

# [ PRESIDENTIAL DECREE NO. 175, April 14, 1973 ]

## STRENGTHENING THE COOPERATIVE MOVEMENT

**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,