

# NEBRASKA COOPERATIVES

## Agricultural Cooperatives Can Help Mitigate Negative Economic Consequences of COVID-19 on Member Operations

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USDA estimates on corn usage, and other agricultural data, indicate farming operations may experience reduced revenues and returns to capital in 2020 as a result of COVID-19. This will result in less growth and cash flow consequences for farming operations. One way cooperative membership is valuable during the COVID-19 uncertainty is the ability of cooperatives to manage member equity redemption.

Cooperatives can support member operations by prioritizing equity redemption programs. On average, cooperatives redeemed between \$350,000 and \$400,000 annually to patrons in the last two years, or about 4.7% of their equity. Equity grew about 3% annually in the last two years.

Equity redemption decisions are based on a number of factors, including the cooperative's rate of return on capital. A recent, national, sample of grain marketing and farm input supply cooperatives can be used to calculate how changes in the rate of return on capital affect the share of equity redeemed in any year. A one percent decline in the rate of return on capital, from 15% to 14.85% for example, reduces fraction of equity redeemed in a cooperative with average returns by 11.4%. For example, a one percent decline in return on capital reduces the fraction of equity redeemed by the average cooperative from 4.7% to 4.2%  $((1-0.114) \times 0.047=0.042)$ . Large declines in return on capital may cause cooperatives to defer redemption if the consequences of COVID-19 last more than one year.

Downward pressure on equity redemption can be offset by other factors that affect equity redemption decisions. Declining interest rates and reduced cash patronage refunds can offset the effect of lower returns on capital on the share of equity redeemed.

Together, these factors mean cooperatives can use patronage refund management, and the cooperative's creditworthiness, to financially benefit member operations during COVID-19. Cooperatives could reduce their existing equity, and cash patronage allocations, to provide financial benefits to members. These factors, together with declining interest rates, could make farm returns less variable. This, in turn, suggests agricultural cooperatives will assist Nebraska communities in their economic recovery from COVID-19.