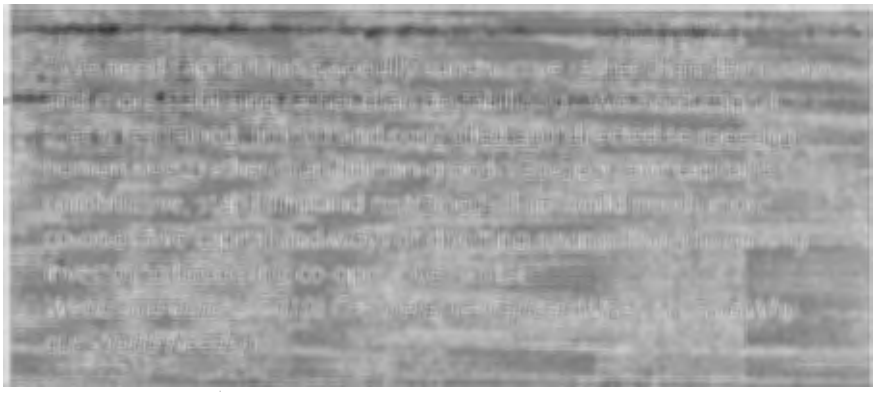
5. CAPITAL

"SECURE RELIABLE CO-OPERATIVE CAPITAL WHILE GUARANTEEING MEMBER CONTROL"

Businesses cannot function without capital, and co-operatives are no exception. Whilst they have the ability to borrow (loan capital), as well as meeting working-capital requirements they need to fund their long-term business for which purpose they generally need some form of long-term risk or loss-absorbing capital. Co-operative capital generally comes from either members by way of share capital, or retained earnings (reserves).[39] By definition, retained earnings take time to build up, and are obviously not available at start-up. Historically, co-operatives were funded by cash deposited by members, at a time before high street banks met this need. Members kept their savings at the co-operative, and could withdraw them as and when needed.



Withdrawable share capital, with limited exceptions, no longer provides the capital needed. The wide-spread availability of financial institutions and services means that people no longer need their co-operative to be a safe-haven for their cash. Capital that can be withdrawn at will in the modern context will not usually provide a sufficiently stable basis for funding a business. Co-operatives in many jurisdictions therefore face a problem in terms of access to capital.[40]

Investor-owned businesses raise capital from those who are looking for a financial return. This may be in terms of income from dividends, or capital growth in the value of the business over a period of time, or a combination of the two. Traditional "equity capital" provides these benefits, and is based on the principle that ownership of a share entitles the investor to a proportionate share of the underlying capital value of the company, and a proportionate share of any profits distributed by way of dividend.

Co-operative capital is different in relation to both of these principles.[41] First, a member is generally only entitled to receive back from the society the amount of money deposited or subscribed for shares. So there is no entitlement to a share in underlying value. Second, whilst co-operatives can pay interest on capital, under the 3rd Co-operative Principle members receive "limited compensation, if any, on capital subscribed as a condition of membership". To the extent that profits or surplus is distributed to members, that distribution is in proportion to the members' trade with the society.

When compared with company equity capital, co-operative capital does not offer to investors comparable economic benefits. As a result, it is not as economically attractive, and of little interest to investors.

But what co-operatives have to offer society at large (rather than just to profit-seeking investors) clearly is attractive, when compared to the wider impacts of investor-owned businesses, for all the reasons set out above. How do we bridge this gap?

WHAT IS THE GOAL?

It is easy to make this subject complex, technical, even somewhat mysterious – a search for the Holy Grail. Essentially, it involves matching our needs as citizens for a safe place to keep the money we don't need right now but which we will need in the future, with the needs of businesses which require capital to develop and to meet our changing needs.

The history of the last 150 years or so has been one of turning people into investors. "Invest" generally means placing money somewhere where it seeks to get the best return. It is the word generally used in relation to putting money into company shares. Most people in developed economies have become investors, whether intentionally or not, through their retirement savings and other financial products such as insurance provided by the investor-ownership model. Maximising profits with our savings has become the norm, and we are addicted to it. But over the last four years, economic volatility has revealed the weakness of this model – there is now a clear need for something better.

Finding a successful model means not just changing how businesses operate, by establishing businesses which, like co-operatives, are more likely in the longer-term to meet human needs; it also means changing how people behave. We all need to stop behaving as investors looking to maximise gain; if we want a better world, we need to place our funds where they are more likely to build a better world. They won't do that if we invest them in equity shares.

If it was not for the fact that there is powerful evidence that people are already changing what they do with their money, this might seem to be a hopelessly idealistic proposition. But attitudes to wealth, money and where people keep it are changing dramatically. From the Giving Pledge of Bill Gates and 30 other US billionaires to give away at least 50% of their wealth to charity, to the response of ordinary people to the tsunami in 2004, the earthquake and tsunami in Japan in 2011 and other major disasters. From the outrage in the financial pages of leading newspapers at the behaviour and remuneration of bankers, to the Move Your Money campaign,[42] and the Occupy movement. We are living through a time of great change, where popular attitudes and motivation are changing.

Capital instruments need to be in tune with the attitudes and motivations of the day. So the goal is to provide a credible proposition for a co-operative future which people can recognise, understand and believe in (see Chapter 3 above), and then provide the right mechanism through which they can use their funds to secure that future. This means a financial proposition which provides a return, but without destroying co-operative identity; and which enables people to access their funds when they need them. It also means exploring wider options for access to capital outside traditional membership, but without compromising on member control.

This is the context in which appropriate financial instruments, through which people can fund co-operatives, are essential. This is territory already much explored by companies, but similar time and energy has not been applied in the co-operative sphere.

Instruments are needed, which provide the facility for money to be put into and paid out of co-operatives, and which

- Provide a stable basis for the business of the co-operative
- Provide an appropriate "exit" for the provider of funds, in a context where a market in shares is not really appropriate, and
- Do not impair or undermine the co-operative nature of the entity, including control by members and commitment to the co-operative identity.

HOW MIGHT THESE GOALS BE ACHIEVED?

POSSIBLE OR INDICATIVE ACTIONS

- Promoting and encouraging generally the **funding** of co-operatives by existing members
- Ensuring that co-operatives have a **clear proposition** to make to providers of funds
- Promoting the **inter-change of ideas and experiences** between jurisdictions in relation to capital and financial instruments
- Developing a modern generic **financial instrument** which is classed as risk capital and meets the needs of co-operative businesses and co-operative funders
- Developing a range of variations to the generic model to suit different sizes of co-operative and sectors
- Identifying institutions which can act as **aggregators or intermediaries** for businesses (large and small) needing capital
- Utilising the **Global Development Co-operative Fund** to demonstrate establishment of the co-operative as an asset class
- Undertaking **research on changing attitudes and motivation** for funding, and for new financial instruments
- Reviewing risks and opportunities created by the use of subsidiary corporate entities, and other **group structure arrangements**, and the creation of co-operative groups or clusters to address capital accumulation
- Building the case for co-operative capital as an **inspirational model**, compared with debt and profit-seeking capital
- Creating a co-operative specific **index** to measure growth and performance
- Advocating for **accounting standards** that recognise the unique attributes of the co-operative model.
- Accelerating **global trade between co-operatives** through broker arrangements and shared service structures