

Survey of Co-operative Capital

Overview

For decades, co-operatives have relied on a unique ownership model to gain access to member capital. However, many co-operatives are turning to alternative funding sources and debt instruments to expand member investment.

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Executive Summary

Capital underpins co-operatives. From financial institutions to fisheries, members come together to pool capital and do more together than they could alone. But the other side of the capital coin is that when co-operatives can't get enough, because of either regulation or long-standing practice, they may get bogged down or fail to get off the ground in the first place.

This report undertakes a survey of capital in co-operatives around the world. It addresses capital in the broad sense of the range of debt and equity instruments used to finance the assets and operations of co-operatives. More narrowly defined regulatory capital is an important subset for the financial co-operatives—co-operative and mutual banks, credit unions, and co-operative and mutual insurance companies—that make up 45% of the 300 largest co-operative and mutual organizations (the Global 300). Some specific observations are provided on regulatory capital issues, but the main focus of this report is capital more broadly.

What Is the Research About?

Securing co-operative capital while guaranteeing member control is one of the five themes of the International Co-operative Alliance's *Blueprint for a Co-Operative Decade*. Historically, co-operatives have been funded by withdrawable share capital provided by members and retained earnings (or reserves comprising undistributed earnings). As growing co-operatives have outstripped the funding ability of members and retained earnings, or alternative funding has been sought for start-up co-operatives, the question has been how to access external capital or additional member capital while still adhering to co-operative principles.

Fortunately, experience from around the world illustrates a range of options for accessing additional capital while retaining member control of the co-operative. In addition to the basic or qualifying member shares, many co-operatives have introduced additional classes of share or debt instruments to attract more member investment.

What Are the Co-operative Implications?

Many co-operatives have attracted nonmember investment through a range of structures and debt and equity instruments. By reserving all or a majority of voting rights for co-operative members, external capital can be raised while preserving member control. Examples can be found in large and small co-operatives and start-ups in all regions of the world. Not all examples, however, have been successful. In some cases a majority of members concluded that their interests would be better served by conversion to the corporate model. In other cases, co-operatives were not financially successful after attracting outside investors, leaving the failed business in the hands of external creditors. A further consideration is that even when members retain legal control, outside investors may still exercise influence over the co-operative.

FIGURE 1

CO-OPERATIVE PRINCIPLES

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Cooperation among co-operatives
7. Concern for community

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Impulse Europe

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While access to capital is a challenge for any business, particularly a start-up, recent experience among co-operatives in many countries demonstrates that these challenges are far from insurmountable. Provided that the legal framework adequately provides for a range of capital instruments, co-operatives can draw on the experience of the Global 300 and many smaller co-operatives to meet their capital needs.

This report includes the following:

- A taxonomy of capital instruments and structures adopted by co-operatives around the world (a summary of debt and equity instruments appears in Appendix 2).
- A discussion of the special circumstances that apply to smaller and start-up co-operatives, providing an overview of selected programs and innovations internationally.
- Insights from the analysis of the capital structure of the Global 300, including a first-of-its-kind capital database compiled for this report.
- Special issues for financial co-operatives.
- Recommendations for policymakers and co-operative leaders.

This last part is essential. Policymakers should acknowledge that access to capital will help healthy co-operatives continue to thrive, with downstream benefits to members and citizens around the world. Co-operative leaders and policymakers take note: This report catalogs capital solutions for co-operatives of all types.

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