

Ostrom / Coop2 / Name tbc

Aim: to develop a secondary cooperative that benefits the communities of member co-operatives, increasing the efficiency and resilience of their enterprises while safeguarding and strengthening their autonomy by:

- raising money (perhaps by issuing community shares) as a common entity and lending funds to member co-operatives;
- sharing knowledge, innovations and resources including financial resources (i.e. pooling an amount of surplus);
- consolidating common functions (i.e. websites; HR, accounting, marketing);
- providing financial and technical services to members (i.e. platforms);
- undertaking research and developing new areas of business;
- supporting efforts to put higher ethical and environmental standards in practice;
- making collective purchases;
- grant giving to potential future members;
- developing a common, trusted identity;
- << other ideal functions >>

Now, smaller and mid-sized co-ops and social businesses struggle to find the development support and resources they need to take off or grow. Co-operative models have the potential to change our communities and systems for the better. Existing apex groups (like Co-operatives UK) focus on political advocacy and knowledge-sharing. There are no groups that focus on sustainable innovation or resource pooling. I believe there is strong potential for a movement-driven approach to develop the co-operative economy as a whole through a mutual aid federation/network of co-operatives.

REGULATION

A focus on raising funds from the public to lend might require an AIF (Alternative Investment Fund) licence from the FCA - this allows us to publicise investments in certain ways. It may involve recruiting a specialist board amongst other things.

Alternatively, we may need to apply for a deposit-taking licence which would allow the public to save money with us for the purpose of us lending. This comes with a need to hold cash reserves of a certain size and may also affect our governance but comes with certain insurances & assurances that can be attractive to the public.

Another option would be to operate as a peer-to-peer lender - potentially partnering with an existing organisation (eg. [GoodHub](#)) who would extend their licence to us. P2P lenders are regulated to give the investor the choice over the projects they can invest in and have specific rules governing the trade.

Since we are hoping to establish something with a broader remit than simply investing and lending, we may be able to use secondary co-operative rules, which allows the offer of withdrawable shares. Radical Routes operates like this and raises money on behalf of member housing co-operatives and provides other support ([download rules here](#)). Shareenergy.coop supports community energy groups with community share offers ([download rules here](#)). [Shared Interest](#) functions similarly. It is 100% possible

We may still need a specialist licence and I am speaking to Anthony Collins Solicitors about our needs. At the end of this document I list some of the rules that I believe this co-operative model will need.

Aim - to have regulatory certainty and draft rules for submission to FCA by mid October.

Name proposals:

Reason:

Coop2 / Ostrom	Domain available: coop2.coop A co-op of co-ops is a secondary co-op. It also differentiates us from <i>the</i> Co-op in quite a fun, next generation way. Ostrom after Elinor Ostrom. Strong sounding name. Neutral.
...suggestion	

MEMBERSHIP

There are two primary options:

1. completely open membership to all co-operatives and/or to all structures (non-co-ops can join a secondary co-op technically);
2. partially open membership depending on criteria including: governance structure (eg. co-operative); trade (i.e. not fossil fuels); ethical / environmental stance etc.

The benefits of openness include that it can increase the speed of growth and feel non-exclusive.

The benefits of partial openness include strong mission alignment and potential to develop a respected ethical / value-leading brand with which to attract attention and investment.

If we were to choose partial openness, organisational membership can be a matter for the board subject to evolving criteria but these criteria should be transparent. We might also support the increasing of ethical standards across existing organisations eg. implementing strong social and environmental justice and feminist frameworks. The clear benefit of taking a strong stance at a membership level around environment, community-ownership and social justice is that we can be a focus of "the new economy" and the no-brainer option for ethical savings. Having an open membership would still allow us to segregate investment into eco and non-eco funds, for example, but might lose that sense of purpose.

I would suggest a focus on energy co-operatives, housing co-operatives and co-ops with sector-leading social and sustainable stances - this is still quite broad.

GOVERNANCE

In the **short term**, the founding members are the board until the first AGM which usually happens around 18 months after incorporation. That means the founding co-operatives will be responsible for the initial set up, establishing of the running team and making the co-op effective.

In the **medium term** (first 18-36 months), there is unlikely to be sufficient financial capital or membership to be making decisions regionally and the board, appointed by the member co-operatives and elected by GM, may make strategic decisions. A centralised model [like Mondragon](#) would then continue to make decisions in this centralised fashion.

In the **long term** (after 36 months), if Coop2 is strongly represented by 5-10 co-ops in a number of regions across the UK, it may be the right moment to consider devolving decision-making to regional councils (who then elect the UK-wide board) who can be empowered to define regional strategy and perhaps regional-level loans of a certain size. [This model is used by Coop57 in Spain.](#)

Other governance questions include the make-up of the board or council (**should all co-ops have one seat or should the board be a fixed number, and should investor members have seats**; if so, how many?); how are decisions made: voting or consensus; are loan decisions made by council or by/with a separate, expert committee elected by council or is sortition involved? We can look at these together in more detail as we come to developing the rules and the lawyers are also happy to advise.

ECONOMIC

To make the organisation successful at a) strengthening its members and establishing new co-operatives; and b) attracting capital with which to achieve 'a' will require modelling. But it is important before then to **think about any strong opinions or red lines you have.**

Not-for-profit or for-profit? A not-for-profit clause comes with the benefit that it may attract more grant-funding and means that it will not be generating a surplus for the direct extraction of its members but it must reinvest its surplus in achieving its outcomes. A for-profit secondary co-operative would share a dividend of its operating surplus with its members each year and the board can be held liable for it. **I suggest we operate as a not-for-profit.**

Member pooling. How do we make sure that there is enough capital in the pot for lending to be effective and non-extractive and for the fund to grow? Is this something that needs to be defined in rules or is it cultural? A few models listed in [the previous document](#) go into more detail. Briefly, Legacoop in Italy takes 3% of member co-ops' surplus annually as investment. Coop57 takes in investment from the public and co-op members can also invest in the fund but there is no amount. Mondragon demands between 3-10% of members' annual surplus as investment depending on their sector. **I believe that a modest mandatory amount of surplus contribution can be really positive as a practice and to keep bonds strong between members but I think that members should also consider investing any working capital that they would otherwise have in a bank for a long period (i.e. 6 months +) in the fund.** The latter is hard to enforce and could be more of a cultural thing.

Non-extractive finance policies. The Seed Commons Network in the USA has pioneered this. For example, for start-ups, loan repayments should begin only after the co-operative is in profit or after a suitable term and only then from the top 50% of surplus otherwise the start up cannot put down roots in the community. For established co-ops, loan repayments and fund contributions should not prevent the co-op from reinvesting in its own business, so all loans will need a hands-on approach to develop an environment where we see money as a common resource, not the end goal.

Grants. We have all needed grants and new groups will continue to need no strings support to get to the stage of testing whether their business is viable. It might be a positive idea to factor in the amount we want to set aside for grants each year before we calculate dividends.

Interest or dividends. Co-operatives can offer interest or dividends at the rate required to attract and retain capital. That can be interpreted broadly since it would allow competition with high street savings accounts and funds. However, it is likely that people would be happy to make a little less than high street levels provided that a) they know how ethical and transformative what they are funding is; b) that they never lose money (i.e. **rates of return stay above inflation plus a bit (i.e. real inflation)**). We can also include a dividend cap so that even in a bumper year, we never reward people just for having money, and instead we reward the co-operatives by giving better rates on loans etc.

Wage solidarity and other measures. In Mondragon, all member co-operatives are transparent about wages and they have **a maximum pay gap between members**, so the person paid the most (often executive) is only paid a maximum of 6x (I believe) the person being paid least (often cleaning and services). This can be very attractive for co-op members and investors but can sometimes be harder for new co-ops and would need a stance on volunteer labour. We can also put in strong hiring and equal ops policies across members and develop **a "better-than-B-corp" vibe.**

Social security. In future, for example, member co-ops could pay small amounts on behalf of their workers/tenants each month, which only the workers/tenants can access on leaving the co-op or retiring. **We should think about innovative possibilities that can benefit co-ops in the short and long term.**

RULES PROPOSAL

Below are some draft rules for the objects and powers of the co-operative and other relevant areas that will need to be selected by us (not taken from model rules / the act).

Reference made to Shareenergy.coop, [Shared Interest Society](#)

NAME TBC

****5. OBJECTS****

The objects of the Co-operative shall be to carry on business as a co-operative and to carry on any other trade, business or service and in particular, but not exclusively -

5.1 to facilitate all forms of mutual aid between member organisations which are member-owned by shares with one member having one vote; and compatible with the social, cultural, economic, ethical and environmental ambitions of the membership, and to develop a common, trusted identity among members based around the members and their shared purpose.

5.2 to increase the efficiency and resilience of member organisations, in particular this may include: providing financial services; consolidating common functions; and making collective purchases.

5.3 to promote awareness of cooperatives among the wider public.

****6. POWERS****

The Co-operative shall have full power to do all things necessary or expedient for the fulfilment of its objects and in particular:

6.1 to act for the purpose of securing significant membership to make practicable and improve the benefits of mutual aid between Members;

6.2 to borrow or raise funds for any purpose on behalf of its Members, including by the issue of ordinary shares of the Co-operative at a rate of interest or dividend to attract the capital necessary to achieve the Co-operative's objects but no more;

6.3 to invest any part of the funds of the Co-operative by the authority of the governing council of the Co-operative in any investment permitted by and in accordance with the Act, including the granting of loans to and/or the acquisition or disposal of any assets or shares in any society registered under the Act or any company registered under the Companies Act that is a Member;

6.4 to support the activities of Member organisations through the sole or shared purchase and ownership of land or any other assets on their behalf;

6.5 to own or rent land or assets for the purpose of the Co-operative's trade;

6.6 to seek specialist advice and undertake the research and development of the businesses of Members and other potential businesses that could further the goals of any member(s) or the ambitions of the Co-operative as a whole;

6.7 to develop and produce technology and marketing materials as a Co-operative on behalf of Members or for the sole use of any Member;

6.8 to make development grants to unincorporated potential member groups and to make gifts and donations to advocacy, education, conservation and environmental initiatives and the communities of Members whether charitable or otherwise.

****7. TRADING****

7.1 Not for profit. The Co-operative shall not trade for profit. This does not preclude the generation of Surpluses or the conversion of Surpluses into Reserves;

7.2 The Co-operative shall not carry on a deposit-taking business within the meaning of the Banking Act.

****8. MEMBERSHIP****

Co-operatives or entities that are aligned with co-operative principles; governed according to one member one vote; member-owned by shares; and compatible with the social, ethical and environmental ambitions of the membership are - user members.

Employee members are those employed by the Co-operative to achieve its objects.

Non-user investor members.

(a) In no circumstances may a Non-User Investor Member vote on any motion to convert the Co-operative into a company, transfer its engagements to a company, or amalgamate with a company.

(b) Non-User Investor Members shall have no more than 25% of the votes (equally divided between them on any Extraordinary or ordinary resolution. resolution.

Subject to the provisions in these Rules dealing with Non-User Investor Members, any individual, corporate body, or nominee of an unincorporated body may be admitted as a Non-User Investor Member despite not qualifying for membership in any other of the Co-operative's membership categories.

****OTHER RULES****

Expulsion by General Meeting or by Board?

I suggest General Meeting in the case of co-operative members and board for other categories.

When a Member ceases to be a Member, or is expelled from the Co-operative then the:

(a) One, non-Withdrawable share shall be cancelled and the amount paid up on that share shall become the property of the Co-operative.

(b) Nominal value of any remaining shares shall be paid to the Member which shall be calculated based on the value of shares held by that Member on the date they ceased to be a Member or at the time of expulsion unless the right to withdraw shares has been suspended under these Rules.

Directors are elected from each Member category

PAYMENT OF INTEREST ON SHARE CAPITAL

148. The Co-operative may pay to Members, interest on share capital at such rate or rates as determined by the Board from time to time, but **not exceeding in any case 5% per annum or 3% above The Bank of England base rate, whichever is the greater**. Different rates may be paid, graduated according to the amount of share capital in the Co-operative held by a Member or on the basis of other terms and conditions applying to Withdrawable shares. In this rule "The Bank of England base rate" means The Bank of England base rate at the time of determining the rate of interest or at such time within two years prior to the date of such determination as the Board decides. Any such payment to Members may only be made where the Co-operative can reasonably afford to do so, having taken into account other liabilities and any contribution to the Co-operative's reserves.

149. Interest on share capital is a cost of capital and should not be paid out of profit. The Board's decision as to whether interest shall or shall not be payable on share capital and if payable, the interest rate shall be set and declared in advance of the period for which it is intended to be paid and before any profit is determined.

