

## Chapter 5

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# Cases of Coop-LGU Mutual Support

### **Mayor Helps 'Rescue' a Cooperative in Distress**

**The Case of Padre Garcia Development Cooperative of Batangas**

**Ed Aurelio C. Reyes**

#### **ABSTRACT**

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This is a case study in coop-LGU partnership that focuses on an ongoing five-pronged "operation" jointly being undertaken in Padre Garcia, Batangas, by Mayor Victor M. Reyes and the officers of the Padre Garcia Development Cooperative (PADECO), aimed at "rescuing" the latter from dire economic conditions that had at one time bordered on bankruptcy.

Mayor Reyes formerly headed the cooperative as board chairman and is now mandated by the municipal council, upon PADECO's request, to help and guide the cooperative's rehabilitation and reorganization, in his capacity as chairman of the Municipal Cooperative Development Council.

The five-pronged approach, seeking support from distinct sectors within and around the cooperative, has reportedly started chalking up success in its first three-month period. Other concerns surround prospects of full success and its sustainability.

Backgrounders are provided, including basic information on the municipality and its economy, on past and current cooperative-LGU relationship, on PADECO's wide exposure of assets in a hog-fattening scheme involving most of its members, on a foot-and-mouth epidemic in 1996 that devastated the hog population and PADECO's financial standing, and PADECO's initial attempts to heal itself before seeking LGU assistance.

Noteworthy in both the request and the favorable response is the rejection of the option to simply have the LGU grant funds.

## **BACKGROUND AND CONTEXT**

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You have this cooperative, the Padre Garcia Development Cooperative (PADECO), which started an impressive growth in poultry and hog-raising and feeds production. It was suddenly "downed" three years ago by an epidemic that nearly wiped out the stock of its hog-raising membership. Once a proud organization of fast-growing membership and assets, it was a partner of the municipal government in encouraging private sector contributions to civic enterprises. But this cooperative suddenly found itself deeply indebted to the Land Bank and unable even just to pay back its debts to suppliers of raw materials. Moreover, its members were beginning to drift away, with dim prospects of paying back to the organization the loans they had received in the form of feeds. The cooperative had enough reasons to be confident of getting help from the incumbent town mayor, but it held back itself from seeking such help without first doing all it could to solve its own problems.

And you have this municipal executive, Padre Garcia Mayor Victor M. Reyes, who has been consistently sympathetic to cooperatives, having once chaired PADECO itself, and led it through twists and turns of earlier crises and growth, before he was elected to public office. Moreover, this cooperative, in its present scope, was founded by his father in 1989. The mayor has always been privy to goings-on in the cooperative after he assumed office. He had always known well of the cooperative's epidemic-caused disaster and continuing fall, but he somehow distanced himself from the problem for a time in the hope that the cooperative would find the way and the strength to heal itself. He allowed that period to stretch on until he received from the cooperative itself the "S.O.S.!" distress signal. Then he moved with dispatch, creativity and firm commitment.

This is a close look into the ongoing process of rescue and rehabilitation work which has shown indications of initial success, and now presents a rich trove in practical lessons that both the local government units and the cooperatives elsewhere may find very useful.

Funded by the United Nations Development Programme (UNDP) through the UNDP-Cooperative Development Authority-Philippine Cooperative Center joint project for "Effective Local Governance and Support Mechanisms for Sustainable Cooperative Development," this study is culled from interviews made in Padre Garcia town and from official LGU and cooperative documents. Interviews were made with the incumbent mayor, the former mayor, the incumbent mayor's close-in assistant, the chairman of the Sanggunian committee on cooperatives, former and

incumbent officers as well as ordinary members of PADECO, officers and members of two other cooperatives, the municipal agriculture officer, an administrative officer of a slaughterhouse project, and the parish priest.

### **LGU-Coop Relations in Padre Garcia**

Padre Garcia is one of the 32 municipalities of Batangas, Southern Luzon. The province also has two cities, namely, Batangas and Lipa, and Padre Garcia is near the latter. In fact, the town's farmers and cooperatives are being served by the Land Bank of the Philippines branch in Lipa. Padre Garcia, rated as a fifth-class municipality is 92 kilometers by road southward from Metropolitan Manila.

The town has 32,673 residents in 5,019 households living in a total land area of 4,093 hectares in 18 barangays. About 60 percent of households in this town live below the poverty line, with a monthly household income below P5,000.00. It is basically an agricultural community, with sugarcane, rice, coconut and corn as primary crops and mango, citrus, black pepper, coffee and lanzones as secondary crops. There are 1,305 households (26 percent of total) that are engaged in farming as the main source of livelihood.

The more prominent industry in the municipality, however, is the raising and trade of livestock, namely, cattle, hogs, carabaos, goats and even horses. Livestock trading has been the main source of income of a majority of residents as well as of the local government. It was therefore a disappointment especially to direct stakeholders that a modern, equipped Double-A grade abattoir, has not been successful a joint cooperative-private sector enterprise and is in fact facing an imminent takeover by the municipal government. Every average market day in Padre Garcia, 1,500 heads of cattle, carabaos are being traded. About 80 percent of these are sold, most are bought for slaughter, and a small percentage (about 5 percent) are for fattening. The 20 percent left unsold are cared for through the "paalaga" system until the next market day. Padre Garcia's Livestock Auction Market, a purely LGU enterprise, is considered to be among the best throughout the Philippines. Traders flock to this town every Friday, coming all the way from all over the Southern Tagalog, Central Luzon and Bicol regions, and from the Metro Manila area.

There was, for the most part, brisk business in hog-raising, where thousands of piglets costing P1,500.00 each, are dispersed among raisers, mostly members of PADECO, to fatten with about P3,500.00 worth of feeds and vitamins from the cooperative's feed mill for three months before being taken from the raisers. The hog-raisers earn more than P1,000.00 profit per head.

A federation of cooperatives band together 22 listed cooperatives, of which only about 15 were recently reported as active.

### **LGU Conscious of Coop Development**

If there are local government units that are very much aware of provisions in the Local Government Code in support of cooperative development, the municipal government of Padre Garcia would surely be one of them. Before his election in 1992 as vice mayor and in 1995 to his first three-year term, the re-elected incumbent mayor, Victor Reyes, used to be a member of the board of directors of PADECO and no less than its board chairman. PADECO itself was founded as a development cooperative in 1989 by his father Alejandro Reyes, who led its transformation from its predecessor organization, the Padre Garcia Farmers Consumer-Producer Cooperative Inc. Needless to say, he has also been very conscious, as well, of the provisions of the Cooperative Code.

Mayor Reyes chairs the Municipal Cooperative Development Council (MCDC), where he is actively assisted by Councilor Rico Araño, chair of the Sannguniang Bayan committee on cooperatives and former board of directors member of PADECO. Under the Mayor's guidance, municipal employees have organized themselves into the First Employees' Multipurpose Cooperative (so named despite indicators that a similar organization had existed under the previous administration) that has been operating a thriving grocery store cum restaurant at a multi-purpose hall beside the municipal buildings. Seed fund for this cooperative came from the employees' productivity incentive pay of about P2,000.00 per employee.

## **PROJECT DESCRIPTION**

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### **Cooperatives Helping the LGU**

The story in Padre Garcia shows how cooperatives proved helpful to the municipal government and directly to the community. PADECO is one of the two relatively strongest among 22 listed cooperatives in the town, the other being the Padre Garcia Multipurpose Cooperative Inc. (PGMCI). With majority of cooperative members engaged in hog- and poultry-raising, PADECO built in 1989 its own milling facility for the production of feeds, and a growing trade in both feeds and live hogs.

The Padre Garcia Federation of Cooperatives and PADECO standing on its own, put up funds equivalent to two of fifteen shares of stock needed for the building of the modern Padre Garcia abattoir or slaughterhouse, and drew in equivalent amounts from private sector investors. The project

was designed to boost the town's economy from the expected expansion of its services market.

The project eventually faltered due to the non-fulfillment of the market expectations indicated in its feasibility study. The expensive modernity of the equipment backfired at the meat dealers' market stalls, with consumers preferring bloodied meat cuts to the "over-cleaned" and "overprocessed" output of the hi-tech abattoir. Moreover, practice of "colorum slaughtering" remained uncurbed in and especially in the vicinity of Padre Garcia. There has also been the reported lack of interest on the part of most of the other investors, whose businesses had nothing to do with slaughterhouse operations. Even with the prospect of imminent takeover by the municipal government, the slaughterhouse with its modern equipment has become an asset that can be better managed by the local government unit to realize profits and a boost to the local economy. It was all started by the initiatives of the cooperatives sector, specifically by the Federation and PADECO, whose initial funds drew in the entire capitalization from the local private business sector.

In 1996, both PADECO and PGMCI donated sums reaching P50,000.00 each as their contribution to the municipal government's road-concreting project at the poblacion area. Citing such donations from the relatively poor sectors of the community, Mayor Reyes was able to solicit equivalent or even bigger donations from the clearly more affluent sectors to have a much bigger coverage of the road -concreting project.

The mayor considers FEMCO a big help in taking care of the needs of the municipal employees by providing them with lower-priced grocery items. The FEMCO-operated eatery also takes care of catering services whenever activities are held at the multi-purpose hall, which it has been using as its office.

The municipal government has inaugurated a livestock auction market for cattle-raisers, but this project has been a purely-LGU affair. It can however provide another potential area for partnership between the LGU and the local co-operatives in the future.

There were contributions from cooperatives in other areas of community-building and public service. For example, PADECO is actively networking with non-government organizations in the area, participating in Alay-Lakad activities, sustaining a collegiate-level scholarship program and undertaking tree-planting, specifically mahogany seedlings in its own compound.

For its part, the cooperatives federation has shifted its enterprise to the production and trade of cut flowers, providing livelihood to cooperative members and an additional boost to the economy of the community.

## **Altered Role of LGU on Cooperatives**

The immediate predecessor of Mayor Reyes at the municipal helm was Mayor Eugenio B. Gutierrez, who was in office from 1981 to 1995, save for the interim period between the February 1986 People Power uprising and the first election under the 1987 Constitution. Mayor Gutierrez repeatedly expressed in his messages to PADECO that active cooperativism invigorates the local economy and redounds to the best interests of the community. In fact he has been an ordinary member of PADECO considering his own engagement in farming enterprise.

But his long service as mayor was mostly under the martial law regime, and this influenced his view of how his local government unit, or the government in general, should relate to the cooperatives. In a recent interview conducted for this study, the former mayor expressed yearning for the days that the LGUs controlled (his exact word) the cooperatives. He sharply criticized the post-EDSA practice where national institutions and organizations, notably funding sources, would now deal directly with local cooperatives and entirely bypass his office in the municipal government. He also expressed the view that after "they" got into power in the municipio, referring to the group of Mayor Reyes that came from the cooperative sector, the few families that were allegedly controlling and being benefited by the cooperatives were now controlling the municipal government as well. A different picture, however, is apparently drawn by the way PADECO had tried for years to solve its own problems without immediately seeking help from the local government, and by the specific way such help is now being extended after it had been formally sought.

Asked about the effect of the passage of both the LGC and the CC during his tenure, the former mayor responded that these laws were implemented but stopped short of giving specifics.

## **PROJECT RESULTS AND OUTCOMES**

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### **The Feed Mill**

PADECO was born amid an internal storm that rocked the Padre Garcia Farmers Producer-Consumer Cooperative. A letter to the Chief of the Cooperative Section of the Department of Agriculture-Region IV was sent bearing signatures representing 57 of the cooperative's about 270 members, alleging that the cooperative leaders adopted and promulgated decisions without consulting with the members. The process of clarifying the issue in a general meeting in February 1989, including the exposure that many of the signatures have been faked, also led to the transformation of the coop into a wider-scope "development cooperative" that was

registered in August that year, and to the finalization of the earlier cooperative's plan to set up its own feed mill. By October, PADECO inaugurated and test-operated its feed mill, which, was constructed on a lot donated by its founder Alejandro Reyes.

The cooperative members then undertook a fund drive to be able to purchase raw materials for the feed mill, generating a seed fund of P45,000. The cooperative then secured loans for more raw materials, totaling P687,488 with Director Victor Reyes and Mariano Manalo as guarantors. The feed mill started rolling before the year ended. It earned P7,000 in the first two months, P937,245 in the succeeding ten months (March-December 1990), and P2,579,291 in the whole year of 1991.

PADECO faced many challenges in its rising years. A shortage in corn raised the price of this feed ingredient. A Presidential Executive Order was signed in favor of the importing meat products and devastated the income of the hog-raising members of the cooperative. PADECO found itself paying for its members' obligations to the Land Bank. This crisis was eventually solved by seeking the help of the Neighborhood Multi-Purpose Cooperative and the province-wide Batangas Development Cooperative to sell Padre Garcia hog-raisers' pork at reasonable prices not only within the town but also in the neighboring Lipa City.

Ms. Concordia P. Goce, former chairperson and now secretary of PADECO and the cooperative's historian-chronicler, recalls that the organization's collective determination to solve the problems during those trying times, amid a lot of constructive criticisms from the membership, was able to galvanize the unity of PADECO to lead it out of those crises.

By early 1994, the relatively well-off directors of the cooperative had taken over the hog-raising program from the Land Bank and this resulted in earnings for cooperative members to gradually pay back their debts. By that time, PADECO had acquired a second mill, called Hammer Mill, a generator to cover for brownout periods, and several buildings that included an administration center, several warehouses, a laboratory and a guardhouse, plus a coconut oil tank, all in its lot in Barangay Pansol which had been acquired from its founding president. PADECO also started partially computerizing its accounting and other administrative operations.

### **Growth in Hog-raising**

From a starting number of 200 heads, hog-raising by the cooperative's members had risen to 500 piglets a month by 1993, and even 700 piglets per month by 1994, with each piglet ready for slaughter after about three months of feeding. The cooperative was able to supply feeds to the

members which was to be paid by deducting its price from the hogs the cooperative was selling for slaughter.

But the rise in the volume of feeds required by the fast growth of hog production put a strain on the cooperative's capacity to purchase ingredients for feeds, thus forcing it again to go into external borrowings from the Land Bank and other sources. To cover interest payments, PADECO raised almost ten times the price of the minimum share required per member from only P500 earlier to P4,800.

To encourage members to keep on raising hogs and patronize the feeds, PADECO held raffle promotions among feed buyers. It also undertook serious and aggressive marketing, and boosted hog sales to 1,065 heads per month by early 1994. It also started its own meat shop and engaged in meat preservation in the form of products like ham, longaniza and tocino.

PADECO also sought to sustain its growth and address the growing needs of its members for capital by encouraging various forms of individual savings, like giving 10 percent per annum interest on withdrawable savings deposits and 30 percent per annum interest on "fixed" deposits lasting no less than three months.

During the cooperative's general assembly in April 1994, PADECO was visualizing a future of more growth, specifically its initiating role, with the local cooperative federation, in the building of a modern abattoir and its projected involvement in the operations of the Padre Garcia Livestock Market.

Two years later, more additions were made to the cooperative's physical plant, including, significantly, a "jet-matic" water pump, and an airconditioning unit to maintain the efficacy of vitamins and other nutrients stored for use in the production of feeds. The cooperative opened a mini-library for its members, by then numbering almost 1,500, and launched an internal publication, *Ang Padeco Balita*. It was also in 1996 that Padeco was cited by then President Fidel Ramos as "Outstanding Kabisig-type Project" and also awarded as "Outstanding Cooperative Creditor of Quedancor."

Given these achievements and momentum of growth, Padeco would seem at first to be invincible even in the face of a tragedy like an epidemic outbreak. But this was not to be. The crisis hit and it hit hard.

### **FMD Menace and Aftermath**

Under the hog dispersal scheme of PADECO, its participating members did not have to spend cash, all costs being shouldered by the cooperative

to be recovered upon the sale of the fattened hogs three months later, with the profit to be remitted to each hog-raiser. According to Vic Javier, municipal agriculture office (MAO) of Padre Garcia, the foot-and-mouth disease epidemic in October 1995 which took three quarters to control by summer of 1996, killed 95 percent of roughly 24,000 pigs that a substantial percentage of which were covered by PADECO's project. This meant roughly PhP80 million in losses all in all, including PhP30 million in losses for PADECO itself as estimated by PADECO founder Alejandro Reyes -- and about PhP2.3 million in expected but unrealized profits for all the raisers. Mr. Reyes added that the same epidemic resulted in PhP5-million losses among poultry-raisers.

What about the 1,200 pigs that lived through the FMD epidemic? A hog-raiser who was a member of another cooperative (PGMCI) said in an interview for this study that for each mother pig that should fetch a P7,000 selling price she was being offered a measly P500.

Although the FMD menace was declared "under control" as of May-June 1996, the downspin that it caused continued to rock PADECO in the years that followed.

Members who had earlier borrowed money from the cooperative, exceeding regular limits by offering collaterals, have started being unable or unwilling to pay back. The collaterals have become cooperative property, but were "not liquid" and could not immediately be sold to produce liquidity, PADECO Treasurer Celso Arano said in an interview for this study.

The cooperative had to cut production drastically because it could not pay the ingredients suppliers for raw materials (yellow corn, soya, fishmeal, copra, etc.) already consumed by its feed mill. Many of these 15 or so supplier firms came to stop delivering raw materials altogether. At this point PADECO cut back drastically on production volume. From the 1,800 bags output per month in 1994, the output was reduced to only 300 and this even slid down to 200 or only 11 percent of the previous production volume.

There was also a perceived drop in the quality of the feeds output from the cooperative. An ordinary PADECO member confided in an interview that she stopped buying the product of the cooperative's feed mill because the quality had allegedly dipped drastically, making it more prudent for him, economically, to shift to another brand. Another ordinary PADECO member corroborated this in a separate interview, alleging that there was too much rice bran ("ipa") in the feeds.

While production had to be drastically reduced, the cooperative was maintaining its personnel outlay at pre-crisis levels, creating a disproportionate overhead that pushed up feed prices. Treasurer Araño admitted that their feed mill's product has become more costly for its members to continue patronizing. He expressed the conviction that this really needed to be addressed urgently and decisively because the irony in this situation was running against the very spirit of cooperativism.

The overall situation of the cooperative caused it to default on loan repayments to the Land Bank and made its "placers" (about 20 cooperative members with large investment placements) so uneasy that some of them contemplated aloud the possibility of pulling out their investments which run up to millions of pesos. PADECO found itself in a dire predicament that some have described as the cooperative having been "downed" and others have preferred to call a "bankruptcy." The overall economic situation in the Philippines and even across Asia became a worsening factor for the cooperative's woes.

### **The Rescue Project: PADECO's Moves**

For years, the cooperative tried to solve its own problems even with the awareness that it had a sure ally at the helm of "city hall.". According to PADECO Secretary Goce, it was conscious of the self-reliance principle upheld within the cooperative movement.

But the problems worsened, not the least of which was the members' growing pessimism in PADECO's ability to recover, such that even those who had recovered the ability to pay back their borrowings held back from paying. More members stopped patronizing even just the drastically reduced amount of feeds PADECO's feed mill has managed to continue producing.

On May 8, 1999, the cooperative's Board of Directors met in a special meeting and passed "Kapasyahan Blg. 010 S-1999" to formally request the municipal council to endorse an appeal for the mayor's help. Citing the economic crisis besetting the country, admitting PADECO's inability to meet the needs of its members and inability to fully play its role in the Land Bank's "Todo-Unlad" program, and invoking both the present role of Mayor Reyes as chairman of the Municipal Cooperative Development Council as well as his earlier role as one of the builders and long-time leaders of the organization, the cooperative's resolution asked the Sangguniang Bayan to formally assign the mayor to lead in PADECO's rehabilitation and reorganization. Certified by Secretary Goce and attested by PADECO chairman Antonio Macasaet, the resolution was handed to Councilor Eleator Padua. Two days later, the municipal board unanimously approved Resolution No. 99-26, sponsored by Padua and

seconded by Councilor Arano, mandating Mayor Reyes to help rescue PADECO as the latter had formally requested.

### **Mayor's 5-Pronged Approach**

As a consequence of the Sangguniang Bayan resolution, Mayor Reyes now spends two full days every week in a five-pronged effort to rescue PADECO from the pit of near-bankruptcy. The five prongs are as follows:

#### **1. Convince the PADECO employees to accept pay cuts in order to reduce overhead expenses on salaries.**

A meeting was called for the mayor to address the cooperative's employees the appeal for them to sacrifice for the sake of PADECO. The mayor explained to them that if the status quo remained, the cooperative was going bankrupt soon and they all stood to lose their jobs. He made them choose which of two options, both bitter, would be more acceptable: layoffs or voluntary pay cuts at least for the time being. The employees chose the latter, and implementation has started, reducing the cooperative's personnel budget by about 35 percent. This started correcting from one end the grossly imbalanced overhead-production ratio, leading to the production of lower-priced and better-quality feeds.

#### **2. Convince suppliers to resume deliveries of ingredients needed for feed production at previous volumes.**

A separate meeting was held attended by PADECO leaders and top-level representatives of supplier companies. The mayor proposed a scheme whereby the companies would make deliveries for which they would be paid in cash plus a percentage of that amount to stand as partial payments or installments for earlier deliveries that have remained unpaid. The companies agreed and a good number of them reportedly started, although none of the PADECO officers interviewed could give an exact number. Still, any resumption of deliveries by suppliers that were previously stopped, redounds to increased production, correcting the imbalance in the overhead-production ratio from the other end.

#### **3. Convince cooperative members to resume buying PADECO's feeds at discounted prices.**

As a consequence of the first two, PADECO could now afford to sell its feeds at discounted or lower prices. The mayor and the cooperative leaders concentrated on high-volume users of feeds and were already able to convince some of them to go back to patronizing PADECO's output. Again, in this case, no specific details were made available.

#### **4. Convince cooperative members to pay back their loans from PADECO.**

The cooperative's collections officer reported that the mayor and PADECO officers had met with cooperative members in seven of the town's 18 barangays with the first three-month period of the "rescue operations," with an average of 50 or so members attending each meeting. In these meetings, the mayor expressed doubt that all who have failed to pay back loans secured from the cooperative really have no capacity at all to pay. He listened to the apprehensions from some of the members who admitted having deliberately refused to pay, and promised to help address their grievances. The cooperative's collections officer, Nida Andal, said there was a marked increase in collection after the mayor talked with the members.

Specifically, in four barangays (Payapa, Mangas, San Miguel, and Sta. Cruz), where there were zero collections in the month preceding the talks initiated by Mayor Reyes with PADECO members, a total of P63,723 was collected. Total collection in twelve barangays in the month following such meetings was higher than that in the pre-talks months by a total of P345,640. This is an unmistakable indicator of immediate initial success of this particular component of the Mayor's five-pronged strategy.

#### **5. Convince placers not to withdraw their investment placements.**

Some 20 cooperative members, with relatively high investment placements in PADECO were convinced by Mayor Reyes not to pull out their investments, which run into millions of pesos. Reyes reportedly promised that the cooperative would pay back all its obligations to them and to others considering it has liquid assets, and assured them that their personal investments are secure.

Officials both in the municipal government and in PADECO have expressed confidence that the efforts have already started to make the upturn, although it remains an expressed perception still to be backed up by hard facts. Some of them also expressed caution in their optimism considering such important other factors as the need to recover the confidence of its members in the cooperative's management style.

In an interview, Fr. Pedro Calvo, the parish priest of the town expressed optimism that recovery of confidence is underway, and for this he credited the mayor's personal convincing style and staking of personal honor and credibility.

It is noteworthy that PADECO asked for the mayor's intercession and apparently saw no need to seek bailout in the form of municipal funds.

Councilor Arano revealed in an interview that this year's P20-million fund allotment for cooperative development remains untouched. This is not to say such a fund remaining idle is good; it does, however, underscore a basis for the cooperative in question to have asked for funds as well, an option it decided not to pursue.

It is too early to tell where the mayor's three-month-old mission to help rescue PADECO would lead. But the upbeat mood of the cooperative's leaders and members bodes well for recovery. Unless another FMD epidemic comes along, and unless the Philippine economy takes another downturn, PADECO will recapture its old glory, PADECO Secretary Goce predicted with a wide grin.

### **Other Issues and Problems**

There are some problems and points of issue in Padre Garcia as everywhere else. They are recognized here to complete the picture and do not serve to diminish appreciation of the LGU's earnestness and fruitful efforts in cooperative development. Moreover, the possibility and stability of any real recovery for PADECO at least partly depends on how earnestly and successfully the following issues would be addressed:

#### **1. Cooperative members' confidence in their leadership**

The fact that PADECO needed the active intercession of Mayor Victor Reyes in efforts to convince various sectors within and around it to give their respective forms of support would seem to indicate that the leaders are beset with credibility problems. On the one hand, it is easy to see how they were just victims of unforeseen confluence of circumstances brought about by the outbreak of an epidemic that they could not have any substantial control of. But on the other hand, some members, including the elderly founder, have been critical of decision-making processes in the higher levels of the organization, producing decisions that resulted, for instance, in the high-risk over-exposure of the cooperative assets that rendered it vulnerable to the horrors of an epidemic. The fact that some members who could pay back their debts to the coop decided to refuse, over long periods, could be interpreted as a vote of no-confidence, whether or not such vote as fair and reasonable.

#### **2. Relative 'concentration' of LGU's pro-cooperative actions on the person and office of the mayor**

Councilor Rico Araño, who has been chairing the committee on cooperatives, along with two other committees, admitted in a very recent interview for this study that he had just started working on this particular committee after taking care first of the other two. (In fact, he could not

even say for sure who are the other members of the cooperative committee.) This is not to say, however, that the work he has finally started is not impressive. It is, what with a comprehensive education plan for citizens, not only coop members, to receive the basics on cooperativism. He said he chose to focus his work first on his other committee assignments because he felt the cooperatives were basically all right. The central role being played by the mayor, considering his background and appeal, is crucial in the recovery effort of PADECO.

While the mayor factor in this case is very fortunate, it has also remained fragile. Mayor Reyes said in an interview for this study that he personally prefers to go back to the cooperative sector rather than remain in politics. While that prospect to return to cooperative work is real especially as the end of his second three-year term nears (2001), In such a case he is likely to boost cooperative development from within, he is still expected to attain stability or sustainability in terms of the local government unit, as an institution, building a formalized partnership with the cooperatives for grassroots synergy. The players may well consider jointly preparing and signing a memorandum of agreement to put the partnership on much firmer ground.

### **3. Lack of clarity on certain roles**

Secretary Goce proudly reported in an interview that the municipal council had specifically designated Councilor Rico Araño, a former director of PADECO, to concentrate on helping the cooperative sector and that he has been very helpful to the cooperative. Asked to clarify how such help was extended, she said Araño would always help them out with their legal paperwork. Asked to clarify further, she admitted that such assistance with paperwork was being given by Araño as a knowledgeable lawyer and not as a municipal council member. It had nothing to do with his local legislative functions. Araño himself plans to cover this matter in the education plan he will start implementing soon as chairman of both the education and the cooperative affairs committees of the municipal legislature.

### **4. Incapability of the concerned national government agency, the Department of Agriculture (DA), and its regional office, to prevent and handle an epidemic such as the one that "downed" PADECO**

Padre Garcia's MAO, Vic Javier, admitted that the Department of Agriculture was able to send supplies of vaccine only after the foot-and-mouth disease (FMD) epidemic broke out, and that the prevention system remains weak due to lack of funds. At certain periods, he added, DA in Region 4 would be sending medicines that were about to expire. Notwithstanding a good relationship between government and the cooperatives at the municipal level, it remains an issue that the inadequacy

of a *national* government agency concerned, specifically DA, can only be beyond the reach of the local partnership.

#### **5. 'Narrow' distribution of the cooperative's funds for loans**

Former Mayor Eugenio Gutierrez expressed the view that PADECO was prone to giving out big loans to a small number of cooperative members mainly on the basis of relatively-bigger capacity to pay, and in the process was depriving smaller-scale entrepreneurs, like the "sundot-saging" (banana-cue vendors), valuable assistance. He even hinted that a few families were controlling cooperative funds for their own personal benefit.

### **CONCLUSIONS AND OBSERVATIONS**

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Padre Garcia town in Batangas is well known for its cattle trading, especially through its purely-LGU Livestock Auction Market. However, in the realm of LGU-cooperative relations, it may very well be much more noteworthy for the ongoing partnership between Mayor Victor Reyes and the distressed PADECO for the latter's recovery from crisis. Not many municipalities are led by mayors who had come from among active leaders of the cooperative sector and who would prefer to return to that sector in the immediate future.

Such a mayor and cooperative leader as Mayor Reyes is facing the dilemma whether to promote coop-LGU collaboration from within the framework of the internal strengthening of the cooperative sector or to do it from the vantage point of a vital local government position. A detailed and comprehensive documentation of the ongoing "rescue project," after it shall have run its full course, is highly recommended for the sake of extracting and sharing valuable learnings

## Chapter 6

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# Overview of Other Cases of Coop-LGU Collaboration

**Reginaldo J. Pascual**

### **Challenges facing the cooperative sector and local government units**

As the country and the world enter the new millennium, a whole new window of challenges and opportunities loom in the horizon. The thrust towards globalization, continuing advances in technology, the worldwide fight against poverty and other social ills have placed government and private sector collaboration today as a crucial undertaking for sustenance and development. The call for continued partnership has been sounded and there is no turning back.

The strategic importance of government and private sector partnership cannot be overemphasized. Local government units (LGU) and private entities combined mobilize an array of resources, capabilities, information and noble mandates, which shall all redound to the welfare of their respective communities. Cooperatives can best relate to local needs and can support government initiatives in the area. Conversely, cooperatives need to be supported and nurtured as partners in local governance because as units with social and democratic character, they represent a broad base which can be reached and benefited by projects arising from local government and coop partnerships.

Indeed, numerous cases of successful collaborative efforts between local government units and cooperatives have been taking place. Cooperatives fill in the vacuum left by inadequate and scarce government resources in the delivery of basic services and in the provision of opportunities for business and employment.

Seeing the potentials of such alliance, cooperatives and local government units interface through collaborative undertakings aimed to provide services to the community. The union has made great strides in many fields of endeavors complementing each other's social and economic agenda. However, there are also trials and challenges which hinder collaboration. Nevertheless, these trials and challenges should be seen as a new lift toward change.

## **Successful LGU-Cooperatives Collaboration and Opportunities**

Local government support for cooperatives comes in different forms. What could probably be the best expression of support by a local government unit is its recognition and the inclusion of the cooperative into the LGU's development program. In doing this, the LGU provides the appropriate environment through policies as well as organizational and funding assistance thereby, enhancing the cooperatives to grow.

Different experiences show that where cooperatives are institutionalized in the mainstream of local government initiatives, coops could do better and could be effective partners in governance. A basic component of integration is the enactment of support ordinances and executive orders that formalize the partnership and lay down the framework for collaboration. Examples of these initiatives are those spearheaded by Governors Roberto Pagdanganan of Bulacan and Prospero Amatong of Davao. Both are known stalwarts of the cooperative movement in their respective provinces. They effectively utilized strategic collaboration with cooperatives, which in turn, helped fuel local economic growth.

Due to the assistance of the LGU, primary and secondary cooperatives in Davao enjoyed loans, grants, and facilitation of services such as the provision of project sites. The LGU extended assistance to the Davao Federation of Agricultural Cooperatives (DAFEDACO) and the Davao Federation of Non-Agricultural Cooperatives (DAFENACO) for projects of their member-primaries which were engaged in food production, cattle raising and the establishment of training centers in their areas. Primary cooperatives were likewise directly supported in their agricultural activities with the construction of post-harvest facilities, cold storage plants and other inputs for food production.

Collaboration between cooperatives and local government units was also made possible through policies and programs for the community. In Bulacan and Davao for instance, cooperative leaders were regularly consulted in local planning activities and sometimes, coops would sit in advisory bodies of provincial and municipal governments. Farther north in Ilocos Sur, the officers of the Galimuyod Multi-Purpose Cooperative served as advisers to the local chief executive on cooperative concerns. The coops also conducted training on management of small cooperatives.

Cooperatives and local government units are strategic partners in meeting the demands of the export market. Under Land Bank's Todo Unlad Program, local cooperatives in Tacloban, Leyte supplied the raw material requirements of a Korean firm producing sweet potato flour for export to Korea. Through the financing facility of Land Bank, the local government unit improved farm-to-market roads and provided farm implements to the

farmers. The local cooperatives eventually managed the farms which covered nine municipalities in Samar and Leyte. A similar project is being managed by cooperatives in Calasiao, Pangasinan to service the requirements of the Korean market. Farm-to-market roads were also upgraded by the provincial government to hasten the flow of goods and materials to and from the production sites.

The Todo Unlad Program of Land Bank and other foreign funding agencies likewise contributed to a successful collaborative effort of cooperatives and LGU's in managing an integrated fishery project. In Baler, Quezon, three (3) cooperatives managed the cold storage facility in a site donated by the municipality. Through the project, fish catch spoilage was considerably reduced by making ice available in Baler. People did not have to get the ice from Nueva Ecija, which is approximately seventy kilometers away from Baler.

Another emerging field where effective collaboration between cooperatives and LGUs could be harnessed is contract farming. Local and international markets, particularly in Asia, demand contracting farm products in bigger volumes. With the demand for bigger contracts, infrastructures support for agriculture is necessary. Infrastructures help stabilize prices and contribute to a credible market information and proper zoning and land use laws and regulations. Local government units do play a crucial role in infrastructure development, which in turn, enhance economic activities. On the other hand, cooperatives are a force to reckon with in terms of economies of scale. Cooperatives have easy access to credit are favored by credit institutions, thereby allowing them to vigorously contribute to the economy.

Contract farming requires the continuous availability of supply and demand for products. Continuous supply of products would honor marketing commitments with local and foreign buyers while a continuous demand would avoid inventory over-runs and spoilage. Cooperatives are looked upon as viable players in the business industry, made effective with government support through infrastructures.

## **Success Factors in LGU-Cooperative Collaboration**

**LGU-cooperative collaboration has been proven to work. The success of an LGU-coop collaboration is based upon the following factors:**

1. Shared vision and sense of commitment

The successful cases show that the LGUs and coops which have the vision and commitment to people's welfare, are genuinely motivated to serve the people and to implement what they have set out to do. A shared vision is

key to a joint undertaking. The LGUs and coops that share a vision easily come together to conceptualize, plan, implement and sustain projects. The shared activities are an important resource to attain positive results.

## 2. Selfless sharing of resources

The successful cases show that LGUs and coops share their resources – human, financial, and other material resources. At the least, one complements the resource of the other. Each institution supported each other by filling up inadequacies and handicaps in terms of technical and managerial skills, equipment, finance and information. The resource sharing enhances complementation and teamwork thus avoiding wasteful duplication of time, effort and valuable resources.

## 3. LGU's full trust and confidence in the cooperatives

Local government units express their trust and confidence in the cooperatives by devolving basic and critical public services to cooperatives. Passing on the responsibility of basic service provision shows that the LGUs trust the coops' ability to operate and manage services. By doing so, local government units tap the coops and allow the latter to make public services such as telecommunications, transport, and market management available while LGUs concentrate on other governmental functions.

## 4. Commitment and passion of national and local executives to the cooperative movement

Collaboration is greatly enhanced by the personal commitment of national and local officials to the cooperative movement. With the leaders' sympathy and commitment to the coops, the cooperative program is integrated into local and national development programs. The integration of the coops into the governance program contributes to the sustainability of the collaboration.

An integrated program means regular and sustained activities. Being part of an institutionalized program also entitles the coops to legislative and executive support measures by the local government.

## **Causes of a Failed Coop-LGU Collaboration**

As there are success stories on collaboration, there are also attempts on LGU-coop partnership that did not succeed. Some impediments to the LGU-coop collaboration are explained here:

### **1. Political intervention**

Political intervention has widely compromised the autonomy of cooperatives. Fearful of political intervention by LGUs, some cooperatives hesitate to enter into a partnership with local government units. Some LGUs perceive the cooperatives as a local power broker – whether in the social, economic or political sphere- and therefore have used the coops as a leverage for power. This utilitarian attitude does not encourage cooperatives to engage with LGUs.

## **2. Lack of cooperative self-reliance**

The lack of self-reliance among many cooperatives allows them to fall victims to LGUs which take advantage of the partnership.

## **3. Absence of a clear program for cooperatives in LGU development plans**

The LGU's lack of appreciation for the role and contributions of cooperatives explains why LGUs tend to exclude the coops in the development program. The LGUs that value the coops – whether as economic contributors or as service providers- tend to institutionalize the partnership by enabling cooperatives to play their bit in the over-all governance plan.

## **4. LGUs' doubt on the competencies of cCooperatives**

In spite of many coops' successes in enterprises and business, some local government units have lingering doubts about the cooperatives' managerial and technical capability to handle projects. Doubtful about the business competencies of the coops, other LGUs fail to provide the full support to cooperatives.

The failures of cooperatives due to mismanagement and irregularities prompted some LGUs to turn to corporations instead. Incompetencies in business management have unfavorably contributed to the lingering doubt of LGUs on the cooperatives.

## **What the experts say about LGU-COOP collaboration**

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Experts on cooperatives, mostly coming from the sector itself, have various opinions about how LGU-coop collaboration may be pursued. For example, during the recent conference on LGU-Coop Partnership, Former Bulacan Governor Roberto Pagdanganan expressed the need to institute certain policy changes based on experiences, to correct or reduce the inadequacies of existing legislative policies.

Participants in the same conference also suggested that the cooperative sector should participate in the review of the Local Government Code and other laws related to local governance. The coop's participation shall cut both ways, as this will enable the coop to look into possible amendments on the Cooperative Code as well. This could hasten the institutionalization of an LGU-coop collaboration by bringing together the experiences on partnership.

Defining the areas of collaboration between LGU and coop, Mr. Cesar Liporada of the United Nations Development Programme said the objectives of partnership should take into account that both the Local Government Code and the Cooperative Code promote the general welfare and work for the empowerment of the community. In this sense, these two codes have a common mission.

According to Former Gov. Pagdanganan, the needs or focus of collaboration may depend largely on the level of development achieved by the LGUs. Large issues such as confederation, auditing, coop banking system and education and training should be properly addressed by both coops and LGUs to consolidate and sustain the gains of collaboration. Both LGUs and coops should work hard to ensure that the gains are not eroded, even as they strive to further the partnership development.

Another expert, Mr Rollie Fabie of the Union of Local Authorities of the Philippines (ULAP), thinks that cooperatives can be considered as a strategy to fight poverty, and that in fact, cooperatives should be packaged or socially marketed in this way. As a mechanism to fight poverty, coops contribute to education, value orientation, and social capital, all of which aim to improve the people's understanding and awareness of cooperativism.

Congressman Agapito "Butz" Aquino believes that LGUs should be made to realize how LGU-coop partnership could be an enormous contribution and complementation to local governance. The only way to erase LGUs' reluctance to deal and cooperate with coops is to let LGUs see how crucial partners cooperatives might be to development.

CDA Executive Director Candelario Verzosa Jr. urged local government units to provide the conducive business climate for cooperatives by ensuring a peaceful and orderly environment and by encouraging coops to operate as independently as possible. He appealed to local government units to continue to work hard in maintaining peace and order, protecting and maintaining a clean and orderly environment, and properly implementing zoning laws and regulations. These environment and policy

would complement and ensure coop's success in business and social undertakings, according to Verzosa.

Verzosa thinks that to hasten the financial independence of cooperative, the local government units and funding agencies should be discouraged from providing excessive fund grants to cooperatives. Support should instead be focused on training programs that would prepare cooperatives to become self-sustaining.

## **Recommendations for a More Meaningful LGU-Coop Collaboration**

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### **1. Respect each other's independence and integrity**

Collaboration between cooperatives and local government units should be conducted in the spirit of respect for each other's independence and integrity. Cooperatives should be allowed to operate without undue external interference, to be able to make the best decisions that will benefit their interests. Cooperatives though should strike a delicate balance between supporting mutually beneficial local economic and community program and falling into the trap of partisan politics, which would undermine the independence of cooperatives.

On the other hand, local government units as institutions should be looked upon with the highest esteem and respect for their legal mandates and stature as public servants and officials. They should be seen in the light of having an established institution with whom cooperatives can work in a sustainable manner.

### **2. Promote the principle of self-help**

In some cases of collaboration, local government units adopted the policy of self-help to prepare the cooperatives' eventual economic independence. Through collaboration, cooperatives should be encouraged to tap available resources and assistance from LGUs, without compromising their principles and objectives. Furthermore, assistance from the LGUs should not impede the creativity and resourcefulness of cooperatives.

In the light of previous experiences by cooperatives becoming economically dependent upon and be used for political purposes by the LGUs, LGU financial support should be used only as seed capital for start-up of projects. Cooperatives should be encouraged to put up their counterpart and eventually, to become self-reliant.

### **3. Strengthen the cooperative as a formidable enterprise**

Beyond financial and technical assistance from LGUs, the coops should be prepared and strengthened to assume their role as catalysts of key enterprises in their localities, promoting economies of scale, better access to credit and federating coops for greater impact in the local economy. Federation of coops could also aim to achieve complementation of services among small coops.

Through the expansion of the coops either by size or type of services, the local government units are then assured of a stronger partner sector with a reliable base.

#### **4. Collaborate on policy advocacy**

Apart from engaging in business and community undertakings, cooperatives and LGUs should join hands in advocating relevant policies for legislation and national executive action. Their links with people from all backgrounds and origins characterized by diverse views and opinions, make them a credible source of information and materials for policies that impact directly upon the people's basic needs. The LGUs and the coops are therefore two crucial players that bridge the public sector and the population.

#### **5. Step up an effective marketing strategy to boost LGU-Coop Collaboration**

LGUs and coops should relentlessly work for collaboration, thereby promoting shared ideas on development, rational use of resources, and the complementation of goals and objectives. With more successful cases of collaboration, they would inspire other cultures and institutions about the added-value of working in alliance with various groups for as long as they share the vision of development.

Other sectors such as the executive and legislative branches of government, the religious, the academe and other civic groups should be challenged to contribute to a social responsibility inspired by the positive cases of collaboration between the LGUs and the cooperatives.

As far as possible, all sectors should consider working in collaboration with others because the demands of the new millennium for networking, links, and collaborative action are extremely high.

#### **INTERVIEWEES/KEY INFORMANTS**

- Mr. Candelario Verzosa, Jr., Executive Director, Co-operative Development Authority

- Staff of Mr. Harold Dacumos, Vice President, Land Bank of the Philippines on Todo Unlad Program

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