Co-operative Capital: A new approach to investment in co-operatives

Co-operative Action, Manchester. ISBN 0 9548652 0 0. Price £14.99.

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This, the first publication of *Co-operative Action* (curiously undated) addresses an extremely important topic impacting upon the future development of co-operative enterprise in the UK. The book brings together much by the way of background information on the topic of co-operative capital and highlights many of the key issues but, unfortunately, the opportunity afforded the authors to come forward with proposals that could significantly improve the chances for existing and future co-operatives to access and retain capital seem to have been missed. The book's cover notes promise 'radical proposals' but disappointingly they are not, and some can only properly be described as 'retrograde'. Without denying the good intent of the authors, the book proposes some approaches that could prove to be perilous to any co-operative unwise enough to follow them.

One early proposal is that an 'ethical exchange' be established. This appears sound enough, although the evidence offered within the book suggests that its will be of more value to those 'neo-co-operatives' often described as 'social enterprises', which feature strongly in the book. It has always been difficult to understand why so many people involved in co-operative development have embraced a model of enterprise that has some co-operative characteristics, but without the essential democratic features. Perhaps the answer lies in the fact that a 'real' co-operatives is notoriously difficult to establish, especially by outside agencies and development workers, unless there exists a real need and a base of members truly committed to its purpose.

The authors acknowledge the fact that the financing needs of new-start co-operatives are on the whole quite different from those of established co-operatives, although how these two different needs are to best be met is not sufficiently well argued. Nevertheless, the proposal for the establishment of a "co-operative venture capital fund" presented in the final chapter, is likely to be warmly welcomed in co-operative circles. Co-operatives can never expect to attract more conventional forms of venture capital funding without losing their co-operative identity, therefore, specialist-funding agencies are required.

The first five chapters of the book provide factual information and an interesting overview of many of the issues surrounding the topic of capital in co-operatives. However, the remaining three chapters appear to be the product of a kind of 'kangaroo logic' that ignores the information that has been presented earlier, jumping to conclusions that it has to be assumed were pre-judged. The case studies provided in Chapter 3, especially the one dealing with 'Poptel', clearly highlight the dangers of trying to involve outside, non-member, equity investors in co-operatives. Regardless, the book then moves on in Chapter 7 to propose an equity model for co-operatives that does just that. The only validation offered for this equity model is the examples of some co-operatives in Italy and one in Spain, about which only the sketchiest details are provided.

The co-operative equity model proposed seeks justification by reference to the International Co-operative Alliance (ICA) 'Statement on the Co-operative Identity'. The fact that this statement is a 'catch-all' designed so as not to offend any of the ICA's significant member organisations is acknowledged within the text, and as a result is not an appropriate basis. Much more specific operating principles for each type of co-operative are in fact required to ensure that co-operatives remain 'true' co-operatives; a good example of this are those adopted by the Credit Union movement. The underlying 'co-operative principles', namely that capital should not receive a reward based on profitability and that capital ownership should not be the basis of voting power, remain irrevocably sound.

The UK suffers from a dearth of co-operative historians able to remind co-operatives of those lessons that should never be forgotten, including the fact that when equity capital is held by non-participating members (meaning persons other than those that a co-operative was established to benefit) then sooner or later the ownership and control of the co-operative will be lost to the outsiders. Both UK and international co-operative history provide countless examples while many more recent ones can be found among UK, Irish and Australian agricultural co-operatives and European consumers' co-operatives, as well as Poptel's cautionary tale.

Granted the book claims to address only the needs of co-operatives for capital ranging from £1 to £20 million. Nevertheless, the impression given is that the issues identified concern only small 'social' co-operatives operating on the margins of the economy. However, the financing issues that hold back the development of almost all co-operatives apply regardless of scale. The authors seem to have fallen into the trap of accepting some of the myths about equity capital that have currency with many co-operators. It is in fact **not** true that investors in general, whether ethically motivated or not, will only invest if they have voting power and a share in the profits. There is in fact a mass of investors who are happy to invest in any enterprise, on the basis of a fixed return in non-voting stock, provided to protect the investors' legitimate interests. The main problems for co-operatives, many of which are identified in the book, surround the fact that most UK co-operatives only have one class of capital and often this is not permanent and is not tradable (allowing exit when required). No mention is made in the book of the experience of UK Building Societies with near-equity financing in the form of permanent interest bearing shares (PIBS). This method of financing has not yet been fully developed nor has it been used in other forms of co-operative or mutual enterprise. However, PIBS are traded on conventional markets and offer a model well worth exploring for use in co-operatives.

The final chapter of the book sets out some 'Next steps' that are advocated as a way forward to solve the financing problems of co-operatives. The first two proposals seem to be more about promoting co-operatives as a model of social ownership rather than as organisations that deliver tangible benefits to their members. The remaining actions proposed are designed to promote a co-operative venture capital fund, an ethical exchange and the alarming equity model for co-operatives. Disappointingly we are not provided with proposals that truly could address the capital issue in co-operatives without endangering their existence. For example that:

- No more time be wasted on tinkering with the Industrial and Provident Societies Acts but instead focus on getting a Co-operative Companies Act, along the lines of that enjoyed in New Zealand, where co-operatives account for 22% of the gross national product

- Any legislation: fully protects common wealth capital, ensures that all shares in a co-operative are permanent but convertible on exit, provides for the automatic transfer of shares held by non-participating members into non-voting, tradable stock and allows for the safeguards for outside investors but does not provide the opportunity to control the co-operative.

- Establishes a Standard of Reporting Practice (SORP) specifically for Co-operatives which will provide the clarity of financial accounting that is necessary for both members and outside investors to fully understand how well co-operatives are meeting their objectives.

- Discussions be opened with a range of financial market operators, with a view to ensuring that co-operative financial instruments become genuinely tradable.