

Introduction

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1. Co-operatives are active in every sector of the global economy. A key distinguishing feature is that co-operatives create wealth for the many who engage in co-operative businesses as producers, consumers, and workers. Co-operatives help, locally and globally, counterbalance the massive growth of inequality between the world's rich and poor; an issue that, if not addressed, has major economic, social, cultural, environmental, and political consequences. *"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility"* (United Nations Secretary-General Ban Ki-moon).

2. In its role as custodian of the distinctive characteristic of co-operatives enterprise, the Alliance¹ adopted in 1995 the Statement on the Co-operative Identity, Values and Principles, ("the Statement") that is reproduced in the Appendix to these Guidance Notes. The Co-operative Principles included in the Statement have been forged in the furnace of over 150 years of practical experience of what constitutes the foundational principles necessary for the successful operation of a sustainable co-operative enterprise.

3. The Statement was adopted by the Alliance at its 1995 Centennial Congress and General Assembly in Manchester (England). Recommended to the General Assembly by the Alliance's Board, the Statement was the product of a lengthy process of consultation involving thousands of co-operators around the world. The Statement includes a definition of co-operatives, a listing of the global co-operative movement's key values, and a reformulation of the co-operative movement's principles to guide co-operative enterprises in their day-to-day business operations.

4. Our co-operative identity and values are immutable, but the principles have been reviewed and reformulated. In the history of the Alliance revisions to them have been approved three times after special commissions and consultation with Alliance members at the Congress of Paris in 1934, the Congress of Vienna in 1966, and in Manchester in 1995. Whilst the principles have been reformulated and restated, their essence remains: they are the guiding principles by which our co-operative identity and values are brought to life in the day-to-day operations of a co-operative enterprise.

5. The Co-operative Principles, which are the subject of these Guidance Notes, based on the Rochdale Principles; although the Alliance recognizes the contribution of many co-operative founders in different countries. The human and international nature of the Principles is shown by the fact that the Rochdale Pioneers never claimed ownership of them. At the Rochdale Pioneers Museum in England, the following quotation from the Rochdale Pioneers sits next to the Alliance Statement on the Co-operative Identity – words that are well to be remembered:

"The co-operative ideal is as old as human society. It is the idea of conflict and competition as a principle of economic progress that is new. The development of the idea of co-operation in the 19th century can best be understood as an attempt to make explicit a principle that is

¹ The International Co-operative Alliance (the Alliance) is the custodian of the Co-operative Values and Principles. The Alliance is a non-profit international association established in 1895 to advance the co-operative social enterprise model. The Alliance is the apex organisation for co-operatives worldwide, representing 284 co-operative federations and organisations across 95 countries (figures of January 2015).

inherent in the constitution of society, but which has been forgotten in the turmoil and disintegration of rapid economic progress”.

6. The Alliance’s General Assembly resolution in 1995 adopting the Statement added: *“that if further understanding is required, reference should be made to the accompanying background paper”*. That background paper², written by the late Professor Ian Macpherson, sought to issue guidance on the interpretation and implementation of the Co-operative Values and Principles in the modern world.

7. The world does not stand still. The world has changed significantly since the background paper was published in 1996. Society has changed, the globalisation of the economy has continued apace, there has been a global financial crisis, and new technologies have emerged as they have done since co-operatives themselves emerged at the beginning of the industrial revolution. All of these changes have led to the decision by the Alliance General Assembly in 2012 to issue these Guidance Notes on the practical application of the Co-operative Principles in the modern 21st century world.

8. Notwithstanding these wider global changes, the fundamentals of co-operative enterprise remain unaltered. The generic essence of what makes a co-operative enterprise a co-operative is as vibrant and relevant to the economic, social, and environmental quality of human society now as it was when pioneered by the co-operative founders in the 19th century and 20th centuries. Our values are immutable, but the application of our Co-operative Principles require constant re-appraisal in light of economic, social, cultural, environmental, and political change and challenge.

9. The Co-operative Principles do not stand in isolation from each other. They are interdependent principles, which support and strengthen each other. For example, the 5th Principle on Education, Training and Information will, if applied, strengthen and enhance Principle 2 on Democratic Member Control. If all the Principles are observed and applied in the day to operations of a co-operative enterprise, that co-operative enterprise will be stronger and more sustainable.

10. The Statement on the Co-operative Identity adopted by members of the Alliance in 1995 created a milestone in the history of recognition for co-operatives. Its clarity enabled the essential nature of co-operative enterprise to be recognised by the United Nations General Assembly in resolution 56/114³ of 2001. The Statement also underpins the International Labour Organization’s recommendation 193 of 2002 that has been widely used in reviewing and updating co-operative legislation in over one hundred countries and is a powerful tool for co-operatives throughout the world to make the case for a vibrant and expanding co-operative enterprise sector of the economy. Co-operatives are the only type of enterprise that have an internationally agreed ethical code of values and operate in accordance with principles democratically and internationally agreed by co-operatives that are members of the Alliance.

8. The Co-operative Principles and these Guidance Notes on their application are not a doctrine to be observed, nor are they a straightjacket on the entrepreneurial innovation of co-operatives seeking to meet their members economic, social, cultural, and environmental needs. Innovation to meet the needs of co-operative members has always been the mother and father of co-operative enterprise and will remain so. These Guidance Notes are exactly that: guidance for co-operatives operating in different legislative jurisdictions with differing regulatory requirements, serving many different communities and cultures. These Guidance Notes are not intended to be prescriptive. They seek to explore and encapsulate how the underlying principles of a co-operative enterprise are to be applied in vastly different conditions to those that existed when co-operatives were first established. They are guidelines that should be able to be interpreted

² See: <http://www.uwcc.wisc.edu/icic/issues/prin/21-cent/background.html>

³ See: <http://www.caledonia.org.uk/UN-res-56-114.htm>

by co-operatives and, with the good practice examples included in them, help strengthen the growing co-operative enterprise sector of the global economy.

9. Our Co-operative Founders wanted to achieve much more than just establishing and operating successful business enterprises. They were concerned for social justice and were motivated by a passion to help transform the lives of those whose social, economic and cultural needs they had the vision to seek to meet through a jointly-owned and democratically controlled enterprise. In the tradition of our founders the Alliance too seeks, through these Guidance Notes, to show that same passion for social justice and transformation and a renewed vision of how co-operative enterprises in the 21st century can indeed build a better world by putting our Co-operative Identity Values and Principles into practice.

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DRAFT Guidance Note – Principle 1

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1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

1. Introduction

1.1 Voluntary and open membership without discrimination to persons willing to accept the responsibilities of membership is a core principle and has been from the beginning of the Co-operative movement in the first half of the 19th century. The statement that: "*Co-operatives are voluntary organisations*" reaffirms the importance of people choosing voluntarily to participate in and make a commitment to their co-operative. People cannot be made to be co-operators. It is a voluntary act to join and to be involved with others to achieve shared economic, social and cultural needs and aspirations.

1.2 The importance of voluntary and open membership is shown by the global co-operative movement's accepting this as the 1st Co-operative Principle in the Alliance's first formulation of the Co-operative Principles in Paris in 1937. It was reaffirmed in the re-statement of the Principles in Vienna in 1966 and again when the Principles were re-formulated and elaborated by the Alliance at the third review in Manchester in 1995.

1.3 This first Principle is an expression of the right of freedom of association. This right of free association, namely to join or not to join with others to pursue common goals, is one of the fundamental rights in the United Nations Universal Declaration of Human Rights and in the 1966 United Nations International Covenant on Civil and Political Rights¹. The 1st Principle asserts the right of any person to exercise free choice in deciding to join or leave a co-operative and take collective action to pursue the common economic, social and cultural interests of its members.

1.4 Inclusiveness and the prohibition of discrimination is in the tradition of the founders of the Co-operative Movement. In the 1840s the Rochdale Pioneers were socially progressive and radically ahead of their time in admitting women and all classes of society, irrespective of political persuasion or religious beliefs, as equal members of their co-operative.

2. Interpretation of words and phrases

2.1 "*Co-operatives are voluntary organisations*": a "*voluntary organisation*" is one that is formed by the free choice of the persons who are members of it. As voluntary organisations, co-operatives should have their rights and freedoms, and the freedom of their members to form them, protected in law.

¹ Article 22 of the United Nations 1966 International Covenant on Civil and Political Rights, which is legally binding in international law, states that:

1. Everyone shall have the right to freedom of association with others, including the right to form and join trade unions for the protection of his interests.

2. No restrictions may be placed on the exercise of this right other than those which are prescribed by law and which are necessary in a democratic society in the interests of national security or public safety, public order (*ordre public*), the protection of public health or morals or the protection of the rights and freedoms of others.

2.2 “*Open to all persons*” affirms a general commitment to recognising the fundamental dignity of every person and their right to involvement in a co-operative, which has been a basic commitment of all co-operatives since their emergence in the 19th century. It affirms that there should be no arbitrary restrictions placed on persons wishing to become members, the only limit on membership being the limit imposed by the purpose of the co-operative, as the following paragraph explains.

2.3 The phrase “*able to use their services*” acknowledges that co-operatives are organised for specific purposes. In many instances, they can only effectively serve a certain kind of member or a limited number of members. For example, fishery co-operatives essentially serve those engaged in commercial fishing, usually in a single port or area; housing co-operatives can house only so many members; worker co-operatives can employ only a limited number of members. In other words there may be understandable and acceptable reasons why a co-operative may impose a limit on membership. Otherwise, a co-operative should not impose a limit on membership. Consumer co-operatives for food distribution, insurance and banking are open to all consumers of their services and/or the localities in which they operate.

2.4 “*Willing to accept the responsibilities of membership*” reminds members that while membership is open to them, members must also be willing to accept the duties that come with being a member. “*Responsibility*” is having a duty to deal with or having control over something.

2.5 “*Membership*” is a central element of a co-operative enterprise that is jointly owned and democratically controlled by persons who chose to join it. A “member” will usually be an individual person in a primary co-operative, but may also be a corporate or legal person in a co-operative which provides services to other businesses or organisations. Corporate or legal persons will also be members in a hybrid primary co-operative where multiple stakeholders are members. Other co-operatives will normally be the members of secondary and tertiary co-operatives.

2.6 “*Discrimination*” is the unjust or prejudicial treatment of different categories of people. In the phrase “*without gender, social, racial, political or religious discrimination*” the preposition “*without*” governs the noun “*discrimination*”. The Principle therefore requires membership to be open to all persons “*without discrimination*” irrespective of any personal characteristic.

3. Guidance Note

Voluntary organisations

3.1 In the history of co-operatives there are many examples where the Principle of voluntary association in co-operatives has not been observed. Cultural norms such as women being required to cease to be members of a co-operative when they marry or being denied membership because men are heads of households are a clear breach of this Principle. Some governments that used co-operatives as government controlled engines of economic development made membership of co-operatives compulsory. This too breaches this 1st Principle. The right of voluntary association to form co-operatives can also be frustrated by national legislative, tax and administrative systems which favour the investor owned model of business enterprise and do not take account of the specific nature of co-operative enterprise.

3.2 Breaches of the 1st Principle of voluntary and open membership do not accord with the letter or spirit of the founding principles of our co-operative movement. They frustrate the growth of co-operatives as autonomous voluntary associations of persons uniting to meet common needs and aspirations.

3.3 If membership is compulsory, membership becomes tokenistic rather than an exercise of the fundamental human right of freedom of association. If members are forced to cease to be members, other than for breach of their responsibilities as members or because they no longer use the services of the co-operative, that too weakens co-operatives and is also a breach of this fundamental 1st Principle.

3.4 The voluntary nature of participation in co-operatives is an indispensable organisational trait that makes them viable and sustainable in competitive markets. Co-operatives cannot survive without the voluntary patronage of members who use the services of their co-operative and provide capital for it through membership shares which grant voting rights, on which they receive only a limited return, if any. The role of members as volunteers to serve as elected officers and on boards or committees is also a fundamental characteristic of co-operatives. In some co-operatives, the voluntary support of members for the daily operations of the co-operative is also essential to the success of the co-operative.

3.5 The statement that "*Co-operatives are voluntary organisations*" reaffirms the fundamental importance of people choosing to make a commitment to their co-operatives. People cannot be made to be co-operators, nor should they be forced by governments or others to become members. Where economic pressures or government regulations encourage people to become members, co-operatives have a special responsibility to ensure that all members are fully involved and educated about the voluntary and open nature of their co-operative enterprise so that they voluntarily support it.

3.6 Open voluntary membership also means that members are free to cease to be members if they so choose. In some co-operatives, practical restrictions may need to be applied to members wishing to leave, though restrictions on leaving should be limited. For example, in a housing co-operative, a member may be required to assign the occupancy rights of the co-operative home they occupy to a new member. In an agricultural or worker co-operative, withdrawal of capital when a member leaves may need to be phased over time or subject to reasonable delays to avoid destabilizing the soundness of co-operative's finances, but the principle of a member's right to withdraw from membership should be respected.

Membership

3.7 Members of a co-operative are those persons who are consumers, workers or producers in a co-operative enterprise. The type of members will depend on the nature of each co-operative. Members are also the co-operative's shareholders and co-decision-makers.

3.8 The co-operative identity of consumers or service users, or worker-owners, as members democratically in control of a co-operative is an organisational trait that differentiates co-operatives from shareholder-owned and/or joint-stock investor-owned companies where customers, investors, workers and managers are separate and distinct. Co-operatives are user-driven organisations (or worker-driven in worker co-operatives) established by, owned by and operating to meet their members' common economic, social and cultural needs and aspirations.

3.9 Many commercial enterprises imitate membership by inviting customers to join wholesale clubs, commercial loyalty schemes, frequent flyer programmes, or club card schemes. This demonstrates the business value of membership in competitive markets. Membership of a co-operative is fundamentally different to these arrangements, which are no more than marketing tools that do not grant 'members' rights of ownership or any involvement in business decision-making.

3.10 In some larger co-operatives the sense of members owning and controlling their co-operative enterprise may be diminished by the remoteness of members from day-to-day decision-making and control. This risk grows if membership is promoted without new members having the opportunity to understand the nature of the co-operative they are joining or where they are granted membership without making a personal capital investment in the co-operative. Smaller co-operatives or those in their 'start-up' phase may find it easier to make membership meaningful, but making membership meaningful and encouraging member participation is a task facing all co-operatives regardless of their size or stage of development. It is a challenge that reinforces the importance of the 5th Principle of continuous education and training. In large co-operatives, which have subsidiaries and group structures, consideration should be given to ensuring that supervision by the members and accountability to them is global for all organisations in the group.

3.11 In most co-operatives, membership has traditionally been composed of a single type of stakeholder, either consumers, producers or workers. Historically, this homogenous nature of members, particularly in consumer co-operatives, was a significant influence when the Co-operative Principles were formulated. Recently new co-operatives with multiple stakeholders have emerged. Co-operatives with multiple stakeholders face a particular challenge and responsibility to make membership meaningful to all their members.

3.12 The centrality of membership can be seen in all seven Co-operative Principles and it is one of the most powerful. In essence, membership means that there should be a special relationship between the co-operative and the people whose needs it is established to serve. That relationship should define the business conducted by the co-operative, affect the way it does business, and shape its plans for the future. A recognition of the centrality of membership means that co-operatives will be committed to particularly high levels of service to members, who are the primary reason for their existence.

Open to all persons

3.13 Open membership to all persons implies that there should not be a high threshold to become a member. Generally a member's share in a consumer co-operative is set at a nominal rate, although members may also be encouraged to make a contribution to the co-operative's capital. Membership shares tend to be much higher to finance business operations in producer or worker co-operatives. However, if the share capital required to become a member is set at a high level, it may be a barrier to people joining a co-operative. Where significant share capital is necessarily required from new members, arrangements for payment over time, such as instalment payments, or credit facilities from an associated co-operative bank or credit union, should be made available.

3.14 Membership of secondary co-operatives, which are co-operatives that provide services to other co-operatives, should also be open without arbitrary restriction to any co-operative able to use the services the secondary co-operative provides. Like primary co-operatives, membership share capital required to become a member should not be set in a way that restricts membership or is unaffordable to new or smaller co-operatives.

Willing to accept the responsibilities of membership

3.15 The duties and commitments required of co-operative members vary from co-operative to co-operative, but they include exercising voting rights, participating in meetings, using the co-operative's services, providing capital and, in some cases, where members' liabilities are not limited by law or design, sharing losses if necessary.

3.16 Membership responsibilities require constant emphasis, but they should be borne by members freely and willingly. For example, an agricultural co-operative may require that members enter into exclusive use contracts in which members are obliged to market crops, to buy inputs from the co-operative and to use its farming machinery. These user responsibilities strengthen competitiveness of co-operatives by generating market power. Co-operatives will be required to comply with national anti-trust and competition laws but such laws which restrict the competitiveness of co-operatives can themselves distort the freedom of markets.²

3.17 Some co-operatives have experience of members who want to be members and share the benefits of membership when market conditions are bad, but who are not willing to accept the responsibilities of participating as members when the market for their goods and services is good.³ Such members may reasonably be excluded or expelled from membership because, by their actions, they have shown that they are not willing to accept the responsibilities of membership.

² For example, current Japanese agricultural co-operative law places some restrictions on terms of contracts and prohibits co-operatives from compelling members to conclude such contracts while the regulatory authority can annul contracts if they are found to be contrary to the public interest.

³ Some agricultural co-operatives in the United States of America in particular have had this experience of what have been described as 'freeloading, helicopter, or opportunistic members' who want to be members in bad economic times but not in good.

Without discrimination

3.18 Since its earliest years, the co-operative movement has celebrated the diversity of human society and sought to bring together people of different social groups and classes, different races, different political affiliations and different religious beliefs. This welcoming of human diversity, in all its forms, is a key characteristic of co-operatives and finds expression in the 1st Principle.

3.19 No person applying for membership of a co-operative should be refused membership because of any personal characteristic. The 1st Principle's prohibition against discrimination is absolute. The inclusion of the words "*gender, social, racial, political or religious discrimination*" to illustrate the categories of people who may be unjustly treated does not limit the principle of granting membership rights without discrimination. Listing examples of categories of people who may be discriminated against in an unequivocal statement is an ancient rhetorical way of illustrating the 1st Principle's broad scope and extent.⁴ The United Nations' Universal Declaration of Human Rights and 1966 International Covenant on Civil and Political Rights take a similar form.⁵

3.20 Society has changed since the Co-operative Principles were last re-formulated in 1995. There is a welcome global trend to celebrate human diversity and a growing commitment to the right to equality of treatment for all people. "*Without discrimination*" in this Principle imposes a duty on co-operatives to rise to the challenge of including all people in membership, a challenge that is particularly acute in countries and cultures where discrimination on grounds such as religious belief, ethnicity or race, gender or sexual orientation is a cultural norm.

3.21 In order to be open to all people, co-operatives may need to take positive action to be inclusive. Co-operative premises may need adaptations to be accessible to people with disabilities. People who suffer blindness or sight impairment may need special assistance to use a co-operative's services. New members who have not had the benefit of formal education may need to be given opportunities to develop literacy and numeracy skills in order fully to participate as members.

3.22 Any form of discrimination based on age also needs to be challenged. Democratic renewal through training opportunities to encourage younger members to stand for election is preferable to arbitrary age barriers designed to exclude older members from active participation. Co-operative membership is in need of constant renewal. Every co-operative business needs new, younger members in order to be sustainable. The danger of control by older members, effectively stifling the engagement of a younger generation, should be recognised. A co-operative is only as strong as its next generation of members. Democratic structures and representation should reflect the demographics of a co-operative's membership. The co-operative movement in some countries has specifically encouraged the development of youth and student co-operatives to engage the next generation. Establishing co-operatives in schools and universities may be a way of encouraging young people to experience and appreciate the benefits of co-operative enterprise that will lead to their subsequent engagement in the wider co-operative movement.

Gender equality

3.23 Special efforts to ensure gender equality in co-operatives have been made at local, national, and international levels in the last three decades, but the tangible progress has been very slow. In consumer co-operatives, women often constitute a majority of members because of their traditional role in families while most executives and managers in many co-operatives are men. In producer co-operatives, women are often excluded from membership mainly due

⁴ It is a rhetorical form speech called a 'Merism', which makes an absolute statement and lists examples. It is a rhetorical form that dates back to ancient Greece and Rome. It is what the English linguist Mark Forsyth in his seminal work on rhetorical use of language, "*The Elements of Eloquence*", says is a rhetorical form "that searches for wholes, and leaves holes". (*Elements of Eloquence*, Icon Books Ltd, 2014).

⁵ Article 2 of the UN Universal Declaration of Human Rights states that; "Everyone is entitled to all the freedoms set forth in this Declaration, without distinction of any kind, such as ...", <http://www.un.org/en/documents/udhr>

to lack of property rights, although a large part of farming work is borne by women. Co-operatives should ensure that women participate equally in education and leadership development programmes.

3.24 In some countries and cultures where women are still perceived as subservient to men, women may set up women's co-operatives to overcome discrimination and gain a voice and a place for women that is not accessible to them because of religious or cultural gender discrimination. They operate credit and banking services, consumer shops, agriculture, handicrafts and small industries. Such co-operatives, where membership is only open to women, do not breach the 1st Principle where they are established to overcome gender discrimination and disadvantage. They can help create opportunities for women in training on co-operative business and management, the building of capital, and help overcome lack of gender equality in cultures where women are traditionally excluded from entrepreneurial and/or leadership positions and activities. In these circumstances, women only co-operatives enable women to gain the skills and experience necessary to participate in larger co-operatives. Where restricting membership is a direct response to wider gender discrimination and disadvantage women face in society, restricting membership to women only does not breach this 1st Principle.

3.25 In this 21st century the binary concept of sex and gender as singularly male or female is no longer sufficient to reflect the gender realities of all people. Gender is not just about men and women. It is about how people identify themselves and includes people who are transgender or have chosen gender re-assignment. The 1st Principle of non-discrimination on grounds of gender extends to all persons.

Open without social, racial or religious discrimination

3.26 The 1st Principle specifically asserts the principle of open membership without social, racial, political or religious discrimination.

3.27 Some co-operatives are organised specifically to serve minority cultural, ethnic or religious groups. Faith-based co-operatives and faith leaders, in particular, have a proud history of promoting the development of co-operatives to tackle poverty and promote financial inclusiveness, many of these co-operatives being open to people of other faiths. Faith-based co-operatives have every right to exist where they are established in order to overcome the exclusion and disadvantage that minority groups suffer so long as they do not discriminate against others, do not impede organisation of like co-operatives among other cultural groups, do not exploit non-members in their communities, and so long as they accept responsibility for participating in and fostering the development of the wider co-operative movement.

3.28 While co-operative members are free to affiliate to any political party, religious or cultural group, they are not free to discriminate against other members. From its earliest foundation from the ideals of Robert Owen, the co-operative movement has always been open to people of all political persuasions. The Owenite Co-operative Congress in 1832 passed the following resolution, which was clearly picked up in the 1937 review of the Principles in the principle of 'political and religious neutrality': "*Whereas the co-operative world contains persons of all religious sects, and of all political parties, it is unanimously resolved that co-operators as such, are not identified with any religious, irreligious, or political tenets whatever; neither those of Mr Owen nor of any other individual*". Likewise, the Rochdale Pioneers' 1860 Rules of Conduct included an introductory paragraph which said: "*The present co-operative movement does not intend to meddle with the various religious or political differences which now exist in society, but by a common bond, namely that of self-interest, to join together the means energies and the talents of all for the common benefit of each*". This principle of political and religious neutrality has been maintained in every review and reformulation of these Co-operative Principles.

3.29 Political⁶ engagement by co-operatives does not breach this 1st Principle as long as membership of a co-operative remains open irrespective of each member's personal political persuasion. Political neutrality is not the same as political indifference. In the interests of their members, co-operatives need to behave as 'citizens' engaging with other civil society organisations or having contacts with political institutions in order to ensure that national laws, tax regimes and business regulations do not disadvantage them in comparison with investor owned businesses. Engagement may be direct or through national co-operative federations or apex organisations. As the eminent French economist and tireless early champion of the co-operative movement, Charles Gide, said: "*co-operatives ought never to abstain from taking up an attitude in discussions on the big economic and social problems which interest Co-operation*".⁷

3.30 Social class or caste has no bearing on the right of individuals to be members. Co-operatives are open to rich and poor alike. Other social distinctions or personal characteristics should not be used to restrict the principle of open membership. Race is also not a characteristic that can be used to discriminate against those who wish to become members. Racial characteristics are superficial and do not constitute grounds for discrimination. Cultural differences are more significant, but these differences should be celebrated as the glorious rainbow of human diversity and not used to limit membership.

3.31 Co-operatives have always been socially progressive organisations. Where they encounter prejudice, which manifests itself in exclusivity and discrimination, they should, in the tradition of their founders, challenge it. This should be done, in particular, in every co-operative by the application of the 1st Principle of open membership without discrimination. All co-operatives are encouraged take steps to remove barriers to membership and facilitate the participation of all excluded groups in society.

4. Matters for future consideration

Co-operatives as providers of public services

4.1 Co-operatives are increasingly filling gaps in the delivery of public services such as health care, elderly care and education caused by austerity regimes introduced by governments in response to increasing public debt in the wake of the global financial crisis. There are also hybrid co-operatives working for the more general benefit of communities such as Italian social co-operatives, which deliver a variety of social services or give disadvantaged people an opportunity to work. Beneficiaries or service users of these co-operatives are not confined to members and there could be tensions or conflicts in allocating resources between the mutual interest for members and the wider general interest. Means to mitigate the tensions between diverse interest groups need to be explored.

Trade with non-members

4.2 The scale of non-member trade needs to be discussed in co-operatives that trade with non-members (except in worker or producer co-operatives which, by their nature, trade with other entities). While improving the co-operative economy through non-member trade is acceptable, if non-member trade exceeds trading with members, the reasons for it should be examined, in particular whether the co-operative is applying this 1st Principle of open and voluntary membership in practice. If users of a co-operative's services are choosing not to become members, new approaches should be adopted to encourage them to become members. Similarly, if members are not users of a co-operative's services, the reasons for them not being users should be analysed and their right to remain members should be considered. In some countries co-operatives are allowed to admit associate members equally with regular members who can use co-operative services but have no voting rights, perhaps

⁶ "Political" here is used in its original classical form meaning 'of or relating to government or public affairs' and 'care for the common civic interest'.

⁷ Quoted by Paul Lambert, *General Co-operative Society (Belgium) in a paper "The Rochdale Principles and the International Co-operative Alliance", 1965, a background paper for the 1965 debate on the reformulation of the Co-operative Principles.*

due to restrictive national laws.⁸ The grounds for discriminating between users permitted to become members and those who can only become associate members need to be justifiable because such differentiation between different classes of users may be incompatible with this 1st Principle.

Maintaining the 1st Principle in larger co-operative groups

4.3 How do larger more complex groups, which may include other businesses as subsidiaries and trade with non-members, maintain the Principle of open and voluntary membership? While such co-operatives have freedom of choice as to how this 1st Principle is applied, they need to consider how to account openly to their users and stakeholders for their application of the open membership and non-discriminatory provisions of this this 1st Principle.

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⁸ Such restrictive laws apply to agricultural co-operatives in Japan.

DRAFT Guidance Note – Principle 2

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2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

1. Introduction

1.1 Democracy is a simple concept: the governance or control of an organisation by its members through majority decision-making. In practice, the democratic governance of any human institution is a complex task. Sound democratic governance of co-operatives is no exception.

1.2 The struggle for democratic rights on a political level is a common theme of the history of the last two centuries, and remains so in many parts of the world today. Democracy can usefully be thought of as a set of rights: rights to participate in the government of a state or organisation. The principle of member democratic control was very radical when the first co-operatives were founded in the mid-19th century, particularly its universal application to all members, including women. It predates the extension of suffrage, having no ties to gender or property ownership.

1.3 In co-operatives, 'democracy' includes considerations of rights and the responsibilities, which attend such rights. But it also means fostering the spirit of democracy within co-operatives, a never ending difficult, but socially valuable and essential task. One of the key benefits of the co-operative model is that it helps plant deep democratic roots within the fertile soil of civil society.

1.4 It should be recognised that the democratic process, by itself, does not guarantee competence. A key characteristic of all sustainable democratic systems is that democracy needs the protection of sound democratic laws, governance codes, procedures and processes. Democracy is also not just linked to voting in elections and general assemblies. It also requires the separation of democratic and executive powers, with checks and balances under the control of members. These should be established through different bodies in the co-operative responsible for the administration of elections, setting governance strategy and overseeing governance audits and governance reports to members.

1.5 Since the earliest days of the co-operative movement, this 2nd democratic Principle has been a key characteristic of the model. It is the heart and soul of co-operative governance. Members acting within democratic procedures agreed by them in exercise of their right to voluntary and free association are sovereign. Democratic control by members animates each and every co-operative.

1.6 In democratic systems there is a spectrum of democratic engagement: from representative democracy through the election of representatives every few years, through deliberative democracy on major issues, to participatory democracy with continuous engagement of members in day to day decision-making. Co-operatives tend towards the deliberative and participatory end of the democratic spectrum. Members should be engaged in

proposing and approving key policy decisions and regularly, in general assembly, holding elected boards and senior executives to account.

1.7 In order to encourage greater levels of participation, some co-operatives use participation incentives. These can be simple, such as the provision of refreshments at meetings, or more complex, such as prize draws or other positive rewards for active members. However, co-operatives should not rely too heavily on incentives. Through the application of the 5th Principle of Education, Training and Information, members should be educated and informed about their rights and responsibilities as members to exercise democratic control of their co-operative.

1.8 One of the biggest challenges facing co-operatives in implementing the Principle of Democratic Member Control is creating a culture that welcomes and encourages debate, rather than stifles it. Lively challenging debate should be seen as a sign of a healthy democracy that needs to be reflected in the more formal parts of a co-operative's democratic structure, in particular encouraging members to become active members of their co-operative and put themselves forward as candidates in elections.

2. Interpretation of words and phrases

2.1 *"Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions."* The defining characteristic of a democratic organisation is that its members are the ultimate authority. This sentence emphasises that members ultimately control their co-operative. It also stresses that they do so in a democratic manner, through having the right to vote on key policy decisions and to participate in electing the representatives who control their co-operative's day-to-day business activities.

2.2 *"Men and women serving as elected representatives are accountable to the membership."* This sentence reminds elected representatives that they hold their elected office in trust for the immediate and long-term benefit of members. Co-operatives do not 'belong' to elected officials any more than they 'belong' to the executives and employees who report to these officials. Co-operatives are jointly owned by their members and all elected officials are accountable for their actions to the membership, at election time and throughout their mandate.

2.3 *"In primary co-operatives members have equal voting rights (one member, one vote)."* This phrase describes the customary rules for voting in primary co-operatives. In 1995 when the Principles were last reformulated, most primary co-operatives had a single homogenous group of members. In these co-operatives the rule for equal voting rights, one member, one vote, is self-evident. In multi-stakeholder or hybrid primary co-operatives different voting systems may, for good reason, need to apply.

2.4 *"And co-operatives at other levels are also organised in a democratic manner"*. The statement on voting at other than the primary co-operative level is open-ended because co-operative movements themselves are best able to define what is democratic in a given circumstance. This phrase recognises that in many secondary and tertiary co-operatives, systems for proportional voting have been adopted to reflect the diversity of interest, the size of memberships in associated member co-operatives and the commitment among the co-operatives involved in them. The diversity of secondary and tertiary co-operative organisations is such that the principle is not prescriptive, save that they should be *"organised in a democratic manner"*. Such arrangements should be reviewed periodically to ensure that they remain fit for their democratic purpose. It is usually unsatisfactory if the smallest co-operatives in such arrangements have so little influence that they feel they are disenfranchised.

3. Guidance notes

Democratic governance and engagement

3.1 With advances in modern mobile and internet communication technology it is easier to develop strategies that actively engage members in a co-operative's democratic processes. It is important for co-operative democracy to take advantage of technological developments.

3.2 However, the value of members meeting physically in general assemblies before voting should not be underestimated. Members' interactions with each other – to permit consideration and discussion before exercising their democratic rights to vote on key issues – is a vital part of the democratic process. Democratic engagement of members is a qualitative not just a quantitative process.

3.3 There is no pre-ordained way to organise the governance of a co-operative. Each co-operative will need to structure its own democratic governance and bylaws to be fit for purpose given the nature of its business, the scale of its operations and its geographical area of operation. The arrangements made should ensure that democratic control by members is real and effective rather than a notional democracy controlled by management or a self-perpetuating elite. In any democracy there is a risk of democratic control being usurped by an elite group and this must be guarded against by actions that respect the rights of all members to participate and be engaged in a co-operative's democratic processes and stand for election. Low levels of participation make it relatively easy for articulate groups, be they staff, middle and senior managers, or electoral groupings, to gain disproportionate control and influence, which is often reinforced by the group then becoming the body that sets the qualifications and rules for elections.

3.4 In larger co-operatives, where the scale of their operations risks members being disengaged from the control of their co-operative, formal member engagement and participation strategies will be required. These strategies should be based on best practice in the co-operative movement and built on an understanding of the fundamental right of members, articulated in this 2nd Principle, to exercise control of their co-operative enterprise.

Reflecting diversity

3.5 Members elected to positions of responsibility in a co-operative should broadly reflect the diversity of its membership. If they do not, positive action needs to be taken to encourage men and women from under-represented sections of the membership to stand for election. If there are barriers to certain groups of members standing for election, appropriate arrangements should be made to overcome the exclusion of disadvantaged sections of the membership from seeking elected office.

3.6 Giving new and younger members education and training opportunities is integral to increasing the number and pool of members willing to stand for election. Quota systems may be considered to ensure that elections produce results that represent the diversity of membership, but they are not a panacea and need to be justified and periodically reviewed.

Openness, transparency and accountability

3.7 Openness, transparency and accountability are the watchwords of good democratic governance. Agendas and minutes of meetings of elected committees and boards should be made available to members, online if possible where co-operatives have a presence on the internet.

3.8 In the tradition of the Rochdale Pioneers, elected representatives should make available regular statements of account, financial reports and 'state of business' performance reports to members, presented in a way that is accessible to members with no formal financial training. Elected representatives should also regularly, at General Assemblies and other members' meetings, report and account to the membership for their work and actions as elected representatives.

3.9 Commercial sensitivity, regulatory requirements and respect for the privacy of employee records will inevitably place some limitations on openness. However, within such limitations co-operatives should ensure that members have an opportunity to discuss and hold the board accountable for key commercial decisions. Where there are sound reasons for keeping matters confidential from the sovereign body of members the reasons for doing so must always be explained and justified to the members.

3.10 Democratic member control is the key differentiating characteristic of co-operatives in comparison to investor or shareholder-owned businesses. Co-operatives should aspire to the best, open, transparent, and accountable democratic practice. Each co-operative's democratic practices should be subject to diligent critical assessment, which may be achieved through co-operative specific audits.

Recall and dismissal of elected representatives

3.11 A co-operative's democratic rules and procedures should also make provision for the membership to recall and dismiss, by due democratic process, elected representatives who abuse their positions or fail to fulfil their duties as an elected representative.

The role of an ombudsman or ombudswoman

3.12 Larger co-operatives may wish to appoint an independent ombudsman or ombudswoman to deal with members' complaints. Members should be entitled to make complaints about lack of opportunities for democratic participation, or the abuse of democratic process as well as complaints about the co-operative's delivery of services to members.

Good governance codes and good practice

3.13 During the 1990s following a number of high profile corporate governance failures of large companies, there was a recognition of the importance of good corporate governance. This led to The Cadbury Commission on Corporate Governance in 1992, followed by The Greenbury Commission in 1995 and the Hampel Report in 1998, all of which had a global impact on improving corporate governance best practice. Democratic member control is protected and enhanced by effective co-operative legislation. Where legislation is not effective it is important that co-operatives have bylaws in place designed to ensure good corporate governance practice. These will include regulations on such matters as conflict of interest rules for elected members and managers, registers of interests, registers of gifts and hospitality given and received, annual board appraisals and board skills audits.

3.14 The involvement of elected members in day-to-day business decision-making in co-operatives differentiates co-operatives from other forms of business enterprise. Members of co-operatives have a dual relationship with their co-operative: they are both beneficiaries of the enterprise and also democratically control it. Conflict of interest policy and procedures should not be used to debar elected members from participating in business decisions that affect all members. Elected representatives inevitably have an interest in any decision that affects them and other members. To debar members from participating in such decisions can become an insidious form of demutualisation which leaves key decisions in the hands of unelected executives or unelected appointed or co-opted board members. A member elected as a representative should only be debarred from participating in a decision by conflict of interest rules if their personal interest will lead to the grant of a benefit that is not granted equitably to other members.

3.15 A major issue that has been raised in corporate governance codes is the responsibility of boards to consult their members on major business decisions, such as acquisitions, disposals or receipts of transfers of engagements of other co-operatives, which may affect the very nature of a co-operative. Rules and regulations governing such decisions and the requirements for seeking approval or consulting members are best formulated in co-operative statutes or bylaws. If for practical or pragmatic reasons boards are enabled to make such business critical decisions it should be within the framework of a business and risk management strategy approved by members.

3.16 The complexity of procedures and governance codes will, of necessity, be determined by the scale and development of each co-operative. A small new co-operative enterprise in an emerging economy will need simpler procedures and less complex governance codes than larger, more mature co-operative business with thousands or millions of members. A large co-operative business is likely to need a detailed governance handbook. Whether small or large, implementing the basics of good democratic governance codes and best practice will guarantee member sovereignty and members' democratic rights.

3.17 Multi-tiered democratic structures have emerged in larger co-operatives that require particular care to ensure that ordinary members retain the democratic opportunity to policy making, accountability and the election of board of directors, even where there are other tiers in the democratic structure through which ordinary members can participate.

3.18 Elected members should take care to distinguish the governance responsibility of elected members and officers and the day-to-day business management responsibility of chief executives and senior managers. Elected members ought not to interfere with the day-to-day responsibility of executives to manage a co-operative business efficiently and put member-approved business strategies into effect. Equally chief executives and senior managers ought to respect the rights of members democratically to control their co-operative and take key business decisions. Many a sound co-operative business has encountered difficulties and courted failure because this key differentiation of the complementary roles of elected boards and senior executives has not been mutually respected.

Code of conduct and accepting the responsibilities of elected office

3.19 Every elected member has an individual responsibility to abide by a code of conduct which spells out their responsibilities and the ethical behaviour required of them. The code of conduct should be part of the co-operative's bylaws, which every elected member is bound to accept and abide by. It should also be published and made accessible to members, employees and the general public.

Board competence and skills audits

3.20 The democratic process, by itself, does not guarantee that the board of a co-operative will be competent and have the range of skills and expertise necessary to ensure the proper and effective governance of a co-operative, or have the capacity to hold executives to account.

3.21 Annual board skills audits are advisable in order to ensure that boards have the collective profile and range of knowledge skills needed to exercise effective governance control. Where a skills audit identifies gaps in the competence of the board, the gaps may be filled by planned training for board members, by the co-option of non-executive board members with the experience or skills the board lacks, or by positively encouraging members with the skills and expertise needed to stand for election to the board.

Education and development opportunities and qualifications

3.22 Mainstream business media often comment on what is perceived as the lack of sophistication of governance when a co-operative business fails or runs into difficulty. This is usually attributed to the lack of business expertise of elected boards. While this can be a causal factor, it is not necessarily so and ought not to be used as reason to undermine democratic control by members. To avoid charge of lack of sophistication, co-operatives should ensure that appropriate training is made available to all directors and committee members. All co-operatives, but especially co-operatives in industries that are subject to government regulation such as banking and insurance co-operatives, may reasonably require members wishing to stand for election to have qualifications that are appropriate to the role they wish to contest.

3.23 All co-operatives should consider whether it is appropriate to develop qualifications that are appropriate for members to hold before they stand for elected office. The requirement that

candidates for election should hold specified qualifications before they stand for election is to be encouraged and should be approved by the members in general meeting or assembly. However, the requirement for qualifications should not be used as a means of disqualifying members from seeking elected office. Where such requirements are required and are approved by the membership, members wishing to stand for election should be given training opportunities to gain the qualifications needed.

3.24 Where qualifications are required, particularly in regulated or larger co-operatives, it is easier for persons who already hold the qualifications required to take control of a co-operative. This risk of usurpation of control of a co-operative must be guarded against by structured democratic procedures and sound checks and balances, in particular by education and training opportunities for other members.

3.25 Historically, some co-operatives have included a purchase or trading qualification designed to show that a candidate has been a regular trading member of the co-operative. Others have replaced this with a capital holding requirement, but this creates the danger that it discriminates against members who have a small capital holding. Other qualifications for office are frequently length of membership of a co-operative, say a minimum of two years, prior to being eligible to stand. While these may be useful to prevent hostile takeovers, a balance needs to be struck as to the reasonableness of such rules. Where such rules exist they must be justifiable and approved by the membership in a general meeting or assembly.

Electoral committees

3.26 Co-operatives, particularly those with hybrid memberships or larger co-operatives with complex election arrangements or tiered democratic structures, may wish to establish independent electoral committees of members to supervise the election process. This parallels what commonly happens in national elections where independent electoral commissions may supervise elections and validate voting. Where electoral committees are established it is important that electoral committees are responsible for establishing the qualifications required for members standing for office rather than the elected board. The ability of existing office holders on boards or other committees to set and approve qualifications for office is one of the major mechanisms used by elites to maintain their hold on office. It can also be a mechanism used by those who seek to demutualise a co-operative and privatise its assets.

3.27 Electoral committees ought not to be appointed by, or accountable to, the current elected board or committee. Members serving on electoral committees should be elected or approved by, and accountable to, the general membership for ensuring that elections are carried out in an open and transparent manner and represent the sovereign will of the membership.

Audits that include democratic governance

3.28 Co-operatives are advised to carry out regular internal and external audits that include an audit of democratic governance processes. These will help protect members' democratic rights, ensure that democratic governance accords with best practice and stands up to member and external scrutiny.

3.29 There is no prescriptive guidance as to how such audits should be carried out or by whom: the manner of the audit will be determined by the size of the co-operative and the nature of the co-operative's business.

3.30 Whether done by members or appointed auditors, the audit should report against relevant external good governance codes and good governance standards. The audit report and any recommendations in it should be made available and considered by all members in general meeting.

3.31 Some national co-operative federations or apex organisations and Alliance sectoral organisations have developed standard guidance and procedures for governance audits and democratic health checks that meet the circumstances of their member co-operatives. The

advantage of using such standard procedures for carrying out governance audits is that they permit co-operatives to compare their own governance performance with their peers.

3.32 There are no set time frames for carrying out a governance audit, but co-operatives ought to be concerned if a regular co-operative specific audit that includes a review of democratic governance has not been carried out within the last five years.

A voice for employees

3.33 Co-operatives need to consider giving employees a voice in their democratic governance, especially where employees are not permitted to be members. To do so improves employees' understanding of the co-operative nature of their employer's business and will increase their dedication and commitment to the success of the enterprise. Employees are key stakeholders who want to contribute to their co-operative and see it succeed. It is therefore important that they have a voice within a co-operative's democratic structures, but critically without that voice being able to dominate the democratic rights of other members and stakeholders.

3.34 In multi-stakeholder co-operatives where employees are members, the employee's voice will be heard through their democratic right to participate in elections to the board. Other co-operatives may choose to enable employees' work councils or union branches to elect employee representatives to serve on the board. Alternatively, co-operatives may wish members to retain the power to elect employee representatives, on the 'one member, one vote' principle, from employee candidates wishing to stand for election.

3.35 There are no prescriptive mechanisms for ensuring that employees have a voice, save that without it a co-operative business will be weaker.

Ensuring that all voices are heard

3.36 A co-operative risks fragmentation of its business and loss of members if some members feel that their voice is not being heard and that they are not being represented through the democratic process.

3.37 Factional elections, where representatives from only one dominant section of the membership succeed, can result in the needs and aspirations of a minority of members not being met. To guard against this, it is best if elected boards represent the diverse views of members.

3.38 There is no easy way to guarantee that this will happen in an open democratic system. Members have the responsibility to take account of the risk of disenfranchising minorities when they cast their votes. Boards may also wish to use powers of co-option to ensure that minorities have a voice. Elected members must accept their responsibility to represent the interests of the whole of the membership, not just the majority group which elected them.

Senior executives

3.39 A clear distinction needs to be made between the democratic rights and responsibilities of the elected board of a co-operative and its focus on the long term enterprise strategy and professional senior management, accountable to the board, entrusted with day to day management. Senior executives need to demonstrate their practical commitment to and respect for the principle of member democratic control by the way in which they support and service their co-operative's business decision making. Key strategic policy decisions need to be explained to members clearly, concisely and in a way that the whole membership can understand, with alternative options given where appropriate.

3.40 The presentation of financial and business information to boards and members in general meeting needs to be in a form that complies with legal and regulatory requirements but also in a way that members, especially those elected to serve on boards, can understand to enable them to exercise their governance responsibilities with alternative options and

strategies detailed and presented. The business risks inherent in decisions that need to be made by elected members should be detailed and risk management strategies identified. Senior executives, whether they are a member of the board or not, have a duty to advise boards about what they consider to be the most appropriate business decisions and actions to take but should not simply expect elected members to rubber stamp the decisions they recommend. There needs to be mutual respect for the two distinct roles of the strategic governance responsibility of the board and the day to day business management responsibilities of senior executives.

Remuneration of senior executives and elected board members

3.41 The remuneration of senior executives and board members ought ultimately to be subject to member democratic control. This guards against excessive executive and board pay, which increases wealth inequality and reduces the economic benefits of co-operative enterprise for co-operative members. Where remuneration committees are established to advise on senior executive and board pay, their recommendations should be subject to approval or endorsement by members in general meeting.

Democratic renewal and term limits

3.42 Continuous democratic renewal in co-operatives with new candidates standing for elected office is healthy and should be welcomed. Co-operatives with static boards of the same members who have served for long periods of time risk becoming resistant to change and risk losing the capacity to respond proactively to changes in their business environment. Standing for election against long serving members should not be seen as an implicit criticism or as undermining the status of incumbents, but rather a positive reflection of the desire of the co-operative's other members to contribute to its on-going success.

3.43 Open, contested election procedures should be fostered to encourage the most talented members to stand for election. Candidate election statements and hustings help evidence the skills and commitment candidates will bring to their office and will enable members to decide which candidate(s) to vote for.

3.44 Fixed terms of office of, say, three or four years with one third or one quarter of the elected board retiring and seeking re-election each year, are recommended to achieve a balance between democratic renewal and the retention of experience. To ensure democratic renewal occurs, it is good practice to set term limits for elected officers, which fix a maximum period of years that an elected member may serve. Such restrictions have become the norm for non-executive directors in publicly listed companies and co-operatives too should lead by example by adopting this as good democratic practice.

The role of national co-operative federations and sectoral organisations

3.45 National co-operative federations or national apex organisations have a special role and responsibility to protect the effectiveness and reputation of the co-operative movement in their country by promoting sound democratic and good governance practice. Global and regional sectoral organisations and regional offices of the Alliance have a similar role and responsibility in promoting good governance standards common to their co-operative business sector. Good governance codes, advice, and training and support from national, regional and Alliance sectoral organisations is particularly important for new co-operatives.

3.46 This responsibility is best discharged through the development of good democratic practice guidance, audit arrangements and model governance codes appropriate to national laws. Democratic good practice guidance and governance codes set a standard against which the practice in each member co-operative can be measured and judged. They also provide a means that enables a co-operative's members to compare their co-operative's performance with that of its peers and to set policies that strive for excellence in democratic governance.

4. Matters for future consideration

Democratic governance in large co-operative groups and multi-stakeholder co-operatives

4.1 There is great diversity in the size and nature of co-operatives. The emergence of multi-stakeholder primary co-operatives at the beginning of the 21st century with more than one membership group, such as consumers, employees and external corporate legal persons as stakeholders, present new democratic challenges for their members. These co-operatives, which are not permitted in some national legislative systems, require specific arrangements in their rules or bylaws appropriate to their particular nature and function in order to apply this 2nd Principle of Democratic Member Control and equal voting rights.

4.2 Large and diverse co-operatives may inevitably need to consider, adapt and apply new structures for member democratic control in a way that is appropriate to the scale and structure of their co-operative. Whatever structures are created, there is a need to ensure that the essence of this 2nd Principle is respected. Without real and effective democratic member control an essential generic characteristic of our co-operative identity will be lost.

4.3 Similar democratic challenges arise in the multi-tiered democratic structures that have emerged in larger co-operatives. A key question is how do such large and complex co-operatives ensure that the democratic rights of all members to take part in board elections and influence strategic business decisions are protected and respected?

4.4 Some larger co-operatives with financial capacity have bought former investor-owned companies and are running them as subsidiaries, some in other countries than that in which the co-operative operates. This too raises challenges and questions about the maintenance of democratic member control and whether customers and/or employees of such subsidiaries should be enabled to be members.

DRAFT

DRAFT Guidance Note – Principle 3

Draft for Consultation – April 2015

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

1. Introduction

1.1 Co-operatives exist to meet the needs of people, not primarily to generate a speculative return on capital invested in them. The primary motive for people forming a co-operative is to be self-reliant. This 3rd Principle describes how members invest in their co-operative, raise or generate capital and allocate surpluses.

1.2 This 3rd Principle of Member Economic Participation was approved in its current form when the Co-operative Principles and Values were last reformulated at the Alliance's general assembly in Manchester, England, in 1995. It is a combination of the nature and principles underpinning member economic participation in a co-operative that were previously set out in two separate principles before the 1995 reformulation. These two separate principles were:

- *"Share capital should receive only a strictly limited rate of interest, if any."*
- *"Surplus should be distributed in an equitable way by:*
 - *appropriation to reserve*
 - *provision of common services*
 - *distribution in proportion to the use members make of the services of the co-operative."*

1.3 In the 1966 review of the Principles, the Alliance abandoned cash trading as a core Co-operative Principle, the 1937 review having already stated that adherence to it was not one of the three core Principles necessary for membership. The reformulation of this 3rd Principle in 1995 was, therefore, the fruit of a long period of discussion.

1.4 The 1995 general assembly of the Alliance that approved the elimination of the strict limits on remuneration of co-operative members' capital contributions also, by amendment, introduced the notion of collective ownership of capital. This amendment was tabled by the French delegation, which was keen to ensure that the concept of collective ownership, so important to workers' co-operatives, did not disappear. The idea of the collective ownership of capital by co-operatives, like a number of the Co-operative Principles, can be traced back to the *"Regulations for co-operative societies unanimously adopted at the 3rd Co-operative Congress held in London in 1832 and chaired by Robert Owen"*. Their regulations included the following:

"In order to ensure without any possibility of failure the successful consummation of these desirable objectives, it is the unanimous decision of the delegates here assembled that the capital accumulated by such associations should be rendered indivisible, and

any trading societies formed for the accumulation of profits, with a view to them merely making a dividend thereof at some future period, cannot be recognised by this Congress as identified with the co-operative world, nor admitted into this great social family which is now rapidly advancing to a state of independent and equalised community”.

1.5 Professor Ian MacPherson, Dean of the Centre for Co-operative and Community Studies at the University of British Columbia at Victoria, Vancouver Island, Canada, served on the Alliance’s committees and wrote the Alliance’s guidance to the 1995 reformulation of the Principles. Ian, a delightful and dedicated co-operator, sadly now deceased, explained at the time:

“Similarly, the Third Principle, which deals with members’ economic participation, is strongly situated within the member perspective. It is different from the two previous principles on the financial operations of the co-operative in several respects. It is called “Member Economic Participation”. It emphasises the vital importance of members controlling the capital of their organisation, and indicates that they should receive limited compensation on the capital they subscribe as a condition of membership. The principle allows for a market return on capital otherwise invested by members. As for capital emanating from other sources, one would have to consider the implications of attracting such capital in light of the Autonomy Principle: the key concern must always be to preserve the capacity of the members to decide the fate of their organisation.

There was much debate over the inclusion of a reference to indivisible reserves. The 1966 formulation did not refer to this normal aspect of co-operative economic structure perhaps because the matter had become increasingly complex and practices were beginning to vary. The unfortunate result had been that many co-operators have lost sight of the importance of commonly owned capital, as a symbol of co-operative distinctiveness, as a security for its financial growth, and as a protector in times of adversity.

The problem of including a reference to indivisible reserves has been finding the best wording for a limited space. After much discussion at two meetings, the board decided ... that the most appropriate wording, suggested at the European Region meeting, was to make two additions. The first was a sentence: “At least part of that capital is usually the common property of the co-operative”. The second was to indicate that members, in allocation part or all of the co-operatives’ surpluses, should consider setting up reserves, “part of which at least would be indivisible”.¹

1.6 This background to the debate on the formulation of this 3rd Principle shows that the key economic concept enshrined in it is that **in a co-operative capital is the servant, not the master of the enterprise**. The whole structure of co-operative enterprise is designed around the concept **of capital being in service of people and labour, not labour and people being in servitude to capital**. The key question addressed in this 3rd Principle is: “How we do we make this work?” Like everything to do with money, this 3rd Principle is the most sensitive and challenging part of the Co-operative Principles, though not necessarily the most important. Indeed, this 3rd Principle is mainly a financial translation of the definition of the identity of a co-operative and of the financial implications of the 2nd Principle of Member Democratic Control.

1.7 Given the huge scale and diversity of co-operative enterprise, this 3rd Economic Principle is, necessarily, one that has many caveats to its practical application; caveats shown by “at least” and “usually” in the wording of the Principle. These practical caveats have steadily been incorporated into this 3rd Principle in order to cover the significant range of different practices of co-operatives.

1.8 These caveats show the sensitivity and challenging nature of making capital servant not master. They provide some leeway to co-operatives to be creative and innovative in raising

¹ Ian MacPherson; “Co-operative Principles”, ICA Review, Vol. 88 No. 4, 1995. in www.uwcc.wisc.edu/icic/orgs/ica/pubs/review/ICA-Review-Vol--88-No--4--1995/

capital, an issue which is being considered in depth by the Alliance’s Blue Ribbon Commission on Co-operative Capital.² Co-operatives with highly intensive capital requirements, such as industrial, agricultural or financial co-operatives, may need this leeway in order to comply with regulatory requirements that do not take due account of the nature of members’ capital and risk within co-operatives. The essence of this 3rd Principle is that capital should be raised in a way that is compatible with the definition of a co-operative in the Statement on the Co-operative Identity and the democratic nature of a co-operative enterprise.

2. Interpretation of words and phrases

2.1 *“Members contribute equitably to, and democratically control, the capital of their co-operative”*. This sentence captures the essence of this 3rd Principle: co-operatives operate so that capital is the servant, not the master of a co-operative enterprise. In this sentence the word *“capital”* has to be understood as an economic concept and not limited to the concept used in accountancy to acknowledge the share capital of an enterprise. Membership shares that provide capital in a co-operative are not shares like those in investor-owned joint stock companies. Capital paid by members is not money primarily invested to generate an investment return on capital, but is invested to deliver goods, services or employment needed by members at a fair price.

2.2 *“Contribute equitably”* is what an impartial observer would judge to be a fair and reasonable contribution given the circumstances of each co-operative and the capacity of its members. It does not mean that all members must contribute equally. It also does not mean that incoming members must make the same contribution to capital to become a member whatever the age of the co-operative and whatever accumulated wealth the co-operative holds. The contribution to and the democratic control of the capital of the co-operative firmly links this Principle to the 2nd Principle of Democratic Member Control. Members can contribute capital in four ways:

- Firstly, in most co-operatives members are required to invest in a membership share or a number of membership shares (which may be voting shares of a combination of voting and non-voting shares) in order to become a member of the co-operative and to benefit from membership. Interest is not usually paid on such membership share or shares, and if interest is paid it is usually at a limited rate.
- Secondly, as co-operatives prosper, they may create reserves, derived from the retained surpluses from the co-operative’s activities.
- Thirdly, co-operatives may have needs for capital far greater than what they can save from their economic activities. Many co-operatives expect that members will regularly contribute a portion of their member dividends (sometimes called ‘patronage refunds’) to be held in reserves. In these cases co-operatives would not pay interest on member-dividends or patronage refunds held in reserves, the member benefiting from continuing participation and future dividends or patronage refunds. In most consumer co-operatives members’ dividends or patronage refunds are held in their share accounts, rather than in the co-operative’s reserves and receive limited interest.
- Fourthly, co-operatives may invite members to make further voluntary capital investments which do not carry voting rights.

2.3 *“At least part of that capital is usually the common property of the co-operative.”* This statement reinforces the need for members to contribute to the capital of their co-operative and for them to do so equitably. Members also control the capital of their co-operative. There are two key ways in which they do so:

- Firstly, regardless of how co-operatives raise capital for their operations, the final authority for all decisions must rest with the membership in general assembly.
- Secondly, members must have the right to own at least part of their capital

² Add link to papers and reports from the Alliance’s Blue Ribbon Commission on Co-operative Capital

collectively, a reflection of what they have accomplished collectively as a co-operative.

2.4 *"The common property of the co-operative"* refers back to the economic meaning of capital. It means that part of a co-operative's capital, either composed of retained surpluses or once subscribed by members as membership shares, is the common property of the co-operative and is not owned or withdrawable by members, i.e. it is "indivisible".

2.5 *"Members usually receive limited compensation, if any, on capital subscribed as a condition of membership."* Capital invested as a requirement of membership as shares that grant voting rights usually receives limited interest or compensation, if any. Capital invested voluntarily is not invested *"as a condition of membership"* and it may therefore be appropriate to pay interest on such investments, but at a "fair rate", not a speculative rate. In the 1934/1937 review of the Principles, this "fair rate", which was also called "a compensatory rate" was described as *"the lowest rate which would be sufficient to obtain the necessary funds"*. This is a challenging and important restraint because the danger of going beyond a fair or compensatory rate is that members may start investing in a co-operative for capital gain rather than to ensure the success of their co-operative enterprise.

2.6 *"Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership."* This sentence explains the three ways surpluses may be used when the activity of co-operatives create surpluses. Members have the right and the duty, collectively, to decide how surpluses should be allocated. The three ways are:

- developing their co-operative, possibly by setting up reserves,
- benefitting members in proportion to their transactions with the co-operative, and
- supporting other activities approved by the membership, including those consistent with the 5th, 6th and 7th Co-operative Principles.

2.7 *"Possibly by setting up reserves, part of least of which would be indivisible"*. Normally, all or a significantly large portion of a co-operative's retained earnings, called the co-operative's "indivisible reserves", are owned collectively. In long established co-operatives these indivisible reserves will represent the accomplishments of many generations of members and are often the target of those who seek to demutualise co-operatives. In some legal jurisdictions this collective "capital" is protected by law through a legal 'asset-lock' that prevents the distribution of residual assets to members on dissolution of a co-operative. The assets are forever common property and can never be shared in the event of dissolution or liquidation. After the payment of all residual debt, the assets that remain must remain indivisible and be used for the development of the co-operative movement. This is the definition and meaning of "indivisible reserves".³

3. Guidance notes

Co-operatives are more than just an economic entity: they also encompass social and cultural needs and aspirations

3.1 The 3rd Principle is wholly dedicated to members' economic participation in their co-operative. However, it would be wrong to interpret this Principle in isolation and thus reduce co-operatives to little more than their economic dimension. This 3rd Principle is just one facet of co-operative identity. That is why it is worth examining this Principle in conjunction with the other components of the definition of co-operative identity in the Alliance's Statement of Co-operative Identity, Values and Principles.

3.2 In the Alliance's definition of co-operative identity, it is important to note that although the economic dimension of co-operatives is mentioned first, shared social and cultural "aspirations and needs" are listed on an equal footing. This reflects the agenda of the founders

³ The Alliance's Blue Ribbon Commission on Capital is exploring the practical mechanisms that may be used for the investment of indivisible reserves back into the co-operative economy.

of the modern co-operative movement who sought to transform society and saw their co-operative as more than just an economic enterprise. Social and cultural needs and aspirations stand alongside the economic dimension of all co-operatives. It affirms the idea that a co-operative is an enterprise of human commitment by and of the people who are members of it and who make a co-operative an economic, social and cultural reality. But it also can have other dimensions and purposes, for example social or cultural co-operatives that do not operate in tradable activities in a market. In this latter case, the economic dimension is but a means to an end for a co-operative's activities.

A jointly-owned and democratically controlled enterprise

3.3 The Alliance's Statement on the Co-operative Identity defines a co-operative as "*an autonomous association of persons united voluntarily to meet their common economic social and cultural needs through a jointly-owned, democratically-controlled enterprise*". It is this definition that marks the difference between the value of a membership share in a co-operative and an equity share in a personally owned and/or joint stock investor-owned company. Members are not individual owners of a co-operative or its assets, but are collective owners. For this reason, membership shares and capital invested in a co-operative by its members are not tradable assets.

The true 'Self-Help' value of members' capital contributions

3.4 The Rochdale Pioneers "Law First" of their Rochdale Equitable Pioneers Society rules of 1844 stated that:

"The objects and plans of the Society are to form arrangements for the pecuniary benefit, and improvement of the domestic and social condition of its members, by raising a sufficient amount of capital in shares of £1 each, to bring into operation the following plans and arrangements:"

3.5 By 1860 the Pioneers' commitment to the principles of self-help and self-sufficiency were such that the "Rules of Conduct" for their co-operative society stated: "*That capital should be of their own providing*"

3.6 In 1844 the Pioneers saved for a year to raise capital in shares of £1 from each member; a significant sum which equated to a week and a half's wages for a skilled worker at the beginning of the Industrial Revolution. Some co-operatives have reduced the capital investment required to become a member and to gain voting rights to an insignificant nominal amount. This devalues membership and creates an inherent danger that the core co-operative values of self-help and self-responsibility are not applied.

3.7 A co-operative that relies heavily on external sources for the capital needed to fund its business operations creates a risk of breaching the 4th Principle of autonomy and independence through the financial and compliance covenants imposed by commercial lenders or venture capital investors.

3.8 The balance between the relative weight of member capital and external capital should be carefully watched by members. Too much reliance on external capital can lead to loss of autonomy, independence and democratic control with investors gaining control of key business decisions as a condition of their investment.

Members' capital

3.9 Membership shares have a dual nature: they grant members a right to vote and they contribute to the working capital a co-operative needs to finance its business. Because of this dual nature, the membership share and the minimum capital contribution required from members must be financially affordable to those who need a co-operative's services. It should not be a barrier to membership. If set too high, it risks breaching the 1st Principle of open membership. If set too low, it risks devaluing the involvement related to membership and neglecting the potential of members as a source of capital. Some jurisdictions allow for co-operatives to be established without share capital, with rights of membership established by members using the services of the co-operative.

3.10 The basic principle is that a single share, or a minimum number of capital shares set by the members' general assembly of a co-operative, or in jurisdictions which permit it, use of the co-operative is required of all members to have voting rights.

3.11 Co-operatives, like all business enterprises, require capital to finance and develop their businesses. Raising capital from members is to be favoured, but the return on members' basic capital shares that grant voting rights should be limited. A return on capital may be justified to compensate members for its use by the co-operative or loss of true value through inflation, but this 3rd principle requires such compensation to be limited. If it is not, the requirement to generate a return on members' capital beyond that needed to maintain its relative value will reduce a co-operative's operating surplus and prevent it from developing its business.

3.12 However, sources of capital other than that which can be raised from members' basic voting shares may be required by a co-operative. The preferred way to raise additional capital is to enable members who are willing and have ability to do so, to subscribe to additional capital shares without voting rights. Capital or long-term investment without voting rights, sometimes called "non-voting shares" may receive guaranteed compensation at a "fair market rate or compensatory rate" to give a reasonable return for investing without increasing control. The "fair market rate or compensatory rate" also serves as an inducement to members to invest more than their minimum voting share.

3.13 What constitutes a "fair market rate or compensatory rate" is for members to decide in general assembly in light of the capital needs of the co-operative and the financial market conditions in which it is raising capital from its members. In some countries regulators are concerned that what may be deemed by some co-operators to be "a fair market rate or compensatory rate" may simply attract speculative capital investments. The guiding principle of what it "a fair market rate or compensatory rate" remains *"the lowest rate which would be sufficient to obtain the necessary funds"*.

3.14 Should a member wish to withdraw non-voting capital invested in a co-operative, he/she may recover his/her share capital, without specific approval of the general assembly, and receive an amount to be determined by the co-operative itself, ensuring a return on the co-operative member's participation towards enriching the co-operative. This amount may not be so high as to endanger the co-operative's financial stability. The co-operative in general assembly should approve the notice period required and the terms on which members may withdraw non-voting capital.

Corporate members

3.16 Some primary co-operatives, for good business reasons, permit legal entities (corporate persons) to become members and to contribute to a co-operative's capital. These multi-stakeholder co-operatives may make provision for membership to be divided into different categories contributing different amounts of capital to the co-operative through their membership shares.

3.17 The legal entities likely to contribute to co-operatives' capital by purchasing shares are other co-operatives, mutuals, or other economic actors, such as national, regional or local public authorities. Where a co-operative's rules or constitution permits the admission of legal entities as members there are strong reasons for encouraging other co-operative or mutual enterprises to become members.

Personal liability and members' capital

3.17 In some countries, personal liability is interpreted as co-operative members being required to assume personal responsibility for any losses made by their co-operative. In these countries there is no limitation on members' liability for debts the co-operative may incur. Where members' liability is not limited by law, a co-operative in economic difficulty may need to call upon members to invest additional capital, either by increasing the basic number and value of voting shares or requiring members to invest in non-voting capital.

3.18 In other countries with specific co-operative legislation a co-operative members' financial liability may be limited by law or contract, either to the value of their membership

share and other capital they have invested in the co-operative, or a multiple thereof. The extent of member liability depends entirely on the national laws of the country in which a co-operative operates and the regulatory regime in their own jurisdiction with which co-operatives are required to comply. One of the key political issues for co-operatives is to ensure that they are equally able to benefit from national laws that limit members' liability as are personally owned and/or joint stock investor owned companies.

3.19 This personal liability rule relative to a members' capital contributions in a co-operative is important because it is the ability of creditors to make a claim on members' capital as part of a co-operative's own capital resources that underpins a co-operative's business operation.

Capital as the common property of the co-operative

3.20 To fulfil its aims and objectives, a co-operative needs generations of members to allocate resources on a long-term basis without any speculative perspective. Even if their investment is redeemable they fully agree not to take back more than the money they have invested and, at most a limited "fair rate or compensatory rate" of return on it. They also agree not to sell-back or withdraw their investment without giving the co-operative the notice required for withdrawing their investment in the co-operative's rules. Thus members accept that a part of the co-operative's surpluses will never become the individual property of any member or future member. In the interests of the co-operative, this part of the surplus can be allocated to indivisible reserves which are the common property of the co-operative.

3.21 A co-operative may have rules or provisions that permit members to withdraw the amount of their shares minus any increase in value, unless otherwise expressly decided by its general assembly. Different rules for withdrawal of capital may be applied to voting and non-voting capital, but the withdrawal of any members' capital needs to be under very strict conditions so as not to endanger the co-operative's financial stability.

3.22 The treatment of the co-operative's reserves, built by accumulating capital that represents the collective investment of surpluses by multiple generations of members, is a very different matter. The co-operative's reserves are indivisible and cannot be tapped by a single generation of co-operative members.

3.24 A co-operative's members' non-withdrawable share capital and the co-operative's indivisible reserves are the common-wealth of the co-operative. They do not belong to a single generation of co-operative members but to the co-operative as a whole, as a legal entity. The ancient Roman law principle of "usufruct" is to be affirmed in the relationship of current members to non-withdrawable share capital and indivisible reserves.

3.25 This legal principle of "usufruct" is derived from two Latin words: "usus" and "fructus". "Usus" is "the right to use and enjoy a thing possessed"; "fructus" is "the fruit of". Members have the common ownership right to 'use' and enjoy the 'fruitfulness' of the co-operative's non-withdrawable share capital and indivisible reserves through the benefits a co-operative business creates, but a co-operative's non-withdrawable share capital and indivisible reserves cannot be divided among members because they do not own this common-wealth individually. The current generation of members cannot appropriate non-withdrawable share capital and indivisible reserves for their own personal self-interested benefit through the demutualisation or dissolution of a co-operative.

Prohibiting the distribution of indivisible reserves on dissolution of a co-operative

3.25 A co-operative's current members are its current stakeholders who are the users of its services, its producers or workers and the custodians of a co-operative's indivisible reserves for past, present and future generations. Current members have a legacy responsibility to ensure that the co-operative survives, as a strong and vibrant business enterprise, for the benefit of future generations of members and the wider community the co-operative serves.

3.26 Evidence shows that co-operatives are sustainable businesses even at times of economic crisis.⁴ However, like any other enterprise, co-operatives can, through changes in market conditions or the passage of time come to the end of their social and economic usefulness. Co-operatives can also be voluntarily liquidated by the free decision of their members.

3.27 When this happens and members decide that a co-operative should cease to operate and its assets be dissolved, there is no compulsion inherent in this 3rd principle that prevents the co-operative's residual asset value, which represents its indivisible reserves, being distributed to its members on the dissolution of its business. This is, however, to be discouraged because the power to distribute a co-operative's residual asset value to members at the time of its dissolution may hasten the liquidation of the co-operative. It could become a target for members and others who may wish to demutualise it to achieve unearned personal gain from the distribution of a co-operative's reserves. This offends the value of equity, given the contribution of previous generations of members.

3.28 In legal jurisdictions without an asset-lock on co-operative assets, the risk of distribution of residual assets to current members on the dissolution of a co-operative is best prevented by making provisions in the co-operative's bylaws requiring, on its dissolution, that the residual net-worth of the co-operative be given to another co-operative enterprise or to a not-for-profit community benefit or charity chosen by the members.

3.29 The ethical principle driving these restrictions is that the residual net assets of a co-operative, its indivisible reserves created by generations of co-operative members, ought not to be seen to be owned by and available for the personal benefit of current members.

Capital and reserves as the common property of the co-operative and its accounting treatment

3.30 The loss absorption capacity created by capital contributed by members justifies the treatment of members' capital as equity not debt, even though members' capital shares may be capable of being repurchased by the co-operative. Members' shares constitute part of a co-operative's own capital resources that guarantee the co-operative's continuation in business. In other words, members' capital should be treated as equity (part of the net assets of the co-operative) not as debt (a liability on the co-operative's balance sheet). This is an important reality to understand, particularly given the current policies and directives of the International Accounting Standards Board on the accounting and financial treatment of co-operative members' shares.

3.31 To achieve a standard global accounting treatment of this capital and indivisible reserves, accumulated over time, as equity capital not debt, under no circumstances should members' non-withdrawable share capital and indivisible reserves be subject to any risk of distribution to co-operative members.

3.32 Treating members' non-withdrawable share capital and indivisible reserves as equity capital is particularly important for co-operative banks where members' capital needs to be treated as part of a co-operative bank's 'Core Tier 1 Equity Capital' when the bank's capital adequacy ratio and total risk-weighted assets is calculated by central banks.

3.33 The historic treatment of members' capital as part of a co-operative's own capital resources that underpins its business operations, rather than as debt, is clearly shown by the first share register of the Rochdale Society of Equitable Pioneers. The pages of the register show the wealth of members increasing through the payment of dividend on their purchases. It also shows how members left their dividend in the hands of their co-operative society to provide capital for its growth and to underpin its operations. Capital of the members' own providing was fundamental to the Rochdale Pioneers' success.

⁴ Johnston Birchall and Lou Hammond Ketilson, ILO 2009 "Resilience of the Cooperative Business Model in Times of Crisis", www.ilo.org

Other sources of capital

3.34 Co-operatives with high capitalisation and investment needs may require capital other than that which members can provide. This is particularly so in areas of enterprise that are capital intense, such as electricity supply co-operatives, renewable energy co-operatives and worker co-operatives in manufacturing industries. Indeed, it is perhaps the historic difficulty of raising capital which is the cause of the limited number of industrial production co-operatives.

3.35 Co-operatives with high capitalisation requirements may need to source capital from the financial markets. This can be through loans secured on the co-operative's assets, co-operative investment certificates or the issue of other formal financial market investment instruments such as bonds with assured yields. Crowd funding via the internet and social networking sites too is increasingly a source of capital, particularly for a socially responsible and ethical business like a co-operative. Great caution is needed in raising capital from sources other than active trading members because financial regulators in some countries have real concerns about the danger that co-operatives raising capital, or worse, pseudo co-operatives raising capital, could circumvent regulatory requirements designed to protect all investors.

3.36 This is not the place to give detailed guidance on the complexities and risks of raising capital that is in addition to what a co-operative's members can provide. The Alliance's Blue Ribbon Commission on Capital is studying the issue of raising co-operative capital in depth. Its report should be studied.

3.37 Co-operatives should, however, always be aware of the relative weight and balance between capital of its members' own providing and external sources of capital. If external sources of capital become the dominant source, members risk losing democratic control to external investors. Where is it practical to do so, investment rules should be set to ensure that any withdrawal of capital by investors does not destabilise or endanger the co-operative.

3.38 Co-operatives raising capital from external sources also need to be aware of the risk of loss of member democratic control to senior executives. If capital is of a co-operative's own providing, through membership shares and non-voting capital and the establishment of indivisible reserves, control by members is assured. If capital is raised from external sources, such as banks and other investors, it is a co-operative's senior executives who negotiate with and manage the co-operative's relationship with the providers of capital, who gain greater control of a co-operative. Co-operatives using external capital need to guard against the risk of senior executives hijacking control for their own self-interest.

3.39 The same risk arises if the largest proportion of a co-operative's capital base changes from being members' withdrawable share capital to reserves, especially revaluation reserves created by the revaluation of fixed assets at times of high inflation. Reserves are controlled by senior executives. The sanction of the threat of members withdrawing share capital is lost through this restructuring of the balance sheet unless control of reserves is vested in members through reserves policies which require specific approval of members in general assembly to the use of the co-operatives reserves.

3.40 The relative priority for raising capital by a co-operative ought always to be:

- 1st – a co-operative's own members,
- 2nd – other co-operatives and co-operative financial institutions,
- 3rd – social bonds and social investors,
- 4th – commercial lenders – the financial markets.

Equity and fairness in a co-operative's economic activity

3.41 The overriding Co-operative Values apply to all aspects of a co-operative's operations. Whilst not specifically mentioned in the 3rd Principle, the co-operative value of equity (fairness) also applies to a co-operative's economic and trading activity. All members should be treated equitably. For example a co-operative cannot apply different prices for goods or services to its members where they have an identical trading relationship with the co-operative. Trade with non-members must also be ethical and not exploitative, even though members may be given specific trading benefits because of their membership.

Use of surpluses

3.42 In the co-operative business world we talk of co-operatives making “a surplus” rather than “a profit”; “profit” being the total annual positive result of business trading, “surplus” being that part of profit derived from the economic relationship with members.⁵

3.43 Every co-operative needs to make a surplus to be viable, to maintain the value of capital members have invested in the business and its indivisible reserves, and to enable a co-operative to achieve the objective of meeting its members’ economic, social and cultural needs and aspirations. But this surplus belongs to the members and it is for the members to decide how it is used.

3.44 The 3rd Principle sets out three ways in which members may choose to use surpluses generated by a co-operative enterprise. Members may choose to use surpluses:

- To develop their co-operative, “possibly by setting up reserves, part of which at least would be indivisible”. This approach of investing surpluses in the development of their co-operative’ business, should be the normal way to allocate surpluses that are not returned to members. It is vitally important to strengthening a co-operative’ business and securing its long-term viability. It also enables a co-operative to diversify and provide the products and services that its members need. A share of the surplus, at a level set by the general assembly, should always be used to strengthen and develop a co-operative’s business activities. Stronger co-operatives better protect and serve their members.

Surpluses can be reinvested in modernising physical and other infrastructure and in improving human resources; investing in human resources and the education and training of members, employees and the general public should be seen as increasing real intangible ‘human capital’ and worthy of investment.

Developing new co-operative activities with the aim of diversifying the co-operative economy. Co-operatives providing a whole variety of services to members was an original objective of the Rochdale Pioneers. These activities should, as a priority, be developed through capital contributions. A venture capital approach to enable long-term development of new co-operative activities by the co-operative or by supporting the development of new or other co-operatives in clusters may be appropriate. A constellation of economic activities as co-operatives can be encouraged by such an approach, although it is not the only way to support new co-operative development.

- To pay a return to members, often referred to as the “dividend or patronage refund”, based on a member’s participation in the co-operative.

This is the traditional way to reward members for their support of the co-operative, the “Rochdale Dividend” being one of the key people-centred business innovations that led to the Rochdale Pioneers’ success.

- To support other activities that are approved by members, including social and cultural activities that support the co-operatives commitment to the communities within which they operate. This includes supporting activities consistent with the 5th Principle,

⁵ In his seminal work on co-operative law, Hagen Henry defines the distinction between ‘surplus’ and ‘profit’ as follows: “As soon as an entity is to be, or at least is to become, economically self-supporting and as soon as it engages in economic activities or even has an enterprise, it must produce a positive result. ...Cooperatives should distinguish between the component parts of the positive result, i.e. profit (derived from transactions with non-members) and surplus (derived according to cooperative principles from transactions with members). According to the strict cooperative principles, profit will be transferred to an indivisible reserve fund; surplus should be distributed among the members, at least in part, in proportion to their transactions with the cooperative over a specified period of time”.

Hagen Henry “Guidelines for cooperative legislation”, International Labour Office, Geneva: ILO, 2012 ISBN 978-92-2-126794-2 (print) ISBN 978-92-2-126795-9 (web pdf) p. 35.

Education, Training and Information, the 6th Principle, Co-operation among Co-operatives and the 7th Principle, Concern for Community.

3.45 One of the most important other activities that members can – and should – choose to support is to promote an economic environment favourable to the further development of the co-operative movement, locally, nationally, regionally, and internationally. Co-operatives are encouraged to consider paying a portion of their surpluses into a fund to found and strengthen other co-operatives. Co-operatives are also encouraged to support the Alliance by becoming members or associate members directly or through their national apex co-operative organisation.

3.46 Using surpluses to fund activities that support communities in which co-operatives operate firmly links this 3rd Economic Principle to the 7th Principle, Concern for Communities.

3.47 Great caution should be exercised in the sale of a co-operative's assets. Surplus produced by selling assets should not be distributed to members because the objective of a co-operative is to render service to members not to generate a surplus for distribution to members by the sale of assets.

Payment into reserves, in part indivisible

3.48 Surpluses generated by co-operatives should be used, above all, to strengthen their capital. A minimum share of the annual surplus to be paid into the reserves should be set by the general assembly. This endowment is indivisible; it reinforces the sustainability of the co-operative economic model and strengthens the intrinsic value of a co-operative. As stated previously, this capital should be recognised by all public authorities, in all countries, as equity capital and not as debt.

3.49 Rather than making decisions about payments into reserves at the end of each accounting year when the results for the year are known, it is recommended that every co-operative develops a reserves policy, approved by members in general assembly. The reserves policy should set out what proportion of any annual surplus should be paid into the co-operative's indivisible reserves. Any change to the policy should also be subject to general assembly approval.

Payment of a dividend

3.50 Financial returns to co-operative members, in the form of dividends (called by some co-operatives 'a Patronage Refund'), should be decided by the general assembly taking into account the co-operative's annual results and the need to guarantee its future and further development.

3.51 The return of some of a co-operative's surplus to members can be made either:

- in cash,
- as discounts in the price of products or services,
- as non-voting capital.

4. Matters for future consideration

Admission of public authorities into membership

4.1 Consideration should be given, in some types of co-operative particularly those which have wider public benefit objectives, or are based on assets transferred from the public sector, to permit admission into corporate membership national, regional, and local public authorities. The contribution made by these authorities should come from purchasing specific shares of amounts higher than those of individual co-operative members; indeed their financial contributions can be uncapped. Where this is permitted, the creation of a specific category of membership for public authorities will be advisable. This category of membership should not hold a blocking minority of voting rights: the challenge is how to balance the power of this category of member with that of a co-operative's other members and without compromising the independence and autonomy of the co-operative, which must be respected.

Positioning of co-operatives in national and local tax regimes

4.2 Co-operatives promote the economic and social development of their members and the development of co-operatives and other socially responsible economic actors in the fabric of local economies. Many do so without aiming to make a financial profit, but aiming instead to develop and strengthen local economies for the benefit of their members and the wider community.

4.3 The economic and social contribution of co-operatives to a local or regional economy is a social impact contribution benefitting the community and civil society. Co-operatives making such a contribution can be described as “managing common-wealth” to benefit the local community, its economy and society.

4.4 Where this contribution is a dedicated objective and purpose of co-operatives, it is appropriate for it to be recognised by the public authorities by awarding them specific legal and tax treatment that recognise their wider contribution to tackling wealth inequality. This issue is worthy of discussion with national governments.

Co-operatives and equity capital investors

4.5 Some large well established co-operatives have raised additional capital by issuing equity shares to external non-member investors, which are listed and traded on stock markets. Financial co-operatives which regulators require to increase their capital adequacy ratio to total risk-weighted assets may also need to seek equity capital investment as part of resolution plans to meet regulatory requirements. These arrangements create what, in effect, are hybrid co-operatives that merge two organisational models; a co-operative and investor ownership. Creating these hybrid co-operative/equity investor businesses challenges co-operatives to do so in a way that retains the key generic characteristics of a co-operative specified in the Statement on the Co-operative Identity and detailed in the 1st, 2nd, 3rd and 4th Co-operative Principles. Consideration also needs to be given to, what, if any, are to be the voting rights of non-member equity shareholders and what caps and other controls are to be placed on them to ensure that equity investors do not usurp the democratic control of co-operative members. These are challenging issues.

Co-operatives as owners of commercial businesses

4.6 Some successful co-operatives have purchased commercial investor-owned business enterprises, some in other countries, and integrated them into group business structures. The motivation for doing this varies, but on occasions it has simply been to gain the profits these commercial business create and increase surpluses for the benefit of members. This raises a number of significant ethical issues for co-operatives, not least the equitable treatment and possible exploitation of the customers of such businesses, their right to participate in the co-operative economy and the extent to which a co-operative’s members may reasonably benefit from such arrangements without breach of these Co-operative Principles and Values. The Alliance may wish to issue guidance on this matter in due course.

Accounting treatment of members’ capital and indivisible reserves

4.7 Co-operatives need to continue to press for the consistent global accounting treatment of members’ share capital and indivisible reserves to be treated as part of a co-operative’s net assets, not as liabilities because these assets absorb the co-operative’s losses. In order to achieve this and strengthen the co-operative, co-operatives must ensure that members’ share capital and indivisible reserves cannot be subject to any risk of distribution to current co-operative members. Indivisibility must remain the rule to prevent any appropriation or drift in the task of achieving this global accounting treatment.

The challenges of meeting regulatory requirements

4.8 Co-operatives face the challenge of meeting regulatory requirements imposed on them because of the lack of understanding of the nature and essence of a co-operative business that

is different to the investor/capital owned joint stock company, which is the standard business model taught in business schools and most economic texts. There is a need to develop greater understanding among governments and regulatory bodies of the co-operative form of business enterprise, its place in the modern economy and its capacity to be economically, culturally and socially transformational when they are able to operate within an appropriate legal and regulatory regime.

DRAFT

DRAFT Guidance Note – Principle 4

Draft for Consultation – April 2015

4th Principle: Autonomy and Independence

"Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy."

1. Introduction

1.1 The 4th Principle of Autonomy and Independence was first introduced as a specific Principle of co-operative enterprise when the Co-operative Principles were reformulated in 1995. It primarily focuses on the relationship of co-operatives with national governments and international governmental organisations, although it also has implications for the relationship between co-operatives and other commercial entities, such as a commercial lender providing capital to a co-operative and suppliers and others in a dominant position in the value chain.

1.2 Prior to 1995 the ideal of co-operatives being autonomous and independent organisations democratically controlled by their members was an implicit aspect of the co-operative identity, rather than explicitly stated. The 4th Principle and the Alliance's definition of a co-operative now clearly state that autonomy and independence is a key characteristic of a co-operative.

1.3 The integrity of a co-operative as an autonomous and independent organisation rests on the co-operative values of self-help, self-responsibility and democracy that have been central to co-operative identity since the emergence of sustainable co-operative enterprises in the 19th century.

1.4 Early co-operators in many countries explored ideas that would lead to a just and fairer society, often in heated debates. They sought to lift and keep people from the grinding poverty prevalent at the time. These early co-operators concluded that it was no use waiting for governments or those in possession of wealth and power to bring about fundamental change in the circumstances of those living in poverty, but that change to a fairer economic world could only be achieved by working together and by applying the values of self-help and self-responsibility in co-operation with others.

1.5 The successes of early co-operators¹ was achieved without any legislative support or financial assistance from government. However, like these early pioneers, co-operatives in all parts of the world are still very much affected by their relationship with the state. Governments determine the legislative framework within which co-operatives operate. In their taxation, economic and social policies, governments may be helpful or harmful in how they relate to co-operatives. For that reason, all co-operatives must be vigilant in developing open, clear and where possible, constructive relationships with governments.

¹ For example, the Rochdale Pioneers in England, Alfonse and Dorimène Dejardins in Quebec, Canada; Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch in Germany; Horace Plunket in Ireland; the Antigonish Movement in Nova Scotia; and Father José María Arizmendiarieta in Mondragon, Spain.

1.6 Since the liberalisation of global markets for finance and trade by the largest developed economies in the 1980s, wealth and income inequality has grown in most countries and with it the threat of social and democratic instability. The search for a more humane society in which wealth is more equitably shared and how to achieve it remains an acute global challenge today.

1.7 The prevalence of economic doctrine that recognises as dominant the investor-owned model of enterprise presents challenges to existing and new co-operatives which, though presenting an alternative and more sustainable economic model, have to live within the legal, financial, tax and regulatory frameworks designed to protect and support the dominant economic model. These frameworks create constraints that present new challenges to the autonomy and independence of co-operatives.

1.8 The rapid acceleration of globalisation since the 1980s has also resulted in the concentration of financial power in the hands of a small privileged group of very wealthy individuals, sovereign wealth funds, and investor-owned banks and other financial institutions. That power, together with that of new global enterprises which are also suppliers to or customers of co-operatives, presents new threats to the autonomy and independence of co-operatives. A co-operative enterprise that is largely dependent on trading with one investor-owned private sector commercial business creates a significant risk to its autonomy and independence.

1.9 The dominance of the investor-owned model of enterprise is shown by the fact that it is often the only economic theory taught in university economics departments and business schools, co-operatives being mentioned only in passing and rarely treated in economic textbooks. Despite this, there is a growing awareness among governments and international inter-governmental organisations, like the United Nations (UN), the International Labour Organization (ILO) and the UN Food and Agriculture Organization (FAO), of the potential of co-operatives to improve living standards of the poor and address the growing crisis of inequality. Moreover, in many countries the role of co-operatives has been shown to improve the market by creating fairer competition for customers.

1.10 The 2001 UN General Assembly Resolution 56/114 on Co-operatives in Social Development and the UN's draft Guidelines on Creating a Supportive Environment for the Development of Co-operatives² together with the 2002 ILO Recommendation 193 on the Promotion of Co-operatives³ shine a light on the growing awareness of the importance of co-operatives in tackling poverty and inequality. The importance of co-operatives as delivery vehicles for achieving its 'Sustainable Development Goals' is also recognised by the UN.

1.11 The UN and the ILO stress that the specific nature of co-operatives - including their autonomy and independence as democratic organisations controlled by their members - should be recognised and respected and that a fair, level playing field needs to be created for co-operatives in national and international law, finance, tax and regulatory regimes. Independence from government and the importance of creating a level playing field for co-operatives does not exclude governments from recognising the value of co-operatives and supporting their development. This can be done by legislation and policies that promote the development of co-operatives while preserving their independence and autonomy. Co-operatives are inherently useful to governments wishing to develop their national economies in ways that are economically, socially and environmentally sustainable.

2 Interpretation of words and phrases

2.1 "*Co-operatives are autonomous, self-help organisations.*" In this phrase the adjective "*autonomous*" describes an attribute of the noun, "*organisations*": it describes co-operatives as organisations that have the freedom to act independently to govern themselves, control their own affairs and set their own rules of operation.

² <http://www.un.org/documents/ecosoc/docs/2001/e2001-68.pdf>

³ http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:R193

2.2 *"Controlled by their members."* This phrase refers to another integral attribute of co-operatives. As stated in the Alliance's definition of a co-operative, a co-operative is *"an autonomous association of persons meeting their economic, social and cultural needs through a jointly owned and democratically controlled organisation"*. The phrase *"controlled by their members"* also refers back to the 2nd Principle of Democratic Member Control and incorporates member control into the concept of a co-operative's autonomy and independence. A co-operative is not autonomous and independent unless control rests with its members in accordance with sound, open, transparent and accountable democratic practice.

2.3 *"If they enter into agreements with other organisations, including governments, or raise capital from external sources they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy."* This sentence, taken in its entirety, qualifies the relationship that ought to exist between any co-operative and any other organisation, including governments, with which a co-operative may enter into an agreement. It cautions and exhorts co-operatives not to risk independence and member democratic control by entering into any agreement that compromises the co-operative's autonomy. There are three dimensions to this caution and exhortation: *"agreements with governments"*, *"agreements with other organisations"* and when a co-operative raises capital, agreements for *"capital from external sources"*. All three categories of agreement have the potential to compromise a co-operative's autonomy and independence and the right of its members to exercise democratic control of its affairs

3 Guidance notes

The UN Resolution and guidelines on co-operatives

3.1 United Nations' Resolution 56/114 adopted by the UN General Assembly on 19 December 2001 drew attention of Member States to the draft guidelines aimed at creating a supportive environment for the development of co-operatives to be considered by them in developing or revising their national policies on co-operatives. The UN's guidelines aim to create a supportive environment for the development of co-operatives. The revised guidelines encouraged member governments to: *"keep under review, as appropriate, the legal and administrative provisions governing the activities of co-operatives, with a view to ensuring a supportive environment for them and to protecting and advancing the potential of co-operatives to help them achieve their goals"*.⁴

3.2 The UN guidelines on creating of a supportive environment for co-operatives is clear in stating that: *"the International Co-operative Alliance Statement of Co-operative Identity should be taken as the base and operationalised in terms of co-operatives position in the context of the marketplace as distinctive from other forms of business enterprise"*.⁵ This is an unequivocal endorsement of the status of co-operatives as autonomous, jointly owned and democratically controlled enterprises.

3.3 The UN's view on creating a supportive environment for co-operatives urges: *"the State and cooperatives to strike a successful and effective partnerships. While too much State control is bad, no State involvement can be equally unhelpful and short-sighted. In general:*

- *Government should not support cooperatives just because they are cooperatives, but because of what they do and how well they do it, alongside other businesses and enterprises, on a competitive basis.*
- *Cooperatives should not be used as an instrument of the State and must be able to act autonomously;*
- *Policies should move cooperatives away from dependency on the State; Cooperatives should not be promoted as instruments of government policies or technical aid programs, as conduits for subsidized loans or scarce commodities, as forums for political indoctrination of the people, as a means to formalise the informal economy or as agents*

⁴ UN Resolution 56/114, see http://www.un.org/esa/socdev/social/papers/coop_dres.pdf

⁵ http://www.un.org/esa/socdev/social/documents/coop_egm_report.pdf page 5

*for helping the poor. Experience shows that cooperatives contribute best to society when they are true to their values and principles”.*⁶

ILO Recommendation 193

3.4 The International Labour Organization (ILO) was founded following the Paris Peace Conference held in the wake of the horrors of the 1st World War. It was formally incorporated as an international organisation by the 1919 Treaty of Versailles. It was founded because the nations of the world that had fought in that terrible conflict recognised that: *“universal and lasting peace can be established only if it is based upon social justice”.*⁷

3.5 The ILO has been involved with co-operatives since its very foundation, with Albert Thomas, an active co-operator the ILO’s first Director General. The ILO Co-operative Services section was established in 1920. The following is an extract from the second meeting of the ILO governing body in 1920:

“The peace treaty foresees that the ILO should not only be concerned with the conditions of work, but also with the conditions of workers. By and large, it is under the organisational form of co-operatives that this concern is best addressed for the largest part of the population. The co-operative section will not limit itself to the question of distribution, but will also research into the question of housing, leisure time of workers and the transportation of the workforce”

3.6 Near the end of the 2nd World War the 1944 Declaration of Philadelphia expanded the reach of the original ILO constitution, moving the organisation’s mandate beyond improving working conditions to include the promotion of equitable economic conditions, growth and trade in the post 2nd World War economy. It recognises the rights of all people to pursue their material well-being and spiritual development *“in conditions of freedom and dignity, of economic security and equal opportunity”.*⁸

3.7 The ILO is a specialised agency of the UN brought into a formal legal relationship with the UN under Article 57 of the UN’s Charter.⁹ The ILO’s constitution is agreed by its 185 member states.¹⁰ The work of the ILO, its conventions, declarations and recommendations are therefore closely allied to UN resolutions. Under the ILO’s constitution member states are required to give due consideration to ILO recommendations and report to national legislative assemblies on their implementation, or otherwise, in national legislation.¹¹ In 2002 the ILO adopted Recommendation 193 on the Promotion of Co-operatives. It clearly states the ILO’s requirement that co-operatives are to be recognised and respected as autonomous and independent organisations.

3.8 ILO Recommendation 193 incorporates the Alliance’s definition of a co-operative and states that: *“For the purposes of this Recommendation, the term ‘cooperative’ means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”.*¹² This gives the Alliance’s Statement on the Co-operative Identity the characteristic of a text that is recognised internationally. This is a significant change in the status and legal value of the Alliance’s Statement on the Co-operative Identity. ILO 193 exhorts governments to: *“encourage the development of co-operatives as autonomous and self-managed enterprises, particularly in areas where co-operatives have an important role to play or provide services that are not otherwise provided”.*

⁶ Ibid page 6.

⁷ See: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---webdev/documents/publication/wcms_082364.pdf page 4

⁸ http://blue.lim.ilo.org/cariblex/pdfs/ILO_dec_philadelphia.pdf

⁹ <http://www.ilo.org/public/english/bureau/leg/agreements/nu.htm>

¹⁰ http://www.ilo.org/dyn/normlex/en/f?p=1000:62:0::NO:62:P62_LIST_ENTRIE_ID:2453907:NO

¹¹ Ibid, Article 19

¹² http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:R193

3.9 Every ILO member state has an obligation to consider ILO recommendations and to report to its national legislative assembly whether or not it is in compliance with Recommendation 193. If not in compliance, it is obliged to report the actions the member state intends to take to ensure compliance. This encourages member states to comply with ILO recommendations. Since ILO Recommendation 193 was agreed in 2002, over 100 ILO member nations have used it to review their co-operative legislation. The ILO Committee on Applications of Conventions and Recommendations included ILO Recommendation 193 into its 2010 General Survey. It thus confirmed the importance of ILO 193 and, through the General Survey, indirectly the importance of the Alliance's Statement of Co-operative Identity.

3.10 The essential role of governments is detailed in ILO Recommendation 193. It calls for governments to create an enabling environment in which co-operatives can flourish. ILO 193 represents a major achievement in asserting the principle of autonomy and independence following the adoption by the Alliance of the Statement on the Co-operative Identity. It provides clear guidelines for nations to review co-operative law and policy.

3.11 It is also useful to co-operatives when their autonomy and independence is threatened by governments. It provides a framework to make the case for Co-operatives being "*treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise.*"

3.12 ILO Recommendation 193 on the Promotion of Co-operatives is worthy of detailed study as is the excellent Guide to ILO Recommendation 193 written by Stirling Smith of the UK's Co-operative College and published by the ILO.¹³

Relationships with governments

3.13 From their beginning co-operatives needed to engage with governments and legislators in order to establish a legal framework that recognises the distinctive characteristics of co-operative enterprises.

3.14 Co-operative pioneers were frequently assisted in this process by enlightened reformers who saw the power and strength of self-help organisations in addressing fundamental inequalities in society.

3.15 Early co-operative pioneers and the co-operatives they helped create worked to establish legal and policy frameworks that would enable them to fulfil the potential of co-operatives and provide a form of legal protection. This includes protecting the use of the name "co-operative" that paralleled the emerging legislation for other forms of enterprise. The UN recommends that "*a precise definition of cooperative is necessary to prevent 'bogus' cooperatives from illegitimately benefiting from cooperative policies and sully the image of cooperatives.*"¹⁴

3.16 New opportunities, such as the creation of secondary co-operatives, often required new forms of legislation. This highlights the need for co-operatives to be able to speak with one voice in such dialogue; co-operation among co-operatives in accordance with the 6th Principle being the key to the successful promotion and defence of co-operatives.

3.17 Engaging with government on legal and policy matters does not however mean compromising the autonomy and independence of co-operatives and the ability of members to democratically manage their organisations without government interference. This 4th Principle of Autonomy and Independence means that members of co-operatives are entitled to make decisions about their co-operative without undue influence from government beyond a wider policy environment that impacts equally on other forms of economic organisation.

Regulation

¹³ http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_311447.pdf, written by Stirling Smith at the UK Co-operative College, www.co-op.ac.uk

¹⁴ http://www.un.org/esa/socdev/social/documents/coop_egm_report.pdf pages 9 and 10

3.18 Regulation of markets is an inherent and inescapable responsibility of international and national government. The risk of inadequate regulation was classically demonstrated by the global financial crisis of 2007/2008 in which complex financial instruments secured on toxic assets brought the global financial market to its knees. The global economy is still suffering the effects of this lack of regulation today through economic recession and austerity measures introduced by many governments.

3.19 Self-regulation by co-operatives adhering voluntarily to good governance codes and reporting standards may be an alternative to regulation imposed on them, although the global tendency is to make regulatory monitoring and statutory auditing more, not less, binding. Regulation, whether it be self-regulation or statutory regulation, needs to be effective and able to prevent illegitimate bogus co-operatives from being established. Effectiveness requires that self-regulation complies with the ethical co-operative values of honesty, openness, social responsibility and caring for others. To be successful, self-regulation by co-operatives needs to be open, transparent and accountable so that regulation by the state is not necessary. This is a high ethical standard that co-operatives should aim to achieve in all their activities. National co-operative apex organisations have a key role to play in the design, implementation and monitoring of effective self-regulatory regimes.

3.20 In many business sectors, particularly the financial sectors of banking, insurance and pensions, but also in other areas such as food production, distribution and safety, regulation by national state and international agencies will be inevitable. Compliance with these necessary and desirable regulatory regimes ought willingly to be accepted by co-operatives.

3.21 There is, of course, a world of difference between sound and appropriate regulation by governments and regulation that discriminates against co-operatives and seeks to restrict their activity in markets in comparison to other forms of enterprise. Sound and appropriate regulation is to be welcomed. Unsound and discriminatory regulation is not. Co-operatives may take comfort from the wording of ILO Recommendation 193 that co-operatives should be “*treated in accordance with national law and practice and on terms no less favourable than those accorded to other forms of enterprise*”. This wording in ILO 193 may be used in negotiations with governments on matters concerning the appropriate regulation of co-operative businesses.

Co-operatives as a key government policy tool

3.22 A major challenge in co-operatives’ relationships with government is where government sees the development of co-operatives as a key policy tool, for example in the delivery of services in some economic sectors, or as tools for job creation and poverty alleviation. In many countries co-operatives have been included in national poverty reduction strategies because of their proven capability to economically mobilise the dispossessed. This, in turn, has enabled major donor funding to include co-operative development through internationally funded projects.

3.23 In recent years, particularly in some of the post-industrial economies in the Northern hemisphere, co-operatives and mutuals have been seen by governments as a means of delivering services previously delivered by the public sector. Co-operatives are not a ‘magic-bullet’ solution where national or local governments are no longer able to resource basic much needed services. However, the ability of co-operatives to source additional human and financial capital willing to accept a social return on investment created by a co-operative enterprise is an inspiration for the founding of new co-operatives motivated by social outcomes, not simple economic benefits for members. The growth of social co-operatives in Italy and other countries is a manifestation of this capability of co-operative enterprise.

3.24 There is always the danger of policy frameworks creating conditions that can threaten the autonomy and independence of co-operatives as genuine member-owned and controlled organisations. Whilst it is reasonable, and in many cases desirable, for protections to be put in place - for example when publicly owned assets are transferred to new co-operative delivery

models - such protection, including the appointment of government officials to boards, should not compromise the rights and responsibilities afforded to members.

3.25 ILO Recommendation 193 is helpful here too. It says clearly that: "*Governments should introduce support measures, where appropriate, for the activities of cooperatives that meet specific social and public policy outcomes, such as employment promotion or the development of activities benefiting disadvantaged groups or regions. Such measures could include, among others and in so far as is possible, tax benefits, loans, grants, access to public works programmes, and special procurement provisions*".¹⁵ But this should not be done in a way which compromises the overriding recognition in ILO Recommendation 193 of the Alliance's Statement on the Co-operative Identity that: "*cooperative' means an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise*".¹⁶

3.26 The core principle is that government support of and for co-operatives must not equate to government control of co-operatives. The autonomy and independence of co-operatives, and members' democratic rights to control them, must always be respected by government.

Entering into agreements to raise capital

3.27 One of the original principles of the Rochdale Pioneers was that limited interest should be paid on members' share capital. This was to avoid membership based purely on a venture-capital investment relationship in a co-operative. As explained in the guidance to the 3rd Principle, when faced with the challenge of securing capital to fund growth or to remain competitive in a market that requires significant capital investment, co-operatives may need to secure funding from external sources.

3.28 Co-operatives should be aware of the dangers this poses to autonomy and independence. Too often it has led to loss of control over time, with further capital demands resulting in a greater equity stake for such investors, or effective control over a co-operative's business being exercised through financial covenants and compliance obligations. This can lead to the ceding of control from members to investors.

3.29 Co-operatives need to ensure that the relationship with financial markets and financial institutions does not compromise this 4th Principle. In the aftermath of the global financial crisis, banks and other funders have become more prudent in the terms and conditions under which they are willing to lend, the sureties and compliance covenants required from borrowers, and the ability to intervene if the borrower defaults on the terms of a loan agreement.

3.30 The risk is greater where major capital requirements are financed in the capital financial marketplace; for example, the acquisition of another business by a co-operative. Default in repayment or breaches of financial and compliance covenants can result in the autonomy, independence and democratic control of a co-operative by its members being compromised by the terms of such capital funding agreements. Autonomy, independence, and member sovereignty can be illusory under such agreements because effective control of a co-operative's business will be in the hands of the financiers. The terms of any financial agreement that has a significant impact on a co-operative's business should be agreed and approved by members in general assembly.

3.31 The wording of this 4th Principle cautions against this financial risk to autonomy and independence where it says that where co-operatives "*raise capital from external sources, they should do so on terms that ensure democratic control by their members and maintain their co-operative identity*".

Relationships with suppliers and customers: a risk particularly for new co-operatives

¹⁵ http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:R193, clause 7 (2).

¹⁶ *Ibid*, clause 2.

3.32 Economic trading risks can also endanger the autonomy and independence of co-operatives.

3.33 Since the Statement on the Co-operative Identity was articulated and the Co-operative Principles were reformulated by the Alliance in 1995, there has been an enormous growth in the power of giant corporations and organisations in global supply chains. The size, scale and global operation of such enterprises enables them to exert influence throughout the supply chain. This has recently been demonstrated by 'pay and stay' arrangements, whereby major producer companies require suppliers to pay-back a percentage of the contract value in order to remain approved suppliers. Such arrangements present major challenges to co-operatives and other small producers that supply these huge, market dominant, companies.

3.34 Autonomy and independence can be compromised by becoming over-dependent on supplying a single purchaser of a co-operative's product or services, and, equally, from over-reliance on dominant sources of supply.

3.35 There are particular dangers to the autonomy and independence of newer and growing co-operative enterprises. Producer co-operatives can be attracted by the volume of contracts offered by a major buyer, but may inadvertently become over-dependent on such a contract and vulnerable if a major buyer subsequently seeks to inflict substantial price reductions.

3.36 New forms of co-operatives providing community services in the sectors of the economy that might formally have been provided by public authorities can be particularly vulnerable to arrangements where contracts are awarded for a fixed time period, after which they must compete against much larger organisations who are prepared to use predatory pricing to prevent a successful co-operative competitor emerging.

3.37 Sound business management practices can help manage these risks. Risk mapping and risk analysis can be used effectively to identify commercial and other risks, assess their impact, look at risk avoidance and mitigation strategies, specify who within the co-operatives has responsibility for managing the risk, and what action may be taken if a particular risk crystallises. Where commercial risks cannot be avoided effective risk management is advisable.

Autonomy and independence – the role of boards

3.38 Directors of co-operatives have a special responsibility to preserve the autonomy and independence of their co-operative, which is essential for its long-term viability.

3.39 Poor governance and bad management can threaten the viability of any business enterprise. Co-operatives are no exception. There is no greater risk to autonomy and independence than insolvency caused by poor governance and bad management.

3.40 Governance and management failures in co-operatives have led some business leaders and commentators, some even from within the co-operative movement, to suggest that elected directors do not and cannot have the skills and expertise needed to run major enterprises in a modern economy. The standard neo-liberal corporate governance solution in the wake of governance failures in the private sector over the last two decades is advocated for co-operatives: more independent non-executives bringing with them the skills democratically elected board members lack. This standard corporate governance solution is a threat to a co-operative's autonomy, independence and member democratic control.

3.41 This raises particular issues for co-operatives in the practical day-to-day application of this 4th Principle of Autonomy and Independence; particularly how member democratic control is reconciled with elected leaders having access to the skills, knowledge and expertise they need to ensure effective governance and to hold management to account.

3.42 The answer, of course, resides primarily in the 5th Principle: Education, Training and Information. Successful co-operatives ensure that all board members and those who aspire to be board members have access to the education and training opportunities needed to effectively

govern their co-operative and hold management to account. Boards also need business information to be presented by senior executives and business advisors clearly and intelligibly to enable key business decisions to be made to be able effectively to challenge senior management recommendations.

3.43 In order to ensure the sustainability of any co-operative enterprise, the skills set of all board members and senior managers must include a clear vision and understanding of the Co-operative Values and Principles and how to avoid compromising a co-operative's autonomy and independence.

3.44 The autonomy and independence of a co-operative will be enhanced by rules or statutes that require governance of the co-operative by its board clearly to be accountable to the general assembly of members. Governance arrangements should incorporate checks and balances, including ones that address the knowledge gap between professional management and members, that include internal and external auditing processes to ensure that members in general assembly receive independent reports from auditors on the governance and management of their co-operative, its compliance with this 4th Principle, and any risks to its autonomy and independence.

The role of national co-operative federations and apex organisations and the Alliance in maintaining co-operative autonomy and independence

3.45 Apex national co-operative organisations, in partnership with the Alliance, have a key role to play in ensuring that nation states comply with internationally accepted norms to establish legal and regulatory frameworks in which co-operatives can flourish. Apex organisations also have a role in providing advice and good practice guidance to co-operatives on how to avoid and/or manage the risks to the autonomy and independence of member co-operatives posed by market dominant suppliers or purchasers of products and services and a role in working with regulators to ensure appropriate and effective regulation.

3.46 Since the adoption of the Statement on the Co-operative Identity in 1995 there has been a growing realisation that co-operatives have a great deal to offer not only to members, customers and employees of co-operatives but to society as a whole. ILO Recommendation 193 provides a framework for governments to develop the legal, tax, regulatory, financial and administrative systems and policies that will enable co-operatives to flourish whilst fully respecting and maintaining their autonomy and independence. Independence from government means that the members of the co-operative are free and at liberty to make democratic decisions based on what is in the best interests of their members and the wider communities co-operatives serve.

3.47 The challenge for individual co-operatives and national co-operative apex organisations interfacing with government is how to achieve effective government support for co-operatives without its resulting in undue government influence over co-operatives. In extremis, co-operatives will be challenged to resist the tendency of some politicians, who do not understand the nature and benefits of co-operative enterprise, to seek the demutualisation and destruction of co-operatives.

3.48 Commitment to the 5th Principle of Education, Training and Information is the answer to these challenges. The more members, employees, politicians, and general public know about the social, cultural and economic benefits co-operatives bring to the table of humanity, the better protected our autonomy, independence, and democratic rights will be.

4 Matters for future consideration

Non-user and investor members

4.1 Co-operatives that accept non-user members or investor-members create a potential risk to a co-operative's autonomy and independence in addition to risking breaching the 3rd Principle of "*limited compensation on capital subscribed as a condition of membership*". This risk arises

because such members inevitably will not have the same commitment to the long-term sustainable autonomy and independence of the co-operative as user-members have. This is particularly the case where non-user or investor-members are granted voting rights in a co-operative's general assembly or rights to appoint nominees to the board. As stated in the Guidance Note to the 3rd Principle, such arrangements may also create problems with regulators who may see the admission of investor-members as circumventing investment regulations designed to protect all investors. Co-operatives need carefully to consider the threat to their autonomy and independence and the risk of regulatory non-compliance before agreeing to such arrangements.

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DRAFT Guidance Note – Principle 5

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5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operative. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.

1. Introduction

1.1 The co-operative movement has a long-standing and distinguished commitment to education. Education is one of its founding principles. The original rules of conduct of the Rochdale Pioneers published in the Pioneers' annual almanac required: "*That a definite percentage of profits should be allotted to education*". The commitment to education has been one of the co-operative movement's core Principles since they were first formulated.

1.2 Early co-operators lived in societies where education was reserved for the privileged. They recognised then, as today, that education was fundamental to transforming lives. It is a key to enlightenment and social progress. Early co-operators recognised their responsibility to help educate their members and their families by allocating part of their co-operative's trading surplus to education.

1.3 The development of the Rochdale model of co-operation and the operating practices subsequently defined as the Rochdale Principles are the direct result of education and learning. The Pioneers spent over a year developing their model of co-operation, learning from the experiences of the pioneers of co-operation from the time of Robert Owen, and with guidance from key co-operative figures such as George Jacob Holyoake. There are clear links between principles adopted by the Pioneers and those that were developed by the Co-operative Congress of 1832, which Robert Owen chaired. This shows that the Pioneers developed ideas rather than initiated them, a matter about which they themselves were always clear.

1.4 The Pioneers are also known to have read "The Co-operator", a penny pamphlet published in 28 monthly issues between May 1828 and August 1830 by Dr William King, a physician working with the poor in Brighton, England. Dr King was a strong advocate of education for the working class and supported the founding in 1825 of a Mechanic's Institute, known as the Brighton Institute, where he was a frequent lecturer, which advocated the development of co-operatives. There is also evidence that at least some of the Pioneers attended lectures at an Owenite Co-operative School that operated in Salford near Manchester from the 1830s.

1.5 The ingredient that transformed half a century's experimentation with co-operation into a successful business model, subsequently replicated throughout the world, was a willingness to share experience and learn from earlier successes, failures, and setbacks. Without such sharing of ideas and experience it is unlikely that today's diverse co-operative movement would have emerged. Co-operative education played a central role in the growth of the Raiffeisen, Antigonish, and Mondragon movements. Education was and remains the lifeblood of all co-operatives and a driver of co-operative development.

1.6 When the Pioneers gained full control of the building in which they opened their first store on Toad Lane in Rochdale, England, which is now the Rochdale Pioneers Museum, they changed the first floor into a reading room for members. The earliest co-operators were quick to embrace the technologies emerging at the time from magic lantern slide shows to pioneering the use of film as an educational and informational tool. Following the example of the Rochdale Pioneers, co-operatives established lending libraries and reading rooms, pioneered distance learning and forged partnerships with universities and others to extend the reach of their programmes.

1.7 Co-operative education needs to be equally as bold, innovative and imaginative today, embracing the opportunities provided by new technologies, strengthening links with universities to encourage research, and using education to disseminate research findings to inform policy makers, members, and the wider public. Successful co-operative education needs to be adaptable and never forget its core purpose, namely to develop a deeper understanding of the nature and benefits of co-operation today and tomorrow.

1.8 Co-operative education was the ingredient that transformed the vision and aspirations of the pioneers of today's global co-operative movement into success. The co-operative movement is not a rules-based movement, but a values and principles-based movement. Co-operators need to understand the principles that are the creative foundation of all co-operatives and learn to apply them in today's fast changing world. Formal learning combined with informal learning from practical experience remains essential in building successful co-operative businesses today. Effective co-operative education programmes can support the renaissance and renewal of an established co-operative movement and help unlock the vision and energies of a new generation, revealing how the co-operative model can be applied to today's and tomorrow's challenge of building a better world.

2. Interpretation of words and phrases

2.1 The first phrase, "*Co-operatives provide education and training for their members, elected representatives, managers and employees,*" is a simple statement of what all co-operatives ought to do. Co-operatives ignore the responsibility of providing education and training for their members, elected representatives, managers and employees at their peril. This is an essential activity because it is fundamental to the success and sustainability of any co-operative enterprise.

2.2 The first sentence ends with a purposeful qualifying phrase: "*so they can contribute effectively to the development of their co-operative*". This is, of course, the primary aim of co-operative education: to enable the development of a successful and sustainable co-operative enterprise. It would be wrong, however, to interpret this phrase narrowly. As the introduction to this Guidance Note explains, co-operatives have always understood the wider value of education. Members of co-operatives in nations where many lack formal educational opportunity or with members who did not prosper at school, may need the opportunity to acquire basic literacy and numeracy skills in order fully to participate in their co-operative.

2.3 "*They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation*". This sentence shows that a co-operative's commitment to education is not simply inward facing to members, elected members, managers and employees, but outward facing too. It requires co-operatives to "*inform the general public ... about the nature and benefits of co-operation*". This obligation to inform others about the nature and benefits of co-operatives applies "*particularly*" to "*young people and opinion leaders*". The meaning of "*young people*" is self-evident: it is the next and upcoming generation. "*Opinion leaders*" means all those who influence public opinion including politicians, public servants, media representatives, and educators.

2.4 It is worth noting the three distinct ingredients of education in this 5th Principle: "*education*", "*training*" and "*information*", each of which has a different part to play in co-operative education.

2.5 "*Education*" is about understanding the Co-operative Principles and Values and knowing how to apply them in the day-to-day operations of a co-operative business. It is also concerned

with the wider education offered to members for their social development. Co-operative education involves engaging the minds of members, elected leaders, managers and employees so that they comprehend fully the complexity and richness of co-operative thought and action and its social impact.

2.6 *"Training"* is about developing the practical skills members and employees need to run a co-operative in accordance with efficient and ethical business practices and to democratically control their co-operative business responsibly and transparently. In all co-operatives there is also a need for training of employees and elected officers in order to run the business of a co-operative efficiently in a competitive economy.

2.7 *"Information"* is a duty to make sure that others who are members of the general public, but *"particularly young people and opinion leaders"*, know about co-operative enterprise. The knowledge to be imparted by information is not just a marketing exercise about a co-operative or the services it provides, nor is it propaganda. It is a duty to inform the wider public about the values and principles-based nature of co-operative enterprise and the wider benefits to human society co-operative enterprise brings. Too many co-operatives in too many countries ignore this responsibility. Without education, information and training, people will not appreciate or support what they do not understand.

2.8 Why *"particularly young people and opinion leaders"*? *"Young people"*: because as the guidance to the 2nd Principle explained, every democratic member-controlled organisation is only as good as the next generation of its members. Most importantly, for the sake of the future of the planet and of civilised society, it is to the benefit of young people that they understand the social, economic and environmental advantages sustainable co-operative enterprise creates. *"Opinion leaders"*: because, as was explained in the guidance to the 4th Principle, opinion leaders need to understand the distinct nature of co-operative enterprise and the values and principles on which it is based in order to fulfil internationally accepted norms which require that co-operatives are treated no less favourably than any other type of enterprise.

3 Guidance notes

Education and self-help

3.1 There is a direct link between this 5th Principle and the co-operative values of self-help and self-responsibility.

3.2 Individuals develop personally through co-operative action with others, by the skills they learn in facilitating the growth of their co-operative, by the understanding they gain of their fellow-members and by the insights they gain about the wider society of which they are a part. In these respects, co-operatives are institutions that foster the continuing education and development of all those involved with them.

3.3 This fostering of continuing education is not a narrow focus on the internal needs of a co-operative enterprise for its members to be adequately educated and informed. It also recognises the wider benefits of member education that enables members to develop the knowledge and skills that are transferable to other aspects of their lives. It helps them become self-reliant. Engaging or re-engaging with education in a co-operative often proves to be the springboard for members to embrace other life-long learning opportunities and builds their confidence to do so.

Education for members

3.4 From the very beginning co-operatives and co-operators recognised the critical importance of ensuring that members understood the vision, values and aspirations of their co-operative. The Pioneers stated their vision in their 'Law First'. They were clear that the opening of their store was the first step in the economic and social emancipation of their members, as reflected in their objective:

"That as soon as is practicable this society shall proceed to arrange the powers of production, distribution, education and government or in other words to establish a self-supporting home colony of united interests, or assist with other societies in establishing such colonies".

3.5 Member education needs to be an important focus for co-operatives, and means more than simply informing co-operative members about the business and encouraging trading loyalty, albeit it must do those things as well. It must also provide avenues for members to learn about co-operative identity and values and the global co-operative family of which their co-operative is part.

3.6 Member education must also be accessible to and inclusive of all members, especially those groups of members under-represented in the co-operative's democratic structures. For example, special arrangements may be needed to enable members with disabilities to have equal rights of access to education programmes. Analysis of members who are participating in education programmes and comparison with the diversity of a co-operative's membership will ensure that educational opportunities are open, accessible and available to all.

3.7 Member education should help members understand the rights and responsibilities of membership, including their duty to exercise their democratic rights. Member education can help secure an active and informed membership and ensure that elected representatives and leaders are ones who share their vision and aspirations for the success of their co-operative, and have the necessary skills to carry out their responsibilities.

3.8 Such programmes should lead to not only better, more committed co-operators, but also more active citizens. Active co-operators are often active in other civil society organisations too. Co-operative education aims to develop transferable skills essential for civil society, not just economic units. Co-operative member education should be concerned to ensure that members are active members of civil society and participate in the diverse civil society organisations open to them that strengthen and enrich the fabric and culture of human decency. This is why Owen called his first school the "Institute for the Formation of Character".

3.9 The development of technology provides new avenues for the delivery of member education, enabling innovative programmes and resources to be delivered to large numbers of members at low cost. Co-operatives, particularly those with a large and geographically distributed membership, should take advantage of technology and to help build effective member education programmes. However, the benefit of member interaction in group education and training should not be underestimated. Interaction through education builds trust among members, and trust is the currency of human co-operation.

Elected representatives

3.10 Co-operative education has always been inextricably linked with building good governance. Good governance in co-operatives is dependent on an active and well informed membership and the quality of those elected to serve on the various committees and bodies that form a co-operative's democratic structure. Good governance also requires members to understand the importance of governance codes and good practice and to have the interpersonal skills needed to apply them.

3.11 In many parts of the world, as co-operatives have grown larger, the number of elected posts has reduced and more complex structures have developed. At every level, from the smallest co-operative to the largest, success or failure largely rests with the decisions made by elected representatives. It is critical that elected representatives are equipped with the skills, knowledge, and understanding to enable them to make decisions in the long term interests of their co-operative and its members.

3.12 As explained in guidance to the 2nd Principle, the process of democratic election is no guarantee of competence; governance should always be subject to good governance review and audit. Elected representatives should be willing to commit to the continuous personal development of their capacity to govern their co-operative effectively by accessing the education

and training opportunities their co-operative offers. With raised expectations in governance that has followed failures and scandals in the wider public and private sectors, co-operatives and co-operative education needs to ensure co-operatives achieve the highest standards of governance.

3.13 Training and development support, rooted in co-operative values that can help elected members develop the skills necessary to enable them to provide constructive challenge to executives should be a core part of co-operative education programmes. Co-operatives should consider setting competence requirements for those wishing to stand for elected office. As explained in the guidance to the 2nd Principle, if competence is combined with open education and training opportunities for members, it can be a requirement for those seeking elected office without being a threat to member democratic control.

3.14 Many larger and more complex co-operatives now have multi-tiered democratic structures. In such cases the introduction of a requirement to complete a training programme to be eligible to stand for election to higher tiers, coupled with entitlement for such training and support, may be an appropriate way forward. Such programmes reconcile the democratic process with the skills and competencies needed, particularly when complemented by other co-operative education methods, such as board or committee development centres.

Managers and employees

3.15 Co-operative education and training programmes should provide opportunities to enable managers and employees in co-operatives understand the distinct nature of the organisation and the needs of their members. This is particularly important for those coming to a co-operative enterprise from an investor-owned business where the need to ensure capital returns for shareholders is very different to a co-operative's business objective of meeting the economic, social and cultural needs of its members. Co-operative boards should also consider including in candidate specifications, contracts of employment and job descriptions for managers, a requirement that managers learn, understand and support and foster the Co-operative Values and Principles of their co-operative enterprise.

3.16 With the impact of globalisation we are now seeing increasing numbers of managers and employees move from investor-owned business and the public sector to co-operatives. Whilst 'new blood' with wider business experience can be good for a co-operative, it is essential that managers and employees joining co-operatives receive induction training that educates them about the specific nature of co-operatives, their principles and their values.

3.17 For senior managers, educational programme outcomes should include understanding that business development and continuous improvement should be directed at meeting members' needs. Creating an effective two-way dialogue between members and managers and between employees, their managers and democratically elected leaders, is a key part of this process.

3.18 Throughout the world, co-operative colleges have played an important role in helping develop managers with appropriate co-operative skills. In recent years higher level programmes, such as master's degrees in co-operative and credit union management, have created opportunities for emerging leaders of different co-operatives to come together, providing opportunities to share ideas and experience in an online learning environment.

3.19 Co-operatives have traditionally provided programmes to assist first line staff to develop the vocational skills they need to carry out their roles efficiently. It is important that the distinct co-operative nature of their business is not ignored in such programmes. First line employees are generally the main point of contact with co-operative members and the wider public. Over a century ago co-operatives recognised that if employees were not sufficiently aware of the nature of the organisation and its advantages to the extent that they wanted to be a member themselves, they were hardly likely to be in a position to convince the wider public.

Educating and informing the general public

3.20 The second part of this 5th Principle describes the importance of informing the general public about the nature and benefits of co-operation, particularly young people and opinion leaders. Shortly after 2000, Ivano Barbarini, then President of the International Co-operative Alliance, warned of how globalisation was leading to the invisibility of co-operatives. This 'invisibility' has been tracked by academics who reported on the disappearance of co-operatives from economic textbooks in the last half century.

3.21 Since the adoption of the Statement on the Co-operative Identity in 1995 efforts by co-operators have significantly influenced the wider policy agenda. The adoption of International Labour Organization Recommendation 193 on the Promotion of Co-operatives provided opportunities not only to revise co-operative law, but also to raise awareness of co-operatives and their distinct nature within ILO constituent organisations; namely governments, workers, trade unions and employers' organisations on every continent. ILO Recommendation 193 also requires co-operatives to be included in the curricula at all levels of national education systems.¹ Co-operatives should encourage and actively participate in developing the curriculum and promoting co-operative education in their national education system.

3.22 The Alliance and its members are firmly of the view that all nation states should, in response to ILO Recommendation 193 and UN Resolution 56/114, be encouraged to protect the use of the name "co-operative". It should be restricted exclusively to describe genuine co-operatives that operate in accordance with these Co-operative Values and Principles. The danger of permitting other businesses to use "co-operative" in their name is that it confuses the general public and devalues co-operatives. The Alliance recognises that restricting the use of "co-operative" as a descriptive noun is the prerogative of nation states. It is justified because requiring the use of "co-operative" to be restricted to enterprises that comply with the Co-operative Values and Principles will make it significantly easier to educate and inform the general public, young people and opinion leaders about the nature and benefits of co-operative enterprise. It will be mutually beneficial to governments and co-operatives.

3.23 Seeking to restrict the use of the name "co-operative" to genuine co-operatives which comply with the Co-operative Values and Principles, is an important part of the process of educating and informing the general public. So too is using the global Co-operative Marque and DotCoop domain name, and participating in international campaigns and events, such as those presented by the UN International Year of Co-operatives 2012 and the annual International Co-operative Day. General and Regional Assemblies of the Alliance and major co-operative conferences also provide opportunities for raising the profile of co-operatives and informing the general public of their nature and success. However, education and information programmes specifically aimed at educating and informing young people, the general public and opinion leaders in the local communities in which co-operatives operate about the nature and benefits of co-operative enterprise are vital too if we are to realise the vision in the Alliance's *"Blueprint for a Co-operative Decade"*. This vision is for the co-operative form of business, by 2020, to become the acknowledged leader in economic, social and environmental sustainability, the model preferred by people, and the fastest growing form of enterprise.

3.24 In addition to providing for co-operative members and employees, co-operatives should promote education and information programmes that help raise awareness of the role and potential of the whole co-operative sector and challenge the way the sector is ignored by the mainstream media. In partnership with national apex organisations, co-operatives need to ensure that mainstream media regularly report the benefits of co-operatives and the scale of co-operative enterprise both nationally and internationally. The objective should be that equal prominence is given in the media to co-operative businesses as is given to investor-owned businesses. New social media technologies also offer cost effective ways of communicating the nature and benefits of co-operative enterprise. Co-operatives should also develop new

¹ ILO Recommendation 193, Para. 8 (1) (f) states that: "(1) National policies should notably: - "(f) promote education and training in cooperative principles and practices, at all appropriate levels of the national education and training systems, and in the wider society;"

communication strategies adapted to the opportunities for improved communication in the modern technological world.

3.25 Whilst recognising that there is a link between effective communications and education, training and information, the implementation of this 5th Principle is far more than communications alone. Implementation requires co-operatives to have effective education, training and information programmes and opportunities that reach and are accessible to all members, employees and the general public in the communities they serve.

Educating young people

3.26 Co-operatives are an inspiration to the new generation of young people who are suffering the greatest degree of social and economic disadvantage as a result of the global financial crisis of 2007/8. Young people across the globe are being forced to adapt their economic thinking in order to survive in a harsher, less egalitarian, world. Co-operatives in many parts of the world have helped develop teaching and learning about co-operatives for young people through the formal education system. The development of educational co-operatives, including co-operative schools, are exemplars of where the co-operative model of enterprise is being taught as an equal to investor-owned enterprise and as a vibrant and successful form of business enterprise.

3.27 There has always been a close link between co-operative education and co-operative development. Awareness raising often leads to co-operative innovation and development. Perhaps the greatest potential now for co-operative education lies with youth and student co-operatives. In parts of Africa, such as Uganda and Lesotho and in schools in Latin America, education in youth and student co-operatives goes beyond providing a learning experience about co-operation. It extends to the development of the skills necessary for job creation and income generation. Their experience and success merits being extended more widely. University co-operatives in Japan and other Asian countries are also proving to be a source and training ground for a new generation of co-operative business leaders.

3.28 Co-operative education programmes like these provide an alternative narrative to the perception that entrepreneurship is just about individuals. Some countries like Poland and Malaysia have long established co-operative education programmes that encourage co-operative development and assert the strength of collective entrepreneurship. The rapid growth of youth unemployment following the global financial crisis provides opportunities to inform and inspire young people about the nature and benefits of co-operation.

3.29 Youth boards in co-operatives provide a means for established co-operatives to educate and develop dialogue with young people and to engage them in the development of co-operative enterprise. Youth participation is being stimulated by the Alliance and many co-operatives around the world. Co-operative youth organisations are being formed in many countries and their representatives encouraged and enabled to participate as members of the boards of co-operatives. Youth and student co-operatives have the potential to and are beginning to play an important role in addressing the growing crisis of a lost generation through youth unemployment. This affects those with low skills and, increasingly, higher skilled young people and graduates.

3.30 The expanding co-operative education sector provides opportunities to apply the 6th Principle, *Co-operation among Co-operatives*, and strengthen links between co-operative enterprises. This will help to ensure that education institutions run as co-operatives maximise the opportunities of co-operation between co-operatives.

Educating opinion leaders

3.31 Opinion leaders are also an important target group to be addressed in co-operative education, information, media and public relations. Because they influence public opinion it is vital that they are aware of the contribution co-operative enterprise makes to the wider public good. The UN International Year of Co-operatives in 2012 (IYC 2012) was an opportunity to enhance the wider public recognition of co-operatives, but, as said previously in this Guidance Note, it was just the start of a necessary on-going effort by co-operatives.

3.32 The background paper for IYC 2012, echoing this 5th Principle, emphasised the importance of informing “*opinion leaders*” about the “*nature and benefits*” of co-operation. It said:

“If co-operatives are to play the roles of which they are capable in the future, it is a responsibility that will have to be better met.”

4 Matters for further consideration

Effective use of co-operative heritage

4.1 An important theme running through co-operative education programmes is the effective use of co-operative heritage to inform and inspire today’s and tomorrow’s co-operators. The stories of how co-operators faced serious challenges and overcame them are one of the greatest educational resources available. It places a responsibility on all co-operatives: a responsibility to cherish and safeguard their heritage and to use it effectively in their learning programmes. The Stories.coop website is an example of how contemporary stories can be made easily available. Similarly, technology is now enabling heritage items to become more readily accessible. The pioneering work of the Co-operative Heritage Trust in the UK in safeguarding co-operative heritage is an exemplar of good practice that could easily be replicated and become a cornerstone of co-operative education.

Co-operative education in national curricula

4.2 A current challenge facing co-operative education is how to cope with the low recognition in curricula in elementary and secondary schools and universities. There exist some best practices as showcased in the good practice examples given in this guidance note, but co-operatives are rarely taught in mainstream business schools, law schools, sociology and other relevant areas of study. This problem needs to be addressed by co-operatives because many existing co-operative courses, particularly in developed economies, are being shut down or replaced by the emphasis on ‘non-profit’ enterprise in a number of universities.

Supporting co-operative education in emerging economies

4.3 The United Nations sees the development of the co-operative economy in Africa as vital to eliminating hunger, improving healthcare, tackling poverty and achieving the UN’s sustainable development goals. Co-operative education is essential in order to realise the potential of co-operatives in Africa and other developing economies as a means of achieving the UN’s sustainable development goals. The global co-operative movement should consider how best it can support the educational needs of co-operatives in East Africa and other emergent economies.

Specialist co-operative higher education institutions

4.4 The continuing significance of specialist co-operative education and training providers, such as co-operative colleges and departments of co-operation within higher education institutions needs to be considered and recognised. Building stronger networks and consortia between co-operatives and specialist higher education institutes and facilitating greater collaboration between them is vital for the global future of co-operative education. The development of specific programmes for members and managers of co-operatives, such as master’s degrees in co-operative business administration, is also to be encouraged.

The importance of co-operative academic research

4.5 It is also vital to recognise the importance of co-operative education, training and information being informed by robust and detailed academic research and that academic research is supported by the Alliance and its members. The Alliance’s Committee on Co-operative Research fosters and sustains links between co-operative movements in member countries and higher education institutions in the field of research collaboration. The global co-operative movement needs to value and consider how to encourage and enhance this research collaboration.

Open source sharing of knowledge and life-long learning

4.6 At the same time co-operative education has to look to the future: it should embrace a knowledge-based society that generates, processes, shares and makes generally available all knowledge, on an open-source basis, and which encourages life-long learning to improve the human condition. The contribution that co-operative education can make to building a culture of civic participation and solidarity and as a tool for social transformation should be considered and developed.

Information technologies and big data

4.7 The idea of the present-day knowledge-based society is founded on the vast increase in data creation and information dissemination that results from the information technologies. In a knowledge-based society, education is not restricted to school or higher education institutions. The advent of information and communication technologies (ICT) allows learners to seek information and develop knowledge at any time and in any place where access is available and unrestricted. In these circumstances, the skill of 'learning to learn' is one of the most important tools to help people acquire formal and informal education. In such circumstances, the ability to locate, classify and sort information is essential. Equipped with this skill, the use of ICT becomes integral to literacy and life-long learning.

4.8 A new need also arises from 'big data'; the data about us that others collect and use through our use of more electronic devices which communicate via the internet and use internet services. How can co-operatives access and regain control over this data and use it to further develop the co-operative enterprise sector of the global economy?

Improving public understanding of the scale and significance of co-operative enterprise

4.9 It is evident, from the lack of wider public understanding of the scale and global economic impact of co-operative enterprise that more needs to be done to educate the general public and opinion leaders through the publication of co-operative economic data and employment statistics. Every day the value and performance of investor-owned businesses are published online by stock markets and in newspaper reports. As evidenced by the study "Co-operatives and Employment – a Global Report"², co-operative employment statistics still lag far behind those of other enterprise sectors, but can be used strongly in advocacy for co-operatives when lobbying governments and international organisations. The fact that co-operatives are a major part of the global economy, helping to improve the living standards of half the world's population,³ goes unnoticed. For example, there is no known co-operative enterprise registered in a tax haven to avoid paying tax in the country in which it generates its surplus or profit. This is not perceived or recognised by the public or politicians as one of the benefits of co-operative enterprise. The challenge of how the co-operative movement addresses this fundamental gap in public understanding needs to be grasped. This challenge was recognised in the 2014 Co-operatives of the Americas Declaration of Cartagena, which said that: "One of the main barriers faced by co-operatives in the Americas is increasing the awareness of their social and economic impact".

² CICOPA – Desjardins 2014, <http://www.cicopa.coop/The-study-Cooperatives-and.html>

³ According to a background paper for the 1995 UN Summit on Social Development, Copenhagen: <http://www.uwcc.wisc.edu/icic/def-hist/def/dim-int.html>

DRAFT Guidance Note – Principle 6

Draft for Consultation – April 2015

6th Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

1. Introduction

1.1 This 6th Principle is a practical expression of the co-operative value of solidarity. It is a principle that differentiates co-operatives from other forms of business enterprise, some of which may share the values of co-operatives without commitment to our Values and Principles. Commitment to co-operation among co-operatives is the hallmark of co-operative business enterprise. Why? Because it is the clearest expression of our common desire to create a better more sustainable and equitable economic future for all humanity.

1.2 The 6th Principle shows two dimensions of the nature of co-operatives. The first dimension is that they are economic entities trading goods and services. The second is that they are social entities of members who relate positively to other co-operatives in the way they conduct business. In joining a co-operative members are not only helping to build their own co-operatives but the wider co-operative movement. They co-operate with other co-operatives to create wealth for the many, not personal wealth for the few through unbridled market competition. Members benefit not only from the actions of their own co-operative but from the impact of its co-operative engagement and trade with other co-operatives.

1.3 There is a key difference between co-operation among co-operatives and the actions of investor-owned businesses that use mergers and acquisitions to concentrate business activity, increase market share and maximise the return on capital employed. Co-operatives co-operate with each other in competitive markets through secondary co-operatives and federations to realise the co-operative advantage and create common wealth for mutual benefit. This difference has been understood and recognised by legislators, for example in the Capper-Volsted Act of 1922 in the United States that gave agricultural co-operatives certain exemptions from antitrust laws.

1.4 From the earliest days, co-operatives recognised the need to work together. In the UK the first co-operative congresses took place over a decade before the Rochdale Pioneers opened their store in 1844. Throughout the world, co-operatives quickly established national apex organisations to unite and represent co-operatives.

1.5 In 1895 the International Co-operative Alliance was established as a global representative body. The Alliance is now the largest non-governmental organisation in the world in terms of membership and has significant reach, recognition and influence as a formal consultative body with the United Nations (UN), the International Labour Organization (ILO) and the UN Food and Agriculture Organization (FAO).

1.6 This 6th Principle is closely associated with the co-operative value of solidarity. Co-operatives are better together. By working together, co-operatives gain the expertise, scale, and support necessary to heighten awareness, sustainability, and impact, especially where fixed costs and resources can be shared.

1.7 The 6th Principle was first explicitly expressed as one of the Co-operative Principles in what, at the time, was described as a “clarification” of the Principles at the 23rd Congress of the Alliance in Vienna in 1966. This review recognised that if the vision of a new co-operative economy were to be realised, co-operatives must explicitly nurture and support one another. The report of the Congress in Vienna included the following recommendation:

“... we have thought it important to add a principle of growth by mutual co-operation among co-operatives:-

All co-operative organisations, in order to best serve the interests of their members and their communities, should actively co-operate in every practical way with other co-operatives at local, national and international levels”.

1.8 The report further explained:

“... although the principles originated as rules governing the relations of the individual members of co-operatives with one another and with their societies, their application is not confined to primary societies. They should be loyally observed by institutions which represent the co-operation of co-operative societies rather than of individual persons...”

... The idea of a co-operative sector in the economy is too often an intellectual concept without a corresponding material reality, simply because of the lack of unity and cohesion between the different branches of the movement”.

1.9 The report also acknowledged that co-operatives had little chance of reaching their potential when working alone. The idea and promise of the co-operative movement required coordination, co-operation, and collaboration amongst existing co-operatives, and the expansion of the mutual self-help model to an ever-increasing number of economic sectors, social issues, and geographic regions. The report continued:

“If the co-operative movement is to rise to its full stature, either within each country, or internationally, ... co-operative institutions must unreservedly support one another.”

2. Interpretation of words and phrases

2.1 *“Co-operatives serve their members most effectively and strengthen the co-operative movement by working together.”* This statement recognises the reality that while co-operatives can achieve much on a local level, they will achieve much more if they work together to create economies of scale and build mutual representative strength. This requires a difficult balancing of interests: larger scale benefits for all co-operatives while maintaining independence and member democratic control. This is a perennial challenge for all co-operative structures and a test of co-operative ingenuity.

2.2 *“By working together through local, national, regional and international structures”.* The statement in the first half of the sentence was the “why”; this second half is the “how”. The “how”, the way co-operatives work together, is through local, national, regional and international structures. This 6th Principle is about working together continuously to the same end, not simply about occasional collaboration. Collaboration, though similar works for a single defined objective, whereas co-operation is a more intense commitment and longer term engagement to achieve shared goals.

3. Guidance notes

Co-operation among co-operatives, the basic concept

3.1 The 6th Co-operative Principle explicitly urges co-operation among co-operatives. Self-help is a pillar of the co-operative movement and mutual self-help by co-operation among co-operatives is a crucial part of expanding the co-operative enterprise sector of the economy, both nationally and globally. Co-operation among co-operatives will, at times, require sacrifice

to achieve shared goals. This can present challenges where for example collective mutual interests override what may be beneficial to an individual co-operative in the shorter-term.

3.2 Effective co-operation takes time, resources, and problem-solving skills. It also requires the application of the 2nd democratic Principle: there must be open, transparent, accountable, democratic decision making processes where co-operatives work together for mutual benefit. Throughout its history the co-operative movement has achieved effective co-operation among co-operatives through specific, living examples and the evolution of overarching best practices.

Key characteristics of Co-operation among Co-operatives

3.3 Key characteristics of effective practice in co-operation among co-operatives include:-

- *Openness and transparency:* co-operatives participating in local, national, and international co-operative structures respect and practice openness and transparency in their dealings with each other.
- *Accountability:* the process of inter-co-operative action should be brought to and approved by the general assembly of a co-operative's members; it should not to be simply a board or management decision. The annual report of a co-operative should include a report on inter-co-operative co-operation and how the co-operative has applied this 6th Principle.
- *Representation:* decision making within ventures between multiple co-operatives is equitable and representative of the interests of each co-operative's members and community.
- *Flexibility:* by nature, co-operation involves unknowns when multiple parties with multiple voices, backgrounds and opinions come together. A commitment to flexibility allows co-operators to compromise, innovate and bring about more effective results. It takes co-operatives back to the linguistic roots of their name 'co-operative', which derives from the Latin verb for "working together". Working together requires flexibility and an understanding that no one person or group can be permitted to dominate the process.
- *Reciprocity:* Effective co-operation involves mutual benefit. Throughout the lifecycle of individual co-operatives there are times when they will need support and others when they will be capable of giving it. Reciprocity is the bedrock of trust and mutual trust is the foundation of co-operation. Co-operatives that adhere to this 6th Principle will reciprocate, giving and receiving mutual assistance from other co-operatives over time.
- *Adherence to the Co-operative Identity:* this involves more than just being a co-operative in name only. It means upholding and acting in accordance with the Co-operative Values and Principles as defined in the Alliance's "Statement on the Co-operative Identity".

Structures aid co-operation

3.4 Successful co-operation requires structure. Co-operatives have a long and successful history of organising local, national, and international structures that aid co-operation among co-operatives.

3.5 Throughout the co-operative movement, ways of organising in accordance with this 6th Principle vary according to political and economic contexts in which they are created. What remains true is the necessity of the co-operative movement's infrastructure to facilitate mutual aid and reciprocity over time.

3.6 Informal project based collaborative arrangements to promote shared interests often precede the establishment of secondary co-operatives and apex organisations. These informal collaborations contribute to building trust and solidarity and can lead to the creation of formal structures to facilitate co-operation among co-operatives.

3.7 Networks tend to be more fluid and are characterised by a lack of rigid policies or structure and are relatively decentralised, though there will most likely be some informal representative structures in place. One of the most significant roles networks play is in engaging individuals and emerging co-operatives.

3.8 Co-operative federations tend to be more structured in their representation, voting, and operation. They are often the stewards of many types of work such as development, education, and advocacy. Creating federations that leverage scarce resources whilst respecting the identity of smaller members is key to and the intention of this 6th Principle. The 1st Principle of open voluntary membership without discrimination also applies to federations and other co-operative structures to ensure that they do not operate as cartels.

3.9 National co-operative federations and national apex organisations too are vital for a thriving co-operative enterprise structure in any nation's economy. They represent co-operatives in all sectors and at all levels and apply the 5th Principle in promoting understanding of co-operative enterprise among the general public, the media, political leaders and opinion formers. They also help to ensure that co-operatives are treated fairly and as equitably as any other form of business enterprise in national legislation and tax policy.

The dual focus of inter-co-operative structures

3.10 Typically the structures co-operatives build between and among themselves focus on one of two types of activities. They tend to focus either on the economic dimension of co-operatives, to trade goods and services, such as Coop2Coop trade, or on the social and political dimension of joining forces for networking purposes and to advance shared interests. The social and political dimension of inter-co-operative structures is frequently the framework upon or through which economic relationships and structures are built. These two dimensions are evident in many inter-co-operative structures at, local, regional, national and international levels.

3.11 Co-operatives with a strong ideological commitment to this 6th Principle understand that committing time and resources to co-operative efforts holds potential to drive better outcomes for both individual co-operatives and the wider movement. More effort equals more positive results.

The role of secondary co-operatives

3.12 In today's globalised markets and complex supply chains, it is essential that co-operatives in all sectors work together to maximise the co-operative advantage. It is particularly desirable that smallholder farmers not only work together to set up primary/village level co-operatives, but that these co-operatives work together through secondary co-operatives to secure better market access, marketing and storage facilities. The creation of secondary and apex organisations is a helpful way to build strong producer organisations.

3.13 Secondary co-operatives, which are co-operatives whose members are primary co-operatives in a particular business sector, have long established associations, federations, and apex organisations to enable co-operatives to speak with one voice. Secondary co-operatives act as advocates on behalf of and in defence of co-operatives in their dealings with governments and regulators, as a place to share knowledge and resources, and to support co-operatives independently and collectively. Through such organisations producers are able to increase their negotiating power in policy-making processes at local, regional and national levels.

3.14 The UN's Food and Agriculture Organisation (FAO) is clear about the advantages of farming co-operatives creating and working through secondary co-operatives. It says:

"Through the device of federation, co-operatives are able to organize very large-scale business operations at the national – or even international – level without detriment to the democratic control of the primary co-operatives by their own members. The secondary co-operative can, because of its larger volume of business or its wider representational base, undertake functions, provide services, and make representations which would be beyond the capacity of all but the very largest primary co-operatives. Secondary co-operatives are a form of vertical integration providing the opportunity for economies of scale, scope for development and improved administration."¹

3.15 Forming secondary co-operatives to provide services is also a beneficial application of this 6th Principle in other co-operative business sectors. In many countries housing co-operatives have formed secondary co-operatives to provide professional management support, construction and building maintenance services, education and training services, and governance advice. Credit unions too have formed secondary service co-operatives to achieve the economies of scale to operate efficient and integrated IT systems that are now needed for the delivery of financial services. Local consumer co-operatives form secondary co-operatives too for wholesaling and joint bulk-purchasing and have created joint ventures to enhance combined purchasing power and production units across national boundaries.

The vital role of the Alliance: the ultimate international co-operative structure

3.16 The foundation of the Alliance in London, England, in 1895 as the representative association of all co-operative enterprises is a global example of this fundamental 6th Principle of Co-operation among Co-operatives. All co-operatives, in every country of the world, should value and exercise their right to participate as members of the International Co-operative Alliance.

3.17 The Alliance is the largest democratic membership organisation in the world. The Alliance has consultative status to the UN Economic and Social Council and general consultative status with the ILO, the latter dating back to the 1940s. The Alliance also holds a Memorandum of Understanding with the United Nations Food and Agriculture Organization. The Alliance's global reach and regional organisations promote and build friendship and respect between co-operatives in different nations and cultures. Its global sectoral organisations and thematic committees enable members to share knowledge and expertise specific to particular types of co-operative businesses and enhance mutual support and assistance, whilst national, regional and global cross-sectoral support helps build the co-operative sector of the global economy.

3.18 As an officially recognised global representative organisation, recognised especially through the provisions of ILO Recommendation 193, the Alliance also has the power to intercede on behalf of co-operative movements in countries where they are threatened by governments that lack understanding of the principles on which co-operative enterprise is based, a power the Alliance uses effectively.

3.19 This 6th Principle serves as an exhortation to all co-operatives to support the Alliance through membership or associate membership, to participate in its general assemblies, regional organisations and sectoral organisations and to ensure that the Alliance is adequately resourced by willingly paying appropriate membership fees directly or through membership of its national apex or federal members. The value of the Alliance should never be underestimated.

Common challenges encountered in applying this 6th Principle

3.20 Co-operation among co-operatives involves many of the challenges individual co-operatives face, albeit at a different scale. The need for co-operation amongst co-operatives is synonymous with the need for co-operatives in the first place:

¹ UN FAO, *Agriculture and Food Marketing Management*, chapter 1:
<http://www.fao.org/docrep/004/w3240e/W3240E01.htm>

meeting common needs through democratic association. Adopting strategies that improve relationships within individual co-operatives can also contribute to improving the relationships between co-operatives. By improving internal relationships members become less insular and develop the capacity to look outwards beyond their own co-operative's needs and aspirations.

Using our shared co-operative identity

3.21 The practical application of the 6th Principle includes broadcasting our shared co-operative identity to the world through the use of the international Co-operative Marque to brand your co-operative enterprise and using the DotCoop domain name for your co-operative's on-line presence. It also includes developing directories of co-operative businesses, creating and participating in local campaigns, holding regional events that cross-promote co-operatives from different business sectors and organising shared purchasing of co-operatively branded promotional materials.

3.22 A stronger sense of collective identity can be used to raise the profile of co-operatives as wealth generators and a leading model of sustainable economic development.

Positioning co-operatives strategically

3.23 Whilst each co-operative grows out of specific economic, political and social circumstances, the application of this 6th Principle enables co-operatives to achieve the strategic positioning of co-operatives as a leading business model, proudly demonstrating they are democratic institutions, leaders in stakeholder participation and in facilitating genuine community engagement.

3.24 Larger more established co-operatives or co-operative groups should take a close interest in inter-co-operative engagement and links with smaller co-operatives, newer co-operatives and those at different stages of development. This is of mutual benefit in sustaining the co-operative commonwealth and in demonstrating the diversity and adaptability of the co-operative approach to business.

3.25 Building a strong sustainable co-operative economy is at the heart of why many people in the 21st century in numerous countries are choosing to form co-operative businesses. Co-operatives offer an empowering model based on self-help and self-reliance; a stark contrast to the consolidation of wealth and power in the hands of the small number of wealthy investors that has characterised the global economy for decades. Co-operation amongst co-operatives is fundamental to creating an economy in which the production and distribution of goods and services is undertaken in the spirit of mutual self-help and in the best interests of all the communities co-operatives serve.

Financial Co-operation among Co-operatives

3.26 Financial co-operation among co-operatives can provide an essential source of capital. Working in a federation allows smaller co-operatives to gain power and resources and share in the benefits of research and development. Financial co-operation between start-up or struggling co-operatives and larger or well-established co-operatives can be a unique path to leveraging capital resources that would be hard to obtain from other sources, and investing part of their surplus back into the co-operative economy, rather than into non-co-operative ventures. In some countries, co-operatives have successfully created solidarity funds engineered to pool financial resources among co-operatives. Through these applications of the 6th Principle new and smaller co-operatives receive needed financial support and technical assistance while larger co-operatives gain the benefit of seeing a social return on their investment in addition to a fair capital return where this is required, through the growing strength and diversity of the co-operative economy.

3.27 Financial support and assistance from established co-operatives to new co-operatives through grants or soft loans within countries or at the international level is an important aspect of the application of this 6th Principle. Technical assistance too, in the form of business management support, education and training and the secondment of experienced staff and

leaders, is an important expression of this 6th Principle and an expression of international co-operative solidarity where it occurs between new and emergent co-operatives in both developed and developing economies. When co-operatives actively choose to reinvest financial resources in emerging and existing co-operatives, these cycles of wealth generation are amplified and reinforced.

Coop2Coop trade

3.28 Building and strengthening the co-operative economy is also advanced by creating partnerships and trade relationships between co-operatives at every scale, local to global. Strong economic co-operation at all levels facilitates the sustainability and growth of the co-operative movement

3.29 Co-operative-to-co-operative or Coop2Coop trade is the most direct economic expression of this 6th Principle. It happens when co-operative businesses collaborate within an industry or economic sector, often via sectoral federations, to advance shared economic goals. Coop2Coop trade includes aggregated purchasing and supply chain contracts with other co-operatives, which benefits both the supplier co-operative and the purchaser.

3.30 Successful examples of Coop2Coop trade are the relationships between agricultural co-operatives and consumer co-operatives in countries like Japan and the role of co-operatives in developing the Fair Trade movement. The emphasis on relationship building and supply chain development between purchasing and consumer co-operatives in the global north and farmer and producer co-operatives in the global south has had a powerful impact in increasing market share for co-operatively produced commodities. This strengthens the livelihood of co-operative farmers and enables wider social development through the application of the Fair Trade premium.

Co-operation across different co-operative business sectors

3.31 Co-operation across sectors happens similarly through purchasing products and services from other co-operatives, cross-promotion and joint marketing, shared member and employee co-operative education and training programmes. This cross-sectoral co-operation also occurs when co-operatives provide co-operative development support, financial and in-kind, to other co-operatives and when co-operatives intentionally choose to do business with another co-operative outside their sector. For example, an agricultural or housing co-operative may choose to partner with a credit union or co-operative bank for loans and for financial services.

3.32 When co-operatives work together with other social movements, such as the Fair Trade movement and the trade union movement, wider co-operation extends to and involves entities beyond the co-operative movement. This broad reaching work with people organised outside the current co-operative movement is a key way in which the co-operative form of enterprise remains relevant and discovers new opportunities for innovation and growth. Working with other social economy businesses and charities can be a way of increasing co-operative enterprise activity and strengthening and consolidating the broader social and solidarity sector of the economy.

3.33 Sectors or individual co-operatives can sometimes grow stagnant or frustrated within their local, national, or issue-based context, but can become inspired by the practices and work of co-operatives in other parts of the world and other aspects of collectively working for global justice. Whilst co-operatives may reasonably and productively expand their business beyond their immediate country of origin, it is particularly important that co-operatives which may consider that they have maximised their market share in their country of origin do not seek to expand their business as a co-operative or in the form of a subsidiary company in another country without any contact with or reference to local co-operatives.

A vision for future Co-operative leaders

3.34 To fully realise this 6th Principle in practice and build the co-operative movement, co-operatives must co-operate with each other to support current and future movement-level leadership development. Leaders need vision to engage with other progressive civil movements in addressing broad social problems and increasing the visibility of co-operatives in a way that

demonstrates how co-operatives can provide solutions to the problems society faces. Co-operatives need to co-operate with one another to develop co-operative movement-wide leadership; a precursor to realising wider economic, social and environmental transformation.

Influencing governments

3.35 By creating a platform for a collective and representative voice of an industry or sector, the co-operative movement is able to establish strategic partnerships with the state to work on laws and regulations beneficial to co-operatives but which also respects their autonomy and right to member democratic control. By evidencing the success and necessity of certain legislative structures, requests for action in the legislative area in question gains credibility and substance.

3.36 Similarly, working in coordination to interact with the state and around legislative issues provides a visibility and platform necessary for working with non-co-operative sectors and issues, for example with labour unions, other third sector social economy organisations such as non-profit enterprises, charities and other civil society organisations towards greater social visions, aims and objectives.

Transforming society into a Co-operative Commonwealth

3.37 The premise of the 6th Principle is not that co-operatives cannot exist without each other. Co-operatives by their design are self-sustaining organisms. Co-operatives can operate and succeed alone, but will only thrive and grow the co-operative commonwealth when they work together.

3.38 It is, perhaps, because each co-operative can do so much by themselves that co-operatives fail to realise how much more they can do together. This 6th Principle embodies the unique characteristic of the value of mutual self-help, which is that by working together co-operatives can be greater than the sum of their parts. Co-operatives co-operating with others serve members most effectively and strengthen the co-operative movement because none alone is as skilled, smart, or as passionate as when all are working together.

3.39 The aspiration to transform society is inherent in this 6th Principle. The desire to build the global co-operative commonwealth is reflected in the Alliance's Blueprint for a Co-operative Decade and was part of the vision championed by the Rochdale Pioneers and other co-operative pioneers, including Charles Gide in France and Alfonse and Dorimène Desjardins in Quebec, Canada. Co-operatives have the proven power to be transformational.

3.40 The desire to build a better co-operative world is not exclusive to existing co-operative members, but extends beyond to other civil society movements and peoples. The co-operative movement has, since its foundation, allied itself with and co-operated with other progressive movements and peoples working towards social justice and collective human progress. Joint campaigning work, combined with the economic work of co-operatives, contributes to the construction of a global co-operative commonwealth, which is and always will be the fullest manifestation of this 6th Principle. Co-operatives can only maximise their impact through practical, rigorous collaboration with each other.

4. Matters for future consideration

Future challenges

4.1 Future challenges in applying this 6th Principle of Co-operation among Co-operatives will include:

- *Balancing dialogue with action:* not meeting with other co-operatives in regional, sectoral or national structures simply to talk to each other, but planning and taking action to advance the co-operative economy to mutual advantage. Passive participation in inter-co-operative structures can drain energy and have a negative impact on others.
- *Effective power sharing:* larger or better resourced co-operatives will need to ensure

that their size and influence does not dominate and dictate debate and action, but that they enable smaller co-operatives to participate effectively in control and decision making in inter-co-operative organisations.

- *Transcending barriers:* barriers such as geographical location, language, political and religious divisions, disparities in organisational size and scope must be addressed and overcome to ensure effective debate and action.
 - *Working across sectors:* different co-operative business sectors have different histories and cultures which need to be understood and valued if common action is to be taken.
 - *Awareness building:* ensuring that co-operatives are aware of each other's nature, differences and the social and economic challenges they face.
 - *Effective communication:* maintaining regular and effective communication with other co-operatives is always a challenge when members and managers are faced with the day-to-day pressures of running a co-operative business.
 - *Developing a shared sense of purpose:* the priorities of one co-operative or one sector of co-operative enterprise may not be the same as that of others.
 - *Periodic assessment of the application of the 6th Principle:* co-operatives need to commit adequate resources to achieve social and economic benefits from co-operation among co-operatives. They also need periodically to review the application of this 6th Principle and challenge their engagement to ensure that it is effective.
 - *Developing effective global co-operative trade:* the international co-operative movement is challenged by the absence of globally-driven inter-co-operative trade. Consideration should be given to developing such trade under global co-operative trading agreements or partnership arrangements.
 - *Developing effective global co-operative banking facilities and insurance arrangements:* The global co-operative movement should consider it necessary and desirable to establish an international co-operative bank and insurance organisation. Such an international co-operative bank and insurance co-operative, driven by the Co-operative Values and Principles, could service global inter-co-operative trade and business.
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DRAFT Guidance Note – Principle 7

Draft for Consultation – April 2015

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

1. Introduction

1.1 This 7th Principle was first stated as a separate and distinct Co-operative Principle in the reformulation of the Co-operative Principles agreed by the members of the Alliance at its General Assembly in Manchester in 1995. Prior to 1995, concern for communities was part of the 6th Principle, Co-operation among Co-operatives which, in the 1966 clarification of the Principles by the Alliance, stated that: "*Co-operatives, to best serve their members and communities, should co-operate with each other, both at home and abroad*".

1.2 The 7th Principle combines two elements of the Co-operative Values in the Alliance's "Statement on the Co-operative Identity": those of "*self-help and self-responsibility*" and "*the ethical values of honesty, openness, social responsibility and caring for others*". These two elements of the co-operative identity and values are brought to life by this 7th operational Principle.

1.3 This combination of these two elements arises because co-operatives emerge from and are rooted in the communities in which they conduct their business operations. Their success is based on their ability to support those communities to develop in a sustainable way. There is no better historical illustration of this than the objects of the Rochdale Pioneers set out in their "Law First". Each of their objects was linked to improving the lives and livelihoods of the members in the communities they served in addition to the Pioneers' basic business objective of the provision of goods and services: for example, their 'Law First' committed their society to the development of employment and the improvement of housing.

1.4 Early pioneering co-operatives strengthened their communities through the provision of education, social and cultural activities. Local co-operative meeting rooms often provided an infrastructure for the development of civil society, voluntary and community organisations. The development of co-operative member organisations provided the opportunity for the development of democratic leadership skills, transferrable skills that enriched communities and strengthened the fabric of civil society.

1.5 The ethical values in the Alliance's "Statement on the Co-operative Identity" emanate from the special relationships co-operatives have with their communities which goes beyond simple business economics. Co-operatives are open to members of the communities in which they work and they have a commitment to assist individuals in those communities to help themselves, in all aspects of life. Co-operatives are collective institutions which exist in one or more communities. They have inherited traditions which are concerned with the health and wellbeing of individuals within their communities. They, therefore, have a responsibility to strive to be ethical and socially responsible in all their activities.

1.6 The wording of this 7th Principle, namely that "*co-operatives work for the sustainable development of **their** communities*" places the primary emphasis on concern for the sustainable development of **their** immediate local communities within which co-operatives

operate. It challenges all co-operatives to demonstrate that it is possible to be a successful and sustainable enterprise that benefits both its members, who democratically own and control it, and the communities within which it carries out its business. There are numerous examples of the enormous impact on the sustainable development of local communities successful co-operatives achieve. The triple sustainable development logic of concern for economic, social and environmental sustainability tend to reinforce each other in that concern for social and environmental sustainability make business sense and helps to sustain a co-operative's economic success.

1.7 It is from these deep roots of concern for the sustainable development of the immediate local communities which gave birth to them that the co-operative movement's wider concerns for sustainable development of communities nationally, regionally and globally blossomed and grew.

1.8 The link between the local and the global concern for sustainable development is evident in wording of this 7th Principle. The wording of this 7th Principle was agreed in 1995 in the context of the international debate in the United Nations about setting sustainable development goals. The concept of 'sustainable development' emerged from the United Nations World Commission on Environment and Development's 1987 report "*Our Common Future*", also known as the Brundtland Report, presented to the 1992 UN Conference on Environment and Development, called the Earth Summit. It explains in detail what is meant by sustainable development. It defines sustainable development as:

"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- the concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and*
- the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs."*¹

1.9 "Our Common Futures" goes on to explain the concept of sustainable development in greater detail as follows:

"The satisfaction of human needs and aspirations in (sic, in = 'is') the major objective of development. The essential needs of vast numbers of people in developing countries for food, clothing, shelter, jobs - are not being met, and beyond their basic needs these people have legitimate aspirations for an improved quality of life. A world in which poverty and inequity are endemic will always be prone to ecological and other crises. Sustainable development requires meeting the basic needs of all and extending to all the opportunity to satisfy their aspirations for a better life."

*"Living standards that go beyond the basic minimum are sustainable only if consumption standards everywhere have regard for long-term sustainability. Yet many of us live beyond the world's ecological means, for instance in our patterns of energy use. Perceived needs are socially and culturally determined, and sustainable development requires the promotion of values that encourage consumption standards that are within the bounds of the ecological possible and to which all can reasonably aspire."*²

1.10 The Earth Summit of 1992 also adopted "Agenda 21" and the Rio Statement with the following principles:

"Human beings are at the centre of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature [principle 1] ... The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations [principle 3] ... In order to achieve sustainable development, environmental protection shall constitute an integral

¹ <http://www.un-documents.net/our-common-future.pdf>: p 41.

² *Ibid* p 42.

part of the development process and cannot be considered in isolation from it [principle 4].”

1.11 The Alliance’s Congress in Tokyo in 1992 discussed the issue of sustainable development as a main theme and passed a Declaration on the Environment and Sustainable Development. At the same General Assembly a special report called: “Co-operatives and Environment” was published. The Alliance also asked national and Sectoral Organisations to formulate the “Co-operative Agenda 21”. When the Alliance celebrated its Centennial Congress in 1995, concern for the environment had reached a significant global level of awareness both within and outside the co-operative movement. The Alliance Congress resolution on sustainable human development reaffirmed its view that co-operatives should ensure that both their institutional performance and their member education programmes gave environmental issues high priority. The Congress also adopted the Concern for Community Principle including environmental protection as a part of the ICA Statement on the Co-operative Identity.

1.12 This history shows the close link between the debate at the UN Earth Summit in 1992 and the agreement of Alliance members in 1995 to include reference to “*the sustainable development of their communities*” in the wording of this 7th Principle. This Principle embraces within it the co-operative movement’s concern for, and a commitment to work for sustainable economic, environmental and social development that benefits communities as well as a co-operative’s own members.

2. Interpretation of words and phrases

2.1 “*Co-operatives work for the sustainable development of their communities.*” This phrase is both an observation and statement of fact. The co-operative value of “social responsibility and caring for others” is evidenced by co-operatives delivering benefits for the communities in which they operate as well as for their members.

2.2 “*The **sustainable development** of their communities*”: the concept of “*sustainable development*” in this phrase derives from and refers to the debate at the 1992 UN Earth Summit that defined “*sustainable development*” as development that will through the economic, environmental and social benefits it creates, improve the living standards of current and future generations, contribute to peaceful co-existence, social cohesion, social justice and social progress, and do so in a way that protects and does not degrade the natural environment. Since 1997, the International Court of Justice has recognised sustainable development as a concept of public international law. There is consensus that the concept has three aspects: ecological balance, social justice and economic security. They are mutually interdependent and regenerative, hence must be pursued concomitantly.

2.3 “*The sustainable development of **their** communities*”: the word “*their*” is a possessive pronoun. It refers to communities to which the co-operative belongs and which belong to it; in other words, communities in which its business operates. Its inclusion in this phrase shows that the primary emphasis of concern is for the local communities within which a co-operative carries on its business operations.

2.4 “*Through policies approved by their members*”. This places a duty on elected boards and management to seek approval from members in general assembly to policies that positively impact on the sustainable community development. It is the members who have the democratic right to control the dynamic creative tension inherent in this Principle: the balance between self-interest and the wider concern for community. In practice, there are many examples of co-operative members demanding a greater commitment to economic, environmental and social development by their co-operative.

3. Guidance notes

Working for sustainable social development.

3.1 Co-operatives are characterised by and proud of the fact they are rooted in local communities. They are set up by the people to meet their common economic needs within communities for buying quality food and services at an affordable price, marketing local

produce and creating local jobs, obtaining credit and insurance and other services. In this sense, co-operatives are an effective tool for the sustainable social development of the communities in which they work.

3.2 Limited only by their financial capacity to do so, many co-operatives have demonstrated a remarkable capacity to care for others and have made significant contributions to the human and financial resources of their communities. Following best practice of corporate social responsibility, many co-operatives now provide social responsibility reports to their members. Co-operatives understand that sustainable social development requires the maintenance of a harmonious relationship between material growth and responding to the immaterial needs and aspirations of the community. These immaterial needs include, culture and the arts, spirituality and religious rights, education, history and heritage, community and cultural festivals, and the visual arts. It is this social dimension of sustainable development that the unique nature of co-operative enterprise has the power to deliver.

3.3 Co-operatives also serve social needs by delivering health and social services, integrating people who are socially disadvantaged into work, and helping community development. In particular, they often play a vital role to serve devastated or depopulating communities through delivering services and encouraging and supporting mutual help among residents.

3.4 In many countries where public services are under threat because of fiscal constraints or where market-orientated politicians seek to transfer public services into the investor-owned enterprise sector, co-operative organisations, such as co-operative development and support agencies backed by local co-operative enterprises, have helped communities establish co-operatives to run public services. This is a practical demonstration of this 7th Principle, working for the common good and common wealth of all.

3.5 Social co-operatives usually have extended groups of members that may include user-members, investor-members, worker-members, promoting members and non-member beneficiaries. The most distinctive characteristic of social co-operatives is that they explicitly define a general interest mission as their primary purpose and carry out this mission directly in the production of goods and services for the general interest.³ Therefore their relationship with this 7th Principle, which is common to all co-operatives, is primary, more explicit, and direct.

Social sustainability: a commitment to peace and social justice

3.6 Many co-operatives also provide extensive assistance to sustainable social development by supporting the growth of co-operatives throughout the developing world. It is a tradition of which co-operators should be proud, reflecting a value towards social sustainability that all co-operatives should emphasise and emulate. This is important because the notion of 'community', whilst being primarily local, is not exclusively so. We increasingly live in a global community connected through media and the power of virtual communication technologies.

3.7 Although co-operatives are rooted in local communities, co-operators are citizens of the world. Conflict is the antithesis of co-operation. Co-operatives and co-operators have a long tradition of being concerned about and working for peace and social justice. Like the ILO, co-operatives recognise that lasting peace can only be built on social justice and that lasting peace is the essential precondition for the sustainable development of communities locally, nationally, regionally and globally. There are many examples of the commitment of co-operatives and co-operators to peace and stability. Co-operatives should ensure that their commitment to work for the sustainable development of their communities includes a commitment to work for and promote peace and social justice.

Social sustainability: concern for employees

3.8 Employees are recruited from and live in the communities in which co-operatives work. Concern for the sustainable development of communities requires co-operatives to be good

³ See *CICOPA World Standards of Social Co-operatives*:
http://www.cicopa.coop/IMG/pdf/world_standards_of_social_cooperatives_en.pdf

employers and to be concerned about their employees' wellbeing and the wellbeing of their employees' families.

3.9 The Preamble to the 2002 International Labour Organisation's Recommendation 193 on the Promotion of Co-operatives refers to "*the rights and principles embodied in international labour Conventions and Recommendations*". In the draft text of Recommendation 193 approved by the Alliance's Board in April 2002, reference to the ILO's labour conventions and recommendations was included and the draft text was approved by the Alliance's Board. The ILO's Labour Standards should therefore be considered as the foundation for establishing a co-operative's employment policies.⁴ Co-operatives should lead by example in seeking to apply them.

3.10 Newly established or smaller co-operatives that do not have professional employment management expertise may find it challenging to comply with international labour standards in employment practice. Larger or established co-operatives, through the application of the 6th Principle, can help newer or smaller co-operatives by sharing employment policies, procedures and expertise with them. Financial and insurance co-operatives can and do provide pension schemes that staff of new co-operative enterprises can join. Co-operatives can form or join secondary co-operatives or federations to purchase employment advice and human resource management services.

Social sustainability: concern for young people

3.11 As has been said previously in these guidance notes, any democratic member based organisation is as good as the next generation of its members. Co-operatives ought therefore to be engaged in promoting and supporting young people in their communities. There are many ways in which this can be done, for example, elected youth representatives on boards, youth conferences, support for youth activities and co-operative youth organisations, and support for co-operative education in schools, colleges and universities.

Sustainable economic development

3.12 This 7th Principle of working for "*the sustainable development of their communities*" also requires that co-operatives accept responsibility for making a contribution to tackling poverty and wealth inequality, not only between developed and emerging economies, but also the growing wealth inequality in nation states and in the local communities within which co-operatives operate. Co-operatives are excellent at tackling poverty reduction and combating wealth inequality because their nature is to create wealth for the many not the few.

3.13 Persistent poverty, deepening unemployment following the global financial crisis, and the growing social gap between rich and poor which has been deepened by a globalised economy and the global financial crisis raises sensitive policy issues related to wealth distribution and is increasingly attracting global concern. The Preamble to ILO Recommendation 193 explicitly recognises "*that globalization has created new and different pressures, problems, challenges and opportunities for cooperatives, and that stronger forms of human solidarity at national and international levels are required to facilitate a more equitable distribution of the benefits of globalization*".

3.14 The UN World Summit for Social Development in 1995 reached a consensus on the need to put people at the centre of development. It pledged to make the conquest of poverty, attaining the goal of full employment, and fostering social integration, as overriding objectives of sustainable development. A background paper for the summit recognised that, if co-operative members and their dependents, and employees and their families are taken into account, over half the world's population depends on co-operative enterprise to improve their basic standard of living.⁵

⁴ <http://www.ilo.org/global/standards>

⁵ <http://www.uwcc.wisc.edu/icc/def-hist/def/dim-int.html>

3.15 The summit attracted the attention of governments to the role played by co-operatives in wealth creation and poverty reduction strategies. It was followed by biennial resolutions in the UN General Assemblies leading to the declaration of the International Year of Co-operatives 2012 with the slogan that "*Co-operative Enterprises Build a Better World*". In his message at the start of the International Year, the UN General Secretary-General, Ban Ki-Moon, said: "*Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility*". In the Rio+20 Summit in 2012, the final report recognised the actual and potential role of co-operatives in helping to achieve sustainable development and contributing to poverty reduction and employment creation.⁶

3.16 The global economic crisis triggered by the financial crisis of 2007/8 shed light on the capacity of co-operatives to sustain local communities by showing the resilience of co-operative enterprises at times of economic crisis. The economic activities of co-operatives are centred on meeting their members' needs. This tends to keep them away from financial speculation that, when combined with an excessive pursuit of profit, led to devastating global financial consequences in 2008.

3.17 Member-control and deep local roots also helps co-operatives to avoid the excesses that can take place in investor-owned businesses, the systemic nature of which is to seek to obtain the greatest possible profit for investors often at the expense of the community in which the business operates. In looking at the resilience of the co-operative form of enterprise at times of economic crisis, academics Johnston Birchall and Lou Hammond Kettilson concluded that:

*"one of the reasons for that longevity (economic sustainability) may be that co-operatives are not motivated to achieve the maximum profit rate. Conversely, co-operatives have objectives regarding service to their community and satisfying their members' needs."*⁷

3.18 This inherent resilience does not mean that co-operatives are immune from the effects of financial and economic crises. Some co-operatives followed the practices of their investor-owned competitors, with equally devastating consequences. Being deeply rooted in local communities and concerned for their sustainable development does not guarantee immunity from economic failure through poor governance and management. Co-operatives can and have failed too from bad governance and poor management. They are at risk of doing so when they ignore the precepts of this 7th Principle and their commitment to ethical business practice.

3.19 Economic viability of co-operatives is key to economic, environmental and social sustainability. Without it a co-operative will not be able to operate in a way that helps tackle poverty and wealth inequality.

3.20 The capacity of co-operatives to work for the sustainable economic development of the communities in which they work is clear, but how can they apply this 7th Principle to achieve that in practice? They do so by applying their ethical values to their trading operations, such as ethical supply chain contracts and Fair Trade, prompt payment to suppliers, Coop2Coop trade and support for other co-operatives.

Environmental sustainability: protecting the environment, an urgent and growing challenge

3.21 The protection of the environment is not a new concern within the co-operative movement. It has been the basis for statements and practical environmental actions for a long time. In a report to the ICA Moscow Congress in 1980 entitled "*Co-operatives in the Year 2000*," Alex. Laidlaw depicted the crude reality: "*No matter what it is said about the century that is about to end, it will probably be remembered as the period in which the human race did more than ever before to poison and destroy its environment.*" In the 1980s consumer

⁶ United Nations (2012). "*The Future We Want.*" Outcome of the United Nations Conference on Sustainable Development, Rio de Janeiro, Brazil, 20-22 June 2012. Document No. A/CONF.216/L.1*. Available from https://rio20.un.org/sites/rio20.un.org/files/a-conf.216l-1_english.pdf

⁷ vv

co-operatives in Europe, North America and Japan took initiatives to tackle environmental degradation through developing eco-friendly products and promoting green consumerism. Agricultural co-operatives also started developing organic produce to meet growing demand and protect farmer's health from hazards of pesticides, while fishery co-operatives were alert to water pollution made by industrial waste and household sewage and promoted effective environmental regulations and encouraged consumers to change their life-styles.

3.22 Concern for the environment became a paramount concern in the co-operative movement when it attracted global attention. Since 1995 concern for the environment has dramatically increased because of the increase in global awareness of the threat human development poses to the environment and because the gravity of the problem, which has grown instead of decreasing.

3.23 In recent years, there have been several studies and international meetings dedicated to the environment. At the Copenhagen Summit on Climate Change in 2009, US President Barack Obama said:

"Climate change poses a grave and growing danger to our people ... This is not fiction; this is science. Unchecked, climate change will pose unacceptable risks to our security, our economies, and our planet. That much we know. So the question before us is no longer the nature of the challenge – the question is our capacity to meet it."

3.24 The Alliance published a message to all members on International Co-operative Day in 2008, "Confronting Climate Change through Co-operative Enterprise", illustrating the magnitude of the problem and highlighting the contribution of co-operatives in counteracting the threat of global warming and climate change.⁸

3.25 Also, during the ICA-Americas Co-operative Summit in 2009 (Guadalajara, Mexico) "Growth and Sustainability" was chosen as a central theme stressing the urgency of tackling the problem. As a result, the "Co-operative Green Pact" was launched, as well as an action plan aimed at complying with the objectives of the Declaration. Subsequently, the regional conference held in 2010 in Buenos Aires was entitled "Co-operative Commitment to the Preservation of the Planet".

3.26 These exemplar initiatives should be replicated and repeated because of the growing nature of the threat to our natural environment. All co-operatives have a responsibility and duty to consider and reduce their co-operative's environmental impact and promote environmental sustainability within their business operations and in the communities in which they operate. Many co-operatives have sought to respond to this threat by embracing green consumerism, sustainable agriculture, renewal energy and other environmental policies and initiatives.

3.27 The magnitude of the environmental challenge demands that it be tackled jointly and in a coordinated way by the different sectors of society, including the state. Therefore, while implementing their own environmental conservation strategies, co-operatives should also actively contribute to raising awareness among other sectors of society, including public authorities, to the importance of implementing policies which protect the environment. Co-operatives are known for pursuing the common good, so they are in an excellent place to stimulate and lead advocacy of this kind. The key to success in this endeavour is an understanding that the gravity of the problem requires the co-operation of all. Isolated efforts, though meritorious, will prove to be insufficient and even frustrating.

The benefits of our three dimensional concern for sustainability

3.28 Human altruism and co-operation is founded on mutual advantage. It is hard wired in our genes.⁹ There is a clear and demonstrable advantage to co-operatives which flows from the three dimensional commitment to the sustainable development of the communities in which co-operatives operate.

⁸ <http://www.aciamericas.coop/IMG/pdf/2008-idc-en-2.pdf>

⁹ See, Rodgers, D. "The Third Estate", Co-operative Party 1999, <http://www.uk.coop/thirdsector/document/new-mutualism-third-estate>

3.29 The three dimensional concern to work for the sustainable development of their communities is beneficial to co-operatives because commitment to this 7th Principle has a key role to play in applying the 5th Principle of educating the general public about the benefits of co-operative enterprise and in encouraging new members to join and strengthen a co-operative by trading with it. Many co-operatives are hugely proud of the diverse range of community activities they support that encompass all three aspects of sustainable development. They are rightly keen to publicise their community support activities, such as local sourcing of supplies to build local economies, encouraging community ownership of shops and other community assets, helping to develop other local co-operatives, supporting cultural events and the arts and supporting environmental campaigns, both locally and globally. As well as being a demonstration of practical commitment to this 7th Principle, working for the sustainable development of communities also encourages people to choose to be members of the co-operative. It is part of the process of membership renewal and expansion.

3.30 This is often described as "*the virtuous circle of co-operative enterprise*". The economic success and sustainability of a co-operative creates the resources to apply this 7th Principle to working for economic, environmental and social sustainability of the communities in which co-operatives operate. The benefits from this responsible commitment to sustainability circle back through new members, increased turnover and higher surpluses that reinforce a co-operative's economic success. The long term sustainability of co-operatives requires a long term commitment and positive ongoing relationship with the communities in which they work. It is to the mutual advantage of communities and co-operatives alike.

Reporting economic, environmental and social sustainability impacts

3.31 Best practice requires that co-operatives should report on how they impact on economic, environmental and social sustainability, and how they apply the Co-operative Principles to the sustainable development of the communities in which they operate. The Alliance has a global reporting initiative which is being developed by its Sustainable Advisory Group. Co-operatives need to be part of the global move towards transparency and reporting and be committed to it. All co-operatives are encouraged to consider the standard reporting framework the Sustainable Advisory Group recommends.

4. Matters for future consideration

Publicising the challenges of sustainable development

4.1 Co-operatives have a special responsibility to alert their members and the public to the challenges of sustainable development locally and globally and contributing to the efforts to promote it in an effective way. The Alliance's "Blueprint for a Co-operative Decade" sets out "sustainability" as one of the priorities to be addressed in the years to come. It states that:

"Co-operatives have always set out to enable people to have access to goods and services without exploitation. This has meant trading in accordance with a set of values based on what we would today call sustainability. By placing human need at their center, co-operatives respond to today's crises of sustainability and deliver a distinctive form of 'shared value'. Quite simply, a co-operative is a collective pursuit of sustainability. Co-operatives seek to 'optimise' outcomes for a range of stakeholders, without seeking to 'maximise' the benefit for any single stakeholder. Building economic, social and environmental sustainability should therefore be one of the overarching motivations and justifications for a growing co-operative sector. It offers an answer to the question of why co-operatives are necessary and beneficial, at this historical juncture".¹⁰

Setting goals for sustainable development

4.2 The Blueprint also sets goals for attaining sustainability in the three areas of economic, social and environmental sustainability and indicates how these goals might be achieved by possible or indicative actions. Co-operatives are encouraged to give consideration to the all the

¹⁰ International Co-operative Alliance "Blueprint for a co-operative decade", page 14

Blueprint's recommendations that, when implemented, will ensure that the Alliance's vision is achieved *"for the co-operative form of business, by 2020, to become the acknowledged leader in economic, social and environmental sustainability, the model preferred by people, and the fastest growing form of enterprise"*. Building from the local base, co-operatives can support not just wider policies on sustainability issues but also practical support for practical sustainable development projects both locally and through international development projects.

The gravity of global environmental problems

4.3 The concern of co-operatives to address the increasing gravity of global environmental problems was shown during debates at the Alliance's General Assembly in Cancun, Mexico in 2011, as were positive exemplar actions by co-operatives regionally and globally to tackle threats to the global environment such as global warming, carbon emissions, use of pesticides, and destruction of rain forests. This engagement with global environmental issues is appropriate and to be encouraged but needs to be matched with local environmental actions. For example, concern for climate change requires all co-operatives to audit their carbon emissions and seek to reduce dependence on fossil fuels. Also, any co-operative concerned about climate change and the destruction of rainforests needs to act locally too by ensuring that all timber used in construction and maintenance is certified as being sourced from sustainably managed forests.

Access to health care and other essential service

4.4 Access to health care and medical services is not the only aspect of global health promotion. Access to clean water, sanitation services, electricity for food refrigeration, and decent housing that is safe, secure and pest free is also vital for human health. Concern for community and the contribution co-operatives can make to wider civil society through supporting the attainment of the United Nations Sustainable Development Goals will also be important in the future.

Open source IT software

4.5 Co-operatives should consider how best to support the development and use of open source IT software to ensure that software that meets the needs of co-operatives is available to them at reasonable cost. This is particularly important for banking and insurance co-operatives and credit unions in emerging economies, but also for other co-operative sectors too.

Collaboration with other organisations

4.6 Co-operatives alone cannot attain the goal of the sustainable development of their communities; they have to enter into agreements with and collaborate with other organisations, including governments. Such collaboration is indispensable given the huge global challenges of achieving the UN's Sustainable Development Goals. Co-operatives need to collaborate with community organisations, private companies, volunteer groups, charities, and local, regional and national governments. In doing so they need to consider how to ensure that they can engage in collaborative ventures that promote sustainable development in accordance with the 4th Principle; that is, freely and on terms which ensure democratic control by their members is preserved, and that their co-operative's autonomy and independence is maintained.

Promoting global peace and social cohesion

4.7 Co-operatives have always played a significant role in promoting global peace and social cohesion. Application of the Co-operatives Values and Principles by co-operatives create a unique capacity to contribute to global peace and prosperity. All co-operatives should give consideration to the contribution they can make in their local communities and beyond to peace, social solidarity, social justice, and prosperity for all.

Helping to build civil society

4.8 All co-operatives should consider and develop the capacity they have to make a significant contribution to building civil society by the successful application of this 7th Principle. They do so by contributing to the sustainable development of their local communities and, more widely, to the sustainable development of the national, regional and global communities of which they are part. Engaging members from local communities in co-operative enterprises creates new, engaged and responsible activists who drive the development of the co-operative movement forward into the future but who also, in a tradition that reaches back to the founders of this great global co-operative movement, become engaged in a much wider range of progressive organisations. Co-operatives have always made, and continue to make, a major contribution to the progress of civil society and democratic renewal.

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Abbreviations and Glossary

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Abbreviations used:

The Alliance: the International Co-operative Alliance, see <http://ica.coop>

FAO: United Nations Food and Agriculture Organization, see <http://www.fao.org>

ILO: International Labour Organisation, see <http://www.ilo.org>

IYC: United Nations International Year of Co-operatives 2012, see <http://social.un.org/coopsyear/>

UN: the United Nations, see <http://www.un.org>

Glossary:

Apex organisation: a national **tertiary co-operative** or national **co-operative federations**, sometimes called a "**co-operative union**".

Asset-lock: a legal restriction in national law or in a **co-operative's bylaws** that prevents the distribution of a **co-operative's indivisible reserves** on the dissolution of a **co-operative**.

Board: the elected and appointed or co-opted members of the board of directors or other collective body that exercises **governance** control over a **co-operative enterprise** and is accountable to a **co-operative's members**.

Bylaws: the governing constitution or rules of a **co-operative** that enshrines in law its nature, identity and objects as a **co-operative** operating in accordance with the **Co-operative Principles** that protects the democratic rights of **members** to control their **co-operative enterprise**.

Co-operative: an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Co-operative commonwealth: the combined economic, social and environmental activities and effects of all **co-operative enterprises** that create wealth in a sustainable way for the many not the few.

Co-operative enterprise: a business enterprise operated by a **co-operative** in accordance with the **Co-operative Principles**.

Co-operative federation: an organisation of a number of **co-operatives** that provides support services to or represents **member co-operatives**.

Co-operative movement: the global family of **co-operatives** that operate **co-operative enterprises** in accordance with the Co-operative Values and Principles adopted by the **Alliance**.

Co-operative Principles: the Seven Co-operative Principles set out in **The Statement on the Co-operative Identity** recognised by the **members** of the **Alliance** as the fundamental guiding practical operating principles for the governance and management of a **co-operative enterprise**.

Co-operative union: an alternative name for a national **apex organisation**.

Coop2Coop trade: a business relationship between co-operatives in which one **co-operative** enters into a trading relationship with another.

Co-operative founders: the philosophical thinkers and founders of the modern **co-operative movement** who pioneered the development of co-operatives in different countries and on different continents during the 19th and 20th centuries. These include: Robert Owen in Wales, England and Scotland; Alfonse and Dorimène Desjardins in Quebec, Canada; Charles Fourier and Charles Gide in France; Dr William King in England; Frederick Reiffeisen and Herman Schultz-Delitzsch in Germany; Horace Plunkett in Ireland; Frs. Jimmy Tomkins, Moses Cady, Rev. Hugh MacPherson and AB MacDonald who founded the Antigonish Co-operative Movement in Nova Scotia; Fr. José Maria Arizmendiarieta in Mondaragon; Spain, and the **Rochdale Pioneers** in Rochdale, England.

Corporate member: a member of a **co-operative** that is a **corporate person**.

Corporate person: a **legal person** that is an incorporated organisation under national legislation.

Credit Union: a member-owned financial **co-operative** operated for the purpose of promoting thrift, providing credit at competitive but not usurious rates and providing other financial services to its members.

Dividend: that part of an annual **surplus** returned to members based on each member's participation in the creation of the **surplus**, essentially a post year-end adjustment to the price transactions between the member and the **co-operative**. (NB: this is fundamentally different from the dividend paid as a return on capital invested to shareholders of a joint stock company. This why some **co-operatives** prefer to call the distribution of **surplus** to **members** a "**patronage refund**".)

Electoral committee: a committee of a **co-operative** appointed by the **members** to oversee the independent and fair administration of elections.

Fair market rate or compensatory return: the limited rate of return on **withdrawable share capital**; the lowest rate of return sufficient to obtain the capital a **co-operative** requires from its **members**.

General assembly: a general meeting of **members, or their delegates, of a co-operative, or of the Alliance** at which major policy decisions, strategic issues and in some co-operatives, major business decisions are taken and representatives elected to the **board** that controls a **co-operative**.

Human rights: the fundamental rights of individual persons set out in the **United Nations Declaration of Human Rights** and the 1966 **United Nations International Covenant of Human Rights**.

Hybrid Co-operative: a **co-operative** that has issued equity shares to non-member investors.

Indivisible reserves: a **co-operative's** retained earnings owned collectively by its **members** which represent the net assets of the **co-operative** after the payment of all residual debt that are the common property of the **co-operative** and do not belong to any generation of **members**.

International Co-operative Alliance (also called the "Alliance"): the global membership organization founded by the global **co-operative movement** in 1895 and recognised by the

United Nations, the **International Labour Organization** and the **United Nations Food and Agriculture Organization** as a consultative body.

Law First: the objects stated in the 1844 rule book of **The Rochdale Society of Equitable Pioneers**.

Legal person: an individual, company or other corporate organisation that has legal rights and is subject to legal obligations.

Member: an individual or **legal person** who chooses to belong to a **voluntary organisation**.

Members' capital: the amount of money paid into the **co-operative** by **members** to provide working capital for their **co-operative**.

Multi-stakeholder co-operative: a **co-operative** with more than one class of **legal persons** as **members**.

Ombudsman/ombudswoman: an official appointed by a co-operative or under co-operative legislation to examine and report on complaints made by **members**.

Patronage refund: an alternative term for **dividend**; that part of a **co-operative's** annual surplus distributed to members based on each member's participation in creating the **surplus**.

Primary co-operative: a **co-operative** that operates a **co-operative enterprise** for the benefit of its **members**.

Profit: the total annual positive results of a **co-operative's** trading.

Rochdale: an industrial town in Lancashire, England that at the beginning of the industrial revolution was the town in which the **Rochdale Pioneers** established their consumers **co-operative** and is now recognised internationally as the birthplace of the modern **co-operative movement**.

Rochdale Pioneers: the founder members of the first successful co-operative enterprise in Rochdale, England: **The Rochdale Society of Equitable Pioneers**.

Secondary co-operative: a **co-operative** the members of which are **primary co-operatives**.

Sectoral organisation: a national, regional or international organisation that represents the interests of **co-operatives** operating in a particular business sector, such as banking, fishing, agriculture, housing, worker co-operatives, etc.

Surplus: that part of a co-operative's annual trading **profit** deriving from the economic relationship with its **members**.

Sustainable development: development that meets the needs of the present without compromising the ability of future generations to meet their own needs defined in the Bruntland Report "Our Common Future" presented to the 1992 **UN** Conference on Environment and Development, also called "The Earth Summit" that, since 1997, has been recognised by the International Court of Justice as a concept in international law.

Tertiary co-operative: a national **co-operative**, **co-operative union** or **co-operative federation** that represents the interests of its **member co-operatives** nationally and internationally.

The Rochdale Society of Equitable Pioneers: the co-operative enterprise founded by the **Rochdale Pioneers** in **Rochdale**, England, which commenced trading on the on the 21st of December 1844.

The Statement on the Co-operative Identity, Values and Principles adopted in 1995 during the gathering of the international cooperative movement in **general assembly** of the **Alliance in** Manchester, England, see <http://ica.coop/en/what-co-operative>

Usufruct: the right to use and enjoy the fruits of a thing possessed: in the case of a **co-operative**, the members' right to enjoy the benefits that arise from a **co-operative's indivisible reserves**, which are the common property of the **co-operative**.

Withdrawable share capital: members' capital that is withdrawable by **members** on terms agreed by the **co-operative** on giving notice to the **co-operative** on which a limited or **compensatory return** is paid, if any.

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