



COOPERATIVE DEVELOPMENT AUTHORITY

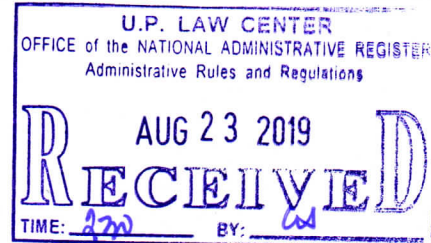
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MEMORANDUM CIRCULAR NO. 2019-09
Series of 2019

TO : ALL CONCERNED

SUBJECT : GUIDELINES IN THE ALLOCATION AND DISTRIBUTION OF PATRONAGE REFUND



Section 1. Legal Basis

Article 86 of the Philippine Cooperative Code of 2008:

"(5) The remaining net surplus shall be made available to the members in the form of interest on share capital not to exceed the normal rate of return on investments and patronage refunds: Provided, that any amount remaining after the allowable interest and the patronage refund have been deducted shall be credited to the reserve fund.

X x x."

Rule 10, Section 14 of the Revised Implementing Rules and Regulation of R.A. 9520:

"Patronage Refund. The principle of Patronage Refund is a principle of equity wherein an equal right of members to participate in the organization and to equitably share in the benefits accruing there from is established. Under this principle, the Net Surplus shall not be construed as profit, but as excess payments made by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed by the Code and by this Rule. Provided, however, that the amount allocated for patronage refund shall not be less than thirty percent (30%) of the net surplus after deducting the statutory reserves based on the principle of equity. Provided, further, that in no case shall the rate of patronage refund be more than twice the rate of interest on share capital."

Section 2. Scope

This Guidelines shall cover all types and categories of cooperatives except Cooperative Union.



Section 3. Definition of Terms

- a. *General Fund* – refers to the fund set aside for the proportionate amount of patronage refund set aside for non-member patrons;
- b. *Patronage Refund* – refers to the amount returned to individual patrons in proportion to their individual patronage of the cooperative's products and services;
- c. *Patron* – refers to an individual who availed the products and services of the cooperatives who may be members or non-members.

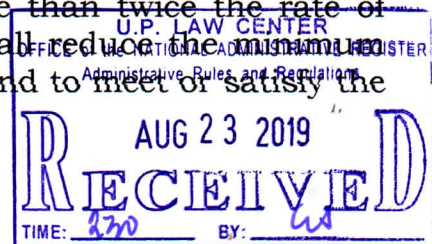
Section 4. Guiding Principle

The principle of Patronage Refund (PR) is a principle of equity wherein an equal right of members to participate in the organization and to equitably share in the benefits accruing therefrom is established. Under the principle, the net surplus shall not be construed as profit, but as excess payments made by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed by R.A. 9520 and its Revised Implementing Rules and Regulations.

Section 5. Allocation of Patronage Refund

Allocation of patronage refund shall be made only after allocation of the statutory funds and interest on share capital. The amount allocated for patronage refund shall not be less than thirty percent (30%) of the net surplus after deducting the statutory reserves based on the principle of equity, provided further, the rate of patronage refund shall not be more than twice the rate of interest on share capital.

In case the rate of patronage refund is more than twice the rate of Interest on Share Capital (ISC), the cooperative shall reduce the minimum allocation of thirty percent (30%) for patronage refund to meet or satisfy the requirement.



Section 6. Recording of Transactions

The cooperatives shall maintain separate recording of sales and receipts transactions for members and non-members.

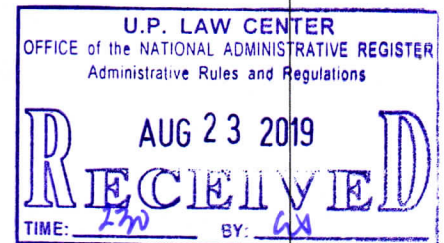
In the case of multipurpose cooperatives, separate recording of income and related expenses per business activity is required.

Section 7. Bases for Computation of Patronage Refund

The bases for the computation of patronage refund shall depend on the cooperative's business activities as reflected in the Statement of Operation for single type cooperative and departmentalized Statement of Operation for multi-purpose type cooperative.

The bases in determining the Patronage Refund and those entitled thereto for the different types of business activities are as follows:

Type of Cooperative's Business Activities	Basis for Patronage Refund	Who are entitled to Patronage Refund
1. Lending	Interest income from loans, service fees and filing fees received and earned for the year.	Members only
2. Trading/Marketing	Net Sales (Gross Sales less Sales Returns and Sales Discounts)	Members and non-members
3. Health Services	Hospital fees and Other health service fees which form part of the income of the cooperatives	Members and non-members
4. Transportation	Fares Sales/receipts from allied services Any other Fees collected or derived from the members which form part of the income of the cooperative such as "butaw"/daily dues, management fees, etc.	Members and non-members
5. Labor Service	Gross Salary of deployed member-employees	Deployed member-employees
6. Services Provided by Workers Cooperative	Payroll or Labor Cost	Member-workers
7. Electric	Total bill	Member-consumers
8. Water Service	Total bill	Member-consumers
9. Education	Tuition and other fees	Members and non-members



10. Housing	Interest income from lease agreement and/or other fees collected	Members
11. Insurance	Premiums Paid	Members and non-members
12. Credit Surety	Service/Surety and other fees	Members
13. Other Services	Other fees collected such as rental fees, training fees, etc.	Members and non-members

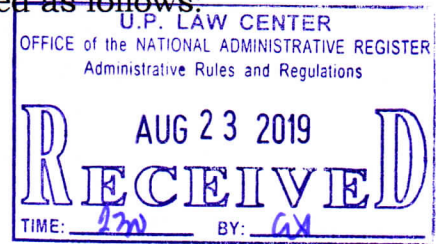
Multi-purpose cooperatives shall adopt the computation of patronage refund based on the activities enumerated above. For this purpose, multi-purpose cooperatives shall have separate recording of transactions per business activity.

Section 8. Computation of Patronage Refund

The rate of Patronage Refund (PR) shall be computed as follows:

a. For Single Business Activity

$$\text{Rate of PR} = \frac{\text{Amount Allocated for PR}}{\text{Amount of Patronage}^*}$$



*based on Section 7. Bases for Computation of Patronage Refund.

$$\text{PR per individual} = \text{Rate of PR} \times \text{amount of individual patronage}$$

b. For Multi-Purpose Cooperative

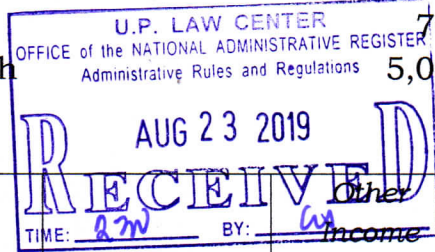
1. Determine the amount of Net Surplus per business activity. Common expenses may be allocated in accordance with the policy of the cooperative.
2. If there is *Other Income*, allocation shall be proportionate to the Net Surplus per business activity.
3. Determine the total amount allocated for PR per business activity.
4. Compute the rate of PR per business activity by dividing the amount allocated for PR per business activity over the amount of patronage per business activity.
5. To determine the individual PR, multiply the rate of PR to the amount of individual patronage.

To determine if the PR does not exceed twice the rate of ISC, get the average of the rate of PR per business activity and compare the result to the rate of ISC.

Sample Computation for Patronage Refund for Multi-Purpose Cooperative

Facts:

Interest income from Loans (<i>Credit</i>)	P 1,000,000.00
Service Income (<i>Labor</i>)	3,000,000.00
Other Income (Income from Investment)	100,000.00
Salaries (deployed)-(<i>Labor</i>)	2,000,000.00
Other Operating Expenses:	
<i>Credit</i>	800,000.00
<i>Labor</i>	700,000.00
Average Share Month	5,000,000.00



Statement of Operation

	CREDIT	LABOR	Other (Income from Investment)	TOTAL
Interest income from Loans	1,000,000	-		1,000,000
Service Income	-	3,000,000		3,000,000
Gross Revenue	1,000,000	3,000,000		4,000,000
Other Income	-	-	100,000	100,000
Less: Expenses				
Salaries (deployed)	-	2,000,000		2,000,000
Other OPEX	800,000	700,000		1,500,000
Total Expense	800,000	2,700,000		3,500,000
(1) Net Surplus per business activity before Allocation	200,000	300,000	100,000	600,000
(2) Proportionate share in Net Surplus	0.40 (200,000/500,000)	0.60 (300,000/500,000)		
Net Surplus for Allocation	240,000	360,000		600,000
(30%) Statutory Fund	72,000	108,000		180,000
Amount Allocated for ISCPR (70%)	168,000	252,000		420,000

ISC (70% x amount allocated for ISCPR)	117,600	176,400		294,000
(3) PR (30% x amount allocated for ISCPR)	50,400	75,600		126,000
(4) Rate of PR	0.0504	0.0378		
Average rate of PR				0.0441
Rate of ISC				0.0588

Rate of PR for Credit:

Amount Allocated for PR	50,400

Interest income from Loans	1,000,000
Rate of PR for Credit	0.0504

Rate of PR for Labor:

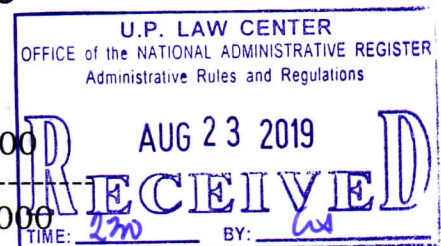
Amount Allocated for PR	75,600

Salaries of Deployed Member	2,000,000
Rate of PR for Labor	0.0378

Rate of ISC:

Amount Allocated for ISC	294,000

Average Share Month	5,000,000
Rate of ISC	0.0588



(5) Members	CREDIT			LABOR			Total Patronage Refund
	Amount of Individual Patronage	Rate of PR	Patronage Refund	Amount of Individual Patronage	Rate of PR	Patronage Refund	
A	200,000	.0504	10,080	300,000	.0378	11,340	21,420
B	190,000	.0504	9,576	500,000	.0378	18,900	28,476
C	-	.0504	-	560,000	.0378	21,168	21,168
D	280,000	.0504	14,112	-	.0378	-	14,112
E	330,000	.0504	16,632	640,000	.0378	24,192	40,824
Total	1,000,000		50,400	2,000,000		75,600	126,000

Section 9. Payment of Patronage Refund

- a. In the case of a member patron with paid-up share capital contribution, his/her proportionate amount of patronage refund shall be credited to his/her share capital as part of the Capital Build-up if stipulated in the by-laws. In the absence of the provision in the by-laws, it shall be paid to him/her unless he/she agrees to credit the amount to his/her account as additional share capital contribution;
- b. In the case of a member patron with unpaid share capital subscription, his/her proportionate amount of patronage refund shall be credited to his/her account until his/her share capital subscription has been fully paid;
- c. In case of a member patron with due and demandable obligation, his/her proportionate amount of patronage refund shall be credited to said obligation until his/her obligation has been fully paid provided that the unpaid share capital subscription has been fully paid; and
- d. For members who voluntarily withdrew or have been terminated involuntarily (including automatic termination) the amount of share capital including ISC and PR not yet paid by the cooperative shall continue to earn interest until fully refunded to the member.
- e. In the case of a non-member patron, his/her proportionate amount of patronage refund shall be set aside in a general fund for such patrons through disclosure in the Notes to Financial Statement. It shall be allocated to individual non-member patrons only upon request and presentation of evidence of the amount of his/her patronage. The amount so allocated shall be credited to such patron toward payment of the minimum capital contribution for membership. When a sum equal to this amount has accumulated at any time within a period specified in the by-laws, such patron shall be deemed and become a member of the cooperative if he so agrees or requests and complies with the provisions of the bylaws for admission to membership.

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Section 10. Unclaimed Patronage Refund of Non-Member Patron

If within any period of time specified in the by-laws, any non-member patron who has accumulated the sum necessary for membership but who does not request nor agree to become a member or fails to comply with the provisions of the by-laws for admission to membership, the amount so accumulated or credited to their account together with any part of the general fund for nonmember patrons shall be credited to the reserve fund or to the education and training fund of the cooperative, at the option of the cooperative.

Provided, that said non-members have been duly notified of such amount of patronage refund and the effects of non-availment thereof within the prescribed period as specified in the by-laws and/or policies.

Section 11. Accounting Entries for Patronage Refund

- a. To set up patronage refund for members and non-members

Net Surplus (Dr.)	xxx	
Patronage Refund Payable (Cr.)		xxx

- b. To record payment of patronage refund to members

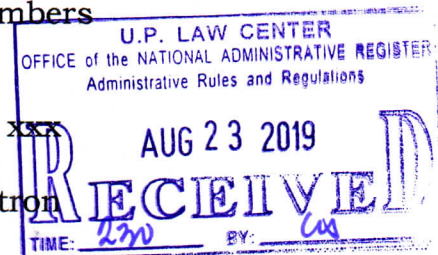
Patronage Refund Payable (Dr.)	xxx	
Cash in Bank (Cr.)		xxx

- c. To record membership of the non-member patron

Patronage Refund Payable (Dr.)	xxx	
Paid-Up Share Capital (Cr.)		xxx

- d. To record unclaimed patronage refund/non-membership

Patronage Refund Payable (Dr.)	xxx	
Reserve Fund/CETF (Cr.)		xxx



Section 12. Sanction for non-compliance

Non-compliance of the provisions of this Guidelines shall be subject to the following sanctions after due notice and hearing:

1. Non-issuance of the Certificate of Compliance (COC) for the immediately succeeding year;
2. Dissolution of the cooperative for willful violation of the lawful order of the Authority.

Section 13. Penal Provision

Failure to comply with the order of the Authority in the course of the implementation of this Guidelines shall be considered as an offense punishable by a penalty of imprisonment of not less than one (1) year nor more than five (5) years or a fine of not more than Fifty thousand pesos (P 50,000.00) or both at the discretion of the court.

Section 14. Separability Clause

In the event that any part of this Memorandum Circular is declared unconstitutional, the remaining provisions not affected thereby shall continue to be in full force and effect.

Section 15. Effectivity

This Memorandum Circular shall take effect after fifteen (15) days from the date of publication in the Office of the National Administrative Register/Official Gazette.

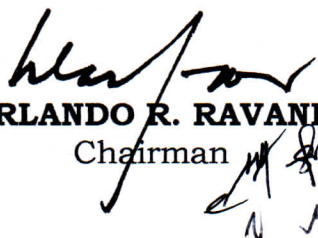
Approved by the Board of Administrators per Resolution No. 315, S-2019 dated July 15, 2019.

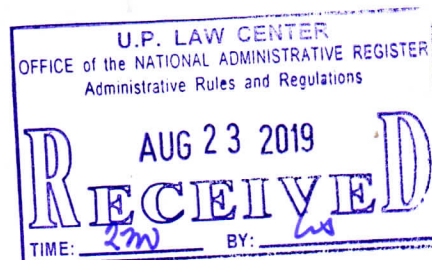
Quezon City, Philippines.

For the Board of Administrators:

By:

August 22, 2019


ORLANDO R. RAVANERA
Chairman





COOPERATIVE DEVELOPMENT AUTHORITY

827 Aurora Blvd., Service Road, Brgy. Immaculate Conception, 1111 Cubao, Quezon City, Philippines
http://www.cda.gov.ph helpdesk@cda.gov.ph CDA @CDAPHils PH Cooperatives



EXCERPTS FROM MINUTES OF REGULAR MEETING OF THE CDA BOARD OF ADMINISTRATORS HELD ON JULY 15, 2019 AT GLAN, SARANGANI PROVINCE

PRESENT:

- | | |
|-----------------------------|-------------------------------|
| Hon. Orlando R. Ravanera | - Chairman/Presiding Officer |
| Hon. Paisal I. Cali | - Administrator from Mindanao |
| Hon. Abdulsalam A. Guinomla | - Administrator from Mindanao |
| Hon. Abad L. Santos | - Administrator from Luzon |
| Hon. Myrla B. Paradillo | - Administrator from Luzon |

ALSO PRESENT:

- | | |
|--------------------|----------------------|
| Mr. Ray R. Elevazo | - Executive Director |
|--------------------|----------------------|

ABSENT:

- | | |
|----------------------|------------------------------|
| Hon. Benjie S. Oliva | - Administrator from Visayas |
|----------------------|------------------------------|

RESOLUTION NO. 315, S-2019

Upon motion by Adm. Abdulsalam A. Guinomla, duly seconded by Adm. Myrla B. Paradillo, be it RESOLVED as it is hereby RESOLVED, to approve the Guidelines in the Allocation, Distribution and Bases of Patronage Refund with inclusion of penal provision for the sanctions on the non-compliance of cooperatives.

Resolved Further, to review the bases in determining the Patronage Refund particularly on the non-members of the Transportation cooperatives.

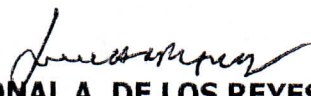
UNANIMOUSLY APPROVED.

xxx

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xxx

This is to certify that the foregoing is true and correct from the minutes of the CDA Board of Administrators' Regular Meeting.


JONAL A. DE LOS REYES
Acting Board Secretary

ATTESTED:


ORLANDO R. RAVANERA
Chairman/Presiding Officer

