

INTERNATIONAL CO-OPERATIVE ALLIANCE

I
N
T
E
R
N
A
T
I
O
N
A
L
E
R

M
E
Z
D
U
N
A
R
O
D
N
Y



G
E
N
O
S
S
E
N
S
C
H
A
F
T
S
B
U
N
D

FINANCIAL PROBLEMS FACING
COOPERATIVES
IN SOME ADVANCED COUNTRIES

C
O
O
P
E
R
A
T
I
V
N
Y

A
L
L
I
A
N
C
E

ALLIANCE COOPERATIVE INTERNATIONAL

ICA Library
334.2(4+7) ICA-F
ICA 00680

12

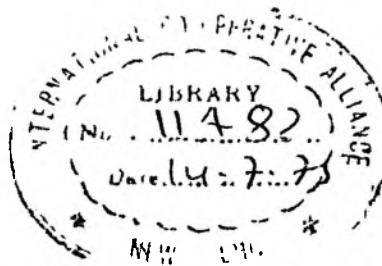
ICA 00680

INTERNATIONAL CO-OPERATIVE ALLIANCE

FINANCIAL PROBLEMS FACING
COOPERATIVES
IN SOME ADVANCED COUNTRIES

ITEM 13. ON THE AGENDA

MEETING OF THE CENTRAL COMMITTEE
7TH, 8TH, 9TH OCTOBER, 1971, BUCHAREST



33412 (477)
ICA

I N D E X

	Page
1. The Problem	3
2. Borrowing	4
3. Share Capital	8
4. Plough Back	11
5. Centralised Financial Planning	14
Conclusion	15

Note to Members of Central Committee:

This paper is an abbreviated interim report designed to highlight the major issues emerging from a more comprehensive study now under way at the London Secretariat with a view to discussion at the 1972 Congress. Research is continuing, and letters of enquiry have been sent to a selected number of individuals and organisations in the international cooperative movement, the replies to which are still coming in. The final paper will also reflect the views of the Central Committee on a synopsis of a report on Cooperatives and Multinational Corporations which the Executive Committee requested from the London Secretariat.

It is hoped that the discussions on the attached paper in the Central Committee meeting at Bucharest, plus any written comments that members of the Central Committee may care to post to the ICA subsequent to that meeting, will provide new and stimulating material which will influence the structure and the conclusions of the final report.

It should be noted that although the focus of the Study is primarily on the financing problems of consumer cooperatives, the Secretariat has learned that useful information and valuable insight on these problems can be drawn from the experience of agricultural, workers' productive, housing, banking, insurance and other types of cooperative activity.

Please direct any correspondence concerning this Study to the Director, International Cooperative Alliance, 11, Upper Grosvenor Street, London W1X 9PA.

FINANCIAL PROBLEMS FACING COOPERATIVE MOVEMENTS
IN SOME ADVANCED COUNTRIES

1. The Problem

- 1.1 Consumer cooperatives in all advanced countries are currently experiencing difficulties in financing their trading activities.
- 1.2 In most of these countries not so many years ago cooperatives were pioneers in the field of retailing. It was they, for example, who introduced and/or provided the major impetus to the development of self-service, and to a lesser extent of large supermarkets.
- 1.3 More recently, however, the cooperative shop has been overtaken by its retail competitors. In 1950, 64 per cent of the self-service stores of Western Europe were cooperative, but in 1965 the cooperative share had declined to 14 per cent. In 1960 roughly 22 per cent of Western European supermarkets were cooperative; in 1965 only 19 per cent. And in 1969 coops had only about 8 per cent of the total selling space of department stores. Also in recent years there has been a rapid growth of voluntary symbol groups in food distribution resulting from a combining of small grocers with each other and with wholesalers; these, and the chains and multiples face consumer cooperatives with much tougher competition than they did as independent unorganised small traders.
- 1.4 The problem posed by growing competitiveness is primarily financial. In essence it stems from the fact that recent economic and social changes have made retailing more capital-intensive, and that cooperators have found it more difficult than their competitors to raise the necessary capital. These structural changes include urbanisation and suburbanisation, shopping by car, widening of assortments, rationalisation and centralisation of wholesaling operations including purchasing and warehousing, larger stores offering new types of services, and growing marketing and advertising expenses.
- 1.5 In short, a great deal more capital is required for the efficient distribution of the standardised products of modern factories. And as inflation continues to push up interest rates, it becomes ever more difficult for cooperatives to compete with private firms in attracting this capital.
- 1.6 There are three major reasons why cooperatives have been at a financial disadvantage as compared with their retail competitors; and it is primarily these factors which will be examined in the pages that follow.

a) Cooperative principles require that only a limited return should be paid on capital, and that a member is entitled to only one vote regardless of his shareholdings. Private companies on the other hand can attract capital by promising unlimited return on

capital commensurate with the growing value of assets underlying shareholdings, and also a degree of voting control commensurate with the number of shares held.

b) In many cooperative movements capital acquired through borrowing or through purchase of shares is withdrawable to a greater or less degree. This is clearly a convenience to members, but it is a serious drawback in terms of financial resources available to societies since it means that the withdrawable capital must be invested in fairly liquid marketable securities and hence can be used to finance trading operations only to a limited extent

c) Because of the constraint to pay a high cash "divi" or patronage refund, and even more because of tax disincentives, consumer cooperatives in Western Europe have retained a smaller proportion of their earnings for reinvestment in their trading activities than have their competitors.

2. Borrowing

- 2.1 Over the years consumer cooperative movements have maintained a relatively small ratio of borrowed capital to owned capital (share capital and reserves), and this has been largely from their own members. As the need for capital increases, there is a quite general tendency to look for more opportunities to borrow, particularly from outside the movement.
- 2.2 To some extent success in attracting loan capital from members will depend upon capacity to pay competitive rates of interest. This becomes increasingly expensive as inflation and the growing demand for capital force up market rates of interest. In a few instances cooperatives have experimented with the issue of loan securities bearing rates of interest linked with the cost of living (Sweden, KK Finland and some Latin American societies). In general, it is likely that cooperatives will look carefully at alternative sources of finance (for example new forms of share capital and undistributed profits) before assuming much larger obligations in terms of relatively expensive loan capital.
- 2.3 Nevertheless the capacity to borrow will continue to be an important source of cooperative financing. Hence cooperators are having to give more attention to ways and means of making their loan capital more adaptable to development objectives. This is essentially an issue of the degree of withdrawability of loan capital.
- 2.4 Ease of withdrawability is a convenience to lenders and makes them more willing to invest. Moreover consumer cooperative societies have traditionally acted as savings institutions as well as trading organisations. They have encouraged members to deposit their savings with their society and to accumulate their patronage refunds and allow them to be invested by the society on their behalf.
- 2.5 Societies will want to continue their function of encouraging members to save and providing the channel through which they can do so.

At the same time, however, if they could persuade their members to accept a lesser degree of liquidity in their savings, this would make a substantial contribution to their financial viability by permitting a larger proportion of loan capital to be used for cooperative development.

- 2.6 There are various ways of restricting the withdrawability of loan capital. In KF Sweden one half of "divi" on purchases up to 3 per cent is automatically paid into savings accounts, and these accounts are granted regular bonuses of S Kr 100 for each S Kr 1,000 added to the accumulated total. "Divi" in excess of 3% is automatically paid into family savings accounts which are withdrawable only at the age of 60 or on retirement or at the death of the member or his wife. In Austria higher interest is paid on savings which require one year's notice for withdrawal. Coop Nederland has issued 13 year bonds which increase in value over the period. The same is true of the new Escalator Bonds being issued in Britain by the C.W.S., and the CRS issues unit loans which increase in value (including interest) over a period of ten years.
- 2.7 There are a variety of sources from which loan capital can be obtained, and part of the art of sound financial management consists in achieving a flexible and balanced combination of such sources in such a way as to best serve the interests of members and at the same time to maximize the funds available for investment in cooperative enterprise.
- 2.8 Mention has already been made of the widespread device of dividend retention, either compulsorily as in Sweden or on a voluntary basis as for example in France where members are encouraged to reinvest their cash divi in their society.
- 2.9 Another possibility is the issue of mortgage bonds on the security of the real property of societies. Such bonds have been issued in a number of movements.
- 2.10 Some European consumer cooperative movements such as the Danish have applied the principle of the revolving fund which has been popular with agricultural cooperatives in the USA. Member savings or a proportion of a society's patronage refund may be paid into the revolving fund over a period of years and repayment made after a specified time. Meanwhile new savings are channelled into the fund, so that it is constantly replenished and provides a stable source of capital.
- 2.11 Most European cooperative movements have their own cooperative banks which are important ways of providing movements with short term finance and of mobilising the savings of members. However the essential function of cooperative banks is to meet the short term financial needs of cooperatives. So far they have not made a significant contribution to the long term capital requirements.
- 2.12 Cooperative pension funds have been increasingly important as a source of finance for consumers' cooperative movements in a number of European countries, but it is recognised that they need to be used with caution and discrimination. Since a well managed

pension fund must protect the interests of the employees on whose behalf it is organised, risks have to be spread by investment in a wide variety of enterprises. This means that only a limited proportion of the funds can safely be invested in development of the coop shop network.

- 2.13 In some countries, for example the UK, Norway, Fed. Rep. of Germany and Sweden, cooperative insurance societies have been a useful source of capital. But here again since the responsibility of a cooperative insurance society is to its policy holders, a reasonable balance has to be maintained between various types of investment. Thus cooperative insurance societies cannot be expected to invest a significantly higher proportion of their resources in the movement.
- 2.14 Insofar as consumer cooperative societies act as savings institutions, they may compete for personal savings with thrift and credit societies. A thrift and credit society is specifically designed to mobilise the savings of its members and appeals to anyone with savings to invest who may not happen to live near a branch of the local consumers' cooperative. Nevertheless in some countries, for example France, it has proved possible to associate consumer, agricultural and workers' productive cooperatives with thrift and credit societies in such a way as to help mobilise savings for investment in cooperative development. If consumers' cooperatives can offer local thrift and credit societies a return on their savings comparable to that obtainable from investment elsewhere, there should be significant scope for increased collaboration between them.
- 2.15 Saving through cooperatives can be made more attractive through special guarantee funds. For example the Samvirkelagenes Garantifond A/L to which most Norwegian retail societies are affiliated has been effective as a supplementary guarantee to the security offered by the assets of an individual society. Similarly in the Fed. Rep. of Germany the Aufbaugenossenschaft der deutscher Konsumgenossenschaften GmbH acts as primary obliger for loans granted by outside credit banks. It charges a fee of only 0.1%, and many retail societies have availed themselves of its services.
- 2.16 Another source of capital is the trade union movement. KF, Sweden, has made bond issues from time to time which have been taken up not only by member organisations but by organisations closely associated with the trade union movement. In the Fed. Rep. of Germany the Bank für Gemeinwirtschaft, which associates the trade union movement with the cooperative movement has provided important financial support for cooperatives. And in Sweden, the Fed. Rep. of Germany and the U.S.A., substantial trade union funds have been invested in cooperative housing.
- 2.17 In Israel, too, the General Federation of Labour (Histadrut) has made major investments in cooperatives, and to a more limited extent the same has been true in Denmark.
- 2.18 In general, however, trade unions prefer to invest their funds in property or in government or other readily marketable securities; hence cooperatives cannot rely on significant investments from this source.

- 2.19 Consumer cooperatives in Europe have always been independent of public funds, but current needs for additional investments have led to some speculation as to whether they might seek financial support from governments. In some European countries agricultural cooperatives have received substantial support from public funds, and in the U.S.A. agricultural and rural electrical cooperatives have benefitted from large federal loans over the last fifty years.
- 2.20 Before the 1970 election the British Labour Party promised to set up a Cooperative Development Agency if it won the election; this agency would presumably have made loans to retail or wholesale societies in need of help. The proposal was welcomed by the Cooperative Union; but if the UK were to join the Common Market it is questionable whether such a Cooperative Development Agency would be any more acceptable to the European Commission than are subsidies or special facilities for nationalised industries. The Common Market is based on the idea that competition should be made as effective as possible in a larger market; and it is likely to be argued that if consumer cooperatives can serve the interests of consumers more efficiently than private traders, they should demonstrate this in the market place without public support. Housing cooperatives or agricultural cooperatives may be helped on grounds of public policy; but consumers cooperatives are more likely to be told that their task is to compete effectively with private traders in the bracing atmosphere of an enlarged market.
- 2.21 Collaboration between European cooperative movements is on the increase. For more than fifty years the Scandinavian Cooperative Wholesale Society (NAF) has set an example to other cooperatives in respect of cooperative buying in world markets, as the Cooperative Wholesale Committee has done in more recent years. Nordisk Andels Export (NAE) has demonstrated that cooperatives can collaborate internationally to export their own products. The consumer cooperatives of the Common Market countries have joined together in EURO-COOP for production and other purposes, and the Cooperative Wholesale Committee and the Committee on Retail Distribution have merged into INTER-COOP to help each other more effectively. Thus it is reasonable to pose the question as to whether European consumers' cooperatives can combine effectively for purposes of raising capital.
- 2.22 The only certain answer to this query is that effective collaboration of this kind appears to be very much in the future. The International Cooperative Bank has found it possible to help member movements with short term finance, and it is conceivable that one day it might be in a position to back the issue of an International Cooperative Bond guaranteed by consumer cooperative movements. But it is not certain that such a bond issue could provide funds on a cheap enough basis.
- 2.23 The financing problem of consumer cooperatives is not so much that of finding loan capital; it is rather the high cost of borrowing in a world of high interest rates. Thus for the immediate future cooperatives will probably do better to rely primarily on their own

resources for financing investment projects. Any funds that they can extract out of their surpluses or induce members to invest on a fairly long term basis are likely to prove more economic than borrowing at high costs on world markets.

3. Share Capital

- 3.1 To an extent the financing difficulties of consumer cooperatives derive from the cooperative principle of limited return on capital. This principle is flexible in the sense that it does not imply a fixed, prescribed level for the return on capital; it means rather that cooperatives should raise capital on the most economical terms that they can get in prevailing economic conditions, and should not pay more than this. (Moreover in a number of countries the maximum return that can be paid on cooperative share capital is fixed by law; for example, at 5% in Italy, 6% in France and 8% in the United States.
- 3.2 The principle of limited return puts cooperatives at a distinct financial disadvantage as compared with their competitors. A private company offers its shares to anyone with savings to invest, and it offers unlimited return with the prospect of increasing share values and voting power commensurate with shareholdings. A cooperative, on the other hand, raises its share capital from its members who are likely to have limited savings; and it offers them a limited return only, with no prospect of capital gain and only one vote per member regardless of shareholdings.
- 3.3 One consequence is that the distinction between share capital and loan capital has become blurred as far as cooperatives are concerned. If a share yields only a limited return and if it carries no voting rights (beyond the one vote per member), it has little advantage to the investor over a loan; indeed the latter is more attractive in terms of its prior claim on assets in case of bankruptcy.
- 3.4 From the point of view of the society, share capital is also similar to loan capital to the extent that it is easily withdrawable. This is more characteristic of British cooperatives than in most countries, but the tendency to ease withdrawal of share capital has been fairly widespread and is actually increasing in some cases in an attempt to counteract the ability of private competitors to offer higher returns.
- 3.5 Thus a major preoccupation of cooperative financial planners is to find ways of restricting the withdrawability - and consequent instability - of share capital without reducing its attractiveness to potential investors. A number of proposals have been made to this end.

a) One suggestion is that higher returns should be allowed on cooperative shares. There is little doubt that rates of return on the private market will remain relatively high for the foreseeable future in view of continuing inflation and rising

demands for capital as a result of technological change. Thus it is argued that cooperatives should permit flexibility of returns in an upward direction.

"Contemporary conditions in countries of advanced economic development demand some more elastic system of interest limitation. If the movement is to be more than a mere camp follower of the more progressive private sector and blaze new trails and lead the entire economic system, the whole question of capital availability has to be studied in a much more mobile and dynamic manner than was possible in earlier days. This does not imply any departure from principles hitherto accepted but only their application in a more flexible manner. If cooperatives adhere to the principle that nothing more than a legitimate rate of interest will be paid, one is no more and no less cooperative than another whether it fixes its rate for long periods by rule or for short periods by reference to some standard rate prevailing in the market.

"If, then, cooperative organisations have to convince their members that they will not lose appreciably by placing their capital in the cooperative in preference to a profit making enterprise from which they can ultimately expect not only dividends but increased capital values in time, it may be necessary to offer higher interest rates in order to ensure the continuance of the process of self-financing with all its advantages." (From Report of ICA Commission on Cooperative Principles, 1967)

This of course leaves wide open the crucial question as to what constitutes a "legitimate" return on cooperative share capital. Certainly in a world of rapid economic change it is undesirable that the maximum return should be rigidly prescribed by law. It would be preferable that it should be determined by an administrative body which could more easily make adjustments from time to time in the light of representations by the cooperative movement itself.

b) To some extent it may also be possible to substitute transferability for withdrawability of shares, thus making the proceeds available for cooperative development without reducing the attractiveness to the individual investor. Various devices for accomplishing this have been experimented with and these deserve further investigation.

c) There are movements, particularly in Fed Rep. of Germany where the personal liability associated with cooperative shares has had a serious inhibiting effect on their saleability. Where this is so, special interest attaches to suggestions which are being put forward to limit liability. These include introduction of a new type of cooperative without liability (Genossenschaft ohne Haftpflicht - eGoH); restricting liability to only the first share acquired by a member; and differentiation of liability according to the transactions of the member with his society.

d) Another proposal is that existing limitations on individual share holdings in cooperatives should be removed. In some countries; for example the UK, individual shareholdings in

cooperative societies are limited to a specified sum - once £200, now £1,000. In some other countries the limitation is on the proportion of shares that can be held by an individual. These restrictions are clearly intended to prevent the domination of a cooperative society by any individual member or small group in spite of formal voting being strictly equal. On the other hand, such restrictions are not regarded by the ICA Commission on Cooperative Principles as a matter of cooperative principle, and in large consumer cooperatives they can be an inconvenience and lead to a smaller share capital base in relation to loan capital.

e) Finally there is the possibility of achieving more stability of share capital combined with increased attractiveness to investors by issuing non-voting non-withdrawable preference shares. These have been widely used by agricultural cooperatives in the U.S.A. where they are permitted by law, but their use in a number of European countries would require a change in cooperative legislation. Preference shares have prior claim over common or ordinary shares with respect to surpluses and assets. They may or may not carry interest; this depends largely on the tax position of the country concerned. They are a flexible way of raising capital either from members or from the general public, and flexible also in the sense that they can be made transferable but with whatever restrictions as may be desired on transferability, and they can be made repayable on retirement or at a specified date.

- 3.6 Non-voting preference shares are also adaptable to relationships between various types of cooperative. Primary societies provide secondary cooperative organisations with their share capital and control them; at the same time it is becoming increasingly necessary for secondary organisations to provide primary societies with centralised services and finance for expansion of facilities. For these purposes it might sometimes be an advantage for secondary organisations to take up non-voting preference shares issued by primary societies instead of making loans to them.
- 3.7 Moreover, if cooperatives were authorised to issue preference shares, this might facilitate the organisation of joint ventures on a cooperative basis. Consumer cooperatives in need of capital for supermarket development sometimes wish to invest less in production; in such cases instead of selling off their productive facilities to private industry, consumer cooperatives might experiment with the organisation of productive enterprises on the basis of consumer participation in surpluses. Thus the surplus earnings of such joint ventures could be distributed in the cooperative way in proportion to purchases instead of according to shareholdings as in private firms. In Britain a number of existing productive societies were originally launched with the help of capital from consumer cooperatives, and this kind of involvement might well be extended through the issue of preference shares.
- 3.8 In a number of countries farmers find it useful to form small local cooperatives for joint marketing or buying or production; but collaboration between them and larger, well established trading cooperatives is not always as close as it might be. Here again non-voting preference shares might be useful in enabling established

cooperatives to provide small local agricultural cooperatives with capital without giving them control.

- 3.9 Large regional consumer cooperatives might also experiment with "direct charge" cooperatives based on local stores which are finding it difficult to pay their way. In these cooperatives, which have been pioneered in Canada, the costs of distribution are shared equally by members through a "direct charge" instead of according to purchases as in a conventional cooperative. Since goods are sold at cost, members are motivated to buy as much as possible at their coop. Capital for such local experiments might be provided by large regional societies through the issue of preference shares.
- 3.10 One of the disadvantages which cooperatives have experienced in competing with companies is that they have been limited to raising their share capital from the members with whom they trade. But if the trend continues towards a divorce between membership and shareholdings, it might appear reasonable for cooperatives to raise a limited amount of share capital through the issue of preference shares to the general public. Such preference shares, like other preference shares, would carry no voting power so long as dividends were maintained, but they would carry voting power in the event of a dividend not being paid; for this reason it would only be possible for them to be issued on a limited scale.
- 3.11 This possibility raises the interesting and controversial question whether large cooperatives might one day issue non-voting preference shares that could be quoted on Stock Exchanges. Although this is a prospect which horrifies some cooperators, it should be remembered that a Stock Exchange is only a specialised market. The large fortunes and capital gains realised there result not from the nature of the Exchanges but rather from the nature of the limited companies whose shares are quoted. The possibility of quoting the shares of large cooperatives has been discussed in the U.S.A., but no satisfactory way of arranging it has yet been worked out. In the UK the John Lewis Partnership, a department store group that claims to be a cooperative because it limits the return it pays on capital, for many years paid a bonus to its workers in the form of second preference marketable shares.

4. Plough Back

- 4.1 It is a striking fact that most of the capital invested by private companies in industrial expansion derives not from the issue of shares, but from their accumulated profits. For example in the UK in 1970 some 72 per cent of industrial investment was financed from undistributed company profits and only 0.8 per cent from the issue of ordinary shares. Similar ratios prevail in all major industrialised countries.
- 4.2 For cooperatives, however, the picture is quite different - a difference which appears to explain much of the competitive advantage which companies have had over cooperatives. In the U.K. in

1969 some 61 per cent of the surpluses of consumer cooperatives was distributed in patronage refunds.

- 4.3 This failure to plough back any significant proportion of their earnings into cooperative investments is characteristic of most advanced consumer cooperative movements. One reason has been the urge to make the patronage refund or divi as attractive as possible in order to attract members and capital. But the more important reason has been a tax problem. Cooperatives have had a direct incentive to reduce their tax liability by distributing earnings as a patronage refund whereas companies have a direct incentive to reduce tax liability by ploughing back earnings instead of distributing them.
- 4.4 In most advanced countries cooperative societies pay corporation tax on their undistributed surpluses at the same rate as companies, but pay no corporation tax on their patronage refunds. They therefore tend to reduce their tax liability by distributing as much as possible. Companies, on the other hand, have a direct incentive to plough back earnings because total tax liability is thereby reduced, particularly in countries where companies pay corporation tax at the full rate on earnings distributed in dividends and shareholders pay personal income tax on the dividends. Even where, as in Fed Rep Germany, companies pay corporation tax at a reduced rate on dividends, they may still have tax incentive to plough back earnings rather than distribute them. Many companies are controlled by a relatively small number of quite wealthy shareholders who are liable to personal income tax at a high rate on their dividends.
- 4.5 In some countries, such as the UK, the income distributed by cooperatives as interest (or dividend) on share capital is deductible when the society's surplus is assessed for corporation tax and is not liable to that tax; but the interest is nevertheless liable to tax in the hands of the individual. In other countries, such as Fed. Rep. of Germany, the income which a cooperative distributes as interest on share capital is liable to corporation tax and also to personal income tax in the hands of the individual.
- 4.6 Tax laws which impel cooperatives to distribute the bulk of their surpluses in cash "divi" thus have the direct effect of depriving them of what could be their most useful, reliable and inexpensive source of investment capital. This in turn has an indirect effect on cooperative ability to attract capital from their members or from the general public. The difficulty of selling cooperative shares - and the need to increase their attractiveness by making them withdrawable - stems from the relatively low return available on such shares. These low returns however have been necessitated by the marked decline in cooperative surpluses over recent years. This decline, in turn, is directly attributable to the failure of cooperatives over many decades to plough back their earnings into expansion and modernisation of facilities, with the result that they are now losing ground in the competitive struggle.
- 4.7 This is a vicious circle that must be broken, and the most effective way of breaking it is the most direct method i.e. to take measures to enable cooperatives rapidly to accelerate their rate of plough-back. This is not easy in view of existing tax laws, but there

are at least two directions in which some progress might be made.

- 4.8 One approach would be to lobby for changes in existing cooperative legislation in many European countries which prevents cooperatives from issuing non-voting preference shares. In the United States a large part of the financial resources of the agricultural cooperative movement is obtained through the payment of patronage refunds in non-voting preference stock, or in non-voting common stock or "Certificates of Equity" which may or may not carry maturity dates. This process releases cash savings for investment in the business.
- 4.9 When a U.S. agricultural cooperative pays a part of its patronage refund in stock instead of in cash, corporation tax liability is reduced proportionately, just as it would be if a cash patronage refund had been paid and the money had been re-invested. Thus the cooperative has the tax advantage of distributing its earnings in a patronage refund and at the same time the economic advantage of being able to invest the money in trading operations. This is basically because of the character of the stock issued. It is not "withdrawable" in the way cooperative shares in Europe commonly are, but it may be redeemable after a period of years so that money flows out of a "revolving fund" as stock is redeemed and flows in again as new stock is issued.
- 4.10 The common and preferred stock issued by U.S. agricultural cooperatives is not as freely transferable and marketable as the common and preferred stock issued by companies; but it is transferable to some extent and may be repayable after a number of years.
- 4.11 A variant of this approach would be to make dividend stamps, which are increasingly being used by Western European consumer cooperatives as a method of distributing patronage refunds, convertible into share capital with restrictions on withdrawal.
- 4.12 In some cases there is a legal requirement that dividend stamps should be convertible into cash. Thus it would be necessary to alter legislation to permit at least part of them to be converted into non-voting preference or common stock, and also to ensure that they receive the same tax concessions as cash divi. This would in no sense be discriminatory against private companies who can claim tax deductions on such promotional expenses as price rebates, gift coupons etc. Such shares would be transferable with certain restrictions, flexible in terms of interest rate according to the tax situation, and flexible as to period of repayment, either over a short period of years as with revolving funds, or for a longer period as with Swedish family accounts held until death or retirement.
- 4.13 This kind of "delayed distribution" of divi should prove attractive to cooperative consumers as a way of enabling them to participate in the growing value of the cooperative assets of which they are owners. When divi is distributed through stamps convertible into cash or goods, members share in the assets of the coop in an immediate way which does not give them any additional equity or security for the future. But if stamps were convertible in part into non-voting shares (stock bonuses) which had to be held over a period of years, members would find themselves investing in their

future, and cooperative societies would be enabled to plough back earnings to strengthen their economic base and thus increase future surpluses and bonuses to consumers. And since dividend stamps are distributed to all customers, this would be an additional stimulus for non-members to affiliate.

5. Centralised Financial Planning

- 5.1 To a large extent cooperative financial viability depends upon competent management, sound investment decisions and long-term planning for the movement as a whole.
- 5.2 This in turn points to a number of basic issues which are under active discussion throughout the international cooperative movement, but which cannot be covered here - such as the development of more sophisticated centralised financial and budgetary controls, more adequate managerial salaries and expansion of facilities for management training.
- 5.3 What can be briefly noted here, however, is the enormous scope for stretching financial resources through skilful redeployment of existing funds. This can be attempted in at least three directions:
 - a) by seeking economies of scale; b) by economising on funds tied up in cooperative production; and c) through "sale and lease back."

a) To the extent that consumer cooperative movements continue to create larger economic units, they can economise on the use of the financial resources available to them. This process involves replacement of small shops by larger ones, amalgamation of societies, integration of retailing and wholesaling operations, and centralisation of purchasing, warehousing, transport and delivery, assortment policies, sales promotion, quality control, consumer information etc.

b) A number of European consumer cooperatives are finding that it is more economic for them to close down productive facilities which do not have wide enough markets to produce on the most economic scale, and to use the funds thus released to purchase from private manufacturers goods of the highest quality made to cooperative specifications. This avoids spreading available capital too thinly over a large number of enterprises operating at less than optimum capacity; and it may in some cases have the result of giving consumer members better value for their money. Decisions to cut back on production must obviously depend on the size of the cooperative's market share and its policy as to whether or not to produce for the open market. Also in some cases (as in Sweden) cooperative production may also be aimed at combatting domestic monopolies. In each case the decision must be taken in the light of the most economical use of the funds available to the movement as a whole.

c) Consumer cooperatives in many European countries own a number of freehold premises and in such cases the sale and "lease back" of these premises may provide an obvious way of economising

on capital. In inflationary conditions the agreed rent for the premises will have to be subject to periodic review; but the immediate rent payable may be substantially less than the cost of borrowing on mortgage partly because the interest payments are not subject to review in the same kind of way. Although sale and lease back may sometimes be the cheapest way of financing a new development, it should nevertheless be approached with caution. It should be remembered that ownership of freehold properties with a real value greater than their book value does provide a movement with an important "hedge" against inflation.

- 5.4 It is preferable that the sale and leaseback of premises should be to property companies under cooperative control rather than to private insurance or property companies who might one day wish to use the sites for their own purposes. The outstanding example of this kind of operation has been the Coop "Immobilien" Fund in the Federal Republic of Germany which issues certificates to the public which carry interest and increase in value along with the value of the properties acquired. The funds collected are administered by a separate company, CO-OP Immobilien Fonds Verwaltung AG which operates on the principles of an investment company. This ensures that the control of investment is effectively in the hands of the cooperative movement though the great bulk of the funds come from the general public.

Conclusion

Thus careful husbandry of a movement's financial resources through professional centralised planning on the appropriate scale can go a long way towards releasing funds for expansion of trading facilities. At the same time, however, the more fundamental problem of finding new sources of capital cannot be avoided. Ways will have to be found of attracting share capital in adequate amounts and on a sufficiently committed basis to permit a much larger "ploughback" or reinvestment of surpluses in trading operations. Only in this way can movements establish the firm underpinning of public confidence that will enable them to borrow, on reasonable terms, whatever supplementary funds they may require.

Flexibility is called for, and ingenuity in combining those methods of financing best suited to the purposes of the movement, to the interests of potential investors and to the legislation of the country.

X.13771