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**COOPERATIVE PRINCIPLES:
NO CONSTRAINTS, BUT
OPPORTUNITIES FOR COOPS**

PROF. AVV. EMANUELE CUSA
UNIVERSITY OF MILANO-BICOCCA - ITALY
emanuele.cusa@unimib.it

LEGAL SOURCES OF MY CONVICTIONS

World: ICA Cooperative principles (1995) + UN General Assembly resolution 56/114 (2001) + ILO Recommendation (2002)

European Union: European Cooperative Society (SCE) Regulation (2003) + ECJ Judgment on Paint Graphos Case (2011)

South America: Ley Marco para las cooperativas de América Latina (2008) (for legislators) + Estatuto de las Cooperativas del Mercosur (2009) (optional model for coops)

Africa: Acte uniforme relatif au droit des sociétés coopératives (OHADA, 2010) (law to be respected from 2013)

MY SIMPLE IDEA

ICA cooperative principles are no constraints, but opportunities for coops on the entrepreneurial point of view.

We need to follow ICA cooperative principles, because it is good for:

- **the all coop members and**
- **the enterprise run by the coop.**

NECESSARY FEATURES OF TRUE COOPS

From **cooperative principles** (legal material thanks to the previous documents) these are the necessary **legal features** to be a true coop:

1. Mutual purpose
 2. Democracy
 3. Not-only-for-profit (possible non-profit) purpose
 4. Open door to new members
 5. Social inclusion (inside and outside coop)
- All these features are functionally **connected**.
 - One feature makes **stronger** the other.
 - One lacking feature makes **false** the coop.

MUTUAL PURPOSE (1)

Specific purpose that legally/economically connects **members interest, coop economic activity** and **members requirements**.

Ordinary members must (or should) be user member (the so called **double quality** of member);

Two questions: **(1)** how to sanction/penalize members that are only formally user, but not in fact? Is it sufficient/adequate member exclusion? **(2)** Percentage [100% (pure mutual coop) or more (prevalently mutual coop)/less of 50%) of mutual activity with user-members: at least 50%?

MUTUAL PURPOSE (2)

Mutual purpose is a **constraint** that it is also an **opportunity**:

- more user-members **usage**, more **revenues** (good for coop as **enterprise**);
- more real user-members, better **governance** (good for coop as **organization**).

Key-feature: having a property (membership) interested in the cooperative business; it is **easier** in agriculture coops or in worker coops (where member is paid from coop into mutual exchange), **more difficult** in consumer coops or financial coops (where member pay coop into mutual exchange).

DEMOCRACY (1)

One man = one vote rule. Centrality of person value instead of money value (money in function of person and not vice versa). Not enough this rule; promoting real participation (education, eliminate information gaps, etc.)

Possible exceptions, only if they do not deny (i) democracy into the coop and (ii) user-members control into the coop. Examples of plural votes: non-user members; user-members in second tier cooperatives or consortia.

Non-user members can be useful not only for increasing coop risk capital (for instance: retired members or partnerships with other entities)

DEMOCRACY (2)

We need **creativity** to guarantee real democracy with large membership. Internet can help democracy.

Large membership=indirect democracy.

Large enterprise=multilevel structure (second or third tier coops, contractual network of coops). Coop are mainly small and medium size enterprises (SMEs). It is false, true coop should be only a small enterprise with few members.

Cooperative economy contributes to a better society, **(1)** if it is not marginal, **(2)** if coops are not only small and/or are well-connected among them.

DEMOCRACY (3)

Democracy is a **constraint** that can be an **opportunity**.

In general, slower decision process (disadvantage), but more cohesion, less internal conflicts, more pondered decisions (advantage).

Decision via **persuasion** (**no one can control**) instead of **force** (**someone can control on the basis of his shares**).

Thanks to democracy, coop cannot be threatened with takeover, unless transformation is permitted by law.

DESTINATION OF PROFIT TO MEMBERS (1)

Profit=positive value, if revenues are greater than costs. Profit as a measure of efficiency.

Profit may be used for **equal compensation** (not for exaggerated returns=**speculation**, sometimes via workers exploitation) to **invested money**.

Finance should serve the real economy, not vice versa. Well balanced financial structure, not enterprise blackmailed/captured by financiers.

Profit distribution not in function of money (typical profit distribution made by for-profit companies) but in function of usage: **patronage-dividends as an incentive to a better mutual purpose.**

DESTINATION OF PROFIT TO MEMBERS (2)

It is necessary to control if there is a true cooperative in these three moments:

- 1. after the approval of profit and loss account:** check how much return on investments and/or patronage-dividends;
- 2. during the coop life:** reserves are mainly formed by not distributed profits; the peculiar not apportionable reserves;
- 3. at the end of winding-up of coop:** devolution of final assets; the peculiar (among private enterprises) selfless devolution of final assets. In favour of whom?

DESTINATION OF PROFIT TO MEMBERS (3)

Not-only-for-profit (or non-profit) purpose is a **constraint** that can be an **opportunity**.

It may cause difficulties in financing/collecting money, but **(1)** it **selects investors**, excluding speculators and **(2)** it **prevents substitution** of mutual purpose with for-profit purpose.

Coop can become the optimal vehicle for the increasing number of people interested in **ethical finance** (moderate financial interest combined with social impact of finance).

Investors finance enterprises that run business where they lives, so they may **control better** their investment.

OPEN DOORS (1)

Open door rule does not mean a right for everyone to enter coop.

Coop is an enterprise and a **private law entity**, not a public law entity.

Only if the economic activity permits (think about worker coops), coop should admit new user-members.

Otherwise, decision against mutual purpose, having admitted user-member that cannot become user.

Open doors is usually a **problem** in producer coops, not in consumer coops.

OPEN DOORS (2)

Open door rule is a **constraint** that can be an **opportunity**.

Open door rule is an **antidote** to the **poison** of the **egoism** and an obstacle to a **factual transformation** of coop into for-profit company.

Open door rule permit to **balance mutual purpose and possible for-profit purpose**.

SOCIAL INCLUSION

Coop is a private and economic tool to a more inclusive society; inclusion through an efficient (if inefficient, its bankruptcy) organization, producing richness (as enterprise).

Coop is [connected with a community/territory](#) in which members lives thanks to mutual purpose.

[Better/fairer distribution of richness](#) produced through the enterprise (not distribution on the basis of money already owned). Coop intervention may cause [money saving](#) for public sector. [Democracy in economy](#) (1) prepares good citizens (other form of inclusion) for democracy in politics and (2) protects democracy in politics

OPPORTUNITIES/THREATS FOR COOPS (1)

Cooperative law reform

modernizing and/or **simplifying** law on coops is an opportunity, sometimes a necessity

but ... risk of dangerous approximation to company law or risk of loosing cooperative identity.

Examples of this risk from recent legislations or academic proposals: too few members, too low the percentage of activity with user-members, too high profit distributions limit, naming an enterprise model as coop, even if it had no user-member.

OPPORTUNITIES/THREATS FOR COOPS (2)

Coop. movement and public authorities

it is **necessary, fair and right** a public support to coops, because coops may become partners of public entities in performing public purposes;

Implement **horizontal subsidiarity**: when it can be done from coops/coop. movement, coops/coop. movement should do that.

Examples: 1) **control** to have only true coops (public power supervises only and decides some sanctions); 2) **social inclusion** via enterprises run by democratic and inclusive organization.

Attention to **bureaucracy** (sometimes organized in its own interest only).

FINAL

Many thanks for
your attention
and
your patience.

emanuele.cusa@unimib.it