Capital and the Financing of Cooperatives

Foro Internacional de Derecho Cooperativo, Montevideo,
18th November 2016
Introduction

• The importance of capital, why we are here

• The legal and technical features of cooperative capital
  • The needs of the cooperative
  • The needs of those providing capital

• Upholding cooperative identity; challenging investor capital

• The bigger picture: what is the cooperative capital deal?
Reframing the debate about Cooperative Capital

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Capital

• Financial capital; equity/shares
• The capital of all incorporated bodies
  • Does not belong to the body
  • But is used by the body
  • The owners have some rights
• Providing capital is a relationship – for what purpose?
• UK company law now states the purpose: private benefit – threatening the future of the planet
• What is the alternative cooperative capital proposition?
Historical perspective

• Cooperative trading from 1844
• Self-help response to exploitation
• Capital commitments: 4 x £1 shares
• Required savings of 10% of weekly income
• Capital grew from £28 to £23 million
How had this happened?

1. A clever method of trading
   • Owned and democratically controlled by customers
   • Kept money local
   • A way for people to save money

2. New law introduced in 1852 to permit people with small amounts of money to combine

3. A “grand vision” for a better, fairer world

   • Effect: transformation of society through political empowerment
Relevance today?

• Need for a “grand vision” – for citizens to recover control
• Call for political engagement and cooperation by faith/other leaders
  • Pope Francis
  • The Church of England (before 2015 general election)
  • Rise of solidarity movements, social enterprise
• A grand vision to reconnect citizens, give them significance
• In what sectors? Equivalent to 1844?
  • Care – health, social, vulnerable
  • Utilities – energy, telecommunications, public transport
Capital opportunities

• We don’t have the same needs today as in 1850
• We DO need different options for savings for retirement, pensions
  • Realistically no choice in UK: investor ownership
  • It’s our capital; but its in the wrong place, supporting the wrong purpose, and the wrong economy
• We need cooperatives, providing mainstream goods and services
  • Well governed, and a safe place for us to entrust our capital
  • Where as users, consumers, workers, citizens we can have meaningful membership
• But what is the cooperative promise, the financial instrument?
Cooperative capital today

• The cooperative capital promise – to trade for the common good
  • On a fair and just basis
  • In a way which avoids exploitation, oppression or harm
• Member participation and governance to enforce the promise
• The financial instrument
  • Equity shares, fully loss absorbing (members taking the risk)
  • Members entitled to fair compensation for use of capital, subject to trading results
  • Members can “exit” (redeem shares) at specified intervals so that the cooperative to plan its capital requirements
To conclude

• At a time of great concern, there is much hope
• We need to be careful with language, and find our own
• We must nurture cooperatives on this journey

“Throughout its history, the co-operative movement has constantly changed; it will continuously do so in the future. Beneath the changes, however, lies a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and socially through mutual self-help. Further, the co-operative movement believes that democratic procedures applied to economic activities are feasible, desirable, and efficient. It believes democratically-controlled economic organisations make a contribution to the common good.”

Professor Ian MacPherson
Thanks for listening
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The Capital Conundrum, ICA February 2016
Industrial and Provident Societies Act 1852
Section 172 Companies Act 2006
Thanks to the Cooperative Archive www.archive.coop