

Kingdom of Cambodia
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Ministry of Agriculture, Forestry and Fisheries
General Directorate of Agriculture
Department of Agricultural Cooperative Promotion

GUIDELINE
ON
ALLOCATION OF PROFIT OF AGRICULTURAL
COOPERATIVE IN CAMBODIA

Prepared by: Project for Establishing Business-Oriented Agricultural Cooperative Models (BPAC)
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Guideline on Allocation of Profit of Agricultural Cooperative in Cambodia

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The Project for Establishing Business Oriented Agricultural Cooperative Models (BPAC)

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1. Objective of Agricultural Cooperatives

An agricultural cooperative is a business enterprise run by members for members' benefits.

How should an agricultural cooperative provide benefits to members?

The answer is to provide benefits through its businesses.

A multipurpose agricultural cooperative, which is considered as a model of agricultural cooperative in Cambodia as same as in Japan, Thailand and many other Asian countries, is usually running (a)credit business, (b)supply business, (c)marketing business and (d)joint-utilization business spontaneously.

A multipurpose agricultural cooperative usually provide benefits to members by the following ways;

- To gives loans to members at lower interest rate than neighboring private banks and micro-finance agencies; when the loan interest rate is the same, gives loans more quickly;
- To pay higher interests for savings from members;
- To supply fertilizers and other agricultural inputs to members at lower price than private shops; guarantees quality and weight of fertilizers;
- To purchase agricultural products from members at higher price than middlemen; weighs agricultural products purchased from members in accurate manner,
- To provide ploughing service by a tractor at lower fare than private businesses.

However most agricultural cooperatives in Cambodia have only a weak perception of agricultural cooperative ("cooperative"). Almost all officials and members of agricultural cooperatives are under the misapprehension that the purpose of agricultural cooperative is to pay "share dividend (dividend to the amount of share(s) paid by members)" from profit gained by business operation to members.

Those agricultural cooperatives have usually given loans to members at interest 2 to 3% per month (24 to 36% per year), which is the same as private banking institutions or higher. Meanwhile the interest paid for savings from members is usually 1 to 2% per month (12 to 24% per year) which is the same as private banking institutions or lower. They have returned most benefits, which are gained from the balance between loan interests received and saving interests

paid, to members as share dividend and have believed that is the purpose of agricultural cooperatives.

Such misperception must come up from that officials and members of agricultural cooperatives in Cambodia have not received proper education on the true nature of agricultural cooperative ("Cooperative"). They are requested to clear up the misperception and fully understand "what is the objective of agricultural cooperative."

The government officers in charge of agricultural cooperative promotion are also requested to gain a thorough understanding of "an agricultural cooperative ("Cooperative") is an organization to provide benefits to members through business activities" and to give a proper guidance to agricultural cooperatives as they can clear up the misperception.

2. Allocation of profits

If agricultural cooperatives in Cambodia carry our businesses with understanding about the true nature of agricultural cooperative ("Cooperative"), they will set up their loan interests lower than or as same as the neighboring banking institutions and saving interests higher. Then the profits from credit business shall become less than the present but they will be able to get enough profits to continue their management considering the present situation of banking institutions in Cambodia.

Assuming that's the case, how should agricultural cooperatives allocate their profits?

The 3rd principle of ICA Cooperative Principles states as follows;

- Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.
- Members allocate surpluses for any or all of the following purposes:
 - Developing their co-operative, possibly by setting up reserves;
 - Benefiting members in proportion to their transactions with the co-operative; and
 - Supporting other activities approved by the membership.
- Regarding the allocation of profits, Agricultural Cooperative Law of Cambodia defines as follows;
 - Agricultural cooperative shall create a reserve fund by deducting at least 20% from the gross profit until the reserve fund is as much as five times of the total

value of shares (Article 57),

- Agricultural cooperative shall create a fund for the training of members, managers and staff by deducting at least 3% from gross profit annually (Article 58),
 - The gross profit earned by the agricultural cooperative shall be allocated based on the following principles (Article 59);
 - To retain for a reserve fund and training fund or other funds created by the agricultural cooperative
 - To give patronage refund to members in proportion to the business activities done with the agricultural cooperative, and
 - To distribute dividend to members according to the number of shares held
- Regarding the payment for officials of agricultural cooperatives, the Law defines as follows;
 - Members of board of directors and supervisory committee shall not be paid. However, the general meeting may set aside a portion of the budget for mission expenses and allowance for members (Article 53)
 - Furthermore, an agricultural cooperative (enterprise) is commonly allowed to carry a part of the profit forward to the next fiscal year.
 - When those things above are take into consideration, agricultural cooperatives in Cambodia are requested to decide the allocation of their profits in line with the following order of priorities and the government officers in charge of agricultural cooperative promotion have to give guidance to agricultural cooperative to follow this order;
 - (a) Reserve fund (compulsory, 20% of total profits)
 - (b) Education fund (compulsory, 3% of total profits)
 - (c) Facility development fund (office, storage, etc.) (voluntary, the percentage (amount) shall be decided at a general meeting)
 - (d) Carry forward to the next fiscal year (voluntary, the percentage (amount) shall be decided at a general meeting)
 - (e) Patronage refund to members (voluntary, the percentage (amount) shall be decided

at a general meeting)

(f) Share dividend to members ((voluntary, the percentage (amount) shall be decided at a general meeting but the amount per share should be limited as less than 15% of share value)

(g) Allowance for members of the board of directors and supervisory committee (voluntary, the percentage (amount) shall be decided at a general meeting)

2.1 Reserve fund (compulsory, 20% of profits)

According to the Agricultural Cooperatives law, agricultural cooperatives shall create a reserve fund by deducting at least 20% from the gross profit until the reserve fund is as much as five times of the total value of shares (Article 57).

This fund shall not be allocated to members. This fund can be used by agricultural cooperatives only to cover their business losses (Article 61).

2.2 Education fund (compulsory, 3% of profits)

According to the Agricultural Cooperatives law, agricultural cooperative shall create a fund for the training of members, managers and staff by deducting at least 3% from gross profit annually (Article 58).

Differently from the reserve fund, it can be reduced to use for such purposes.

When the amount of this fund reaches a certain level, agricultural cooperatives are encouraged to use a part of this fund for educational activities for members and officials and staff with the approval of a general meeting.

2.3 Funds for facility development (office, storage, etc.) voluntary, the percentage (amount) shall be decided at a general meeting)

When an agricultural cooperative gains profits, first the agricultural cooperative deducts 20% for the reserve fund and 3% for the education fund from the gross profit then examines how to allocate the remainder (77% of the gross profits).

In Cambodia, many agricultural cooperatives have no office and storage which are the minimum required facilities for agricultural cooperative management. Therefore, the government officers in charge of agricultural cooperative promotion should give guidance to such agricultural

cooperatives as they establish a fund to build an office with storage. To agricultural cooperatives which already have such facilities, the government officers should give guidance about the establishment of a fund to strengthen their businesses such as purchasing of PCs for credit business or a truck for marketing business or construction of agro-processing facility.

2.4 Carry forward to the next fiscal year (voluntary, the percentage (amount) shall be decided at a general meeting)

Then an agricultural cooperative examines how to allocate the reminder after deduction of the reserve fund, education fund and funds for facility development.

Agricultural cooperatives originally deduct the reserve fund, education fund, funds for facility development, patronage refund, share dividend, etc. from the gross profit, then carry the last reminder forward to the next fiscal year. But, many agricultural cooperatives in Cambodia are suffering from lack of working capital and cannot employ the minimum required staff, a general manager and a bookkeeper, for agricultural cooperative management. Agricultural cooperatives are requested to carry a part of profits forward aggressively to employ necessary staff and expand their businesses.

2.5 Emphasis on patronage refund and limitation of share dividend
(voluntary, the percentage (amount) shall be decided at a general meeting)

As explained above, an agricultural cooperative deducts the reserve fund, educational fund and facility development funds from the gross profits, then examine how much shall be paid for members by patronage refund and share dividend and for members of the board of directors and supervisory committee as allowance.

Regarding patronage refund and share dividend, the priority shall be given to the former because of the objective of agricultural cooperatives, “to provide benefits through its businesses” and the purposes of the 3rd principle of ICA Cooperative Principles and the Article 59 of the Agricultural Cooperative Law in Cambodia.

Patronage refund is the way to give more funds from the profit of agricultural cooperative back to members who used more services of agricultural cooperative. For example, an agricultural cooperative pays patronage refund to members in accordance with the amount of fertilizers that members purchased. When refund rate is decided as 3%, an agricultural cooperative pays 9 USD (300 USD * 3%) to a member who purchased 300 USD of fertilizers and 3 USD (100 USD * 3%)

to a member who purchased 100 USD of fertilizers.

Therefore, an agricultural cooperative has to decide what business(es) the agricultural cooperative shall pay patronage refund for and how much before making the decision of the amount of share dividend.

Regarding share dividend, complying with the 3rd principle of ICA Cooperative Principles, the amount shall be limited.

Almost all agricultural cooperatives in Cambodia are thinking that the purpose of agricultural cooperative is to pay higher share dividend but it is a big misunderstanding. As mentioned before, an agricultural cooperative is the organization to give benefits to members through businesses. An agricultural cooperative is “NOT” the organization to give benefits to members by paying share dividend. People shall become members to utilize businesses of agricultural cooperative, not to receive share dividend.

Nevertheless agricultural cooperatives have to pay share dividend to members in order to collect share money from members. But officials of agricultural cooperatives are requested to fully understand that paying share dividend is not an objective of agricultural cooperative and “limitation share dividend” is written about in the ICA Cooperative Principles, provide education to members on these matters and make efforts to reduce the percentage of share dividend per share to share value less than 15% (if share value is 10 USD, share dividend shall be less than 1.5 USD.).

The government officers in charge of AC promotion are also requested to show strong leadership on this matter and to explain clearly to promoters who are applying the establishment of agricultural cooperatives.

Although most officials of agricultural cooperatives in Cambodia are worrying that many members shall withdraw from agricultural cooperatives if share dividend becomes limited, considering that the interest rate for one-year time deposit is around 10%, does it come to look like it as expected? In any cases, people who participated into agricultural cooperatives to receive “high” share dividend are essentially ineligible to become members of agricultural cooperatives so that it is of benefit to agricultural cooperatives if such members withdraw from agricultural cooperatives. If such members are majority, it must be expedient that those agricultural cooperatives shall dissolve and new agricultural cooperatives shall be established by people who eligible to become members of agricultural cooperatives (who fully understand that an agricultural cooperative is an organization to provide benefit to members through businesses). The

government officers in charge of agricultural cooperative promotion are requested to give guidance to such agricultural cooperatives to do so.

Furthermore, officials of agricultural cooperatives and the government officers in charge of agricultural cooperative promotion are requested to fully understand that an agricultural cooperative doesn't need to pay patronage refund and share dividend if the agricultural cooperative doesn't gain a profit; an agricultural cooperative must not promise their future payment; it is completely different between interest for deposit received from members and share dividend.

2.6 Allowance for members of the board of directors and supervisory

committee (voluntary, the percentage (amount) shall be decided at a general meeting)

According to the Agricultural Cooperative Law in Cambodia, members of board of directors and supervisory committee shall no be paid but the general meeting may set aside a portion of the budget for mission expenses and allowance for members. (Article 53)

Therefore, agricultural cooperatives should pay for them in accordance with the quality and quantity of their activities if agricultural cooperatives can afford. Amount of the payment shall be decided within the range permitted by majority of members considering the amount of share dividend paid to members and the amount of directors' bonus paid by similar organizations.



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