall any portion of this Fund be utilized for direct loans to farmer members. As far as practicable, funds shall be channeled through existing government and private financial institutions.

(c) Administration of Fund - For purposes of administering the Fund, there is hereby created a Management Committee composed of:

- 1) A representative of the Department of Local Government and Community Development who shall serve as Chairman;
- 2) A representative of the Central Bank of the Philippines;
- 3) A representative of the Philippine National Bank;
- 4) A representative of the Department of Agriculture and Natural Resources;
- 5) A representative of the Department of Agrarian Reform; and
- 6) Two representatives of the Cooperative Movement designated by the Secretary of the Department of Local Government and Community Development.

The Management Committee shall have the power to administer this Fund and prescribe rules and regulations for its utilization.

(d) Other financial assistance — The Agrarian Reform Fund Commission, Greater Manila Terminal Food Market, National Development Corporation or their subsidiary institutions or the subsidiary institutions of any government financial agency or any government, agency is authorized to establish or acquire fixed facilities such as storage facilities, processing facilities, food markets and other facilities, requiring large long-term investment which shall be leased or sold to cooperatives. Likewise, cooperatives shall have preferential right to purchase or lease existing facilities as hereinabove specified belonging to other government institutions and agencies.

SEC. 7. Management and Training Assistance. — There is hereby established a Management and Training Assistance Program. It shall create a Central Management and Training Pool to be composed of top caliber managers who may be assigned to actively manage a cooperative or cooperatives for the prime purpose of training an understudy or understudies to assume management thereafter. In this connection, it may contract for and defray the cost of professional managers and/or firms who shall actively manage cooperatives as part of the training program. Cooperative managers contracted for this purpose shall be exempt from WAPCO salary rated. Training programs to develop cooperative managers may be undertaken by any existing educational or other institutions on contract basis.

Suitable and practical management training materials and guides shall be developed for the use of cooperative managers.

The Management and Training Assistance Program shall be administered by an Advisory Board of five members to be appointed by the Secretary of the Department of Local Government and Community Development, at least two of whom shall come from the cooperative system, and one from the Department of Agrarian Reform.

The Management Training Program shall be financed from the following sources:

- (a) General appropriations;
- (b) Income from the Cooperative Development Loan Fund;
- (c) Grants and donations; and
- (d) Contribution from cooperatives.

SEC. 8. Powers of Regulatory Agency. — The Department of Local Government and Community Development through the Bureau of Cooperatives Development is vested with full authority to promulgate rules and regulations

to govern the promotion, organization, registration, regulation and supervision of all types of cooperatives. Specifically, it shall have the following powers:

- (a) To call on any office, agency, instrumentality or individuals belonging to the Government or private sector for such assistance as may be needed;
- (b) To register new cooperatives, re-register existing cooperatives and regulate and supervise the following types of cooperatives:
 - 1) Barrio Associations which shall have the provisional status of a cooperative and serve the requirements of Presidential Decree No. 27 in the issuance of certificates of land transfer;
 - 2) Local or primary cooperatives which shall be composed of natural persons and/or barrio associations;
 - 3) Federations which shall be composed of cooperatives which may or may not perform business activities; and
 - 4) Unions of cooperatives which shall not perform any business activities.

Provided, That, in the case of re-registration, the cooperative shall file its application or petition for re-registration within a period of six (6) months from the date of promulgation of this Decree, and its corporate existence shall be deemed to continue until the application or petition is approved or denied: And provided, further, That for purposes of re-registration, Sections 2 and 5 (a) hereof shall not be applicable to existing cooperatives which do not meet the qualification requirements provided for in this Decree.

- (c) To determine the manner and extent by which powers, privileges, assistance and support granted to cooperatives provided by this Decree shall be exercised or enjoyed by cooperatives;
- (d) To suspend the operation or cancel the registration of any cooperative after hearing and when in its judgment and based on findings, such cooperative is operating in violation of this Decree, rules and regulations, existing laws as well as the by-laws of the cooperative itself;
- (e) To liquidate and to determine disposal of assets and settlement of liabilities of any cooperative which has been inoperable, inactive or defunct or any cooperative violating the penal provisions herein provided;
- (f) To recommend charges to be filed against any official of any cooperative who has committed crimes against the cooperative or who has violated the penal provisions herein provided; and to establish rules and regulations governing the suspension and/or expulsion of any members of a cooperative;
- (g) To condone the principal and/or accumulated interest on past due production and/or farm improvement loans extended by the Agricultural Credit and Cooperative Financing Administration and the Agricultural Credit Administration to farmer members of agricultural cooperatives, and to authorize writing off of bad debts or bad accounts of agricultural-cooperatives arising from loans granted by the Agricultural Credit and Cooperative Financing Administration or the Agricultural Credit Administration subject to the rules and regulations to be promulgated jointly by the Department of Local Government and Community Development and the Department of Finance;
- (h) To recommend charges to be filed against non-farmers who through misrepresentation have secured loans from the Agricultural Credit and Cooperative Financing Administration or the Agricultural Credit Administration through agricultural cooperatives;
- (i) To authorize the collection by barrio associations and cooperatives past due loans granted by the Agricultural Credit and Cooperative Financing Administration or the Agricultural Credit Administration on a commission basis; and
- (j) To authorize cooperatives to collect amortizations on lands under Presidential Decree No. 27.

SEC. 9. Penal Provisions —

- (a) No person or group of persons other than cooperatives registered pursuant to the provisions of this Decree

shall use in its name the word "cooperative" or its equivalent in the vernacular with intent to defraud. Violators shall be fined two thousand pesos (P2,000.00). In case of insolvency, a subsidiary imprisonment of not more than six (6) months shall be imposed.

(b) Any official of the cooperative, elected or appointed, who commits crimes against the cooperative shall be penalized in the same way as if such official were a civil servant, with disqualification of holding any elective or appointive office.

(c) Any official of the State, elected or appointed and not belonging to the Department of Local Government and Community Development, who willfully and unduly interferes with the business activities and internal affairs of any cooperative shall be penalized by a fine of not more than five thousand pesos (P5,000.00) and/or imprisonment of not more than six (6) months.

(d) Individuals who are found to have organized cooperatives for the evident purpose of taking advantage of the privileges granted to cooperatives under this Decree and who operate such organizations in clear violation of cooperative principles herein set forth as adjudged by a competent court shall be subject to attachment of all their assets in such organizations and such organizations shall summarily be stopped from operating, without prejudice to other penalties as provided for by existing laws.

SEC. 10. Separability Clause. — If any provision, provisions, part or parts of this Decree is declared unconstitutional, such declaration shall not invalidate the other provisions hereof.

SEC. 11. Repealing Clause. — All past cooperative laws are hereby repealed. Portions or parts of any other laws inconsistent herewith are likewise repealed. The Department of Local Government and Community Development through the Bureau of Cooperatives Development shall promulgate within thirty (30) days from date hereof the rules and regulations for the effective implementation of this Decree and upon approval by the President of the Philippines shall have the force and effect of law. These rules and regulations may be amended, modified or abrogated as the circumstances may so demand.

Done in the City of Manila, this 14th day of April, in the year of Our Lord, nineteen hundred and seventy-three.

(Sgd.) FERDINAND E. MARCOS

President

Republic of the Philippines

By the President:

(Sgd.) ALEJANDRO MELCHOR

Executive Secretary

In order to facilitate the implementation of this Presidential Decree No. 175, the Office of the President issued the following:

Letter of Implementation No. 23, dated July 9, 1973, organizing the Samahang Nayon and Kilusang Bayan.

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