

CHAPTER 6

CAPITAL STRUCTURE

CAPITAL CONTRIBUTED BY MEMBERS

Remember that “capital” is the money and equipment which the co-operative uses to carry out its goals. **Members can contribute to the capital of the co-operative in any of the following ways:**

- membership fees, joining fees, subscription fees
- payment for membership shares or additional shares in the co-operative
- loans to the co-operative
- member funds (explained below).

Section 40

MEMBER SHARES

The constitution of a co-operative may say that **all members must be issued with membership shares in exchange for a contribution to the co-operative’s capital.** If this is the case, each member must hold the minimum number of shares required by the constitution at all times. The constitution of a co-operative may also allow members to pay for additional shares if they wish.

All shares in the co-operative must be of equal status and rank.

Members can earn interest only on shares that are paid up.

Transfers of membership shares from one person to another must follow any rules about transfers in the co-operative’s constitution.

Section 41

SHARE AND LOAN CERTIFICATES

A co-operative must give share certificates to all members who hold shares in the co-operative. It must also give certificates to members who have made loans to the co-operative. Each certificate should have the following information on the front:

- the name of the co-operative
- a statement that the co-operative operates in terms of the Co-operatives Act

- the name of the person to whom the certificate was issued
- a statement that the certificate represents a certain number of membership shares or a member loan of a certain amount.

If the constitution of the co-operative says that the co-operative is not required to issue certificates, then the co-operative must give members statements about the number of their shares or the amount of their loans, if they request it.

Section 42



MEMBER FUNDS

The co-operative's constitution may provide for member funds. These are **funds held by the co-operative containing money allocated to a particular member** which does not have to be paid out to the member right away. The system of member funds works in much the same way as savings accounts at a bank.

The money in a member fund can include:

- contributions made by the member to the fund, which are actually loans to the co-operative
- amounts set aside for future payment to the member, such as
 - interest on that member's shares,
 - amounts which will be paid out to that member because the co-operative has reduced its share capital (meaning the amount of its capital which corresponds to the value of the shares issued to its members)
 - money that will be returned to that member on the basis of transactions with the co-operative
- any other money due to a member which can be paid out later on.

The co-operative can use money in member funds for anything allowed by its constitution – except that it must NOT use this money to pay off losses to the co-operative.

The co-operative's constitution should say how and when the money credited to a member in a member fund must be paid over to that member. These rules must be followed.

Members can earn interest on the funds credited to them, just as they would earn interest on money held in a savings account at a bank. The interest rate will be set in the constitution of the co-operative.

The money in a member fund can be set off against a debt owed to the co-operative by that member, on the date that the debt comes due.

Section 43

RESERVE FUND

A **“reserve fund”** is an account where money is set aside for future needs (such as unexpected expenses) or expenditures which will benefit the co-operative (such as training for the members or maintenance of equipment). Co-operatives must keep a reserve fund to hold some of their surplus, which is the money left over at the end of the financial year after all the debts are paid. The co-operative's constitution will say how the reserve fund must be used.

A co-operative must put at least 5% of its surplus at the end of each financial year into its reserve fund. The reserve fund belongs to the co-operative as a whole. It cannot be divided up among the members, and no member has a claim to any specific share of it.

The co-operative's annual audit will include information about its reserve fund. The Registrar of Co-operatives will check the audit each year to make sure that the co-operative is following the rules about reserve funds.

Section 46



PATRONAGE PROPORTION

As discussed above, when a co-operative has surplus funds at the end of a financial year, some of the surplus must be placed in a reserve fund to use in developing the co-operative.

Some of the surplus can be returned to the members in proportion to the value of transactions each member has done with the co-operative.

For example, a grocery co-operative might return some of its surplus to its members in proportion to the total value of the purchases made by each of them during the year. A basket marketing co-operative might return some of its surplus to its members on the basis of the total value of each member's baskets sold by the co-operative during the year. A savings and loan co-operative might return some of its surplus to its members as interest on the amount each member holds in his or her savings account.

Patronage refers to the amount of business a member does with the co-operative. The patronage proportion means how much each individual member's business with the co-operative compares with the total business of the co-operative in a particular financial year. For example, it might be that one member's transactions amounted to 5% of the co-operative's total business, while a second member's transactions amounted to 8% and a third member's transactions amounted to 10%. These figures would be the members' patronage proportions.

The board of directors must make sure that the patronage proportion is calculated in a fair way. They must take into account the quantity, quality, kind and value of the goods involved in the transactions with the co-operative. They must also take into account the services provided by the co-operative to the member, as well as the services provided by the member to the co-operative.

For example, it would be more fair for a cattle marketing co-operative to calculate each member's transactions on the value of cattle marketed through the co-operative, than on the number or weight of the cattle sold. If the co-operative also sells cattle feed to its members, the value of the feed purchased by each member should also be taken into consideration.

The co-operative can require in its constitution that some or all the patronage proportion due to each member must be given to the member in the form of shares in the co-operative instead of in cash. This system helps the co-operative to increase its capital.

If the co-operative uses this option, the constitution must also include rules for:

- giving members proper notice of the number of additional shares issued to them
- the procedure for issuing or transferring shares to the members
- the provision of share certificates for these additional (if the co-operative uses them)

Section 44



RULES ABOUT LOANS

Co-operatives may give loans to anyone if this is part of the ordinary business of the co-operative. But other co-operatives may give loans only in the following situations:

- **A co-operative can advance money to someone who will spend money on behalf of the co-operative.** For example, a co-operative might advance travel expenses to someone who is representing the co-operative at an international conference.
- **A co-operative can give a loan to a member or an employee for the purpose of buying or building a house that they will live in themselves.** For example, the cooperative could NOT fund housing developments intended for the profit of individual members.
- **A co-operative can give loans to any of its members as long as the loans are available to all members on equal terms.** For example, offering loans for start-up tools and materials might be one service offered to members by a wood-carving co-operative.

In any of these situations, the co-operative can also give security for loans from other sources. Giving security for a loan means pledging money or property to back up the loan. If the person who got the loan fails to pay it back, the amount still owing will be taken from the security.

A co-operative must NOT give loans or security for loans if this would endanger its own financial health:

- It may not give loans or security if this might mean that it would not be able to pay its own debts on time.
- It may not give loans or provide security if this would make its remaining assets (aside from the loan or the security in question) LESS than the sum of its liabilities PLUS its share capital PLUS the money in its reserve fund.

Section 45

Why are share capital and reserves listed as liabilities?



Assets	Liabilities
Cash	debts
building	loan repayments
equipment	share capital
	reserves



Because they really belong to the members not to the co-operative. If members leave the co-operative they can exchange their share certificates for the value written on them. And the reserve fund belongs to all the members as a group.