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RISK MANAGEMENT OF MICRO COOPERATIVES IN CAGAYAN VALLEY, PHILIPPINES

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ABSTRACT-- *The study was conducted to determine the strategies and policies of micro cooperative in Cagayan Valley, Philippines in the context of risk management. Specifically, it aimed to (1) determine the relationship between the levels of adoption of risk management practices and profitability; (2) compare the perceptions of members, staff and BODs on the levels of adoption of practices on risk management of micro cooperatives in Cagayan Valley, Philippines; (3) compare the financial performances of micro cooperatives among provinces in Cagayan Valley, Philippines and identify the most pressing problems encountered by micro cooperatives in Cagayan Valley, Philippines. Twenty two (22) micro cooperatives, selected purposively, were involved in the study. Descriptive correlation method was applied. The study suggests that the levels of adoption of cooperative risk management practices has no significant effect on profitability of micro cooperatives in Cagayan Valley, Philippines. All the three (3) groups of respondents agree that the level of adoption of cooperative risk management practices is "high", unfortunately, the overall financial performances of all the micro cooperatives are unsatisfactory.*

Keyword-- *cooperative risk management, financial performance, micro cooperatives and profitability*

I. INTRODUCTION

Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (ICA). It must measure up to the criteria of viability and efficiency. Its vision is to improve the social and the economic status of the people who have plunged-out of various financial services in the past. It exists only for the benefits of its members who contribute equitably to and democratically control the capital of the cooperative.

Members entrust their cooperative and its resources to the Board of Directors (BODs) and the Management Team (Vivas, 2003). They expect them to enhance the value of the Cooperative, protect their rights and interests and be accountable to them. The management expects the BODs to lay down the cooperative's vision, and mission and the strategies to achieve them.

The Cooperative Code of the Philippines intensifies cooperatives as a practical vehicle for promoting self-reliance and empowering people to realize economic development and social justice. The government has to ensure that the necessary assistance be given to cooperatives that enable them to develop a viable movement.
Cooperatives can have significant contribution in the attainment of the development plan of the Philippines because of their power to mobilize savings and capital which can serve as inputs in the production of goods and

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services of the marginalized Filipinos. The cooperative sector generated P322,697.5 million total volume of business and provided direct employment of 463,789 Filipino people as at the end of 2015 (Castillo, 2017).

As of December 31, 2015, there are 9,826 cooperatives submitted audited financial statements to the Cooperative Development Authority (CDA) 54% of which are micro, 27% small, 15% medium and 4% large cooperatives. In terms of assets, the micro cooperatives own 2%; small, 7%; medium, 19% and large, 72% of the total assets of the cooperative sector (table 1). It can be gleaned from table 1 that micro cooperatives which dominate the sector own only 2% of the total assets while 72% of the total assets are owned by large cooperatives which composed only 4% of the cooperatives. The figures imply that if the micro cooperatives are improved, there would be a great impact in improving the social and economic development of the national economy.

Table 1: Status of cooperatives, by size of cooperatives as of December 2015, Philippines.

Status	No. of reporting	Percentage	Assets (in million)	Percentage
Micro	5,264	54	5,118.40	2
Small	2,694	27	19,220.7	7
Medium	1,437	15	54,527.1	19
Large	431	4	206,482.2	72
Total	9,826	100	285,348.40	100

Success of the cooperative depends to a great extent, on the BODs, management staff and members. These major players on cooperative risk management (CRM) do not need to be expert to be able to perform well but they must build the context in which they can understand their cooperative's success factors on one hand, and key critical areas on the other, which if not identified, monitored and managed, could undermine business viability.

Each cooperative exists to provide value for its members. At the same time, cooperative also faces uncertainty. That leaves management with a great task: to decide what level of uncertainty is acceptable, recognizing that uncertainty provides potential to add value as well as risk.

Cooperatives have always had to manage risk. In today's world, where more close government, regulatory and market place scrutiny rule; where complications in business occur; global financial turmoil spreads and other threats continue to emerge, the need for cooperative risk management has become more vital than ever.

II. OBJECTIVES OF THE STUDY

Generally, the study aims to determine the policies and strategies adopted by micro cooperatives on risk management. It also aims to:

1. Determine what relationship exists between the level of adoption of coop risk management practices and profitability among micro cooperatives in Cagayan Valley, Philippines;
2. Compare the perception of the BODs, members and staff on management practices of the cooperatives;
3. Compare the financial performances of various micro cooperatives among provinces in Cagayan Valley, Philippines; and

4. Identify the problems encountered by micro cooperatives that hinder the realization of their objectives and goals.

III. REVIEW OF RELATED LITERATURE

The meaning and concept of Cooperative

Pimentel & Cua (1994) view Cooperative as the most democratic form of economic organization because of its one-member-one-vote principle. Cooperatives provide hope that the poor people who have no chance to compete in the capitalist market individually, but together bound by their common needs, will be able to lift themselves up from the chain of poverty.

Article 3, RA 9520 (2008) defines cooperative as an autonomous and duly registered association of persons with a common bond of interest, who have voluntarily joined together to achieve their social, economic and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products, and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles.

Dalloran (2002) in his study expressed that under the Program Development Component of the Comprehensive Agrarian Reform Program, the farmers cannot attain a better life unless they are united and a sustainable cooperative will carry out their common socio-economic efforts towards development.

Factors Affecting Cooperative Profits

Cooperative performances are greatly impacted by cooperative strategic planning (Lilungu, et al 2015 and active participation by the general membership, (Hafizah and Zuraini, 2012). Strategic plan sets the direction of the cooperative and management makes decisions on how its financial and human resources are allocated to attain the strategies.

Cooperative Risk Concept and Importance

Risk management is a combined and continuous process of identifying, analyzing, planning risk responses and monitoring or controlling risks (Laundry 2014). It allows management to identify the cooperative's strengths, weaknesses, opportunities and challenges. Awareness of the potential risks that may be faced by the entire cooperative, management may be more equipped with appropriate actions and decisions to mitigate or avoid problems (Tara Duggan, 2019)

Factors Affecting Liquidity Risks

Liquidity risks occur when an entity cannot meet its short-term debts. Factors that affect liquidity are a) drags on liquidity; b) pulls on liquidity (financetrain.com). Drags on liquidity may arise from poor collection of receivable, obsolete inventories or tight credit. Pulls on liquidity, on the other hand may refer to increased cash outflows due to making payments fast ot reduced credit limits

Factors Associated to Cooperative Failure

TA Masuku, et al 2016 argue that most MPCs incur losses due to poor management e.g. non-submission of audited Financial Statements, mismanagement of funds, break-ins by thieves, poor capital base and weakness in communication between committee members and the general membership. All these factors lead to non-participation of members in the undertakings of the cooperative and eventual non-patronage of their services.

IV. RESEARCH METHODOLOGY

Research design

The descriptive and correlational research designs were employed.

Respondents of the ***study***

The respondents of the study were the BODs and management staff who are knowledgeable in the cooperative risk management and active members of micro cooperatives in Cagayan Valley, Philippines.

Data collection

Pertinent data were gathered through personal interviews. Survey questionnaire was utilized to obtain the primary data. Secondary data like audited FS, BOD minutes of meetings and accomplishment reports were also gathered from the cooperatives.

Sampling procedure

Purposive random sampling with replacement was employed. Table 1 shows the details of the respondents. At the cooperative level, cooperatives that are operating for at least five (5) years shall be involved. Only those active members, BODs and staff who are actually knowledgeable of risk management practices were tapped as respondents.

Table 1: Number of respondents by Province, Three Groups, Cagayan Valley

Province	No. of coop	BOD	Staff	Members	All groups
Isabela	8	59	88	400	555
Cagayan	6	44	54	300	404
Quirino	3	19	21	150	193
Nueva Vizcaya	5	39	35	250	329
Total	22	161	198	1,100	1,481

Statistical treatment of data

The data were analyzed and processed in the computer using the Minitab 15, Microstat and Statistical Package for Social Science (SPSS) software applying the following statistical tools:

1. Descriptive statistical tools like percentages, mean, ranking and frequency counts were used to determine the problems encountered by the cooperatives that hamper the realization of goals and objectives;

2. Weighted arithmetical mean was used to determine the respondents' perceptions on the level of implementation or adoption of cooperative policies using the Likert's Table as shown below:

Scale	Numerical range	Levels of policy adoption
5	4.50-5.00	Very high
4	3.50-4.49	High
3	2.50-3.49	Average
2	1.50-2.49	Low
1	1.00-1.49	Very low

3. Chi-square test was used to determine and test the difference on the perceptions of the three (3) groups of respondents on the levels of adoption of the best cooperative risk management practices;

4. Regression analysis was also employed to determine the relationship between the levels of adoption of cooperative policies and profitability;

5. Analysis of Variance (ANOVA) was used to test the quantitative differences on the financial performances of the cooperatives among provinces in Cagayan Valley;

6. Financial ratios were used to measure the financial performances of the cooperatives using the PESOS indicators of the performance standards set by CDA.

V. RESULTS AND DISCUSSION

Table 2 revealed the profiles of the respondents. As gleaned from the table, there were more female members and staff than males, but there were male BODs than females. The members, staff and BODs are aged on the average 48.13; 37.15; and 50.16 years, respectively. Moreover, they hold their positions for 15.35; 10.18; and 13.73 years, respectively. On educational attainment, membership is open to all irrespective of educational attainment, 0.32% of the member-respondents are elementary graduates; 35.17%; 10.88%; 43.69%; 0.16%; 3.15%; 3.47% & 3.15% represent high school graduates; college undergraduates; college graduates; with units in masters degree; masters degree holders; with doctoral units and doctoral degree holders, respectively. Staff-respondents are high school graduates; college undergraduates; college graduates; with units in masters degree 1.27%; 23.42%; 74.68% and 0.63%, respectively. BODs on the other hand are composed of high school graduates; college graduates; masters degree holders; with doctoral units; and doctoral graduates with percentages 6.1%; 1.31%; 59.60%; 4.5%; 1.16% and 5.1%, respectively. It shows that cooperatives are managed by educated people as bulk of both staff and BODs are degree holders.

There are twenty one (21) multipurpose cooperatives (95.45%) and one (1) credit cooperative (4.55%). Cooperatives with only one line of business is more focused, it is easier to manage. Multipurpose cooperatives are riskier to manage because of its diversified business lines. This brings risks to cooperative management due to lack of appropriate manpower skills and sufficient economic resources.

Table 2 reveals that the average length of existence, in years, of the cooperatives is 26.69. Cooperatives that existed over long years implies that they have gone through various ups and downs. They have gained more experiences that those cooperatives which lasted for shorter years. They have more track records to sustain and

more lessons that have been learned out of their experiences.Nineteen (19) or 86.36% of the micro cooperative-respondents are community-based and three (3) or 13. 67% are institution-based. Community-based cooperatives pose more challenges and problems for the management and officers especially on loan collection while institution-based cooperatives are easier to handle as they enjoy the privilege of having the loan payments of members deducted from their respective payrolls.

There are established areas of jurisdiction for every cooperative. Table 2 shows that there are three (3) or 13.63% cooperatives with area of operation at the municipal level; eighteen (18) or 81.82% at the provincial level; and only one (1) or 4.55% at the national level but is main office is located in the province of Isabela. The areas of operation o cooperatives have a great impact on their management performance especially in terms of capital and membership growth and volume of business.

Cooperatives are organized by the members who entrust their capital contribution to the staff and officers of the cooperatives, as such, it is the members' interest that is put over the vested interest of any staff or officer. It is only through the general membership of the cooperatives will be financially viable business enterprise. Therefore, the corner stone for every cooperative's success is the members themselves. The average members, staff and BODs of the cooperatives are 562; 10.5; and 7.11, respectively. Large membership implies the cooperatives need huge capital to satisfy their needs. Moreover, cooperatives with more staff and BOs have more expenses.

Table 2: Profile of the Respondents, Cagayan Valley, Philippines, 2019

PARTICULARS	MEMBERS	STAFF	BODs
Individual Respondents			
Sex			
Male	42%	35%	54%
Female	58%	65%	46%48.13
Age (mean) in years	48.13	37.15	50.16
No. of years in the position (mean)	15.35	10.18	13.73
Educational Attainment			
Elementary	0.32%	0%	0%
High School	35.17%	1.22%	6.10%
College undergraduate	10.88%	2.42%	1.31
College graduate	43.68%	74.68%	59.6%
With masters units	0.16%	0.63%	0%
Masters degree	3.15%	0%	4.5%
With PhD units	3.47%	0%	1.16%
Doctoral graduate	3.15%	0%	5.10%
Coop-respondents	Number	Percentage	
Type of Coop			
Credit	1	4.55%	
Multipurpose	21	95.45%	
Length of existence (mean) in years	27		

Category			
Agri/community-based	19	86.36%	
Institution-based	3	13.64%	
Areas of operation			
Municipal	3	13.64%	
Principal/Regional	18	81.81%	
National	1	4.55%	
Total membership (mean)	562		
No. of staff (mean)	10.5		
No. of BODs (mean)	7.11		

Relationship Between the Levels of Adoption of Cooperative Risk Management Practices anProfitability

Sufficient financial resources enables cooperatives to be economically viable. This is attained if policies for efficient and effective management are established and adopted. The Board must ensure that risks are understood and are mitigated; risk-taking decisions are consistent with strategic business objectives & explicit and clear and the expected returns compensate for the risk taken (BSP Circular No. 283, Section 3.8). Table 3 indicates the mean and description ratings of level of adoption, percent of profitability and the result of regression analysis showing the computed R & F values and their interpretation in term of significance. Of the eight (8) cooperatives in the Province of Isabela, Cagayan Valley, Philippines, coop nos. 7 and 3 rated the level of adoption of risk management practices as "average" with a computed mean values of 3.35 and 3.34, respectively. All the other micro cooperatives rated it as "high" with mean values ranging from 3.60 to 4.35. The top three (3) in terms of profitability includes coop nos. 1, 7, 4 with profitability levels of 58%, 34%, and 26%, respectively. All other micro cooperatives get profitability levels of 19% and below. The computed R value is 0.579 and F computed value of 3.024 are not significant. This implies that there is no effect of the level of adoption of risk management practices on profitability.

In the Province of Cagayan, coop nos. 2 and 6 rated the adoption level of risk management policies "average" with mean values of 3.19 and 3.09, respectively. All the other cooperatives rates as "high". In terms of profitability, coop no 2 is the highest in profitability with 29% followed by coop no. 5 with 23%. Coop no. 4 has a profitability rate of negative 35%. The R computed value is 0.531 with F value of 1.575 which is not significant. Like in the Province of Isabela, it shows that there is no significant relationship between the level of adoption of risk management practices among micro cooperatives in the province of Cagayan.

Likewise, all the micro cooperatives in the Province of Nueva Vizcaya rated the adoption of cooperative risk management practices as "high" with mean values ranging from 3.6o to 4.03. The profitability level is highest in coop no. 3with 30% followed by coop nos. 4 and 5 at 29%. The R computed value is 0.370 and F value of 0.474 which is insignificant which suggests that the relationship between the level of adoption of coop risk management practices and profitability is insignificant.

And finally, all the micro cooperatives involved in the study from the province of Quirino rated adoption of risk management practices as "high". Profit levels are 28%, 18% and 15%, for coop nos. 1, 2 and 3, respectively. Based on the computed value of R of 0.845 with F value of 4.629, the relationship is insignificant.

Table 3: Relationship Between Levels of Adoption of Risk Management Practices and Profitability of Micro Cooperatives, Cagayan Valley, 2019.

Cooperatives/Province	Level of Adoption		Profitability Rate
	Mean	Qualitative Description	
Isabela			
Coop #1	4.35	High	58
Coop #2	3.81	High	9
Coop #3	3.34	Average	9
Coop #4	4.02	High	26
Coop #5	3.6	High	17
Coop #6	3.78	High	13
Coop #7	3.35	Average	34
Coop #8	3.86	High	19
R=0.579		F=3.024	Result=not significant
Cagayan			
Coop #1	3.99	High	17
Coop #2	3.19	Average	29
Coop #3	3.84	High	15
Coop #4	3.7	High	20
Coop #5	4.12	High	23
Coop #6	3.09	Average	-35
R=0.531		F=1.575	Result=not significant
Nueva Vizcaya			
Coop #1	4.03	High	10
Coop #2	4.09	High	29
Coop #3	3.93	High	30
Coop #4	3.98	high	12
Coop #5	3.6	High	29
R=0.370		F=3.474	Result=not significant
Quirino			
Coop #1	3.92	High	28
Coop #2	3.58	High	15

Coop #3	3.79	High	18
R=0.907		F=4.629	Result=not significant

Policies on Risk Management

Risk is an uncertainty that an asset will earn an unexpected rate of return, or that a loss may occur. It is the exposure to loss that may have an adverse effect on the capital and earnings of the cooperative. Table 4 shows the difference on the levels of implementation of risk management policies as perceived by the three (3) groups of respondents

Success of micro cooperatives is dependent on the ability of the Board, senior management staff in managing risks. A comprehensive risk management includes identifying, analyzing, measuring, assessing, controlling, managing, re-evaluating, reporting and disclosing the risks and possible consequences.

Credit risks

Bulk of cooperatives with credit services rests with loan portfolio. Credit risks arise from the member-borrowers' failure to pay loan principal and/or interest at maturity date. Table 4 shows that all the three (3) groups of respondents qualitatively rated the level of adoption of risk management policies as "high" with mean value of 3.63; 3.76; and 3.88 for members, staff and BODs, respectively. The computed chi-square value is 0.046 with probability of 1.000. This means that all the groups do not differ in their perception.

Market & Investment Risks

Risk to earning or capital arising from the possible deterioration in value of acquired assets and decline in value of investment in equities. Investment are cash outflows from which the micro cooperatives expect to receive cash returns in the future.

All the groups of respondents agree that the level of adoption of risk management policies on market & investment risk is "high" with mean ratings of 3.56; 3.61; and 3.68, by the members, staff and BODs, respectively. The grand mean if 3.62. The computed chi-square value is 0.000 and probability of 1.000 which means that there is no significant difference on the perception on the level of adoption.

Table 4: Differences on the Perceptions of three Groups of Respondents on the Levels of implementation of Risk Management Policies, Micro Cooperatives, Cagayan Valley, Philippines, 2019

Areas of Risks	MEAN			Grand Mean	Qual. Des.	Chi-square Value	Probability
	Members	Staff	BODs				
Credit Risks	3.63	3.76	3.88	3.76	High	0.046	1.000^{ns}
Market & Investment	3.56	3.81	3.68	3.62	High	0	1.000^{ns}
Liquidity	3.45	3.69	3.72	3.62	High	0.013	1.000^{ns}
Operational	3.76	3.91	3.94	3.87	High	0.014	1.000^{ns}

External Environment	3.77	3.87	3.93	3.86	High	0.004	1.000^{ns}
Legal	3.85	3.91	4.04	3.93	High	0.003	0.9986^{ns}
GRAND MEAN	3.67	3.79	3.87	3.78	high		

ns=not significant

Liquidity Risks

As shown on table 4, the members, staff, and BODs agree that the micro cooperatives in Cagayan Valley adopt a system that gives assurance that maturing obligations are settled on time and that cash is easily procured at least cost when needed by the cooperatives. The evaluation shows a mean rating of 3.45; 3.69 and 3.72 by members, staff and BODs, respectively. The grand mean rating is 3.62 with a qualitative description of high. Chi-square value is 0.013 and probability of 1.000 which implies that there is no significant difference of the perceptions of the three (3) groups of respondents on the level of adoption of risk management practices.

Operational Risks

This is the risk to earnings or capital that may arise as a result of weaknesses in organizational structure, poor oversight function of BODs and senior management, defective personnel recruitment criteria, deficiencies in management information systems, weak internal control system, and inadequate internal and external audit coverage. All the three (3) groups of respondents agree that the level of adoption of risk management policies is "high" with a mean rating of 3.76; 3.91; and 3.94 by the members, staff and BODs, respectively. The computed chi-square test value is 0.014 and probability of 1.000 which implies that there is so significant difference of the levels of adoption as perceived by the cooperators.

External Environment

Table 4 shows that all the respondents agree that their respective cooperatives adopt policies on feedback mechanism to be able to be abreast with the changes within the cooperative industry and in the priorities of the clients and beneficiaries. The evaluation revealed a grand mean of 3.86 which is described as "high" and the chi-square test showed a value of 0.004 and probability of 1.000 which implies that there is no significant difference of the perceptions of the BODs, members and staff.

Legal Risks

Earnings and capital of micro cooperatives may be adversely affected if there are errors of judgments. The results of the evaluation indicates that all the cooperators agree that their respective cooperatives ensure that policies that ensure that contracts are carefully reviewed before they are consummated and that the Board seeks advice from legal experts or authorities before major decisions are made. As shown on table 4, the result of evaluation is a mean rating of 3.85; 3.91 and 4.04 for members, staff and BODs, respectively. The grand mean is 3.93 which is described as "high". The chi-square test revealed a value of 0.003 and probability of .9986 which implies an insignificant difference on the perceived levels of adoption of risk management policies.

Financial Performance of Micro Cooperatives in Cagayan valley, Philippines

An analysis of the audited Financial Statements that were obtained from the micro cooperatives using the PESOS indicators of the Performance Standard for Credit and other types of cooperatives with credit services in the Philippines.

It is evident from table 5 that the overall financial performance of all the micro cooperatives involved in this study for 2014 to 2018 have unsatisfactory rating. The mean ratings are 61.12; 49.75; 43.57; and 47.82 for Isabela; Cagayan; Quirino and Nueva Vizcaya, respectively. Generally, cooperatives are established as service oriented institutions rather than profit oriented which might explain the very poor financial performance.\

Table 5: Overall Financial Performances of Micro Cooperatives in Cagayan Valley, Philippines, 2019.

Province	2014	2015	2016	2017	2018	Mean	Qualitative Description
Isabela	60.63	60.75	61.19	61.79	60.94	61.12	Very poor
Cagayan	49.00	48.25	49.83	50.42	51.25	49.75	Very poor
Quirino	55.33	52.50	56.33	56.33	53.67	43.57	Very poor
Nueva Vizcaya	49.50	47.70	47.00	47.20	47.70	47.82	Very poor

Problems encountered by micro cooperatives in Cagayan Valley, Philippines

Considering the ranking made by the three (3) groups of respondents, there are 741 who said that the one problem in the cooperatives is the "high incidence of past due loans" and as a consequence, the cooperatives will suffer from "lack of funds". There are 254 respondents who felt the problem in their cooperatives. The 3rd, 4th and 5th ranking are: "BODs do not have time to oversee the operation; "high cost of borrowings" and "substantial clean loans" with 121, 105 and 55 respondents, respectively.

The top 5 problems are within the control of the micro cooperatives. These are considered as the most pressing ones and if not properly addressed, will lead to the eventual bankruptcy of the micro cooperatives in Cagayan Valley, Philippines.

Table 6: Problems Encountered by Micro Cooperatives, Cagayan Valley, Philippines, 2019

Problems	Frequency of Count	Rank
High incidence of past due loans	741	1
Lack of funds/insufficient working capital	254	2
BODs do not have time to oversee the operation	121	3
High cost of borrowing	105	4
Substantial clean loans	55	5

VI. CONCLUSIONS AND RECOMMENDATIONS

The micro cooperatives in Cagayan Valley Philippines adopt the leading practices on risk management. All the respondents agree that the level of adoption is "high". Evaluation of the financial highlights of the audited

financial statements of each micro cooperative using the PESOS indicators revealed that their overall financial performances were unsatisfactory. On the basis of statistical analysis, it is revealed that there is no significant relationship between the level of adoption of cooperative risk management policies and profitability.

The problems encountered that hinder the micro cooperative in the realization of their goals and objectives are all within their control. The most pressing ones as perceived by the cooperators are high incidence of past due loans; lack of funds; BODs do not devote time to oversee the cooperatives; high cost of borrowing and substantial clean loans. Cooperatives can realize their goals and objectives only when the policies that are formulated by the BODs are strictly implemented by management. The financial performance of micro cooperatives in Cagayan Valley can be improved if these pressing problems are given immediate attention.

Cooperatives' fiscal are mainly coming from its members who are small and who belong to the low income segment of the community. The safety and soundness of the operation of the micro cooperatives is of great importance. The BODs should ensure that the members' money in the cooperative is safe. This calls for an effective body which will supervise the operation. Ensuring the safety and soundness of the cooperative will result in greater public confidence. This provide growth to the cooperative.

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