REPORT

Survey of Co-operative Capital

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Executive Summary

Overview

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

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

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

Access to capital is vital to the success of any business, but the co-operative ownership model introduces unique considerations. The principles of cooperation, particularly democratic member control and member economic participation, influence the choice of capital structure.

What Is the Research About?

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

FIGURE 1

CO-OPERATIVE PRINCIPLES

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

Fortunately, experience from around the world illustrates a range of options for accessing additional capital while

retaining member control of the co-operative. In addition to the basic or qualifying member shares, many co-operatives have introduced additional classes of share or debt instruments to attract more member investment. Many co-operatives have introduced member share requirements based on usage and have developed mechanisms that allow members to share in the appreciation of the value of the co-operative in place of the traditional member shares valued at par and redeemable upon withdrawal from the co-operative. These mechanisms can help to address the lack of permanence of withdrawable member capital.

What Are the Co-operative Implications?

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

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

This report includes the following:

- A taxonomy of capital instruments and structures adopted by co-operatives around the world (a summary of debt and equity instruments appears in Appendix 2).
- A discussion of the special circumstances that apply to smaller and start-up co-operatives, providing an overview of selected programs and innovations internationally.
- Insights from the analysis of the capital structure of the largest 300 co-operatives and mutuals (see the sidebar below and

Appendix 3 for more detail on a first-of-its-kind capital database compiled for this report).

- Special issues for financial co-operatives.
- Recommendations for policymakers and co-operative leaders.

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

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The Largest 300 Co-operatives and Mutuals

Publicly available financial statement information was collected to analyze the capital structure of the largest 300 co-operatives and mutuals by turnover as published in the *World Co-operative Monitor* 2013. Coverage includes 201 of the largest 300 co-operatives and mutuals, using the most recent data available in May and June 2014 in English or French, or in some cases in electronic format compatible with translation software. Items on the liability and equity side of the balance sheet were categorized and converted to US dollars (USD) at the exchange rate prevailing at the statement date to provide a common basis for the analysis. Judgment was required to categorize the various balance sheet items due to the different accounting conventions and terminologies employed around the world and the differing details of disclosure. Of the 201 co-operatives covered, 69 are headquartered in the Americas, 21 in Asia-Pacific, and 111 in Europe. By sector, they include 48 in the agriculture and food industries, 31 in wholesale and retail, 7 in industry and utilities, 2 in health and social care, 14 in banking and financial services, and 99 in insurance. There is undoubtedly scope to expand the coverage, improve the classifications, and enhance the analysis, but this initial database provides the first comprehensive look at the capital structure of co-operatives around the world. Coverage could be expanded by a research team with additional language capabilities. Additional time and resources would permit follow-up with co-operatives that do not have financial statement information in the public domain, as well as more detailed analysis of the individual co-operatives.

Survey of Co-operative Capital

CHAPTER 1

Capital Instruments and Structures

The establishment of co-operative organizations around the world began with the basic structure of one member, one vote. Members were all required to purchase the same number of shares—often one—as a condition of membership. At least in the early stages of co-operative formation, installment plan purchase options were common, permitting members to make the required investment in shares over time. Member shares were typically withdrawable when the member left the co-operative.

From the beginning, the challenges of financing a business solely or primarily with member shares quickly became apparent. There are three situations that present particular challenges to the traditional co-operative structure: start-up, rapid growth, and capital-intensive businesses. Most businesses require an initial investment in fixed assets and raw materials or inventory, as well as capital to sustain operations until income begins to be generated. Accumulating capital using a traditional structure of modestly priced member

shares may require attracting a large number of members before operations commence—a potentially daunting challenge.

Co-operatives can be victims of their own success. As business grows, expansion opportunities can arise that outstrip the financing ability of co-operatives reliant on member shares and internally generated capital. Capital-intensive businesses further compound the start-up and rapid growth challenges. Membership shares and internally generated capital are often insufficient to meet the need for investment in plant and equipment for industrial co-operatives, generation and transmission infrastructure for utilities, or regulatory capital for financial co-operatives.

There have been a variety of responses to these challenges by co-operatives around the world. Many avail themselves of the range of financing options available to businesses of all types—predominantly trade credit and bank loans—although as discussed below, access can be more difficult for co-operatives than for other businesses. Many co-operatives have also evolved considerably from the original funding model of nominal-value members' shares and internally generated capital, using a range of instruments to raise capital from members and nonmembers.

Attracting additional member or external investment can be a balancing act between offering the features required to make the instruments attractive to investors, complying with legal requirements for the co-operative structure, and honoring co-operative principles. A number of common solutions to this balancing act have emerged from the experience around the world.

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Reserving common equity-like instruments—those with voting rights—for members can help to preserve democratic control. Multiple classes of shares can preserve the principle of one member, one vote while also allowing members or nonmembers to participate in the appreciation of the value of a co-operative. The alternative of proportional voting, with members who hold larger share investments getting a proportionally larger vote in annual and special meetings, may facilitate attracting additional member investment. Proportional voting is not nearly as widespread as the issuance of multiple classes of shares, may be criticized as more akin to the joint-stock model than the co-operative model, and in a number of countries such as Australia is not permitted by law.

Sale of debt instruments to nonmembers can provide access to external capital without affecting co-operative ownership. Among the largest 300 co-operatives and mutuals this is one of the most commonly used sources of external capital, with more than two-thirds of those included in Appendix 3 issuing debt securities that are rated by a credit rating agency.

The following taxonomy of instruments is presented in the order found in a typical International Financial Reporting Standards (IFRS) statement of financial position (balance sheet), followed by special investment vehicle (SIV) and holding company/group structure options. For each instrument, a brief description is provided, as well as a summary of use and obstacles typically faced by co-operatives in accessing this form of financing. This taxonomy focuses on nonfinancial co-operatives, as financial co-operatives have distinctly different capital structures due to their reliance on deposits and policyholder liabilities and their typically much higher leverage—lower levels of equity relative to their liabilities—than nonfinancial co-operatives.

Debt

Often overlooked in discussions of co-operative capital is that the debt instruments commonly used by all businesses make up the largest source of external capital. There are some specific challenges for co-operatives, but a wide range of debt is used by large and small co-operatives around the world.

Trade Credit (Accounts Payable)

Trade credit or vendor financing, where payment typically is not due until 30 or more days after delivery of the goods, is common the world over. The amounts of trade credit are generally immaterial for financial co-operatives, as their business does not involve purchasing raw materials or inventory. Among the nonfinancial co-operatives in the largest 300 co-operatives and mutuals, trade credit accounts for about 12% of total liabilities and equity, making it a more important form of financing than bank debt. For smaller co-operatives around the world, trade credit is a similarly important source of finance.

Trade credit is reliant on the confidence of the vendor that the purchasing co-operative is creditworthy. Typically this requires a good track record of adhering to agreed payment terms. Vendors will often require a credit reference bureau report and/or a bank report, particularly for new clients. Newly established co-operatives, like all start-ups, may have difficulty obtaining trade credit terms until they have established the necessary track record.

Working Capital Loans (Operating Credit)

Loans from banks or other lenders for working capital purposes—the purchase of inventory or raw materials and the financing of accounts receivable—are a common form of external financing for all businesses, including co-operatives. Among the nonfinancial co-operatives in the largest 300 co-operatives and mutuals, short-term bank loans account for 7% of total liabilities and equity.

Co-operatives can face challenges in obtaining bank credit due to a lack of familiarity with the co-operative structure on the part of lenders, and also in meeting typical lending criteria or covenant requirements. Lenders usually consider a debt-equity or leverage ratio as part of the credit decision-making process and may impose a leverage limit as a condition of credit. For co-operatives this may be problematic, as membership shares are often classified as liabilities due to their redemption features, meaning that for many co-operatives, retained earnings or reserves may be the only instruments recognized by lenders as true equity.

For many co-operatives, retained earnings or reserves may be the only instruments recognized by lenders as true equity.

Retained earnings and reserves account for about 18% of total liabilities and equity for the nonfinancial co-operatives in the largest 300 co-operatives and mutuals, which under a conservative lender's assessment might be interpreted as a debt-equity ratio of more than five to one. Using a broader definition of equity that includes member shares and other capital instruments, the nonfinancial co-operatives in the largest 300 co-operatives and mutuals have an aggregate debt-equity ratio of just over three to one.

Credit unions and co-operative and mutual banks offer one solution to the challenge of lenders' unfamiliarity with the co-operative structure. Educating other bankers about the co-operative structure, and in particular the "stickiness" of member shares despite usually having redemption features, is another avenue to enhance availability of bank financing.

Start-up businesses of all types have difficulty obtaining bank financing due to their lack of a track record. One possible solution for start-up co-operatives is the provision of guarantees by members as security for bank loans. Guarantees are not strictly a capital instrument, but they can facilitate access to credit. The main drawback that might make members reluctant to provide a guarantee is the personal liability for repayment should the co-operative not be successful enough to meet the loan obligations. A further drawback is that lenders will generally require joint and several guarantees, meaning that members may not share the burden equally or in proportion to their guarantees if they are called. An alternative to member guarantees are guarantee societies or government-sponsored

guarantee programs. These are discussed in further detail in the next chapter on smaller and start-up co-operatives.

One possible financing solution for start-up co-operatives is the provision of guarantees by members as security for bank loans.

Factoring and Forfaiting

Factoring is the sale of accounts receivable (forfaiting refers to the sale by exporters of cross-border receivables) at a discount, turning an illiquid asset into cash that can be used for operating purposes. Factoring does not show as an item in the balance sheet because the transaction transforms one asset (accounts receivable) into another (cash). It is discussed here because it is a common alternative to working capital loans.

One benefit for co-operatives is that the ownership model is irrelevant. The factor determines the discount from the face value of the account receivable based on the quality of the customer and terms of the trade credit. Factoring is widely used by businesses around the world. As an alternative to using factors outside the co-operative system, a dedicated factoring arm, Cooperfactor, was established in 2009 by the Italian Coopfond, to purchase public-sector receivables from member co-operatives.

Term Loans

Term loans from banks and other lenders are typically used to finance property, plant, equipment, and other capital investments. Long-term loans account for 10% of the total liability and equity of the nonfinancial conglomerates in the largest 300 co-operatives and mutuals. As with working capital loans, the co-operative structure may present challenges for bankers unfamiliar with the ownership model, and co-operatives may have difficulty meeting lenders' debt-equity requirements, in part due to the treatment of member shares as liabilities.

In addition to dealing with credit unions and co-operative and mutual banks, there is the potential to tap funding from other co-operative institutions. Co-operative and mutual insurance companies are among the largest institutional investors in many countries, and they often include long-term mortgage and other loans in their investment portfolios.

Leasing

Capital leases are substitutes for term loans to finance equipment. They can be a very attractive option for any small or start-up business, as the retention of the ownership of the asset by the lessor can mitigate the lack of a track record. Similarly for co-operatives, leasing obviates the need for the provider of credit to understand the co-operative structure,

since the transaction is all about financing the specific asset. Another benefit of leasing is that it can conserve a co-operative's scarce capital, as even when initial lease prepayments are required, they are generally less than the minimum down payment that lenders would typically require to finance acquisition of the asset with a term loan. Many of the largest 300 co-operatives and mutuals and smaller co-operatives around the world use capital lease financing.

Loans from Members (Revolving Funds)

Revolving loans are widely used in agricultural co-operatives. Typically members are required to allocate a portion of the actual or expected value of the crop delivered to the co-operative, or the co-operative retains part of the earnings that otherwise would have been paid as a dividend or patronage bonus. These funds are held by the co-operative for a fixed period, after which they may be withdrawn by the member, to be replaced by subsequent allocations or retentions, hence the revolving nature of the loans. Linking the loans to the crops delivered links the members' usage of the co-operative to the contribution to financing.

Another type of loan from members is a qualification loan. Much in the same way as members are required to have a specified shareholding as a condition of membership, members may be required to provide a qualification loan. These loans are typically used to finance capital-intensive projects and provide a vehicle to raise additional member capital rather than seeking external finance.

Commercial Paper, Notes, Bonds, Subordinated Debt

A range of short-, medium-, and long-term debt obligations are issued by co-operatives around the world. Two-thirds of the largest 300 co-operatives and mutuals issue debt—commercial paper, medium-term notes, bonds, or subordinated debt—that is rated by a credit rating agency, and others have unrated issues outstanding. For example, Murray Goulburn, the large Australian dairy co-operative, has outstanding privately placed senior notes equal to about 10% of its total liabilities and equity. Among the nonfinancial co-operatives in the largest 300 co-operatives and mutuals, rated and unrated bond obligations comprise about 3% of total liabilities and equity.

Suedzucker, the German agricultural co-operative, has made use of convertible bonds and hybrid debt instruments. In order to ensure continuing co-operative control when the convertible bonds were exchanged for equity, in the years preceding conversion the group repurchased outstanding shares, thus ensuring that conversion did not result in a loss of farmer control of the co-operative. The group has also issued hybrid instruments—debt with features that permit it to be classified as equity under IFRS, thus reducing the group's leverage ratio.

Kooperativa Förbundet, the Swedish retail consumer co-operative, includes debentures purchased by members in its equity base. These subordinated notes rank after all other creditors' claims but have priority over member capital contributions. The debentures may not be redeemed within the initial five years and subsequently require two years' notice on the part of the member for redemption. The debentures thus provide more permanent risk capital than members' equity contributions, which are generally withdrawable when the member leaves the co-operative.

The purchasers of debt issues by large co-operatives are typically institutional investors and individuals who may or may not be members of the co-operative. Ratings are particularly important in attracting institutional investors, which often have regulatory or investment policy limits on investment in unrated or low-rated securities. Large ratings agencies have generally developed expertise in co-operative and mutual ownership models,[1] but there may be a need to develop this expertise in local ratings agencies to facilitate access to the capital markets by co-operatives in developing and transition economies.

Large ratings agencies have generally developed expertise in co-operative and mutual ownership models, but there may be a need to develop this expertise in local ratings agencies.

The legal requirements, governance, and disclosure standards required for public distribution of securities are generally drafted with the corporate ownership model in mind. Disclosure for a public issuer may require additional detail beyond normal co-operative requirements, but this is not substantially different from the additional requirements for a public company versus a privately held company. Legal provisions for investor protection—for example, voting rights for holders of debt securities in the event of reorganization—may not have been contemplated in co-operative legislation, and thus there may be conflicts to reconcile. Similarly, there may be conflicts between the legislative or bylaw requirements for second- and third-tier co-operatives to elect their directors from member co-operatives and securities laws requiring a minimum number of independent directors (although these requirements are more likely to apply to issuers of equity securities than issuers of debt securities).

A range of unrated debt instruments have been issued by smaller and even start-up co-operatives, typically under special provisions of securities (capital markets) laws that provide for exemptions from some of the more onerous issuance requirements. These special provisions may be targeted at co-operatives, small businesses, or both. One example is the UK Community Shares program, which, despite the name, provides for the issuance of debt as well as equity instruments.

Patron Demand Deposit Accounts

Patron demand deposit accounts (PDDAs) are used in some American agribusiness co-operatives. These comprise patronage rebates voluntarily left on deposit by the member, withdrawable at any time (hence "demand deposit"). In some co-operatives, members may also deposit other funds, and in some cases nonmembers may also make such deposits.[2] The co-operative pays an interest rate on the deposit, making it an attractive investment relative to alternatives such as bank deposits, but still making PDDAs an attractive form of financing for the co-operative relative to bank loans. The demand nature of the deposit complicates capital planning for the co-operative.

Equity

There are a range of traditional and nontraditional approaches to co-operative equity. In addition to the long-standing use of withdrawable member shares, many co-operatives have used innovative features to increase permanence and attract additional member and nonmember investments.

Member Shares

Purchase of a specified number of member shares, sometimes called basic, qualifying, or ordinary, is generally required as a condition of membership in a co-operative. These shares usually are redeemable when the member leaves the co-operative. This redemption feature, even if subject to restrictions, means that member shares lack the permanence of equity, and thus they are classified as liabilities under IFRS. This lack of permanence is also an issue with respect to regulatory capital for financial co-operatives. Treatment varies among jurisdictions; however, the shares commonly issued by credit unions and mutual and co-operative banks generally would not qualify as Common Equity Tier 1 (CET1), or in many cases not even Additional Tier 1 capital, the two highest quality categories of capital in the Basel III framework adopted as the new international standard for deposit-taking institutions.[3]

Qualifying member shares are usually valued at par and do not appreciate as the value of the co-operative increases over time. Most co-operatives require a fixed investment in these shares by each member, which preserves the co-operative concept of one member, one vote but does not facilitate raising additional capital from members. Some co-operatives permit or require varying share investments per member, which can facilitate raising capital through issuance of additional basic shares to members. Where such additional investments are voluntary and not linked to the usage of the credit union, tiered interest rates or dividend structures may be used to pay higher rates of return to holders of larger investments, thus encouraging members to hold additional basic shares.

Some co-operatives have raised additional capital simply by increasing the number or value of shares that must be held as a condition of membership. While this does not address the issue of permanence, it can help to meet funding requirements. To make it easier to attract new members, co-operatives may offer an installment plan for payment of the qualifying or basic membership shares. Some co-operatives have introduced restrictions on redemption—for example, requiring long notice periods or making all redemptions at the discretion of the board of directors—thus ameliorating the lack of permanence of these shares.

Some co-operatives have raised additional capital simply by increasing the number or value of shares that must be held as a condition of membership.

Base Capital Plans

Base capital plans, also called adjustable capital, adjustable balances, permanent capital, or modified revolving funds, are not a distinct capital instrument, but a means of providing the needed capital for the business of the co-operative. Base capital plans are commonly used in American agricultural co-operatives, with member capital contributions determined in proportion to membership usage for an annual or multiyear period.

The member's base capital requirement can be met in a range of ways, depending on the co-operative. It can be a direct investment in shares proportionate to usage, retention of earnings that otherwise would have been rebated to the member as patronage, or "per-unit retains"—amounts deducted from the sale proceeds that would have been due to the member. A large direct investment to meet a base capital requirement can be a barrier to entry for new members, but this can be addressed by a phase-in period over several years, possibly combined with the retention of earnings or per-unit retains noted above. Members typically are entitled to dividends or patronage rebates only after their base capital requirement has been met, or they may receive reduced profit participation while building up to their full base capital requirement.

Innovative Member Share Structures

There are two common ways for co-operatives to raise capital through innovative share structures. One is to use multiple classes of shares, issuing one or more in addition to the basic or qualifying shares required as a condition of membership. The other is to structure the basic or qualifying shares to permit members to share in the appreciation of the value of the co-operative over time, rather than the traditional approach of having such shares issued and redeemed at par.

Multiple Share Classes

There are countless variations of the basic approach of using multiple classes of shares to preserve co-operative ownership and voting rights while also attracting additional capital investment from members and nonmembers. The additional classes of shares are distinguished from the shares required as a condition of membership by being voluntary investments. Depending on the specifics of the instrument, these shares can resemble debt, or be more akin to common equity, or be somewhere on the continuum in between. To make the shares attractive to investors, they offer a dividend or interest rate competitive with investment alternatives, and/or the possibility of participating in the increase in value of the co-operative by providing a means to sell or otherwise transfer ownership at a price that may exceed the purchase price. Some co-operatives limit the sale of additional share classes to members, while others permit nonmember investment in some classes of shares. In some cases, investors in these classes of shares become a special type of member of the co-operative.

Appreciable or Tradable Shares

Providing members with a means to share in the growth of the value of the co-operative can help attract larger initial share investments as well as encourage members to support retaining earnings for internal capital generation. This can be done using a multiple share structure whereby the appreciable shares are distinct from the basic or qualifying shares, or, as in the case of many American new generation co-operatives, by structuring the basic shares with appreciation and/or tradability features.

Providing members with a means to share in the growth of the value of the co-operative can help attract larger initial share investments as well as encourage members to support retaining earnings for internal capital generation.

Some early examples of these approaches include Campina and Friesland Foods in the Netherlands, which subsequently amalgamated into Royal Friesland Campina. Campina introduced supply-linked, nontradable, and nonvoting participation units in 1991, which were revalued annually. Friesland introduced formally tradable class B shares in 1995. Dairygold, an Irish co-operative, introduced an internal market for nonvoting, interest-bearing shares.[4]

Fonterra, the New Zealand dairy co-operative, currently operates a private market for shareholders, Fonterra, and a specially appointed market-maker to trade Fonterra shares. In addition to this internal market, Fonterra has established the Fonterra Shareholders' Fund, a unit trust listed on the New Zealand and Australia stock exchanges. Co-operative

shareholders may sell the economic rights to some of their shares to the Fund, thus providing an avenue to realize some of the value of their investment in the co-operative other than through sale to another member-shareholder or the co-operative through the private market. Sales are subject to limits established by the board of directors, and each member is required to hold a minimum number of shares determined by the volume of milk solids delivered to the co-operative.

The Fonterra Shareholders' Fund also provides a means for nonmembers to invest in the co-operative, as each unit represents an economic claim equivalent to one share. Only supplier-members of Fonterra may own its co-operative shares, thus preserving democratic control.

Patronage and Bonus Shares

Patronage or bonus shares are a type of internally generated capital, as they are a form of undistributed earnings. Co-operatives that make patronage distributions—a type of dividend or rebate that accrues to members based on the volume of business conducted with the co-operative—may pay some or all of the distribution in the form of patronage or bonus shares. For example, Ace Hardware, an American wholesale co-operative, pays 40% of its patronage distribution in cash and 60% in the form of class C nonvoting shares.

Using shares for all or part of the patronage distribution provides a means for the co-operative to both reward members for higher business volumes and retain capital. Co-operatives with variable basic membership share requirements may require a minimum holding to be eligible for patronage or bonus distributions, thus encouraging member investment. Patronage or bonus shares are usually redeemed when the member leaves the co-operative, or sometimes at retirement age; hence they are sometimes referred to as a member retirement fund.

Using shares for all or part of the patronage distribution provides a means for the co-operative to both reward members for higher business volumes and retain capital.

In retail co-operatives and some agricultural co-operatives it is common to do business with nonmembers. In these cases, the patronage rebates that would have accrued if the customer had been a member become retained earnings, a source of permanent capital.

Retained Patronage Financing

Retained patronage financing can arise in a tiered structure where a local co-operative has an ownership stake and does business with a regional or national co-operative. The local co-operative may retain some or all of the patronage rebates rather than passing them on

to its members. For example, Ag Processing, an American soybean processor owned by 175 local and 5 regional co-operatives, pays patronage rebates based on the volume of soybeans processed for each of its member co-operatives. The member co-operatives then have the option to retain all or part of these patronage rebates as part of their own capital base. This source of financing is obviously dependent on the success of the upstream business and thus may be an unpredictable source of capital.

Retained Earnings and Reserves

Retained earnings and other reserves making up undistributed income account for almost one-fifth of the total liabilities and equity of the nonfinancial co-operatives in the largest 300 co-operatives and mutuals. Among smaller co-operatives, retained earnings are likely to be the largest source of capital. Even among financial co-operatives, which tend to be more highly levered, retained earnings play a crucial role as one of the few instruments, if not the only instrument, recognized as CET1 capital in a Basel III regime. The challenges for co-operatives are that internally generated capital may not be sufficient to support growth, and there can be tension between the need to retain capital in the business and to pay dividends to reward member investment.

Even among financial co-operatives, which tend to be more highly levered, retained earnings play a crucial role as one of the few instruments, if not the only instrument, recognized as CET1 capital in a Basel III regime.

Tiered and Holding Company Structures

There are a range of options for co-operatives to obtain nonmember equity and debt investments through tiered or holding company structures, or by attracting outside minority investment in the co-operative itself.

Minority Interests

Many large co-operatives have one or more subsidiaries that are less than wholly owned. This provides a vehicle for common equity or other capital investment by nonmembers in the subsidiary. More than 60 of the co-operatives in the largest 300 co-operatives and mutuals have accessed external capital through noncontrolling or minority interests in one or more of their subsidiaries. There are many examples involving smaller co-operatives as well; for instance, the German and Austrian Raiffeisen banks are external shareholders in many co-operative enterprises.[5]

Tiered or Holding Company Model

Many of the largest co-operatives are part of tiered or holding company structures. A co-operative, or a group of co-operatives, owns a holding company, which in turn controls or invests in a number of operating entities, which may be co-operative or corporate. These structures provide for a range of options for outside investment at the holding company level and in the various operating entities. Co-operative control can be maintained by permitting only co-operative investment or minority external investment in the equity of the top-tier entity, or by restricting external investment in the top-tier entity to debt or nonvoting shares. As the selected examples below illustrate, the tiered structure also offers a range of options for external investment in the various operating entities.

Co-operative control can be maintained by permitting only co-operative investment or minority external investment in the equity of the top-tier entity, or by restricting external investment in the top-tier entity to debt or nonvoting shares.

The Metsäliitto Cooperative is the parent company of Metsä Group and is owned by approximately 123,000 Finnish forest owners. The group has subsidiaries that operate in more than 30 countries. Minority investment in various group entities amounts to about 40% of overall group equity, with co-operative control maintained through Metsäliitto's controlling interest.

Spanish-based Mondragon Group includes 257 co-operatives and companies. Although it relies primarily on member shares and internally generated capital, minority investment in various group entities amounted to €141 million (M) in equity in 2013, about 4% of the group total. The majority of the group equity comprises worker-member share capital (44%) and reserves (49%).

The Professional Provident Society of South Africa, a mutual insurer, is largely funded through internally generated capital. However, its holding company structure does include one majority-owned rather than wholly owned subsidiary, providing a vehicle for external capital investment while still adhering to the mutual ownership model.

The Irish Model

The Irish Model, also called the Coop-Plc Model, is a type of minority interest investment distinguished by the subsidiary being publicly traded and the original co-operative parent being transformed into a nonoperating holding company. The prototype for the Irish Model was the reorganization of Kerry Co-Operative Creameries in 1986. Kerry transferred its assets to a new subsidiary, Kerry Group, in return for ownership of the subsidiary, which

subsequently received outside investment through issuance of new shares on the Dublin and London stock exchanges. With Kerry Co-Operative Creameries retaining majority ownership of Kerry Group, co-operative control was maintained while at the same time the public listing provided a means to access nonmember investment and gave members a means to participate in the increase in the value of the co-operative. Five other Irish co-operatives soon followed the same pattern, hence the term "Irish Model."

Many co-operatives around the world have converted to a corporation, either in stages through acquisition of control by nonmember investors in a Coop-Plc structure, or through direct transformation of the co-operative to a corporation. In some cases conversions have been spurred by financial pressures facing the co-operative and some have been followed by the failure—bankruptcy or major restructuring—of the corporation.

Conversions generally result from one of two situations—the need or desire to attract significant nonmember capital to support the business, or a desire to access the market value of the co-operative. As illustrated throughout this report, there are a range of options that can meet these objectives while still preserving co-operative control; however, there are instances where a majority of members have decided their interests would be better served by converting to a corporate model. This may be more prevalent among co-operatives in capital-intensive businesses, particularly those with an older membership. Conversions such as Diamond Walnut Growers and the Dakota Growers Pasta Company in the United States not only eased the requirements for continual member investment through retains or other instruments, but also allowed members to monetize the value of their accumulated investment.[6]

Conversions generally result from one of two situations—the need or desire to attract significant nonmember capital to support the business, or a desire to access the market value of the co-operative.

Case studies suggest that financial distress and failure are a function of poor management, a normal if regrettable business outcome, and not necessarily a function of the co-operative business model itself. For example, the US Farmers' Rice Cooperative survived a difficult market in which a similar co-operative, the Rice Growers Association, failed. Pacific Coast Producers co-operative continues today as a US grower-owned co-operative while Tri Valley Growers, which had a similar grower membership and processing business, failed in 2000.[7]

Co-operative Insurance Company, Kenya

The need for additional capital to support expansion, increasing regulatory capital requirements, and a need to separate the life and non–life insurance businesses to comply with changing prudential requirements all contributed to a major reorganization of the Co-operative Insurance Company (CIC). It would have been difficult to raise the needed capital from the co-operative owners of CIC, who were facing their own capital challenges. While there was some objection to opening CIC to external investors, the need for capital and a structure ensuring continued co-operative control overcame the objections. CIC was reorganized into a holding company structure, culminating in a listing on the Nairobi Stock Exchange in July 2012.

The reorganization established CIC Group, controlled by the original co-operative shareholders through the Co-operative Insurance Society (CIS), as a holding company for three operating businesses: life insurance, non–life insurance, and a newly created asset management company. The initial public offering listed 25% of CIC Group, with CIS retaining 75% ownership. Many of the purchasers of the initial public offering were individual members of the co-operative owners of CIC.

Becoming a public company paved the way for CIC to tap the bond markets with a maiden 5 billion Kenyan shillings (KSH) (USD 55M) issue in September 2014. To facilitate attracting individual co-operative members as investors in addition to institutional investors, the minimum subscription is KSH 100,000 (USD 1,100).

Special Investment Vehicles

An SIV is an entity typically wholly owned by a co-operative or mutual parent, existing solely as a conduit for the purpose of issuing securities to nonmember investors. Prior to the adoption of Basel III, these were commonly used by mutual and co-operative banks in the United States to raise Tier 1 capital in the form of trust preferred shares (TruPS), and by Australian credit unions and mutuals. In all cases, the adoption of Basel III has diminished the attractiveness of TruPS, since new issues will not qualify as Tier 1 capital and existing issues must be phased out, except for small banks in the United States.

SIVs have also been used by a range of nonfinancial co-operatives. Prior to its initial public offering in 2004, Blue Diamond Walnut Growers Cooperative used an SIV, Diamond Walnut Capital Trust, to issue nonvoting preferred shares in a private placement to an insurance company.[8] Accessing external capital reduced the need for members to retain capital in the co-operative.

Capital for New and Smaller Co-operatives

Start-up capital is a challenge for any business, but the co-operative model calls for some additional considerations with respect to financing. The traditional co-operative approach of starting small and accumulating equity over time has been supplemented by a range of financing approaches developed by co-operatives and by various government policy initiatives. Despite lacking the relatively easy access of the largest 300 co-operatives and mutuals to the capital markets, there are many examples of smaller and start-up co-operatives raising capital from members and external sources.

The basic co-operative structure of one member, one share, one vote is not conducive to the family and friends, angel investor, and venture capital options pursued by many start-ups, as there is no common equity to be sold to early-stage investors. The traditional co-operative approach of requiring only a modest initial share investment by members is also a challenge in any start-up requiring significant capital investment. These issues can be overcome through the use of preferred or other classes of shares, debt instruments, and variable share structures or equity rights distinct from the basic shareholding to obtain additional member or nonmember capital.

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Sweat Equity

"Sweat equity," or a requirement to contribute unremunerated labor, has been commonly used by housing co-operatives around the world. This contributed labor reduces the cash construction cost, with the difference contributing to the capitalization of the co-operative. A variation of sweat equity for producer co-operatives is to pay the producers a slightly below-market price, with the difference being retained to capitalize the co-operative.

Mutual Guarantees

Mutual guarantee societies are co-operatives established as self-help initiatives to assist smaller companies in obtaining bank credit. In Europe they are usually set up by entrepreneurs in a region or sector with the assistance of local business associations, industry

federations, or banks specializing in credit to small and medium-sized enterprises.[9] The societies mutually guarantee members' bank loans, thus increasing banks' willingness to lend. A similar approach could be adopted by smaller co-operatives as a means of increasing their access to external credit.

Securities Issuance

Co-operatives in a number of countries have taken advantage of special security issuance regimes targeted to smaller or community-oriented organizations, or in some instances co-operatives specifically. These options provide a lighter regulatory burden than that which applies in a conventional public offering while maintaining an adequate degree of investor protection.

The UK Community Shares program provides for the offering of more than £10,000 of shares or bonds to at least 20 people to finance ventures serving a community of interest. Special regulatory provisions facilitate the offering with less onerous requirements and costs than would be required for a conventional public offering of securities. Nevertheless, the disclosure regime ensures that investors have the necessary information to make an informed decision. Over one-third of the entities pursuing a community share issue since introduction in 2008 have been co-operatives—194 of 536 through August 2014.[10]

Canadian provinces generally provide for the issuance of securities by co-operatives pursuant to co-operative legislation rather than securities laws. This facilitates issues by smaller entities and in smaller amounts than would be feasible given the out-of-pocket costs and regulatory requirements for public offerings. Offerings are limited to members. A recent example is TREC SolarShare Co-operative in Ontario, which has raised capital for solar panel installations through bond issuance. Potential investors are required to become members of the co-operative. Other examples of security issuance covered by co-operative laws rather than securities laws include the issuance of investment shares by Canadian credit unions, which are structured to resemble preferred shares or subordinated debt and are sold to members to raise regulatory capital pursuant to the provincial credit union laws.

New Trading Platforms

Co-operatives using innovative capital structures often provide a form of internal market for members to sell their shares and bonds to other members. Among larger co-operatives these can be sophisticated online applications, as with Fonterra and CHS, large co-operatives based in New Zealand and the United States, respectively. More basic approaches include the waiting lists of potential sellers and buyers maintained by many co-operatives. The ubiquity of online applications is an opportunity for co-operatives to

provide their members with a virtual market function, potentially enhancing the liquidity and thus the attractiveness of securities sold to members.

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The UK Community Shares program has sparked the growth of alternatives or supplements to the traditional community marketing used to issue and invest in these securities. Microgenius, an online platform for UK Community Shares established in 2012, streamlines the process of matching potential investors with issuers by providing a virtual marketplace. This offers great potential for co-operatives to build on the growth of alternative investment vehicles such as crowdfunding. Co-operatives can build on broader-based initiatives or consider the merits of dedicated co-operative virtual markets.

Co-operative Investment

Initiatives by the co-operative sector itself or in conjunction with government initiatives have created funds or institutions focused on investment in co-operatives in a number of countries around the world. These funds or specialized institutions address one of the financing challenges frequently cited by co-operative leaders: the lack of familiarity with the co-operative model among most bankers and investors.[11]

Les Sociétés Coopératives et Participatives (SCOP) in France has financial partner companies that support new and growing co-operatives. SOCODEN provides personal loans to finance member investment in co-operatives, and medium-term working capital loans to co-operatives. Scopinvest purchases equity and convertible bonds, and Sofiscop (credit co-operative) provides credit guarantees. Collectively these options have provided €30M in equity and €20M in loans, with 100 guarantee applications reviewed annually.[12] In addition, two of the French regional federations have venture capital funds.

Italy's Cooperazione Finanza Impresa (CFI) is majority government owned with minority shareholdings by 270 co-operatives and Invitalia, a government-owned investment promotion agency. It is managed by three co-operative federations. Since 1986 it has been an investor in 70 co-operative enterprises. Two mutual funds established by the Italian co-operative sector—Coopfund by National Legacoop and Fondo Sviluppo by Confcooperative—are funded by 3% of the member co-operatives' profits. Each has engaged in the development of new financing alternatives, such as Cooperfactor by Coopfund, and investment in new and growing co-operatives.

CoBank in the United States is part of the government-sponsored Farm Credit System. The product of mergers among 13 original banks for co-operatives, CoBank focuses on agriculture and food processing co-operatives. The expertise in co-operative financing was one of the success factors in the development of "new generation" co-operatives.

These co-operative investors can play a key role in the transformation of existing businesses to co-operatives. This usually happens in cases where the business is facing financial difficulty, or for other reasons, such as merger or acquisition of a parent, or a facility being slated for closure, or a family-owned business having no clear successor when the owners retire. SCOP facilitated 128 such conversions in 2010 and 2011.[13]

There are many other examples of specialized funds or institutions. One avenue for further expanding the availability of capital is the development of a private equity fund, mutual fund, or exchange-traded fund to invest in co-operatives. Such a fund could be marketed to institutional and retail investors, offering the advantage of obtaining a diversified portfolio of co-operative investments by holding a single fund.

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Other avenues for co-operative investment include working capital and other credit provided by large co-operatives to their co-operative members, either directly or through related financial co-operatives. For example, C. Vale, the large Brazilian agriculture and food co-operative, provides credit to its members. In Japan, the associations of agricultural and fisheries co-operatives have specialized banks that provide financial services directly to their co-operative members.

New Generation Co-operatives

"New generation" co-operatives emerged in the 1970s in the US Midwest, usually focusing on value-added agricultural processing. They differ from traditional American co-operatives in a number of respects. They generally require a substantial initial equity investment by members rather than the more traditional nominal membership share value, reflecting the capital-intensive nature of value-added processing. Membership is usually closed after sufficient shares have been sold for initial capitalization. Members have specified delivery rights based on the number of shares—for example, one bushel of wheat per share held.

Despite the variable share structure, new generation co-operatives generally have policies ascribing one vote per member and a board of directors elected by the members from the membership. Earnings are distributed among members on the basis of shares held. Many new generation co-operatives sell preferred stock, which provides a vehicle to raise external investment. New generation co-operatives may take the legal form of limited liability companies, depending on state laws. Income of the co-operative is generally taxed only in the hands of the members, providing an advantage over the corporate model, where income is subject to corporate tax prior to distribution to the owners.

Examples of new generation co-operatives that continue with an ownership model essentially unchanged from the original establishment include South Dakota Soybean Processors (SDSP) and the Iowa Turkey Growers Cooperative (ITGC).[14] Although both have closed memberships, the former is relatively broadly based with over 2,000 producer-owners, while the latter was founded by fewer than 50 turkey producers. In both cases, a large initial capital investment was required, in the former instance to build a processing facility and in the latter to buy one.

The 2,100 SDSP members purchased one share of common stock for $200 and a minimum of 2,500 equity units, with each obligating delivery of one bushel of soybeans annually. This raised in excess of $20M, with an average investment of $10,000 per member providing the bulk of the financing required for plant construction. The 45 original ITGC members purchased shares, each entitling them to deliver a specified number of birds to the plant, for a total of $2.5M, an average of $53,000 per member. Additional investments were made by the members in the early years of operation as the plant struggled to reach profitability.

Government Policy Initiatives

Governments and international development partners around the world have provided a wide range of incentives and programs to support co-operative formation and growth. Smaller and start-up co-operatives can usually benefit from policy initiatives targeted at micro, small, and medium businesses more generally, as well as programs limited to co-operatives.

Having the legal provision for a range of alternative capital instruments does not compel their use, so individual co-operatives can decide whether to raise additional member capital or to consider nonmember investment.

Enabling Regulatory Environment

The first priority is an enabling regulatory environment for co-operatives. This includes an appropriate law that provides for a wide range of capital options. If provided with options, individual co-operatives can adopt the capital structure most suited to their circumstances. Having the legal provision for a range of alternative capital instruments does not compel their use, so individual co-operatives can decide whether to raise additional member capital or to consider nonmember investment. Without this enabling framework, co-operatives can be unduly constrained, handicapped in terms of their ability to grow and to compete with joint-stock companies, as is the case for US federal credit unions, which by law can include only retained earnings in their regulatory capital base.

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Technical and Financial Support

Many governments provide a range of education, training, and technical assistance for co-operatives, including guidance on start-ups and financing. For example, the US Department of Agriculture played a major role in spreading knowledge about the financing structures popularized by new generation co-operatives. Governments also often partner with co-operative associations to provide guidance to start-ups and existing co-operatives.

Beyond providing a supportive regulatory environment and technical support, many governments, often with the assistance of international development partners, offer direct financial support for the foundation or expansion of co-operatives. These programs vary widely; however, a clear lesson from experience is that well-intentioned efforts to support co-operative development can be counterproductive.

External grant financing, even when provided on a matching basis, can result in the co-operative structure being adopted because of the incentives rather than out of any true sense of co-operative ownership. South African co-operatives have had a high failure rate, in part due to being established primarily to access the Co-operative Investment Scheme grant instead of genuinely building a co-operative system.[15] After receiving the grant, many co-operatives simply disappeared. A similar problem has been observed in credit union development in Central and East Asia, even when the matching funds were provided as loans. Loan repayment often proved problematic as the newly formed credit unions disbanded after the loan proceeds had been disbursed to members.[16]

The related issue of establishing true co-operative governance and sustainability has been observed in co-operative development projects around the world. Government and donor-driven projects seldom result in sustainable community enterprises, with the resulting organizations effectively controlled by narrow self-interest groups, co-operative in name only and dependent on ongoing government or donor support.[17]

The lesson from experience is that there needs to be a substantial member commitment at the outset, both financial and to effective co-operative ownership. Grants and concessional loans may be better directed to training and educating members and board members to ensure effective co-operative ownership and governance, or to financing needed investment in fixed assets, rather than providing unconditional funds for general operations.

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One of the most successful development efforts to establish a broad-based co-operative is Operation Flood, the creation of a farmer-controlled dairy system in India. Crucially, the foundation of the system—more than 76,000 dairy co-operatives organized at the village level—originated from and was led by the co-operative sector, then was subsequently endorsed by government and supported by international development partners.[18] External support focused on the building of infrastructure and supporting the regional and national federations.

Governments have also provided loan, grant, and guarantee support for the conversion of enterprises to co-operatives. For example, there was substantial government involvement in the Iowa turkey processing plant acquisition by the new generation ITG co-operative, in large part because the purchase averted the job losses that would have otherwise occurred. Almost $2M in loans and grants was provided by various levels of government, in addition to a partial guarantee of a $15M loan obtained on commercial terms. The involvement of government was crucial to completing the financing package, as the $2.4M equity investment was levered to support about $17M in external financing, far more than would usually be possible on a purely commercial basis.[19] Government support for co-operative conversions is negotiated on a one-off basis and cannot be counted on as a generally available source of capital.

Tax incentives are another government policy tool that can encourage investment in co-operatives. There are some measures, such as favorable income tax treatment for

co-operatives themselves, that promote the sector in general, as well as measures that can specifically encourage individuals or institutions to invest in co-operatives. An example of the former is that credit unions and co-operatives in the United States are generally exempt from income tax on the basis that the income is ultimately taxed in the hands of the member-owners. This provides an advantage to the co-operative structure relative to the corporate structure, where income is taxed in the hands of the corporation and investors are also subject to income tax on dividends received.

An example of a tax incentive for investors is the UK Enterprise Investment Scheme. Income tax and capital gains tax relief is provided to investors who subscribe for shares of qualifying companies that are not listed on a stock exchange on the basis that they may carry higher risk and be less liquid investments, so the preferential tax rates provide some compensation for these risks. While not targeted directly at co-operatives, they may be able to take advantage of the program by issuing shares that qualify for the tax incentives.

The Cooperative Investment Plan (*Régime d'investissement coopératif*), introduced by the province of Quebec, Canada, in 1985, provides a tax incentive to encourage member investment in agricultural and worker co-operatives. With some modifications, the program continues today, having contributed to raising 25M–30M Canadian dollars (CAD) in preferred share capital annually for Quebec-based co-operatives.[20] Co-operatives must apply for certification under the program and then may issue preferred shares to members and employees, who receive a provincial income tax credit equal to 125% of their investment. There are limits on individual tax deductions, and the shares must be held for a minimum of five years. The shares are not tradable, and after five years they are redeemable only at the discretion of the co-operative.

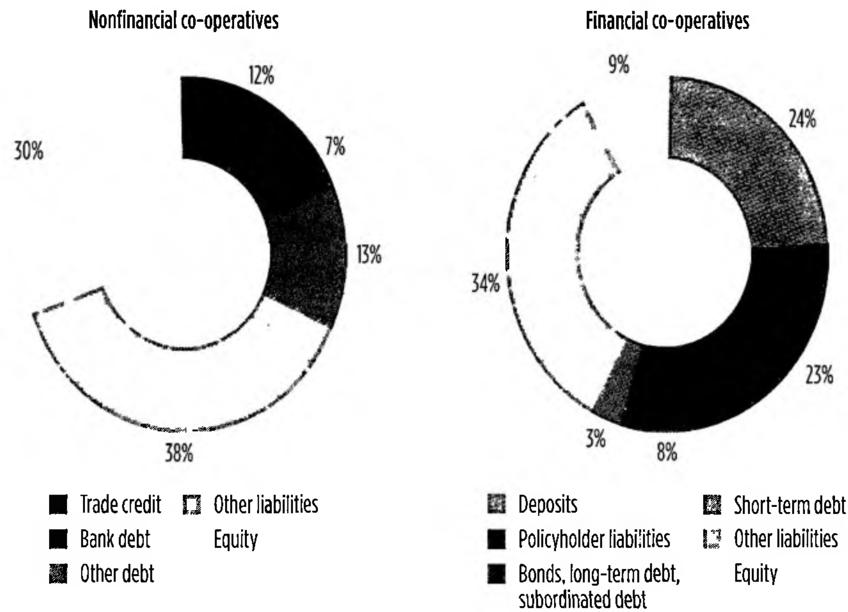
CHAPTER 3

The Largest 300 Co-operatives and Mutuals

Examples of all of the capital instruments and structures discussed in previous chapters can be found in the the largest 300 co-operatives and mutuals. As would be expected due to the different nature of the businesses, there is a significant difference in the structure of the liabilities and equity of the nonfinancial and financial co-operatives in the largest 300 co-operatives and mutuals (Figure 2). For nonfinancial co-operatives, equity—most

FIGURE 2

LIABILITY AND EQUITY STRUCTURE OF THE LARGEST 300 CO-OPERATIVES AND MUTUALS



Source: Global 300 Database.

often in the form of retained earnings and reserves—is the largest source of capital, making up more than one-quarter of the balance sheet. Even for the largest co-operatives with access to a full range of financing alternatives, internal capital generation remains central to success.

Unsurprisingly, financial co-operatives rely on deposits and policyholder liabilities for the bulk of their financing. Financial businesses are much more highly levered, with equity making up about 9% of the balance sheet for a leverage ratio of about 11 to 1, versus 3 to 1 for nonfinancial co-operatives. The category of bonds and long-term and subordinated debt, although making up only about 8% of the balance sheet, is crucially important, as this category is partially composed of instruments that qualify as regulatory capital. "Other liabilities" is a very large category for financial co-operatives and includes, among other things, derivative exposures and member shares classified as liabilities under IFRS.

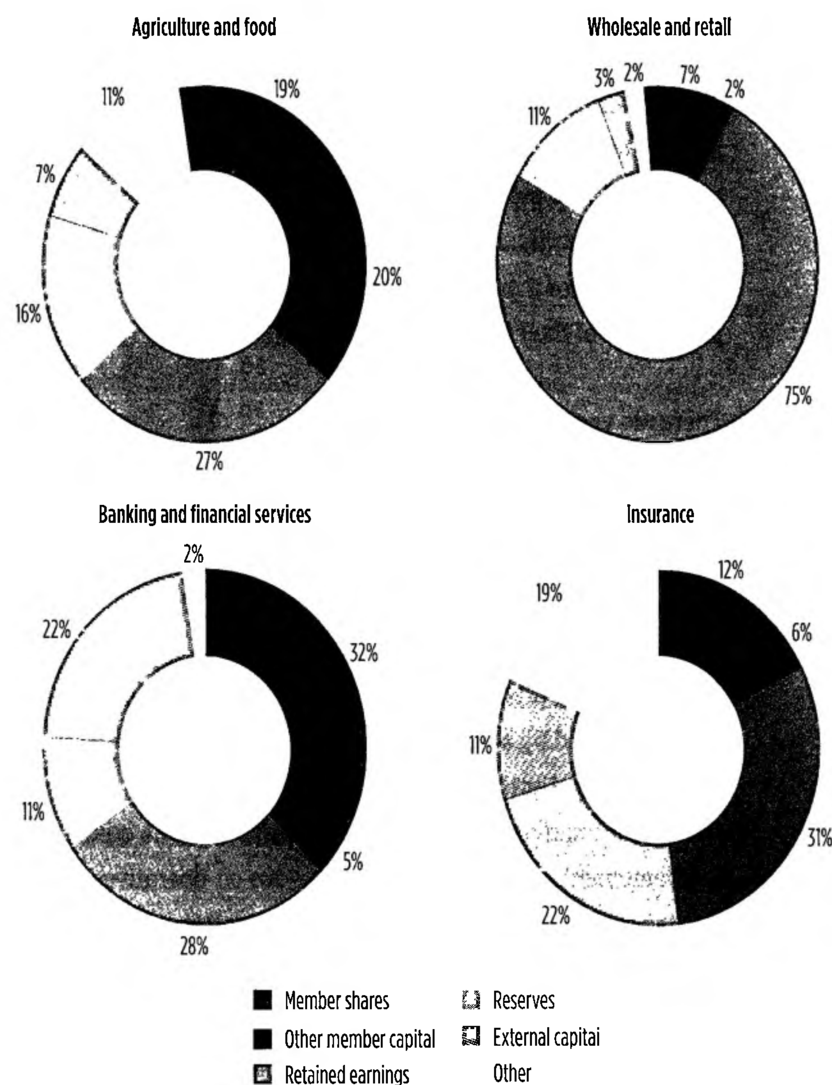
Deposits and policyholder liabilities are generally unique to financial co-operatives. There are a number of exceptions, most notably co-operatives classified as nonfinancial that have financial affiliates. These include NACF Korea, which is classified in the largest 300 co-operatives and mutuals as agriculture and food but also has financial affiliates, and Migros, a Swiss wholesale and retail co-operative that also provides financial services to members. Another exception is CHS, an American agricultural and food co-operative that has a financial services subsidiary engaged in providing derivatives for hedging purposes to its farmer-members, who make margin deposits on their hedges.

The importance of internally generated capital is highlighted by examining the composition of equity (Figure 3). For the agriculture and food sector and the wholesale and retail sector, respectively, retained earnings and reserves account for 43% and 86% of total equity. For banking and insurance, the respective figures are 39% and 53%. Conversely, external capital accounts for 22% of equity in the banking sector and 11% in insurance but only 3% in the wholesale and retail sector and 7% in agriculture and food.

The important role of other member capital in agriculture and food is a function of the widespread practice of linking capital requirements to production or usage. This can take the form of mandatory retains or variable capital, loan, or deposit requirements. Other member capital accounts for 20% of equity in the agriculture and food sector, well above the 2%–6% range in the other sectors.

FIGURE 3

COMPONENTS OF EQUITY OF THE LARGEST 300 CO-OPERATIVES AND MUTUALS, BY SECTOR



Source: Global 300 Database.
Note: "Other" includes revaluation reserves, unrealized gains, accumulated other comprehensive income, and equity not classified elsewhere.

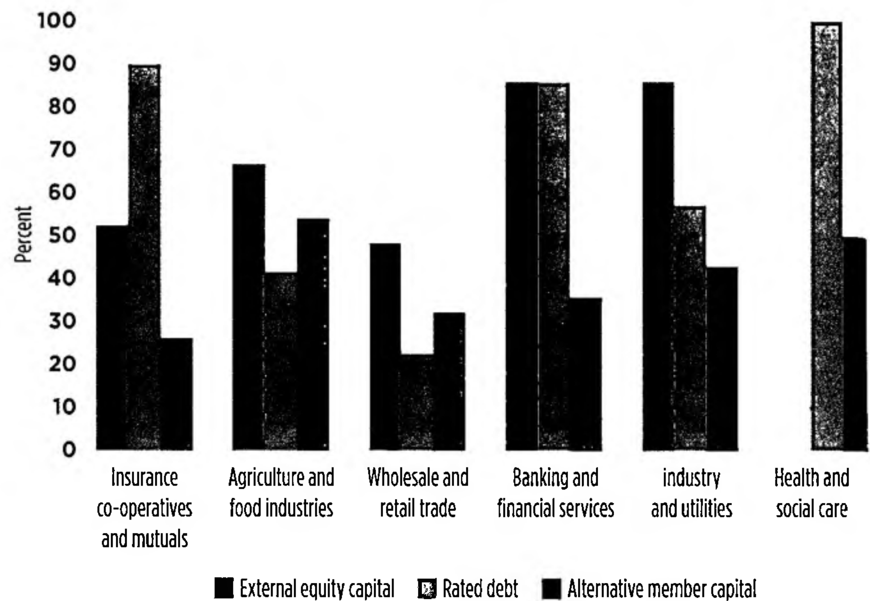
The relatively greater importance of member shares, other member capital, and external capital in the financial sectors likely results from regulatory capital requirements. Minimum regulatory capital requirements mean that when financial co-operatives are growing rapidly or experience losses they must find alternatives to supplement internally generated capital; hence, financial co-operatives have had an additional incentive to develop supplemental types of member capital and to seek nonmember capital.

The largest 300 co-operatives and mutuals provide numerous examples of raising external capital and sourcing additional member capital. Interestingly, despite the greater prevalence of external capital and additional member capital in the equity of financial

co-operatives, the percentage of nonfinancial co-operatives using these forms of capital is at least as high as for the financial co-operatives (Figure 4). This suggests that just as many or more nonfinancial co-operatives make use of the instruments, but that financial co-operatives rely on them for a much greater proportion of their capital.

FIGURE 4

PERCENTAGE OF THE LARGEST 300 CO-OPERATIVES AND MUTUALS USING SELECTED CAPITAL INSTRUMENTS, BY SECTOR



Source: Global 300 Database.

There are variations by country and business type, but among the 201 co-operatives for which sufficiently detailed financial information is available, 58% use some form of external equity capital, 68% have outstanding securities rated by a credit rating agency, and 35% have some form of alternative member capital in addition to the qualifying or basic shares required for membership. Only about 15% of the 201 co-operatives do not use at least one of external equity capital, rated debt, or alternative member capital.

Variation by region—the Americas, Asia-Pacific, and Europe—is driven more by business mix and the co-operative traditions and legal framework in individual countries than by regional trends. In Asia-Pacific, for instance, 10 of the 21 co-operatives are insurance companies, 8 of which are Japanese insurers that rank among the world's largest, so it is hardly surprising that almost 60% of the total liabilities and equity of those 21 co-operatives comprises mutual policyholder liabilities.

Variation by region—the Americas, Asia-Pacific, and Europe—is driven more by business mix and the co-operative traditions and legal framework in individual countries than by regional trends.

CHAPTER 4

Financial Co-operatives

A major challenge facing financial co-operatives is that international standards and national regulatory regimes are often developed taking into account only the corporate ownership model. This can create signficant issues, as is currently the case with Basel III, the new capital adequacy standard for banks.

The crux of the issue is that Basel III emphasizes CET1 as the highest quality capital. Although the final Basel III text was modified slightly to accommodate nonstock banks, the text has proved problematic, as many of the instruments commonly issued by credit unions and mutual and co-operative banks would not meet the Basel III CET1 criteria, primarily because of the prevalence of redemption provisions and their classification as liabilities under IFRS.[21]

In Europe a solution has been provided through a European Banking Authority Regulatory Technical Standard (RTS) that sets out restrictions, principally relating to the ability to limit or prohibit redemption, that would enable the shares issued by co-operative and mutual institutions to be considered CET1.[22] While this is a practical resolution, a fundamental problem remains in that the RTS guidance is not, on a strict reading, consistent with the Basel III text.

Despite the challenges, co-operative and mutual institutions are issuing innovative instruments that are Basel III compliant. For example, Desjardins, the large financial group based in Quebec, Canada, offered its members a new class of permanent shares structured to qualify as Additional Tier 1 capital, raising over CAD 1 billion (B) in 2012. While Basel III will affect the capital eligibility of some instruments issued by credit unions and co-operative and mutual banks, most of the innovative instruments previously developed would qualify as Additional Tier 1 or Tier 2 capital (Figure 5).

Rabobank, the Netherlands-based co-operative bank, issued $2B of undated Additional Tier 1 bonds in 2011, callable after five and a half years and subject to writedown if Rabobank's Tier 1 ratio sinks, or may sink, below 8%. The ability to absorb losses on a going concern basis through conversion to common equity or writedown is a crucial requirement.

Rabobank has also issued a class of securities, Rabobank Certificates, that qualify as CET1 capital, being perpetual and available to absorb losses as they are excluded from the Rabobank mutual guarantee system. The certificates were listed on the Euronext exchange in 2014, permitting nonmember investment. The Rabobank Certificates were exchanged

FIGURE 5

CREDIT UNION ALTERNATIVE CAPITAL

Capital instrument	Source of capital	Country examples	2009 regulatory treatment	Basel III treatment
Membership equity shares	Members	Canada, Poland	Tier 1	Varies by specific instrument. Some perpetual shares could be CET1, but typical inclusion of limited redemption features and maturity would limit them to Tier 2 only
Preferred shares	Members	Canada, India	Tier 1 and Tier 2	Seniority to other shares excludes from CET1. Could be Additional Tier 1 or Tier 2, depending on the instrument
Trust-preferred shares	Nonmembers	Netherlands, Australia	Tier 1	Not issued directly by the entity—TruPS are not eligible capital under Basel III and must be phased out
Subordinated debt	Nonmembers	Canada	Tier 2	Existing issues would likely qualify as Tier 2 capital
Uninsured long-term deposits	Members and nonmembers	Dominican Republic, India	Tier 2	Could qualify as Tier 2 capital with appropriate conditions
Minority stake listing	Nonmembers	Ireland	Tier 1	Could qualify as CET1 but could lead to loss of co-operative status

Sources: David Grace and Liliana Tangwall, "Alternative Sources of Capital for Credit Unions: International Examples" (Madison, WI: World Council of Credit Unions, 2009); A. Michael Andrews, *Credit Union Capital Adequacy: What's New and What's Next?* (Madison, WI: Filene Research Institute, 2014).

for previously outstanding member certificates that had been traded on an internal market exclusively for members and employees. The Rabobank Certificates allow holders to participate in the earnings of the bank but do not entitle holders to vote at annual meetings. Thus, while outside investors may obtain the economic benefit of co-operative ownership, democratic control is preserved by restricting voting rights to members.

The issue of ensuring that international standards consider entities beyond the joint-stock model also arises for mutual and co-operative insurance companies with respect to Solvency II, the new European standard for insurers scheduled to come into force in 2016. However, the basic "own funds" definition in Solvency II includes the surplus of assets over liabilities, thus much better accommodating the co-operative structure than the Basel III CET1 criteria. The main concerns expressed by mutuals with respect to Solvency II have to do with proportionality, as many mutuals are smaller and midsize companies for which the Solvency II regulatory burden may be significant, and the challenge of starting a mutal company under a Solvency II regime.

Revision of the Basel III text is required to more expressly accommodate nonstock corporate structures. The European RTS and the US Final Capital Rule[23] provide guidance with respect to the requirements that could be applied to ensure that instruments issued by co-operative and mutual institutions meet the loss absorbency expectations of Basel III without being similar in all respects to common equity issued by a joint-stock bank. However, it seems inappropriate for an international standard, which many national regulators look to for guidance with respect to credit unions as well as banks, to only accommodate the co-operative ownership model by referring to clarifications in regional or national standards.

Revision of the Basel III text is required to more expressly accommodate nonstock corporate structures.

Starting new co-operative or mutual financial institutions is a particular challenge due to the need to meet the initial regulatory capital requirement. Instruments modeled on Rabobank Certificates could contribute to attracting the required initial investment, as could multiple share classes to attract additional member or nonmember investment while adhering to a co-operative or mutual structure. Some regulatory regimes recognize guarantees from third parties—mutual policyholders or other investors—as a substitute for start-up capital, which is the way many mutual insurance companies are established.[24] Particularly for micro-insurance co-operatives or mutuals and small savings and credit co-operatives, development agencies and non-governmental organizations may be sources of the needed guarantees.

Starting new co-operative or mutual financial institutions is a particular challenge due to the need to meet the initial regulatory capital requirement. New capital instruments could contribute to attracting the required initial investement, as could multiple share classes to attract additional member or nonmember investment while staying loyal to a co-operative structure.

Conclusions and Recommendations

Accessing additional member capital or capital from external sources and adhering to co-operative principles is not an either-or proposition. There are many options and structures that preserve democratic control by ensuring all or a majority of the voting rights in a co-operative enterprise remain in the hands of members.

Capital Planning

The starting point for co-operative leaders, as with the leaders of any business, is the development of a sound capital plan or strategy as a component of the overall strategic plan. In the near term, capital options may be constrained by the legal framework, and if so, this indicates that in the longer term there should be a priority for individual co-operatives and associations to convince policymakers to enact the legislative amendments necessary to provide for a wide range of capital options.

Capital planning for co-operatives incorporates all of the elements required in any business—needs, sources, and contingencies—plus the added dimension of preserving co-operative principles. There are a range of approaches seen in practice that require leaders and the membership to address some fundamental questions about the structure and philosophy of their co-operative.

Is a traditional capital structure based on withdrawable member shares and retained earnings adequate to meet the needs of the co-operative? Availability of a range of options does not require their use, so co-operatives may be perfectly able to operate on a very traditional basis. If innovative alternatives are to be pursued, then a number of questions have to be considered.

Is the membership able and willing to make additional investment in the co-operative? If so, then the debt or equity instruments must be structured to be attractive to members while still preserving democratic control. Debt instruments and multiple share classes can preserve the one-member, one-vote structure while attracting investments of different amounts by individual members.

If nonmember investment is to be sought, there must be a balance between making the instrument an attractive investment and preserving member control. Debt instruments, multiple classes of shares, and tiered or holding company structures all offer ways that this can be achieved. However, it is important to note that even though de jure member control

may be maintained, outside investors may exercise significant de facto influence over the co-operative. For this reason, co-operatives may wish to limit outside investment to levels well below legal control, as with CIC Group in Kenya, where the initial public float was only 25% of total shares.

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Debt Instruments

Debt instruments are the least controversial as they do not entail voting rights (except in bankruptcy, winding-up, or reorganization), and in substance they vary little from the bank debt and credit from other lenders most co-operatives already use. There are a number of innovative approaches in use around the world that co-operative leaders can look to as examples. These include hybrid instruments—subordinated debt that can be classified as equity under IFRS—sold to members or nonmembers. The attractiveness of such instruments for financial co-operatives has decreased due to more stringent rules under Basel III, but hybrids may still be structured to qualify as Tier 2 capital. For nonfinancial co-operatives, such hybrids can help deal with the lack of permanent capital and provide instruments that will be recognized by banks and investors as equity, making it easier to meet lenders' leverage ratio criteria and debt covenants.

For larger co-operatives, issuing debt securities rated by a credit rating agency potentially expands the investor base to include institutional investors such as insurance companies and pension funds that may be restricted in their investments in unrated securities by either regulation or policy. This will require meeting capital markets governance and disclosure standards, but this should not be a major issue for most large co-operatives. In some countries it may be necessary to educate ratings agencies and institutional investors about the co-operative model.

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Both large and smaller co-operatives can use private placements of debt securities. These instruments would be issued under capital markets provisions, which generally have reduced or no specific requirements for instruments placed with a small number—often fewer than 50 or fewer than 20—of qualified or exempt investors. These are investors who, due to their high net worth if individuals or by virtue of being institutional investors, are considered sophisticated enough to make an informed decision without all of the regulatory requirements that apply to public issues. This offers the opportunity to place debt

instruments within the community or with other co-operatives and financial institutions without the expense of a public issue.

Smaller and start-up co-operatives may be able to take advantage of special regimes for securities issuance. These regimes may be targeted at smaller entities more generally, or co-operatives specifically. They provide investor protection through disclosure requirements but are less onerous in terms of transactions and compliance costs than the usual capital markets requirements. These regimes may provide for issuance of both debt and equity instruments.

One cautionary note is that as with any business, excessive debt leaves a co-operative vulnerable to downturns. A number of North American case studies, including Tri Valley Growers, Lilydale, Rice Growers Association, and Saskatchewan Wheat Pool, illustrate that relatively easy access to capital, even when some is in the form of equity through conversion to a corporation or use of innovative structures or shares, can lead to excessive leverage and financial stress.[25]

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Equity

Selling an equity stake to nonmembers can be controversial within a co-operative structure. However, there are numerous examples from around the world of minority interests being sold in a holding company structure or in subsidiaries while still retaining majority co-operative control. These options are easiest for larger co-operatives, which are best able to attract external investor interest.

Preference or nonvoting shares can be used to preserve member democratic control while creating one or more classes of shares that can attract member or nonmember investment by participating in the appreciation in value of the co-operative. The attractiveness of these shares increases if they are liquid. Many larger co-operatives have publicly traded preference shares, but even smaller co-operatives can provide liquidity through an internal market. With advancing technology, this can be easily provided through an online platform, creating a private electronic marketplace.

Recent innovations in capital raising generally, such as crowdfunding, have positive implications for co-operatives. Online platforms such as Microgenius provide a virtual marketplace that brings together potential investors and co-operatives wishing to issue debt or equity.

There are many innovative share structures that have been adopted by co-operatives to raise additional member capital or to attract nonmember investment. New generation co-operatives have linked the equity contribution to usage, which has been particularly useful in start-up co-operatives in capital-intensive businesses. Co-operatives adopting a closed structure and shares that participate in the increase in value over time can enhance the attractiveness of member investment by providing an internal market for these shares.

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Co-operative Investment

There is scope to enhance the use of co-operative investment options. These can include direct investment by one co-operative in another, a centralized funding vehicle that can access the capital market on behalf of member co-operatives, and funds established and/or administered by co-operative associations.

One potential option to lever the co-operative investment is establishing a fund that could be structured as a private equity fund, mutual fund, unit trust, or exchange-traded fund. Such a fund could invest in the debt and/or equity of co-operatives, providing investors with the ability to acquire a diversified co-operative portfolio investment by purchasing units in the fund. Co-operative or mutual financial institutions, large nonfinancial co-operatives, and co-operative associations might be the sponsors of such funds, providing an initial critical mass. By opening the fund to other institutional and retail investors, the initial investment by the sponsors could be levered. With investment limited to debt, nonvoting equity-type instruments, and minority holdings of equity, the fund's investments would not threaten the co-operative ownership of investee co-operatives.

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The requirements for establishing a private equity fund, mutual fund, unit trust, or exchange-traded fund vary in accordance with national securities laws. While there are many examples of funds that operate internationally, they generally require registration and compliance with the local requirements in each country in which units or shares are sold to investors.

Policymakers

The fundamental precondition for raising co-operative capital is an enabling legislative framework. Providing a full range of options to co-operatives allows each to individually choose the best approach. Depending on specifics, this may mean relying on the traditional model of nominal value withdrawable shares and retained earnings. However, there should also be options to raise additional member and nonmember capital through debt and equity-like instruments, and to adopt corporate and share structures to facilitate this while retaining democratic control of the co-operative.

Countries with well-developed capital markets that do not already have in place special regimes for co-operatives (and other smaller entities) to issue securities under a less burdensome regime than the standard capital markets regulation should consider them. There are examples from around the world of streamlined regimes that still provide the requisite investor protection while reducing compliance costs.

Direct policy interventions need to be carefully considered and appropriately designed to avoid the well-known pitfalls. Encouraging co-operative development is seldom successful in top-down programs. Focus on training, awareness of the co-operative model, and the member involvement needed for effective governance are more likely to succeed than financial grants and concessional loans. Where financial assistance is provided, there should always be a significant member commitment accompanying any external support. A focus on building needed infrastructure is more likely to succeed than providing general or untargeted financial support.

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Tax incentives can encourage co-operative investment, but they, too, have to be carefully considered and designed to avoid unintended consequences. There is a fiscal cost that governments may find difficult to justify, particularly in challenging economic times, meaning that existing tax incentives might be lost when they are needed most. There is also a risk that co-operatives will end up as hostages to tax incentives, as co-operatives' competitors may lobby against other policy measures on the grounds that co-operatives already enjoy favorable tax treatment.

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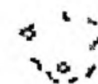
International standard setters such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors need to expressly take into account the co-operative and mutual ownership models when introducing new or revising existing prudential guidelines. Similarly, national authorities need to do the same when taking steps to implement these international standards. The unique equity structure of financial co-operatives has proven resilient, but the absence of common equity as issued by joint-stock companies may present challenges for any capital-linked prudential standard. Rather than seeking work-arounds after the fact, standard setters should consider the co-operative and mutual ownership models at the outset.

APPENDIX 1

Acronyms

CAD	Canadian dollars
CET1	Common Equity Tier 1
CFI	Cooperazione Finanza Impresa (Italy)
CIC	Co-operative Insurance Company (Kenya)
CIS	Co-operative Insurance Society (Kenya)
IFRS	International Financial Reporting Standards
ITGC	Iowa Turkey Growers Cooperative
KSH	Kenyan shillings
PDDA	patron demand deposit account
RTS	Regulatory Technical Standard
SCOP	Les Sociétés Coopératives et Participatives (France)
SDSP	South Dakota Soybean Processors
SIV	special investment vehicle
TruPS	trust preferred shares
USD	US dollars



Debt and Equity Instruments

Bonds: Debt instruments issued by the co-operative for a fixed period of time with an initial term to maturity of more than one year (may also be perpetual) at a predetermined interest rate, which may be fixed or float in relation to a reference interest rate. May be unsecured or secured (secured bonds are often called debentures). Typically purchased by institutional investors but may also be purchased by retail (individual) investors, either members or nonmembers.

Commercial paper: Debt instruments issued by the co-operative, usually issued at a discount with an original term to maturity of less than one year. Typically purchased by institutional investors.

Common equity: Co-operatives adopting the corporate model or a tiered or holding company structure may issue common equity. Retaining majority member ownership of the common equity instruments can preserve the co-operative nature of the business while providing a vehicle to attract additional member investment or external investment.

Factoring and forfaiting: The sale of accounts receivable at a discount. Forfaiting is the sale by exporters of cross-border accounts receivable.

Leasing: A substitute for term loans for the financing of capital assets, typically provided by banks or specialized asset finance companies. The lessor retains ownership of the asset, effectively securing the transaction.

Loans by members—qualifying, retains, or revolving funds: As a condition of membership some co-operatives require members to lend to the co-operative. This is often in the form of "retains," whereby a portion of the sale proceeds due to the member is retained by the co-operative for a fixed period of time. As the fixed period expires, the funds are replaced by new retains, hence the "revolving fund" terminology. Some co-operatives require a qualifying loan in the same way that qualifying member shares are often required.

Loans by members—voluntary investment: Co-operatives may attract financing by providing members with the option to invest in debt instruments, which can include investment shares, bonds, subordinated debt, and patron demand deposit accounts.

Loans—term: Most often provided by banks, loans for a fixed term are commonly used for capital investment and project financing.

Loans—working capital: Most often provided by banks, working capital or operating loans are commonly used to finance inventory, work in progress, and accounts receivable.

Medium-term notes: A type of bond typically issued by the co-operative on a continuous or periodic program basis, most often with an original term to maturity of two to five years. Typically purchased by institutional investors, but may also be attractive to retail (individual) investors, both members and nonmembers.

Member shares—basic, ordinary, or qualifying: Co-operatives typically require purchase of a set number or value of shares as a condition of membership. While the required amount is often nominal and such shares are typically withdrawable when the member leaves the co-operative, some co-operatives raise more capital by having higher qualifying share requirements or linking the required share investment to a member's usage of the co-operative. Particularly when the qualifying minimum is a large amount, co-operatives may offer an installment purchase plan to assist new members.

Member shares—optional investment: Co-operatives may have multiple classes of shares to attract additional member investment. Typically voting rights are restricted to the basic or qualifying shares, with other classes of shares having no or limited voting rights, thus preserving democratic control even though some members may have a much larger investment in the co-operative than others. To make the investment attractive, shares for optional purchase usually offer a competitive dividend rate and/or an ability to participate in the appreciation of the value of the co-operative and to realize such gains through sale of the shares to other members in an internal market.

Participation shares or certificates: These securities entitle the investor to the returns from an underlying security, usually a share that is available only to members of the co-operative. In this way, external investors can participate in the economic benefit of owning the co-operative while the voting rights are reserved only for members, preserving democratic control.

Patronage or bonus shares: A type of internally generated capital whereby some of the dividend or rebate accruing to members based on the volume of business conducted with the co-operative is paid in the form of patronage or bonus shares.

Retained earnings and reserves: After-tax profits retained by the co-operative, usually constituting the largest component of equity, and for many co-operatives the only true equity in the sense of being permanent and classified as equity rather than a liability under accounting standards.

Subordinated debt: A type of bond that ranks behind (is subordinated to) other creditors in the priority of claims in the event of bankruptcy. Typically used by financial co-operatives, as with appropriate terms and conditions subordinated debt can qualify as regulatory capital. Also used by some other co-operatives as a source of more permanent capital than withdrawable member shares.

Sweat equity: Typically used in housing or worker co-operatives, whereby unremunerated labor results in a difference between the cash cost and sale price of a product or value of the property, with the difference capitalizing the co-operative.

Trade credit (accounts payable): Vendor financing whereby payment for goods or services is not required until some date, typically 30 or more days, after delivery.

Database of the Largest 300 Co-operatives and Mutuals*

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
1	Zenkyoren	Japan	Insurance	31,482,656,000	13,484,927,000	43
2	Zen-Noh (National Federation of Agricultural Cooperatives)	Japan	Agriculture and food	5,007,644,298	337,236,739	7
[illegible]	Nippon Life	Japan	Insurance	42,546,000,000	141,000,000	0
4	State Farm Group	United States	Insurance	75,679,000,000	32,202,000,000	43
[illegible]	Rewe Group	Germany	Wholesale and retail	6,346,953,850	52,606,714	1
6	Meiji Yasuda Life	Japan	Insurance	28,821,300,000	37,100,000	0
[illegible]	Kaiser Permanente	United States	Insurance	14,284,000,000	–	0
9	Groupe Crédit Agricole	France	Banking and financial services	112,551,075,205	7,439,116,354	7
10	Sumitomo Life	Japan	Insurance	12,983,000,000	34,000,000	0
11	CHS Inc.	United States	Agriculture and food	4,473,323,000	337,350,000	8
12	NACF	South Korea	Agriculture and food	15,433,724,848	–	0
13	Edeka Zentrale	Germany	Wholesale and retail	2,020,133,374	196,585,538	10
14	Groupe Bpce	France	Banking and financial services	150,863,902,042	80,138,569,729	53
15	Coop Swiss	Switzerland	Wholesale and retail	8,688,057,031	437,883,464	5
[illegible]	Nationwide Mutual Insurance Company	United States	Insurance	20,850,000,000	859,000,000	4
17	Liberty Mutual Insurance	United States	Insurance	19,012,000,000	44,000,000	0
[illegible]	Achmea B.V.	Netherlands	Insurance	13,677,745,536	26,369,280	0
20	MAPFRE	Spain	Insurance	13,629,659,685	2,838,105,546	21
[illegible]	Migros	Switzerland	Wholesale and retail	17,389,121,126	22,279,323	0
22	New York Life Group	United States	Insurance	31,604,000,000	1,874,000,000	6
[illegible]	The Co-operative Group Limited	United Kingdom	Wholesale and retail	3,312,007,263	1,625,924	0
24	Covea	France	Insurance	12,783,586,430	72,308,533	1
[illegible]	Groupama	France	Insurance	5,331,366,720	74,391,164	1
26	Mondragon	Spain	Industry	5,364,830	170,082	3
[illegible]	Groupe Crédit Mutuel	France	Banking and financial services	50,651,431,488	1,367,247,168	3
30	Fonterra Cooperative Group	New Zealand	Agriculture and food	5,364,624,314	31,799,788	1

Download a spreadsheet with more comprehensive financial information at filene.org/research/report/survey-of-co-operative-capital.

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
31	Northwestern Mutual Group	United States	Insurance	17,199,000,000	1,750,000,000	10
32	MassMutual Financial Group	United States	Insurance	12,524,000,000	–	0
33	SOK Corporation	Finland	Wholesale and retail	781,717,306	2,505,082	0
34	USAA Group	United States	Insurance	460,689,000	–	0
36	HDI (Talanx)	Germany	Insurance	15,350,876,352	5,915,947,968	39
37	Desjardins Group	Canada	Banking and financial services	16,633,188,000	428,571,000	3
38	Land O'Lakes	United States	Agriculture and food	1,498,552,000	17,835,000	1
39	John Lewis Partnership PLC	United Kingdom	Wholesale and retail	3,005,035,525	–	0
40	Royal Friesland Campina	Netherlands	Agriculture and food	3,314,618,496	156,897,216	5
41	Baywa Group	Germany	Agriculture and food	1,628,323,382	368,960,885	23
42	Vienna Insurance Group	Austria	Insurance	6,915,753,854	234,807,442	3
44	Unipol	Italy	Insurance	7,759,486,585	–	0
45	Rabobank Nederland	Netherlands	Banking and financial services	58,839,092,928	1,855,078,848	3
46	Ag2R La Mondiale	France	Insurance	3,557,696,220	383,980,590	11
47	TIAA Group	United States	Insurance	935,463,000	–	0
48	Bupa	United Kingdom	Insurance	8,072,928,529	36,794,574	0
50	Arla Foods	Denmark	Agriculture and food	2,612,013,134	–	0
51	Leverandørselskabet Danish Crown A.M.B.A.	Denmark	Agriculture and food	1,081,032,076	28,829,940	3
53	Growmark, Inc.	United States	Agriculture and food	1,176,319,000	86,907,000	7
56	Guardian Life Group	United States	Insurance	4,752,000,000	396,000,000	8
57	Fukoku Life	Japan	Insurance	4,641,000,000	52,000,000	1
58	Federated Co-operatives Limited	Canada	Wholesale and retail	4,068,707,079	–	0
59	Suedzucker	Germany	Agriculture and food	6,438,121,358	930,323,655	14
60	MACIF	France	Insurance	3,170,690,209	48,659,240	2
62	Associated Wholesale Grocers	United States	Wholesale and retail	365,853,000	332,000	0
64	Pacific Life Group	United States	Insurance	8,973,000,000	37,000,000	0
65	UNIQA	Austria	Insurance	3,843,442,884	30,596,810	1
67	In Vivo	France	Agriculture and food	674,940,824	88,855,933	13
68	National Federation of Workers and Consumers Insurance Co-operatives (Zenrosai)	Japan	Insurance	2,446,700,000	–	0
69	DLG Group	Denmark	Agriculture and food	1,030,403,265	334,759,998	32

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
73	Metsäliitto	Finland	Agriculture and food	2,698,608,338	656,157,615	24
74	Federal Farm Credit Banks Funding Corporation	United States	Banking and financial services	42,601,000,000	2,469,000,000	6
75	Fenaco	Switzerland	Agriculture and food	342,235,119	–	0
76	DMK Deutsches Milchkontor GmbH	Germany	Agriculture and food	571,817,930	26,896,670	5
77	American Family Insurance Group	United States	Insurance	6,580,946,000	–	0
78	Natixis	France	Insurance	24,721,285,735	61,992,636	0
79	Astera	France	Wholesale and retail	467,439,631	7,840,002	2
80	Sodiaal	France	Agriculture and food	926,616,650	26,105,591	3
81	Tereos	France	Agriculture and food	3,531,572,892	1,047,789,022	30
82	Terrena	France	Agriculture and food	895,192,955	28,026,182	3
83	Royal London Group	United Kingdom	Insurance	8,817,438,567	3,836,911,707	44
84	Varma Mutual Pension Insurance Company	Finland	Insurance	8,545,164,600	–	0
85	Kooperativa Förbundet (KF)	Sweden	Wholesale and retail	842,430,339	4,188,039	0
86	Württembergische	Germany	Insurance	408,867,611	2,330,923	1
87	Gothaer	Germany	Insurance	1,996,650,000	3,132,000	0
88	Auto-Owners Insurance Group	United States	Insurance	7,839,644,794	–	0
89	Cattolica Assicurazioni	Italy	Insurance	2,121,095,127	384,804,329	18
90	Ilmarinen	Finland	Insurance	38,386,639,241	–	0
91	JCCU (Japanese Consumers' Co-operative Union)	Japan	Wholesale and retail	1,040,809,307	2,772,018	0
92	Vivescia	France	Agriculture and food	541,721,972	–	0
93	SNS REAAL	Netherlands	Insurance	6,193,753,172	–	0
94	Old Mutual Financial Network	United Kingdom	Insurance	14,978,043,671	2,928,649,238	20
95	Coop Norge	Norway	Wholesale and retail	702,546,732	–	0
96	Thrivent Financial Lutherans	United States	Insurance	5,797,909,666	500,000	0
97	Mutual of Omaha	United States	Insurance	4,734,218,000	–	0
98	Länsförsäkringar	Sweden	Insurance	263,495,500	–	0
99	Societa Reale Mutua di Assicurazioni	Italy	Insurance	2,701,228,560	9,854,074	0
100	Sanacorp Eg Pharmazeutische Großhandlung	Germany	Wholesale and retail	315,735,628	–	0
101	Noweda Eg Apothekergenossenschaft	Germany	Wholesale and retail	339,559,762	–	0
102	Securian Financial Group	United States	Insurance	3,637,893,000	1,000	0

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
103	RZB	Austria	Banking and financial services	16,239,475,281	6,639,838,406	41
105	La Coop Fédérée	Canada	Agriculture and food	654,000,861	87,773,047	13
106	Erie Insurance Group	United States	Insurance	7,550,000,000	6,818,000,000	90
107	Copersucar	Brazil	Utilities	138,637,257	48,045,714	35
109	Ag Processing, Inc.	United States	Agriculture and food	755,365,000	26,553,000	4
110	MAIF Group	France	Insurance	2,529,556,660	116,532,460	5
112	DZ Bank	Germany	Banking and financial services	19,498,750,532	6,662,141,979	34
113	Liverpool Victoria	United Kingdom	Insurance	1,959,062,479	793,900,954	41
114	Old Republic International Corporation	United States	Insurance	3,596,200,000	259,400,000	7
115	KLP Insurance	Norway	Insurance	2,515,662,524	–	0
116	Indian Farmers Fertilizer Cooperative*	India	Agriculture and food	1,012,370,000	–	0
117	Alecta	Sweden	Insurance	38,627,911,412	–	0
119	Unified Grocers, Inc.	United States	Wholesale and retail	180,646,000	–	0
122	Ace Hardware Corp.	United States	Wholesale and retail	394,300,000	364,900,000	93
124	Hauptgenossenschaft Nord Ag	Germany	Wholesale and retail	293,713,002	9,021,587	3
125	Ethias	Belgium	Insurance	1,552,616,970	–	0
126	Mobiliar	Switzerland	Insurance	4,457,167,498	–	0
127	Agropur Coopérative	Canada	Agriculture and food	1,020,200,499	–	0
128	AgriBank, FCB	United States	Banking and financial services	4,921,318,000	250,000,000	5
130	Group Health Cooperative	United States	Health and social care	970,382,000	–	0
132	NTUC Income Insurance Co-operative Limited	Singapore	Insurance	1,767,220	1,180	0
136	Devk Versicherungen	Germany	Insurance	1,275,024,098	–	0
137	Unicoop Firenze	Italy	Wholesale and retail	1,864,356,016	–	0
138	Gjensidige Forsikring	Norway	Insurance	4,331,361,887	–	0
139	LSO Osuuskunta	Finland	Agriculture and food	85,119,609	–	0
141	Navy Federal Credit Union	United States	Banking and financial services	6,521,771,680	–	0
144	FM Global Group	United States	Insurance	9,716,200,000	–	0
145	Citizens Property Insurance Corporation	United States	Insurance	7,008,208,509	–	0
146	PFA Pension	Denmark	Insurance	1,153,939,206	157,145,506	14

*This figure appears in Appendix 3 but is not part of the calculations that appear in the full report.

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
147	Nortura	Norway	Agriculture and food	534,364,913	17,948,399	3
149	RWZ	Germany	Agriculture and food	152,300,410	–	0
150	SMABTP	France	Insurance	2,139,867,421	–	0
151	Coöperatie Agrifirm U.A.	Netherlands	Agriculture and food	541,709,565	6,155,180	1
153	Co-operative Bulk Handling Limited	Australia	Agriculture and food	1,280,141,285	–	0
154	Emmi	Switzerland	Agriculture and food	1,412,782,716	213,285,176	15
155	MACSF	France	Insurance	2,810,565,662	–	0
156	The Co-operators Group Ltd.	Canada	Insurance	2,696,097,232	373,762,217	14
160	Danish Agro A.M.B.A.	Denmark	Agriculture and food	518,437,529	217,908,249	42
161	Western & Southern Financial Group	United States	Insurance	6,847,537,000	–	0
163	Foodstuffs (Auckland)	New Zealand	Wholesale and retail	494,464,033	–	0
164	California State Auto Group	United States	Insurance	307,168,000	–47,000	0
167	Sodra Skogsagarna	Sweden	Agriculture and food	1,476,912,497	2,955,380	0
168	Mercury General Group	United States	Insurance	1,822,486,000	81,591,000	4
169	Folksam	Sweden	Insurance	1,454,355,829	38,705,003	3
173	SSQ Financial Group	Canada	Insurance	551,997,497	209,832,410	38
174	Irish Dairy Board Co-operative Ltd.	Ireland	Agriculture and food	573,671,551	1,873,437	0
176	Wawanesa Mutual Group	Canada	Insurance	2,619,972,554	–	0
178	Ohio National Life Group	United States	Insurance	1,952,523,000	–	0
179	Glanbia Ireland	Ireland	Agriculture and food	874,484,464	10,373,904	1
180	Matmut	France	Insurance	1,440,826,923	20,788,225	1
181	Barmenia Versicherungen	Germany	Insurance	489,905,763	–	0
182	Cosun Netherlands	Netherlands	Agriculture and food	1,620,487,512	24,521,532	2
184	Kyoei Fire & Marine Insurance Company Ltd.	Japan	Insurance	516,664,654	–	0
185	Do It Best Corp.	United States	Wholesale and retail	274,683,000	284,811,000	104
186	Murray Goulburn Co-operative Co. Ltd.	Australia	Agriculture and food	627,620,740	9,507,286	2
187	Hok Elanto	Finland	Wholesale and retail	627,697,080	5,258,035	1
188	CUNA Mutual Group	United States	Insurance	2,370,000,000	–	0
189	Op-Pohjola Group	Finland	Banking and financial services	4,192,079,827	–	0
194	Swiss Union of Raiffeisen Banks	Switzerland	Banking and financial services	12,584,016,240	7,329,496	0
199	Sentry Insurance Group	United States	Insurance	4,087,900,000	–	0
201	Mutuelle Vaudoise	Switzerland	Insurance	1,240,288,842	–	0

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
202	The Greenery	Netherlands	Agriculture and food	100,124,996	–141,894	0
206	United Farmers of Alberta Co-operative Limited	Canada	Agriculture and food	303,391,500	–	0
209	P&V	Belgium	Insurance	1,934,025,603	127,342,518	7
211	Sperwer	Netherlands	Wholesale and retail	297,165,792	–	0
213	CCC	Italy	Industry	161,672,719	–15,822	0
214	ACMN	France	Insurance	946,525,613	36,774,032	4
217	Pensiondanmark	Denmark	Insurance	637,445,694	–	0
220	Penn Mutual Group	United States	Insurance	2,694,182,000	–	0
221	Japan Co-op Insurance Consumers' Cooperative Federation (JCIF)	Japan	Insurance	1,040,809,307	2,772,018	0
223	CoBank, ACB	United States	Banking and financial services	6,704,616,000	3,639,235,000	54
225	Foodstuffs South Island Cooperative	New Zealand	Wholesale and retail	235,228,698	–	0
226	Fairprice	Singapore	Wholesale and retail	1,094,239,665	–	0
229	Volkswohl Bund Versicherungen	Germany	Insurance	55,479,285	–	0
231	True Value Company	United States	Wholesale and retail	168,555,000	186,585,000	111
232	Recreational Equipment, Inc. (REI)	United States	Wholesale and retail	662,891,000	–	0
233	Felleskjøpet Agri	Norway	Agriculture and food	279,107,550	–	0
235	Foodstuffs (Wellington) Cooperative Society	New Zealand	Wholesale and retail	93,793,190	–	0
237	State Auto Insurance Companies	United States	Insurance	785,000,000	–	0
238	HCF	Australia	Insurance	852,479,613	–	0
241	The Economical Insurance Group	Canada	Insurance	1,573,116,000	–	0
242	National Life Group	United States	Insurance	2,254,793,000	–	0
243	Blue Cross and Blue Shield of Kansas	United States	Insurance	870,696,629	–	0
245	Co-operative Insurance (CIS)	United Kingdom	Insurance	3,267,852,223	1,604,248	0
248	Basin Electric Power Cooperative	United States	Utilities	1,273,935,000	2,506,000	0
249	Amica Mutual Group	United States	Insurance	2,649,701,000	–	0
250	Atria Group	Finland	Agriculture and food	567,188,538	4,434,540	1
253	Eläke-Fennia Mutual Insurance Company	Finland	Insurance	71,804,004	43,301,168	60

Rank	Name	Country	Sector	Total equity (net assets, $)	External capital, common, preference, or any other shares ($)	Secondary capital as percentage of total equity
254	SpareBank 1 (Livsforsikring AS & Skadeforsikring AS)	Norway	Insurance	955,620,577	–	0
256	Eandis	Belgium	Utilities	4,104,429,127	1,486,446	0
257	Mutual Madrilena Automovilista SSPF	Spain	Insurance	6,709,362,459	1,175,873,570	18
260	Silver Fern Farms	New Zealand	Agriculture and food	266,573,816	113,621,367	43
261	Coop Estense	Italy	Wholesale and retail	935,015,962	–	0
263	Lantmännen	Sweden	Agriculture and food	1,717,853,778	4,355,298	0
267	ZG Raiffeisen eG	Germany	Wholesale and retail	102,085,473	–	0
268	Cristal Union	France	Agriculture and food	1,462,903,917	–	0
269	Unimed Rio	Brazil	Health and social care	102,627,503	–	0
273	Mutual of America Life Insurance Company	United States	Insurance	951,135,792	–	0
274	American Crystal Sugar Company	United States	Agriculture and food	417,208,000	–	0
276	Uneal	France	Agriculture and food	163,852,310	–	0
277	Pensions-Sicherungs-Verein (PSVaG)	Germany	Insurance	92,975,178	–	0
279	OK A.M.B.A.	Denmark	Utilities	285,957,363	22,510,955	8
280	State Insurance Fund Ny (Wc)	United States	Insurance	3,127,996	–	0
282	C.Vale	Brazil	Agriculture and food	979,539,757	–	0
285	Zorgen Zekerheid	Netherlands	Insurance	431,537,629	–	0
286	La Capitale	Canada	Insurance	790,015,733	–	0
287	Ag First Farm Credit Bank	United States	Banking and financial services	5,174,674,000	125,250,000	2
290	Shelter Insurance Companies	United States	Insurance	17,525,000	–	0
291	Oglethorpe Power Corporation	United States	Utilities	595,483,000	–	0
292	Kommunepension (Sampension)	Denmark	Insurance	637,445,694	–	0
293	Kravag Versicherung	Germany	Insurance	2,521,072,272	–	0
294	South Dakota Wheat Growers Association	United States	Agriculture and food	197,177,712	–	0
296	MFA Incorporated	United States	Agriculture and food	142,188,568	657,684	0
297	Maryland & Virginia Milk Producers Cooperative Association	United States	Agriculture and food	37,093,000	–	0
298	United Merchants Public Limited Company	United Kingdom	Wholesale and retail	2,689,716	–	0

Note: Appendix includes data for co-operatives that had publicly available financial data. These are the Global 300 (ranked by turnover), World Co-operative Monitor, 2013. Most recent financial data available (original reporting data converted to USD at statement date exchange rate).

Endnotes

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34 FIGURE 5

CREDIT UNION ALTERNATIVE CAPITAL

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Mike Andrews has a unique combination of public and private sector experience encompassing more than 30 years working on financial issues. He has firsthand experience in Canada and internationally with policy development, legislation and regulation, supervisory oversight, resolution of troubled institutions, and antitrust law applied to the financial sector.

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The Blue Ribbon Commission on Co-operative Capital is a thought leadership group of individuals with particular expertise and experience in co-operative financial capital issues. Its mandate is to frame and guide the Capital strategy in the *Blueprint for a Co-operative Decade*, which is the global strategy for co-operative growth adopted by the members of the International Co-operative Alliance. We wish to recognize and acknowledge the significant contributions and support of the members of the Commission:

- Chair: Ms. Kathy Bardswick—CEO, The Co-operators Group, Ltd. (Canada)
- Mr. Evandro Kotz—Executive Director, Superintendent, Sicredi (Brazil)
- Ms. Monique Leroux—Chair of the Board, President, and CEO, Desjardins Group (Canada)
- Mr. Arnold Kuijpers—Director, Corporate Affairs, Rabobank (The Netherlands)
- Mr. TAN Suee Chieh—Group CEO, NTUC Enterprise (Singapore)
- Mr. Bill Cheney—President and CEO, SchoolsFirst Federal Credit Union (USA)

Impulse Europe

Global Co-operative Impact Fund

The Global Co-operative Impact Fund aims to plug the gap and to pioneer a legacy of investment in co-operatives while establishing them as an asset class alongside SMEs and microfinance.

The GCI Fund will be managed by Impulse Europe, a specialized asset management subsidiary of Credit Coopératif, which has 30 years of experience and a sound reputation serving as Fund manager, with focus on socially-driven investments. Impulse Europe developed a specific expertise in development finance for cooperative banks, credit unions and social MFIs. Other debt and sub-debt funds advised by Impulse Europe include CoopEst and CoopMed (one for Central and Eastern Europe, the other for the Mediterranean countries).

IFFCO

One of the successful models of co-operatives in India is IFFCO. The farmers of the country through their own Co-operative Societies created this institution in 1967 to safeguard their interests in the production and distribution of fertilizers, to help make India self-sufficient in food grain production. The co-operative today is one of the world's largest, with 39,000 co-operatives as members, comprising 55 million farmers countywide, who are also its customers.

The co-operative manages its operation in a transparent, accountable, and responsible way through effective corporate governance. The co-operative is growing on the back of its solid brand, robust financials, and diversification strategies. IFFCO operates in insurance, telecom, commodity trading, overseas ventures in Oman, Senegal, and Jordan, and supports several initiatives through Indian Farm Forestry Development Cooperative Ltd., the Cooperative Rural Development Trust, IFFCO Kisan Sewa Trust, and the IFFCO Foundation for the welfare of farmers.

About Filene

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) not-for-profit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at filene.org.

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—Edward A. Filene

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