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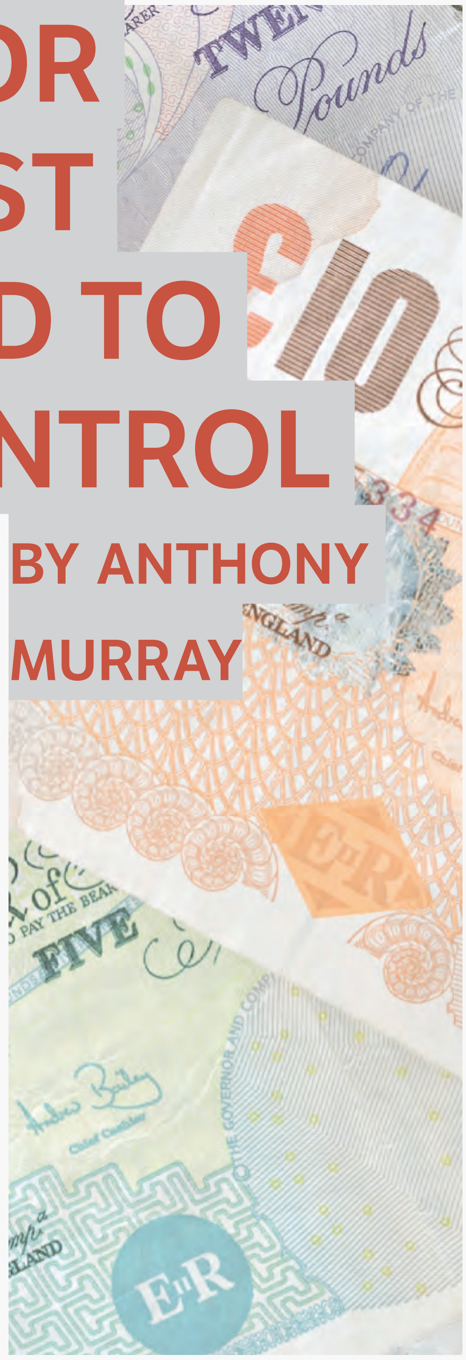
THE HUNT FOR CAPITAL MUST ALWAYS LEAD TO MEMBER CONTROL



BY ANTHONY MURRAY

In researching finance options across the co-operative landscape for this supplement it has become very clear that capital is now much more widely available to the sector.

Co-operative and Community Finance is an inspiring 40-year journey that has helped build a significant chunk of our co-operative movement. As well as managing its own fund, it looks after a wide-range of other schemes on behalf of other organisations.

Though it has not always been like this. Following the 2000 dotcom boom, Poptel, a worker co-op specialising in internet services, was taken into private ownership after sourcing funding from a private equity firm. In a fast-growing sector it needed finance to keep up with the latest technologies, but also to launch the .coop domain name — a project that was years ahead of its time.

Poptel's directors had been knocking on the doors of co-operatives for funding options, but there were very little support mechanisms available.

Today, such a thing is less likely to happen with the various loan funds set up by co-ops, plus the other specialist organisations linked with our movement, such as this supplement's sponsor, Unity Trust, which caters for those that aim to improve communities.

Though, access to these funds are, of course, reserved for viable businesses that have a clear vision and focus. And the former Co-operatives UK Chair David Button makes a good point in this issue that, despite the regulatory environment for the sector, co-operative businesses can find needed capital in innovative ways.

That isn't to say a focus on legislation change would not bring advantages to co-operatives. As part of the International Co-operative Alliance's 'Co-operative Decade', President Dame Pauline Green is calling for governments around the world to 'level the playing field' for the movement, in comparison to the private sector.

In the UK, and in these pages, a number of well-respected people are calling for an overhaul of regulation for co-operatives.

Possible answers for easier access to capital is mooted to be in fixed-term shares, a revamp of withdrawable capital, loans for services or allowing organisations, such as councils and trade unions, to become larger investors.

Ignited by the proposals to partially float the Co-operative Bank on the stock exchange, this issue also looks at other international models where mutuals have been listed publicly as a capital option.

But, whatever the answer for capital access, it is clear that all co-operators come back to the same caveat; no matter how capital is sourced, members must at all costs retain control.

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As a major provider of sustainable finance and banking services to organisations across the social economy — including co-operatives, social enterprises and community groups — Unity Trust Bank is delighted to support this "Financing Co-operatives" supplement.

During 2012 we made lending commitments of £32 million to social economy customers. This is part of Unity's plan to support the sector with £100 million of lending over three years. The lending was delivered in three main areas: community finance, settled housing and community cohesion.

As a social enterprise ourselves, we are committed to using our commercial success to enable social development in the communities we serve and so contributing to a more sustainable society.

At Unity we want to continue to play our part in investing in and building a stronger co-operative movement. We encourage co-operatives and other social economy organisations wanting to set up day-to-day banking and loan facilities to consider the benefits of banking with Unity. Together we can help support real social impact in local communities.

Peter Kelly
Business Development and Marketing Director, Unity Trust Bank

Join the Capital Debate

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CO-OPERATIVE & COMMUNITY FINANCE: A MATURE LENDER WITH AN EYE TO THE FUTURE

BY MARIE-CLAIRE KIDD

Co-operatives often have difficulty raising capital, but finance is available for viable businesses, even when banks say no. Co-operative & Community Finance, which is 40 this year, brings an array of options under one roof.

It has over £4m of its own capital to support new or expanding member organisations, employee buyouts and communities purchasing assets. And by co-investing with other lenders like Baxendale Ownership and Big Issue Invest, it maximises its power and spreads the risk.

CCF manages other funds too. There is the Co-operative Loan Fund, which lent £300,000 to 14 co-ops in 2012. It also runs a number of local authority funds and co-manages London Development Agency's £1.8m growth fund with London Rebuilding Society.

Roger Sawtell, co-founder of the Industrial Common Ownership Fund, the precursor to CCF, remembers the early days. "Workers co-ops have a problem raising capital," he says. "Their democratic model doesn't allow for investment by outside shareholders.

"There was an urgent need for a revolving loan fund. We set up ICOF in 1973 with £5,000 from Scott Bader, £5,000 from an individual and several smaller donations."

In 1976 ICOF came into its own. The Industrial Common Ownership Act granted it £250,000 for a revolving fund. "Loan finance was just what was needed," says Mr Sawtell. "ICOF was doing something very practical to contribute to what was then a rapid growth in co-ops."

That £250,000 weathered a series of recessions over 20 years. CCF's Investment Manager Ian Taylor says: "Initially we were mostly concerned with common ownership co-operatives. We had close links with the Industrial Common Ownership Movement. We were creating demand and it became clear that we needed more funds."

In 1987 it launched ICO Fund plc, a subsidiary which raises capital by public share issue. People concerned for their communities embraced it, and in 1997 the 10-year redeemable share fund grew to £1.1m. In 2007 it raised £1.3m. ICO Fund, which has now lent over £4m to over 100 democratically owned businesses, relaunches in 2017. CCF grew again in 1994. It set up ICOF Community Capital, to support community businesses unable to access conventional finance.

An industrial and provident society, this fund offers membership shares to individuals and organisations; an ethical investment with a priority for people rather than profit. The minimum investment is £250 and the maximum is £20,000, although co-operatives can invest more.

Some 65 per cent of Community Capital investors have waived their right to interest or dividends. This money goes instead to a separate guarantee company, which helps cover capital losses from Community Capital and ICO Fund.

In 2012 CCF added Community Shares ICOF to the group, so that it could invest in share issues for community-owned enterprises like pubs, shops and energy schemes.

CCF Chair Jo White explains: "We decided that

CCF provided finance to Edinburgh Bicycle Co-operative when it started in 1977. It is now the north's leading independent bike seller, with stores in Aberdeen, Newcastle, Leeds, Manchester and Sheffield, as well as Edinburgh. Run by 112 worker members through a delegated management structure, it turns over £12m and supports 175 employees.

we could best support community share issues by investment rather than loans, even though this is different to our core business."

Aided by a large grant from the Co-operative Group, Community Shares can underwrite share issues and, where money is needed quickly, provide finance before the community reaches its funding target.

For investors who prefer to buy shares through monthly subscriptions, Community Shares offers funds up front, ensuring those who cannot afford a single payment are not excluded. Mr Taylor says CCF helps co-operatives raise capital while remaining democratic. "Our reason for being is to support co-ops and develop the co-operative, employee owned and community sectors," he says. "We don't lend to anyone else. It's our niche market.

"We look at the structures of those that are applying very carefully and measure their rules and governance against the seven co-operative principles. In an application we're looking for co-operative and commercial viability."

CCF offers some pre-investment advice, but refers prospective borrowers to the Co-operative Enterprise Hub and other specialists like Plunkett Foundation, Co-operatives UK, Baxendale Ownership and co-operative development bodies. Mr Taylor says: "We don't rely on our own advice, otherwise in due diligence we'd be assessing ourselves."

CCF HELPS CO-OPERATIVES RAISE CAPITAL WHILE REMAINING DEMOCRATIC

The co-op has come a long way in 40 years, but what is next? Mr Taylor expects community share issues to increase in number and ambition over the coming years, partly due to the Government's Community Ownership of Assets and Community Right to Challenge programmes.

More capital will be needed to support them, he says. "Community Shares has £1.3m and other retail societies waiting in the wings," he says, "but it would be good to have more people investing in Community Capital."

Ms White, who is Executive Director of Co-operative Futures and sits on the Co-operatives UK board as well as chairing CCF, adds: "There's increasing recognition that we need to build up the middle band of co-ops – those with £5-10m turnover.

"There's lots of small co-ops and a few very big ones. CCF needs to help bridge that gap, by helping smaller co-ops grow and new medium sized co-ops start up. Forty years is a magnificent achievement," she adds. "The board is mostly made up of people who have borrowed. This keeps us on track and makes us better lenders."

CROWDFUNDING CO-OPERATIVES ONLINE

Communities can fund new co-operatives and become members through a newly-launched crowd-funding platform.

The Microgenius online platform, developed by the Community Shares Unit (CSU), operated by Co-operatives UK and Locality, allows people to invest in share offers and for enterprises to accept funds from new members.

The unit, supported by Department of Communities and Local Government, took on the operation earlier this year after Micogenius had hosted a number of successful share offers for renewable energy schemes in 2012.

Since then, the Community Shares Unit has been developing the website and expanding the platform so it can be used for any community enterprise undertaking a community share offer.

Microgenius is now hosting several community share issues including a community buy-out of a well-known pub in Hebden Bridge, a community-benefit society raising investment for a solar installation on a local school in Hertfordshire, and an enterprise looking to install woodchip boilers to heat a local college in Leicestershire.

Simon Borkin, Programme Leader of the CSU, said: "This is a great step forward for the unit in providing well-rounded support to the market. Microgenius has already demonstrated that it offers a valued tool to assist enterprises in implementing successful share offers."

"The site has been redesigned so it can actively reduce the workload for societies running share offers, through providing a tailored and secure payment process. Furthermore it offers an easier means to supporters to invest in share offers."

Enterprises preparing to raise investment through community shares are encouraged to register their interest for using the platform.

• For more, visit: www.microgenius.org.uk

BRINGING INNOVATION TO SHARE CAPITAL

BY ANCA VOINEA

While posing great challenges to co-operatives around the world, the financial crisis has also given co-operatives the opportunity to show they are different and build a case for co-operative capital as an inspirational model.

With access to capital being a basic requirement for co-ops to be established, grow and flourish, the Blueprint for a Co-operative Decade, published by the International Co-operative Alliance, highlights the challenges faced by co-operatives when trying to raise capital.

Withdrawable share capital can no longer provide sufficient capital for the full range of co-operatives, according to Cliff Mills, one of the Blueprint authors and Senior Research Associate with the Oxford Centre for Mutual and Employee Owned Business.

He welcomes the announcement of the first reading of the Mutuals' Redeemable Shares Bill which seeks to amend the capital regime, while safeguarding the purpose and integrity of mutuals. Mr Mills, who is a Principal Associate at Mutuo, the organisation behind the Bill, believes co-ops need a form of capital which works not only for small co-ops, but also for big businesses.

Mr Mills, who has written the constitution of a number of the UK's leading co-operative retail societies, thinks co-ops should try to adapt withdrawable share capital to make it work for co-ops not only at the small-scale end, but also for big businesses.

He describes a form of funding for co-ops which "precisely retains the control of members, but provides them with a safe place for them to save their money and the opportunities for an exit in circumstances that don't prejudice the business".

He says: "We need capital, but not a form of capital which is simply on the hunt for profit," adding capital should not undermine co-operative values and principles. In the context of the financial crisis, the emphasis should be placed on funding for businesses that can build a better world, thinks Mr Mills. "There is absolutely an opportunity for co-ops to make people aware of a different way of trading and saving," he says.

Mr Mills also highlighted that in cases where the capital is secured through outside loan sources, it is essential to preserve the identity of that co-op. "We see these things as connected because people need to know that if you buy a financial instrument in a co-op you are supporting something that is there to trade for the benefit of the co-ops and its members and the wider community," he says, referring to the relationship between co-operative capital and identity.

> CAPITAL SHOULD NOT UNDERMINE THE VALUES AND PRINCIPLES OF CO-OPERATIVES

According to Mr Mills, identity needs to be consistent with the type of capital and the way in which the mutual is structured, maintaining it under members' control, and not under the control of the providers of capital.

Legislation is another important aspect that needs to be taken into account when it comes to raising capital. "We need to look at different ideas that are working elsewhere around the world," believes Mr Mills, adding that it can be difficult to cross jurisdictional boundaries. He adds: "We should be studying what other jurisdictions are doing and where instruments for raising capitals are successful working in one country and how they can be used and adapted in other countries."

To explore new opportunities for raising capital, the Blueprint suggests undertaking research on changing attitudes and motivation for funding and new financial instruments while reviewing the risks and opportunities created by the use of subsidiary corporate entities.

• To read the Blueprint, visit: ica.coop/blueprint

LEGISLATION EXPLORES A NEW WAY FOR MUTUALS

BY PETER HUNT

By their very nature, co-operatives and all other types of mutuals are limited in how they can raise capital. Like all businesses, they can retain profits and can borrow against future earnings, but they have no equity shareholders so do not have access to this type of prime capital.

Mutuals were not designed with capital investors in mind. They exist to serve their members who will be customers, employees or defined communities. Where members have contributed capital to their mutual enterprise, it is not in order to speculate for gain but is out of necessity in fuelling the business.

Large mutuals are thus created patiently, and over a long time – requiring sustained periods of business success to grow. The lack of external capital is sometimes cited as a strength in the process of building patient, risk averse mutual businesses, which can concentrate on the job in hand, rather than the short term needs of capital investors. However, it can also limit their flexibility in adapting to new market conditions, securing maximum investment in the business and their ability to grow through acquisition.

These restrictions are well known and mean that the debate around capital in mutuals is not new. To date however, in the UK at least, mutuals have not made significant alterations to their basic capital framework, which was designed more than 150 years ago.

The reason for this is that mutuals have been wary of introducing external capital into their business for fear that it could subvert the purpose of the firm and could lead ultimately to demutualisation in extreme cases.

The challenge therefore is to amend the capital regime in mutuals to permit the injection of external capital, while safeguarding both the core purpose and mutual integrity of the business. We can point to existing examples of where this has been achieved in other countries such as Canada and the Netherlands.

Now, in the UK, the Mutuals' Redeemable Shares Bill seeks to make the necessary legislative changes to permit mutuals to access additional capital, while safeguarding their mutual purpose and status. This legislation will facilitate growth in the mutual sector and increase competition with proprietary businesses.

New shares would be created which provide an option for institutions and individuals seeking to diversify their investment portfolio.

The shares will be fixed term shares, commonly not transferable but redeemable by the issuing mutual. Mutuals may in due course construct internal trading schemes for some types of shares to promote greater liquidity. Redeemable Shares would entitle the holder to:

- membership of the mutual
- one vote as a member
- such level of interest as was payable under the rules
- repayment of the capital at par at the end of the term, or sooner if the society was wound up

The Mutuals' Redeemable Shares Bill would create a legal framework for these shares to be issued. The Bill will also provide powers to make regulations to deal with the detailed implementation of such schemes. Such powers would be exercised under the affirmative resolution procedure of both Houses of Parliament.

In summary, the Bill will:

- Create an optional new and additional class of redeemable share through which specified mutuals can raise additional funds.
- Provide consequential rights to specified mutual society members.
- Restrict the voting rights of certain members who hold only redeemable shares, so that they cannot participate in any decisions to transfer, merge or dissolve the mutual.

Mutuo has produced this draft Bill with the assistance of leading co-operative and friendly society/mutual insurer lawyers, Ian Snaith of DWF LLP and John Gilbert of Hogan Lovells LLP.

On July 22nd, Lord Naseby presented the Bill in the House of Lords as the first stage in its Parliamentary journey. Lord Naseby is a long standing supporter of mutuals in Parliament; Vice-Chairman of the All Party Parliamentary Group for Mutuals; and a former Chairman of Tunbridge Wells Friendly Society.

As readers will appreciate, this is a complex undertaking, requiring skilled Parliamentary and legal expertise in order to build a cross-party consensus in support of this new law in both Houses of Parliament, with HM Treasury and with prudential Regulators.

Mutuo has assembled an experienced Bill team to take forward this work, and now need the support of all mutual business to help to steer the Bill to Royal Assent by helping to resource the Bill team and provide their expert input.

A significant effort is required to give this Bill the best possible prospect of success, and this really requires the active assistance of those businesses that will ultimately benefit from it.

- Readers can immediately participate in this effort by logging onto the Mutuo website and joining the campaign to lobby for Parliamentary time to be allocated to this Bill: www.mutuo.co.uk.

Peter Hunt is Chief Executive of Mutuo

AGRICULTURAL CO-OPS FACE FINANCE CHALLENGES

Agricultural co-ops play an important role in the UK co-operative sector, accounting for 14.6 per cent of turnover in the co-operative economy and eight per cent of co-op membership.

Whether they aim to expand or simply raise start-up capital, agricultural co-ops are faced with challenges.

James Graham, Chief Executive at Scottish Agricultural Organisation Society Limited (SAOS), agrees that co-ops face some disadvantages when it comes to raising capital. Publically-listed competitors can raise capital from financial markets, while co-operatives depend upon its membership to raise capital.

Furthermore, if they are active in the food business, co-operatives often require a substantial funding from a small number of members. "The only source of capital is debt capital, which means taking on loans from banks, there isn't anywhere else they can go to, the amount of money members put in determines how much the banks are prepared to lend to them," explains Mr Graham.

Although some grant schemes are available through EU's Common Agricultural Policy, these direct payments only finance a small proportion of the investment, and farmers have to contribute the large majority.

Agricultural co-ops exist to benefit their members in accordance with principles of co-operation, with farmers investing in proportion to use. With the government announcing a consultation to lift the £20,000 cap to invest in a co-op, agricultural co-ops in Scotland will look again at their balance sheets and come up with a different mix of shares, thinks James Graham. He said many agricultural co-ops tend to have a high proportion of member loans and a small proportion of share capital.

Says Mr Graham: "This change will be warmly welcomed, and will help to secure more capital for investment in growth. Agricultural co-operatives deliver substantial commercial benefits to their farmer members by enabling them to access scale advantages in both farm supplies and produce marketing, and by providing a counter-balance to the power of the multinationals."

David Button, the former Chair of Co-operatives UK who has been involved in the agricultural sector throughout his career, says he welcomes the government's proposal to lift the cap.

He describes this as a "very positive step forward", though he says this is unlikely to have an immediate impact on the majority of agricultural co-ops in England, but does offer new opportunities for highly capitalised and expanding organisations.

Mr Button says co-ops had developed sophisticated ways of raising capital, particularly member interest-free loans, linked to the use of services, which has become the preferred and widely used method of member investment, especially for a capital intensive project.

He explains that agricultural co-operatives in England have historically used loans from their members together with bank borrowing and where applicable grant aid, to obtain the necessary start-up finance, rather than to depend upon member share capital.

With banks looking for greater security, it is becoming more difficult to obtain the necessary bank support. According to Mr Button, the potential for using the availability of an increased level of share capital together with the existing mechanisms already in place, will offer additional opportunities to finance new investment and become less exposed to debt finance.

"I think we underestimate what we already have achieved in this sector of the co-operative movement in this country," he says, adding that out of UK's top 100 co-ops, more than 40 are agricultural co-operatives. However, agricultural co-operatives operate in a highly competitive market place and access to finance is a key component to their development and success.

GOING PRIVATE: THE GLOBAL STORIES

In the UK, the Co-operative Bank is faced with a capital shortfall and its answer to fill this need is to partially float on the stock exchange. This idea is not new in the mutual world, and has happened in other countries . . .

Crédit Agricole

With outstanding loans reaching €485 billion at the end of 2012, Crédit Agricole remains France's leading financier, according to the bank's Chairman, Jean-Mare Sander.

In 2001, the co-op was partially demutualised to enable the bank to expand abroad. It now has a hybrid model with local banks owning the majority of the regional banks' share capital and 56.3 per cent of share capital held by the 39 regional Banks through a holding company.

Over the past year, it has improved its solvency ratios by reducing its risk-weighted assets. Crédit Agricole Group, formed of Crédit Agricole S.A. and the Regional Banks, will, under the new Basel 3 standards, have a Common Equity Tier 1 ratio in excess of 10% at the end of 2013.

Crédit Mutuel

France's fifth largest banking group, by equity, and the third largest retail banking franchise, remains a mutual, but it has a subsidiary, Crédit Industriel et Comercial Group, which is listed on the Paris stock exchange.

In 1998, the subsidiary was privatised and the corporate structure reorganised. The bank is now a public company, with more than 97 per cent of shares controlled by the Crédit Mutuel Group.

The 7.3 million member shareholders acquired co-op shares in local banks. Although it needed government support to cope with the crisis, Crédit Mutuel repaid the bailout in 2009.

Raiffeisen International

Austria's third largest bank and a leading universal bank in Central and Eastern Europe, Raiffeisan Bank International AG, has more than 2,200 independent banks and their branches, and employs more than 23,000 people.

It has a capital ratio of just 6.9 per cent, and it was bailed out by the Austrian government, which needs to be repaid.

The 2,200 co-op banks hold 88 per cent of the Raiffeisen Zentralbank Osterreich/RZB Group's shares. The RZB Group owns a 70 per cent stake in the public Raiffeisen International. Reiffeisen has made a profit every year since it has been listed on the Vienna stock exchange in 2005.

CHANGES IN THE LAW CAN HELP TO GROW MOVEMENT

BY SUSAN PRESS

Co-operatives need capital if they are to grow in a world where their vision is needed more than ever. Since the global financial crisis, there is a widespread consensus that attitudes have changed and people are ready to consider business options that put human need above human greed.

Historically, co-operatives were funded by cash deposited by members, at a time when bank accounts were confined to the well-off. But the world has changed in 150 years and people now offered endless options when it comes to financial services no longer need to rely on the co-op as a safe haven for their cash.

Many of the key issues around the topic of co-operative capital have been outlined in documents like the International Co-operative Alliance's recent Blueprint for a Co-operative Decade, which sets out a road map towards more sustainable and participatory ways of doing business by 2020.

> 'WE NEED LEGAL FRAMEWORKS, WHICH DO NOT PUT US AT A DISADVANTAGE TO PLCS'

Investor-owned companies have always been able to raise capital from those looking for a profitable financial return on their money. Traditional "equity capital" entitles shareholders to a proportionate share of the capital value of a company, plus any profits in the value of the business. Since its beginnings, the co-operative movement has used a very different model.

Legal writer and researcher Ian Snaith, a consultant to law firm DWF LLP, explains: "The essential issue is that by definition co-ops do a number of things very differently. With one member, one vote, one dividend, investors have less influence and control.

"The other main issue is that normally co-operatives offer a limited return on capital be it shares or loans. Profits are usually distributed if at all according to transactions i.e. purchases in stores. Those things mean co-ops can't use share capital in the same way PLCs do where the more shares you have the more you increase percentage of profit.

"By their definition, co-ops can't offer those things which are obviously attractive to investors. But some take the view that our structures could vary without compromising the co-operative model. What the ICA Blueprint is trying to do is develop a way forward and stress the advantages of what the co-op model can offer society at large when compared to investor-owned businesses."

Mr Snaith points out that in other parts of Europe like France, Spain and Italy, co-operatives have much tighter legal structures and the UK has a broader range of choices when it comes to setting up co-operatives.

But in Europe it is also possible for non-user investors belonging to bodies like trade unions and local councils to financially aid the development and expansion of co-operatives. He would like to see similar opportunities here in the UK and more legislative reform to give co-operatives easier access to the capital they need.

"The financial crisis gives an opportunity to encourage people to invest in organisations, but we need legal frameworks which are more user-friendly and which do not put us at a disadvantage when compared to PLCs."

Mr Snaith agrees that in a world more largely sympathetic to the co-operative model, people also need to know what they are choosing when faced with the option between a co-operative or an investor or privately-owned business.

The ICA is encouraging the co-op movement to help them build a credible strategy which people can understand and believe in — one they want to see equipped with the right financial mechanisms through which co-operatives can use their funds without compromising commitment to the co-operative ideal.

It is also promoting and encouraging the funding of co-operatives through the sharing of ideas and experiences around capital and finance to develop different ways of working to suit different sizes of co-operatives — and meet the needs of an increasingly wide range of sectors.

One of the ICA's immediate goals is to identify institutions which can work together to help businesses large and small needing capital bring money together in larger sums

Initiatives like the Global Development Co-operative, which is targeting investors with an interest in international development, are already playing a major role in accelerating global trade between co-operatives.

The Community Shares Unit, backed by Co-operatives UK, is also delivering a wide range of opportunities for community enterprises from co-operatively owned shops, pubs and businesses to renewable energy and the Microgenius web platform, which aids on-line investment.

And Ian Snaith believes the signs are very encouraging. "Legislation and better frameworks are necessary but not sufficient on their own," he says.

"They have to be there to allow us the opportunity to do things but they are not a magic bullet. Fundamentally we need better ways of investing in co-operatives but also ways which stay true to the co-operative identity. I am confident we can achieve that."

WITHDRAWABLE SHARES ARE ONE WAY TO SECURE CAPITAL

IN EXPLORING NEW APPROACHES TO CAPITAL, A DISCUSSION PAPER HAS BEEN SUPPORTED BY CO-OPERATIVES UK. THE REPORT'S AUTHOR, **DR MARK HAYES**, SUMMARISES HIS FINDINGS HERE . . .

The ICA Blueprint for a Co-operative Decade contains two key sentences which summarise the challenge. Co-operative capital needs to offer 'a financial proposition which provides a return, but without destroying co-operative identity; and which enables people to access their funds when they need them. It also means exploring wider options for access to capital outside traditional membership, but without compromising on member control'.

Capital is neither subordinated debt nor a deposit. Withdrawable share capital, in particular, is best understood as a form of partnership capital with limited liability. Withdrawable capital enables a community to share the risk of their co-operative enterprise. We should defend their freedom to do so. This is especially important for small societies with small offers that cannot justify the costs of regulated offers.

The price of exemption from statutory regulation is strong self-regulation. Both societies and the public need a better understanding of the nature and appropriate use of community shares. The sector should introduce robust measures to help aggrieved investors pursue claims against societies, directors and promoters for misrepresentation in share offers. The regulator must continue to protect the sector from the unscrupulous through the registration conditions.

The co-op principle of limited return on capital needs to be asserted clearly but also understood more imaginatively than it has been in the past. Profit-sharing is incompatible with democratic governance in the long run, but this does not mean that capital can receive only an uncompetitive annual interest rate.

The best solution to the tax bias against investment in societies would be to take share interest out of tax altogether, making it neither deductible nor assessable. The policy case is that this would be revenue neutral for both Treasury and societies, substantially reduce red tape and unleash co-operative enterprise.

Societies, as human communities, cannot offer investments compatible with the methods of venture capitalism, where the gains on selling the winners cover the cost of backing losers.

The risks of early stage and start-up business have to be managed, not offset, which requires the development of specialist intermediary institutions in order to reduce the risk premium demanded by external investors to viable levels.

The need to protect the society from external investors has to be matched by protection for the external investors from abuse by the society, if external investment is to be forthcoming.

The holders of more than 75% of the share capital in a society should be allowed the right to petition a court, through the society, for the society to be wound up if the court judges this to be fair. Voting should otherwise be democratic and often will be limited to users.

Permanent transferable shares offer societies the prospects of significant advantages for the finance of their business and of institutional investment on a large scale. External investors need both an exit and liquidity, and in the case of transferable shares, this can only be provided for institutions by a secondary market or stock exchange. This means variable share prices and some degree of speculation, although in this context society shares are no different from bonds.

If societies are to issue transferable shares, the larger societies will have to engage with institutional investors and the stock exchange.

There is a case for establishing a large society as a financial intermediary, to hold permanent shares in other societies pending their listing, and itself funded with withdrawable capital, prior to its own listing.

• Dr Mark Hayes is a Fellow and Director of Studies in Economics at Robinson College, Cambridge.

Co-operatives UK has published a discussion document from Dr Hayes, which contains more detailed thoughts. To read the document, visit: uk.coop/documents/co-operative-finance

TOP TIPS FOR SUCCESS

Dave Hollings, Director of Co-operative and Mutual Solutions, which has advised on over 30 community share issues, suggests top tips for a successful share issue . . .

People understand buying a share in a pub or a shop or a wind turbine. They do not understand buying a share of a service or a piece of intellectual property

Establish whether the community values the asset. Is this something people genuinely feels passionate about or just the hobby horse of one or two people?

Develop a viable business model that shows clearly how the proposed business would make money

Develop a clear story about how the business will work, especially if taking on a failed or failing asset. What is the story of how you will turn it around?

Appoint leaders the community respects and trusts. People in a community know each other and know who is worthy of their trust

The more money you need to raise, the harder it is. Sometimes groups assume the amount needed can be raised without testing the water

People from the community are happy with rates of return between three and eight per cent – less than commercial rates – because they are buying community benefit

Community shares are patient capital. Many people are happy to leave their money in for over a decade

Ian Taylor, Investment Manager for Co-operative and Community Finance, on how to make a successful loan application . . .

Look at the website of the organisation to which you are applying – check their criteria and what interests them and follow their instructions closely

Ensure your business plan is concise with a summary and what you need in an executive summary.

Convey enthusiasm, belief and passion for your idea

Seek pre-investment advice, for example, from the Co-operative Enterprise Hub

A co-op or community owned business needs to ensure its rules reflect and allow their co-op and governance intentions. Test them against the seven ICA principles

Make sure the investment you are seeking is appropriate to your needs and show through projections that you can service the debt. Do not borrow for a term that exceeds the life of the asset you wish to purchase

Be sure of your market and the competition. Define the gap in the market and how you will deal with the competition's reaction to your presence. List your USPs

If you present a SWOT analysis, ensure you describe how you will exploit your strengths, mitigate your weaknesses, seize opportunities and lessen threats

HOW PRIVATE INVESTORS CAUSE PROBLEMS

Co-operatives can face challenges of competition, especially if operating in a fast-paced world such as the technology sector.

Founded in 1983, the worker co-operative Poptel provided online services, such as email and internet access, to the co-operative movement and non-governmental organisations. It even gave the Labour Party its first online presence and launched the world's first trade union website.

Towards the end of the 1990s, the rapid expansion in the internet access business meant that Poptel needed to invest heavily in new equipment to keep pace with demand and with competitors.

After being unable to find investment in the co-operative sector, the directors negotiated funding from private equity firm Sum International Holdings in 1999. The £1.5 million injection of cash gave the investor a 25 per cent stake in the business.

With this investment in place, Poptel was able to engage in its biggest and most ambitious project: a partnership with the National Cooperative Business Association in the United States, to create the top level internet domain .coop, for exclusive use by co-operatives.

There was a delay of almost two years in the launch of .coop, largely due to legal issues. Further investment was sought — this time from employee-ownership supporter Baxi Trust — and Poptel workers saw their holding drop to 51 per cent.

However a series of increasingly acute cash flow issues meant even this was not enough and eventually Sum International became the majority shareholder in the once worker co-operative.

Following the demutualisation Poptel was broken up into smaller businesses in 2002. Of these two eventually returned to co-operative hands: the retail ISP business ended up with The Phone Co-op, and Midcounties Co-operative purchased the .coop operation from Sum International in 2005.

WHERE TO FIND FINANCE?

A specialist bank for co-operatives, charities, community groups and more, Unity Trust Bank supports its customers with socially-responsible banking solutions, providing day-to-day banking and affordable, competitive finance.

As a social enterprise with nearly 30 years of experience, it understands the sectors its customers work in. Unity has committed to lend £100m over three years to the social economy and welcomes enquiries from new and existing customers.

It lends to customers that have an overall goal to improve the communities they live in by using their finance to provide jobs, improve living conditions and retain wealth.

Unity Trust Bank
0345 155 3355
us@unity.co.uk
www.unity.co.uk

Community Development Finance Institutions
findingfinance.org.uk/my-nearest-cdfi
Lending money to businesses, social enterprises and individuals that are unable to get finance from high street banks. There are around 60 active CDFIs across the UK, each with different aims and objectives.

Co-operative & Community Finance
0117 916 6750 | www.coopfinance.coop
CCF lends to organisations that are owned and democratically controlled by their members. Loans from £10,000 to £75,000 are readily available, and CCF can lend up to £150,000 using other funds.

The Co-operative Loan Fund
0117 916 6750 | co-operativeloanfund.coop
Lends exclusively to co-ops and is funded and run by co-ops. Welcomes secured and unsecured loan applications from new and existing co-ops for between £5,000 and £75,000 to set up, expand, purchase a property or business, purchase capital equipment or create working capital. It also assists buyouts and company successions.

The Co-operative Bank
www.co-operativebank.co.uk
The Co-operative Bank offers banking and finance for small and medium sized enterprises including co-operatives and social enterprises.

Triodos Bank
0117 973 9339 | www.triodos.co.uk
Only finances companies, institutions and projects that benefit society and the environment, including co-ops. Borrowers must meet strict ethical lending criteria.

Ecology Building Society
0845 674 5566 | www.ecology.co.uk
Specialises in mortgages for projects that minimise environmental impact or promote sustainable living. Projects it considers include live/work units, timber, earth sheltered dwellings and traditional constructions like straw bale, thatch and wattle and daub.

Black Country Reinvestment Society
0845 313 8410 | www.bcrs.org.uk
BCRS, founded in 2002 as an Industrial and Provident Society, provides loans ranging from £10,000 to £100,000 to West Midlands businesses that are unable to get financing from traditional sources. It works with businesses that contribute to the social, environmental or economic wellbeing of the region.

Radical Routes
0845 330 4510 | rootstock.org.uk
Rootstock, the investment arm of co-operative federation Radical Routes, only lends to fully mutual organisations, where individuals cannot directly gain financially from the loan. Borrowers must participate in the network and every co-op in the network must agree to every loan. Borrowers in crisis receive repayment holidays, provided they meet requirements to remedy their problems, and free mediation and business support.

The Phone Co-op
thephone.coop/about-us/who-we-are/
The Co-operative & Social Economy Development Fund supports growth and development of co-ops and social enterprises. It also runs the Social Enterprise Start-Up & Expansion Fund, which offers up to £250 credit to new enterprises joining the Phone Co-op.

Baxendale Ownership
01383 749672 | www.baxipartnership.co.uk
A workers co-op with its own investment fund, Baxendale Ownership, formerly Baxi Partnership, supports mutual and employee-owned organisations with tailored financing, and is currently working to set up a large-scale investment fund to make value-driven investments.

FOR EXTRA SUPPORT TALK TO:

Co-operatives UK
0161 246 2900 | uk.coop

Co-operative Development Scotland
0141 951 3055 | cdscotland.co.uk

Wales Co-operative Centre
02920 554 955 | walescooperative.org

The Co-operative Enterprise Hub
0844 324 5701 | co-operative.coop/enterprisehub