Indivisible reserves

Saint Mary's University

International Centre for Co-operative Management

INTRODUCTIONS

If you're willing, please introduce yourself in the chat:

1. What's your **name**,
your **co-op** or organization (if relevant)
where are you **located**?

2. What are you hoping to get out of this session?

Definition of Indivisible Reserves

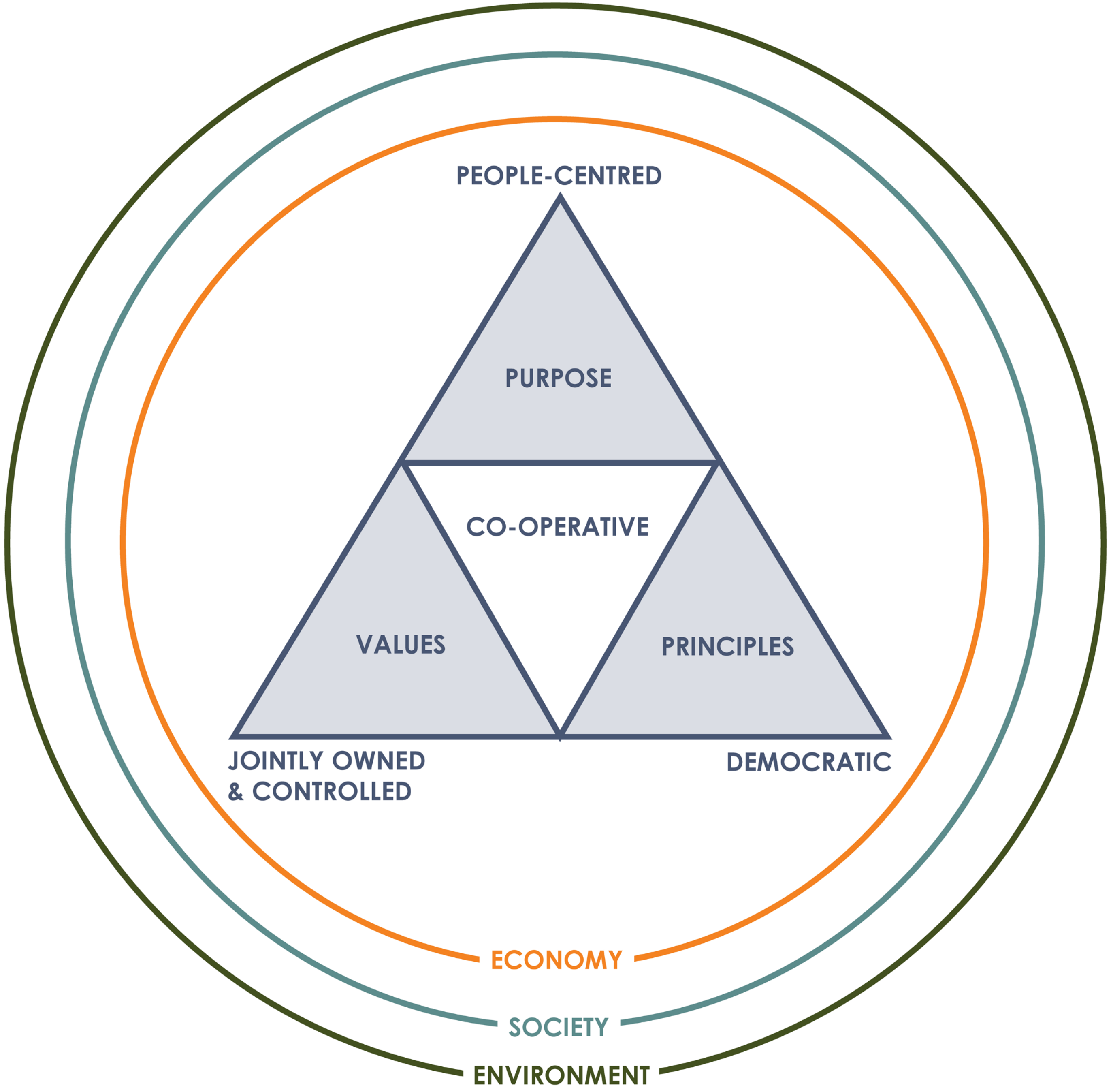
- Indivisible Reserves are reserves which can never be divided among members.
- If the co-operative winds up or sells to a business corporation and ceases to exist, the indivisible reserve will go to a co-operative federation, a co-op development fund, or a similar entity, as defined in the co-op's bylaws or in legislation.
- Other names: Permanent Co-operative Capital. Asset Lock.

Co-operative enterprise

Statement on the co-operative identity (ica.coop)

- Autonomous association of persons
- Meeting common economic, social, cultural needs and aspirations
- *Jointly owned* and democratically controlled enterprise

Co-operative Enterprise Model



KAREN MINER & SONJA NOVKOVIC (2020)

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Principle 3

Principle 3: Member economic participation

Members **contribute equitably to, and democratically control, the capital** of their co-operative. At least **part of that capital** is usually the **common property** of the co-operative.

[...] Members allocate surpluses for [..] the following purposes: developing their co-operative, possibly by setting up **reserves part of which at least would be indivisible**; benefiting members in proportion to their transactions with the co-operative [..]

Guidance Notes to the Co-operative Principles

Ian McPherson (1995)

- There was much debate over the inclusion of a reference to indivisible reserves.

[…] The unfortunate result had been that many co-operators have lost sight of the importance of commonly owned capital, as **a symbol of cooperative distinctiveness, as a security for its financial growth, and as a protector in times of adversity.**

Guidance notes

The whole structure of co-operative enterprise is designed around the concept **of capital being in service of people and labour, not labour and people being in servitude to capital.**

Guidance notes

Given the huge scale and diversity of co-operative enterprise, this 3rd Economic Principle [..] has many caveats to its practical application; caveats shown by "part of which", "at least" and "usually" in the wording of the Principle.

Guidance notes

- These caveats show the sensitivity and challenging nature of making capital servant, not master.

(p 30-31 Guidance Notes)

Sources of co-operative capital

- Membership ‘shares’ (fees)
  - Condition of membership
  - Voice (democratic **control**)
- Reserves
  - retained surpluses
  - retained patronage dividends
- Member investment-no voice
- External capital – no voice

Co-operative ownership

- Normally, all or a significantly large portion of a co-operative's retained earnings becomes unallocated capital, also called the co-operative's "indivisible reserves"
- Indivisible reserves are used for collective benefit/ purpose (common wealth of the cooperative)
  - Growth
  - Solidarity
  - Crises (resilience)

Transgenerational development

- National or regional legislation making indivisible reserves mandatory
  - France, Italy, Spain, Uruguay, Quebec, Newfoundland and Labrador ….
- Co-operative property, akin to the "commons" (use and benefit from, but nor dispose of)
- Co-operative capital is a tool for transgenerational development (Jean Louis Bancel)

Beyond the founding generation

- In long established co-operatives these indivisible reserves will represent the accomplishments of many generations of members and are often the target of those who seek to demutualise co-operatives.

- Protection- no individual distribution of assets upon closure (common good)

Italian case (Navarra 2009)

- Indivisible reserves are a risk-sharing mechanism
- Legal requirements:
  - 3% of profit goes to national solidarity funds, managed by the cooperative federations, in order to promote the cooperative movement;
  - 30% of net profits goes to indivisible reserves
  - Dividends can be distributed if capital/debt ratio exceeds 1:4

Mondragon

- Two types of accounts (profit distribution):
  - – Individual accounts - 40%
    - Can divide up to 70% by legal requirement
  - – Collective (indivisible) reserves – 50%
    - 20% legal requirement
  - – Social fund- legal requirement – 10%

Disadvantage

- Without support in the form of tax incentives or other supportive public policy and programs, they may make it less likely that entrepreneurs would choose the co-operative model.
- The perception is that full benefit of their efforts in the co-operative is not realized.

  (note- intergenerational transfer!)

Advantages

- The density, average sustainability, and long-term development of worker co-operatives and of the jobs therein, is substantially higher in countries and regions where indivisible reserves are mandatory by law.

- In particular in Argentina, France, Italy, Quebec, Spain, and Uruguay where indivisible reserves have been mandatory for a long time

Advantages (continued)

- Where indivisible reserves are mandatory, there is more support for co-op development and faster growing co-op movements. The reason: less private benefit to individuals, and more community benefit.
- It is more likely that co-operatives with irrevocable indivisible reserves would benefit from social procurement by governments.
- Adopting an indivisible reserve strengthens one's own co-op and the co-operative movement.

OVER TO HAZEL….

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