# In Praise of Revolving Equity

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Most open membership commodity marketing and farm supply cooperatives use a system of revolving equity. Despite its prevalence, revolving equity has few cheerleaders. Many cooperatives have relatively long revolving cycles. For that reason, cooperative leaders often don't mention revolving equity as a key part of the value package. It is common to hear statements suggesting that the creation of revolving equity also creates future burdens. As in any part of the cooperative financial model, revolving equity must be evaluated relative to the alternatives.

Any method of financing infrastructure reinvestment creates a future burden. Debt financing creates a structured set of future payments which are an obvious future burden. Cooperatives take on debt to fund productive assets and anticipate that the future profit stream will cover the loan obligations. Investor-owned businesses solicit capital from investors who expect a return on that investment. Since those returns are not guaranteed investors expect returns to be significantly higher than interest rates, often 12-15%. Investor owned firms face the double burden of interest expense and their investors' expected returns, both of which must be covered by future profits. In cooperatives the burden of equity financing is the revolving equity payments. From a big picture view, revolving equity is not particularly burdensome.

There are other vehicles for cooperatives to raise equity capital. Cooperatives can require direct investment, requiring members to make a significant investment in order to join the cooperatives. Cooperatives can sell or issue dividend bearing preferred stock (often restricted to 8% or less). Cooperatives can also retain funds as unallocated retained earnings. In the context of the alternatives, the revolving equity model actually fits open membership cooperatives pretty well. It allows members to join without a large out of pocket investment. The structure leads to active patrons providing ongoing equity financing which keeps equity ownership reasonably proportion to use. Revolving equity allows members to build individual ownership providing them an incentive to nurture and protect the cooperative.

Providing financial capital to the cooperative is a key member responsibility. The revolving equity system is a very workable method for patrons to provide that necessary capital. Revolving equity creates some challenges but it has a lot of advantages. Maybe it deserves more kind words that we give it!