



LEGISLATIVE RESEARCH SERVICE QUICK NOTES

Second Regular Session, 19th Congress

Public Hearing of the Committee on Cooperatives joint with the Committees on Constitutional Amendments and Revision of Codes; Ways and Means; and Finance

Chairperson: Sen. Imee R. Marcos

11 March 2024, Monday, 1:00 PM, Sen. Recto Room, Senate

Re: Amendments to the Cooperative Code of the Philippines

- **S. No. 418—Sen. Imee R. Marcos**
- **S. No. 2378—Sen. Jinggoy Ejercito Estrada**
- **S. No. 2480—Sen. Joseph Victor “JV” G. Ejercito**
- **H. No. 9673—Reps. Nicanor B. Briones, et.al.**

Background

- On August 30, 2022, the Committee on Cooperatives conducted its organizational meeting presided over by its Chairperson, Sen. Imee R. Marcos. Present at the meeting were representatives from the different cooperatives in the country and concerned government agencies, especially the Cooperative Development Authority (CDA), the lead agency responsible for the promotion and development of cooperatives in the country.
- The four proposals under consideration aim to facilitate foreign investments in the cooperative sector by relaxing the citizenship requirement of its members, which has restricted the growth and development of cooperatives. Foreigners are allowed to invest up to 40% of the membership shares in the cooperatives, provided that the majority of its members must be natural-born Filipino citizens.¹

Highlights of the First Public Hearing/Organizational Meeting

- At the outset, Senator Marcos stated that she was aware of the significant resistance among stakeholders to Senate Bill No. 418. The reason for this is the fear of losing statutory tax exemption, among other incentives. Thus, she explained that the proposal only aims to increase private investments in rural areas of the country. According to her, one way to encourage private investment

¹ Paraphrased from the Explanatory Note of Senate Bill No. 418

in agriculture and agricultural communities was to open cooperatives to foreign investment.²

The Chairperson clarified that she introduced the bill to remove cooperatives from the negative list, which currently restricts foreign investments. However, this does not imply complete openness to foreign investment. Foreign investors could still engage in partnerships, joint venture agreements (JVA), public-private partnerships (PPP), or outsource farming.³

Chairperson Marcos requested stakeholders' comments on the recommendations, including the suggestion to restrict cooperative membership to the original agricultural sector, without affecting savings and loan cooperatives, and limiting the duration of foreign membership in cooperatives to a defined period.⁴

The Chairperson further proposed an amendment to the Cooperative Code, advocating for a provision that prioritizes cooperatives in selling their commodities to government agencies, with the requirement for government agencies to prioritize purchases from cooperatives.⁵

- *Mr. Bienvenido Nito of the Nueva Segovia Consortium of Cooperatives (NSCC)* agreed to the proposal to open up to foreign investments only those well-established secondary agricultural cooperatives subject, however, to stricter regulations.⁶
- *Celia Atienza, President of the League of Cooperative Development*, expressed surprise at the inclusion of foreign investments in cooperative membership, emphasizing the amendment's focus on organizing primary cooperatives. Despite this, they still view it as a means of elevating the status of cooperatives.

Atienza suggested that rather than viewing foreign investments as membership, the Committee could regard them as a capital source, akin to practices seen in local government units. However, Senator Marcos cautioned against this, noting that foreign investments are prohibited as capital sources.⁷

- *Ms. Bernadette Toledo of the Mindanao Alliance of Self-Help Societies-Southern Philippines Educational Cooperative Center (MASS-SPECC)* expressed support for the proposal, highlighting their joint project with the SPECC, funded by German partners. This initiative aims to bolster both large and small agricultural cooperatives while enhancing capacity-building among participants.⁸
- *Prof. Elenita Mantalaba of the CODIS Federation of Cooperatives* noted that there are no guidelines in the Cooperative Code of the Philippines regarding investment. Hence, to entice investments in other cooperatives rather than

² Paraphrased from the TSN of the Public Hearing of the Committee on Cooperatives, August 30, 2022, p. 17

³ Ibid., p. 39

⁴ Ibid., p. 18

⁵ Ibid., p. 49

⁶ Ibid., pp. 22-23

⁷ Ibid., pp. 42-43

⁸ Ibid., pp. 45-46

investment banks, she suggested that there must be guidelines allowing primary cooperatives to invest in other primary cooperatives as long as it is low-risk or risk-free.⁹

- *CDA Assistant Secretary Pendatun Disimban* supported the proposal to allow foreign investment in cooperatives. Asec. Disimban acceded to mandating LGUs to support the cooperatives, especially those in their jurisdiction, by prioritizing their products.¹⁰ In addition, he stated that the CDA wanted Islamic cooperatives to be recognized as one of the types of cooperatives, which, however, should be Sharia-compliant.¹¹
- On another note, *Assistant Secretary Vidal Villanueva III of the CDA* suggested a complete overhaul of RA No. 9520. He argued that numerous provisions of the law have become obsolete, particularly those concerning the taxation of cooperatives and the overlapping powers and functions between the CDA and the National Electrification Authority (NEA) concerning electric cooperatives.¹²

Assistant Secretary Villanueva also appealed for the passage of the Cooperative Banking Act since the provisions on the powers and functions of the CDA under Republic Act Nos. 11364 and 9520 conflict with the Central Bank's cooperative bank guidelines.¹³ He further stated that the entry of foreign investors from a cooperative sector is also part of the Cooperative Banking Act proposal. Lastly, he informed the Committee of CDA's Memorandum Circular 2020-02 about the *Koop Kapatid* Program, which mandates billionaire cooperatives to adopt micro and small cooperatives.¹⁴

- *National Economic and Development Authority (NEDA) Director Bien Ganapin* expressed support for the proposal seeking to facilitate foreign investment in the cooperative sector by relaxing the requirement. He, however, called the attention of the Chairperson to the 40% limitation on individual shares found in Section 3, Article 73 of the bill.¹⁵

Possible Points for Discussion

1. Data on the number and types of registered cooperatives in the country and their contribution to the economy. Additionally, an examination of their impact on employment, poverty alleviation, and rural development would provide valuable insights into their socio-economic significance.
2. Effects and risks of allowing foreign investments in the cooperative sector; this could include potential disruptions to local markets, loss of control over cooperative governance, and cultural or social impacts on community-based cooperatives.

⁹ Ibid., p. 53

¹⁰ Ibid., p. 56

¹¹ Ibid., pp. 56-57

¹² Ibid., p. 63

¹³ Ibid., p. 64

¹⁴ Ibid., p. 65

¹⁵ Ibid., p. 58

3. Advantages and disadvantages, if any, of allowing foreign cooperatives, not just individuals or corporations, to invest in the country's cooperatives. Potential benefits such as access to advanced technology and global markets, as well as concerns regarding competition with local cooperatives and potential exploitation of local resources must be looked into.
4. Factors that could discourage foreign investments in the country. There is a need to identify the threats to foreign investments, including corruption, poor infrastructure, taxes, and other government regulations, to ensure the swift entry of foreign investments into the country's cooperative sector. Addressing these barriers is essential to attract foreign investors and stimulate cooperative sector growth.
5. Foreign investors' role in supporting the development and growth of cooperatives; this could cover initiatives such as technology transfer, capacity-building programs, and strategic partnerships aimed at enhancing the efficiency and sustainability of cooperatives in the country.