

# CO-OPERATIVE BUSINESS

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# Co-operation

- Co-operation is at the core of the co-operative business model
- From humble beginnings the modern co-operative has evolved to become a true business entity with legislative support
- Co-operatives exist in almost every type of enterprise and all over the world
- The International Co-operative Alliance (ICA) is the peak international organization for co-operatives.

# Seven co-operative principles

- Voluntary and open membership
- Democratic member control
- Members' economic participation
- Autonomy and Independence
- Education, training and Information
- Co-operation among co-operatives
- Concern for community

The result is a business organization that can focus on members and their community.

# What is a business entity?

- Company
  - For profit
  - Not for profit
- Co-operative
  - Distributing
  - Non-distributing
- Both entity types are incorporated under legislation
  - Can hold or dispose of property
  - Can sue and be sued
  - Can issue securities
  - Can borrow money

# companies

- Can engage in business activity
- Constitution/internal governance rules
- Board of directors and shareholders
- Shareholder rights are determined by the constitution and any terms of issue
- Can borrow money from a bank or lender
- Shares are transferable
- Shareholders receive dividends
- Shares can increase in value
- Companies can issue bonus shares or encourage dividend reinvestment
- Not open to anyone unless it is a listed public company

# Co-operatives

- Can engage in business activity
- Constitution/ internal governance rules
- Board of directors and shareholders:
  - Members hold shares
  - Members make key business decisions
- Shareholder/member rights are determined by the constitution, terms of issue, but there is only one vote per member
- Can borrow money from a bank
- Shares are transferable:
  - But only to members
  - Shares may be withdrawable
  - Membership is open to anyone

# Co-operatives ...

- Shareholders/members receive distributions or services
- Shares remained a fixed value
- Co-operatives can issue bonus shares and encourage dividend reinvestment

# Why a co-operative ...

- General considerations in favour of co-operatives:
  - Membership is open to anyone
  - Member interests are paramount
  - Members control the co-operative democratically
  - Tend to pursue longer term sustainable objectives
- They particularly suit community projects:
  - They provide a forum for communities to combine individual strength and value to achieve a viable and sustainable enterprise.



# Where do you get one?

- The legislative framework is complicated!
- Co-operatives are only able to be incorporated under State or Territory laws.
- State and Territory laws are each a bit different.
- Impact of the Co-operatives National Law will bring improvements.
- However, some aspects of a co-operative's activities are also governed by Commonwealth law relating to securities.

- Co-operatives are incorporated by registration with Registrar of Co-operatives in any particular State or Territory.
- The incorporation process is a bit archaic, but it provides opportunity for incorporators to develop the core basis of their co-operative.
- Business planning is crucial no matter what kind of entity or enterprise is being considered.

# How to incorporate a co-operative

- The core basis for a co-operative is the co-operation which is set out in the constitution or rules
- Primary activity of the co-operative:
  - what is it that we are co-operating about
- Active membership of the co-operative:
  - how are we going to each, as members, co-operate with each other.

# How to incorporate a co-operative

- Disclosure – this is the document that the co-operative will eventually use to show others what the co-operative is about, what it will cost and what it will deliver.
- In preparing the disclosure statement, the incorporators are doing more to articulate their business plan.
  - *Note that the disclosure statement should not be a static document*

# How to incorporate a co-operative

- A formation meeting
  - This is the point in time when the incorporators formally agree to create a co-operative to pursue their enterprise within the context of the co-operation rules.
- Registration
  - If the Registrar considers that the proposed entity is designed to operate as a co-operative it will be incorporated and its existence as a legal entity or person begins from that date.

Remember, the co-operative is only a structure within which to conduct your business enterprise.

# How to manage a co-operative

- A co-operative is managed by its board of directors, however, key decisions are made by the members.
- Companies tend to communicate directly to their members at the AGM or indirectly through the share price or dividend.
- Co-operatives have a greater obligation to communicate with their members because the communication fosters continuing member engagement and support.

# How to manage a co-operative

- There are two special issues in managing a co-operative:
  1. Co-operative shares may be repayable.
    - *Rules can permit a repurchase request*
    - *Inactive members will require repayment*
  2. Co-operative shares are required to be recorded as a liability on the co-operative's balance sheet.



# Co-operative alliances

- Co-operatives can join with other co-operatives to share resources
  - Through association
  - Through 'second tier' co-operatives
- Co-operatives can own property and other entities: shares, debentures, deposits, companies, trusts,

# Finance for co-operatives

- Equity
  - Shares – member offers
    - Reinvestment plans
  - Shares – public offers
- Debt
  - Debentures and CCUs – member offers and public offers
- Compulsory internal fundraising – debt and equity

# Finance for co-operatives

- Financing through the offer of securities requires disclosure
  - Disclosure for new members (equity)
  - Disclosure for debt securities (CCUs & debentures)
    - To members
    - To the public
  - Disclosure when securities are issued outside the State or Territory

# Crowdfunding

- Crowd sourced funding by donations is unregulated
- Crowd sourced **equity** funding is regulated within a state or territory by co-operatives laws – disclosure is required
- Crowd sourced **equity** funding across a state or territory border is regulated by the Corporations Act- disclosure is required unless there is an exception:
  - Small scale offers – 20 x12 x \$2million
  - Sophisticated investors - \$500,000

Presentation brought to you by the Business Council of Co-operatives and Mutuals



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