

~ Discussion paper ~

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**Celebrating the Co-operative Movement's  
contribution to social, economic and  
environmental well-being**

*Foreword by Jonathon Porritt*

**At a time of financial, food and energy crisis  
*Paul Gosling* calls for wider recognition of the co-operative  
contribution and regulation of all sectors  
so that the co-operative movement can maintain and expand  
its services to society, the environment the economy**

*and*

***Rianne ten Veen* concludes:  
Co-operatives are the answer to  
abolishing 'boom and bust';  
to all those needing and deserving a just world;  
to the current concurrent economic, social and environmental  
crises.**

## Author



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## Endnote writer



Rianne ten Veen currently works with Islamic Relief Worldwide as Policy and Research Analyst. Her educational background is in politics, business law and – in 2008 – environmental policy. Current voluntary commitments include membership of Birmingham Friends of the Earth Multifaith Project and she is co-initiator of the Midlands Islamic Network for the Environment (MINE). Previously she was on the Board of Junior Chamber in Belgium [Commerce]. This note is written in a personal capacity.

## Publisher's Note

*Greening the North* commissioned this paper because it believes, as Co-operative Group Chair Len Wardle recently claimed, that the co-operative and mutual sectors provide a real alternative to capitalism as we know it, ending "a co-operative renaissance awaits us". We hope that this will happen and will use this discussion paper to promote the movement.

Mary Holmes, a researcher who had been commissioned to update information for ICOM about worker co-operatives by Greening the North, wrote: "One sometimes reads of outstanding examples of business organisations that combine meeting customer needs, realising the full potential of their staff, involvement with the local community and concern for environmental impact. What is so impressive about worker co-ops - as a group - is that with co-operative businesses such shining stars are the norm." Large and small worker co-operatives engage in a wide range of socially and environmentally beneficial activities, which include:

Growing, marketing and processing wholesome food, creating sustainable timber products, employing, training and supporting people with learning difficulties, the arts & media, recycling of materials, used vegetable oil, office waste, computers and cartridges, repair of bicycles, weighing scales and lifts, publishing, ethical travel, installation of wind turbines and solar panels, marine and soil science, housing, engineering, construction, traditional crafts, markets, care for the frail, the young and the elderly, transport, doctors' out-of-hours services, and web design.

A good example is Northampton's Daily Bread Co-operative, set up on the 1st October 1980 with a working group of three; there are now 20 people, including part-timers, with annual sales over £1million. It supplies over 3000 nutritious wholefood products which are good value for money.

Like many worker co-operatives it is run in a truly democratic manner: members decide what to do with profits which are re-invested in the business or given away. They also decided to pay by need rather than status: a person working as a packer who has a large family would be paid more than a manager with fewer family responsibilities.



It has social as well as economic objectives: people recovering from mental disorders are offered employment in a supportive setting, paid on the same basis as members of the co-operative and expected to produce a good day's work in return.

Daily Bread people are members of the Society for Training in Rural Industries and Village Enterprises and covenant part of its profits to STRIVE which allocates these donations to projects in India, Africa and elsewhere. A Community Fund was set up on the same basis as Strive, with the aim of supporting local charities and other good causes in Northampton.

This discussion paper by Paul Gosling, who has studied the wider retail and financial co-operative sector for many years, proposes that with appropriate regulation co-operative ventures could become an even more valuable national and international asset. Rianne Ten Veen adds an inspiring conclusion.

## FOREWORD – Jonathon Porritt

Given the scale and reach of the co-operative movement, given the overwhelmingly positive feelings that people have about it, and given everything it stands for today in terms of values and operating practice, why is it punching so far beneath its weight?

That is not a hostile question. My organization, Forum for the Future, has banked with the Co-op Bank since its launch in 1996, and wouldn't dream of banking anywhere else . . . And we've had a partnership with CIS ever since the bank merged with CIS. And for the last 7 years I've acted as the commentator on the environmental section of their Annual Report.

And that's a job I've really enjoyed. CIS is just so far ahead of its high street rivals, and every time they up their game just a little bit, CIS stretches that gap even further! The metrics it has developed to demonstrate year-on-year performance improvements are hugely impressive, revealing just how much business it turns down every year because of non-compliance with its ethical principles, and what percentage of its profits can be attributed to its investment policies. It can be as influential a campaigning force as any environmental NGO today – just look at what it's achieved on climate change, for instance – and loves to cock a snook at its rivals for their relative lack of transparency and accountability.

I'm with Kofi Annan when he says:

“The co-operative movement is one of the largest organized segments of civilised society, and plays a crucial role across a wide spectrum of human aspiration and need. Co-operatives provide vital health, housing and banking services; they promote education and general equality; they protect the environment and workers' rights. Through these and a range of other activities, they help people in more than a hundred countries better their lives and those of their communities.”

Indeed, what other movement has got that kind of potential firepower? I know it's not quite like that, with all sorts of historical and “territorial” issues working against the idea of “co-operatism” as a unified global force, but it does encourage a few questions about its role in today's global economy.

Worsening inequality, collapsing eco-systems, climate change, religious fundamentalism (of many different varieties), annual expenditure of more than a trillion dollars on arms and making war – all going on against a backdrop where world leaders seem paralysed and intent only on defending the interests of today's already inconceivably rich minority. . .

“But what's all this got to do with the co-operative movement”, I hear you say. To which the answer is “everything”! The truth of it is that our particular model of capitalism today is stuffed. It's inconceivable that it could deliver the kind of equitable, sustainable society that 9 billion people will be hoping to live in by 2050. However, capitalism is quite literally the only economic game in town. So what we have to create (over the next ten years) is a different kind of capitalism – and what better starting point is there for that kind of transformation than the co-operative movement? Is there any other global movement that has a better claim to such a role both historically – going right back to the Rochdale Pioneers in 1844 – and reputationally?

This mad world will either collapse under the weight of its own chronic injustice, or we will plan, campaign and hustle our way through to a much fairer, more sustainable future. And why shouldn't the co-operative movement be absolutely at the heart of that process?

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# **Celebrating the Co-operative Movement and its contribution to social, economic and environmental well-being**

**Paul Gosling calls for the wider recognition of the co-operative contribution and the need to regulate all sectors so that the co-operative movement, at a time of financial, food and energy crisis, can maintain and expand its services to society, the environment and the economy**

## **Introduction**

The world is in crisis – in fact a simultaneous crisis on three fronts. The financial system is in turmoil – the so-called 'credit crunch'. Food prices have accelerated to the point where basic foodstuffs are unaffordable in much of the world. And energy charges have rocketed to such an extent that home heating is barely affordable even in much of the developed world.

In each of these activity areas, co-operatives and mutuals can and do play an important role. They are already at the centre of supply in many discrete markets. But they could play an even more important economic, social, financial and environmental role, if their significance were recognised more widely. All three are marketplaces in which vital goods are supplied – goods which are literally of life and death importance to consumers. And in all three cases, the current crisis demonstrates the failures of markets.

The collapse of the planned economies of the Soviet Union and pre-reform China demonstrates that these cannot operate with efficiency, nor with the necessary personal freedoms that are demanded. Yet neither do poorly regulated free markets.

**Co-operatives, mutuals and social enterprises operate through the market to produce social, financial and environmental benefits. If properly managed and regulated, they can operate more effectively and more competitively than many large corporates.**

This booklet argues that the third way – co-operation – if recognised and supported more widely, could play a substantial role in building a sustainable future. But co-operation needs to be accompanied by greater and more effective regulation than in the past.

This is not just to argue that regulation must apply more effectively in the corporate sector to prevent the collapse of major corporations such as Enron and to ensure that markets such as banking and energy do not rip off customers (as they too often do); stronger regulation must also apply in the co-operative and mutual market place, to prevent failures in our sector, such as Equitable Life and Germany's Coop AG.

Co-operatives, mutuals and social enterprises operate through the market to produce social, financial and environmental benefits. They are vitally important and need to be protected by stronger regulation from further demutualisations which are little more than the theft of value built up over generations for the benefit of a temporary group of members and also for private equity firms and other outside investors.

Governments, their regulators and the general public, need to recognise that co-operatives and other mutuals, if managed and regulated properly, can operate more effectively and more competitively than many large corporates. Their place in the market can be an important driver towards greater efficiency and a more competitive approach from the major corporates.

Sections 1, 2 and 3 will give a brief account of the achievements and potential of the food retail, banking, credit union and insurance sectors, followed by examples of the co-operative contribution, in this and other countries, to the use and generation of renewable energy. Section 4 will examine governance in co-operatives, which are owned and controlled by their members.

# FINANCE

## Banking

The global credit crunch is striking hard. It is not just that US and UK banks and their shareholders are suffering asset write-downs and reduced profits. More importantly, the impact on lower income borrowers is profound. Loans have become more difficult to obtain, while tens of thousands of jobs have already been lost and more are in the pipeline.

Banking failures – the so-called sub-prime crisis – originated because of excessive lending, backed by the security of homes. The lending proved to be unsustainable, repayments to be widely unaffordable and the properties on which the loans were secured to have been over-valued. The total cost to the world economy – through bundles of ultimately bad loans being sold and resold across the globe – is in the region of \$100bn, according to the International Monetary Fund.

Co-operative Financial Services [CFS] is emerging well from the global crisis, with a significant increase in deposits and benefiting from the perception that mutuals are more reliable and trustworthy than the main banks. The impact of the financial crisis has been lightest on these more conservatively run financial institutions, particularly those that remain within the mutual sector.

David Anderson, chief executive of CFS explained that as the Co-operative Bank was not linked with sub-prime lending in Britain or USA its losses had been very small in relation to the Bank's capital and other banks and that CFS would not be going out to raise more capital on the markets. He pointed out that its mutual status has ensured that it did not get involved in high risk activities: "We don't have the same access to external capital, so we think harder about the capital we have". There has been a 65% increase in customers transferring their accounts to the Bank in 2008.



Rated No 1 for overall customer satisfaction by the BBC's Watchdog programme, the Co-operative Bank avoids investment in oppressive regimes, genetic modification, cosmetics tested on animals, unsustainable timber and fishing companies and fossil fuel industries and directs it towards renewable energy projects, recycling ventures, sustainable water management and Fair Trade. A building was converted to make the new branch in Solihull pictured above, using ecologically friendly construction materials and powered by green electricity like all the bank's branches. The branch's paper is recycled and eco-friendly cleaning products are used. Its Think credit card comes with an undertaking to purchase and protect half an acre of Brazilian rainforest in the customer's name, after the first purchase.

In the UK, the Co-operative Bank is part of the mutual sector, as a subsidiary of the giant Co-operative Group. Elsewhere – including in Italy and Germany – co-operative banks continue to play an important role in capitalist economies that also have a social dimension. Many do, though, face pressures to demutualise – particularly in Germany. And some have constitutions that might be regarded as hybrids and make them less than truly mutual in character – as with Europe's largest mutual bank, France's Credit Agricole.

## Building Societies - mutuals

Mutuality in the finance sector has roots in the early 19<sup>th</sup> century friendly societies: organisations that promised to provide workers and their dependents with an income when a person fell ill, became unemployed, was injured at work, or even died. Before the welfare state, friendly societies were *the* welfare system, with close relationships with trade unions and co-operatives.

It should be no surprise that mutuals regularly outperform their PLC competitors. According to the Building Societies Association, paying dividends to outside shareholders adds 35% to the operating costs of a bank. The Association of Mutual Insurers reports that its members' costs are a quarter less than those of non-mutual competitors.

The impact of the property and lending bubble has been worst on the big banks and demutualised financial institutions. The impact has been least severe on the financial institutions that have been run more conservatively, particularly those that remain within the mutual sector. As a result, arguing the case for mutuality and co-operatives is easiest of all in the finance sector.

Building societies are not as reliant as banks on the international money markets. Regulations restrict their borrowing on the inter-bank market: at least half of mortgage lending must be financed by members' deposits and the average proportion of funds raised by building societies from the wholesale markets is 30%.

Savers are now turning to building societies – more trusted institutions – and transferring money from the converted societies to the real thing. In March, societies received an amazing £1.26 billions in savings, compared with £700 million the year before, deposits being more than twice the amount loaned.

Demutualisation has greatly reduced the size of the building society sector in the UK, but in the long run it has not done most of its advocates much good. Northern Rock was a good solid building society for many years, with its predecessor institution, the Northern Counties Permanent Building Society, established in 1859, and which combined with the Rock Building Society in 1965 to form the Northern Rock Building Society. The merged body gradually took over a further 51 societies. All that history and solid financial foundation has been destroyed.

### **Northern Rock**

Directors of Northern Rock were frustrated by building society rules in their ambitions to convert into a major bank. For one thing, as a building society they had to raise at least 50% of their mortgage lending from their own members' deposits. To extend their mortgage portfolio, the directors recognised that they needed to borrow on the money markets to finance home loans. But, following demutualisation and the raising of billions of pounds on the international money markets (75% of its capital was raised abroad - it raised over \$30bn in 2006 alone), inter-bank lending became more difficult and more expensive as the credit crunch took hold and Northern Rock was unable to service its loans and collapsed. As the directors themselves pointed out in what seemed to them to be happier times, the fatal expansion to become the UK's fifth largest mortgage lender was only made possible by its demutualisation.

At the time of demutualisation in 1997, Northern Rock was valued at more than £2bn – and increased in stock market value substantially more than that subsequently. When it was saved by the UK taxpayers a decade after its launch, it was worthless.

Investors in other converted building societies did not do well in long-term either, unless they sold their 'windfall' shares at the height of the market. A typical Northern Rock member received a 'windfall' of £2,260 from their shares – assuming they cashed them in immediately. (If they held onto them, they might have ended up ultimately with nothing.) But if that average member also held a mortgage with Northern Rock they could be as much as £5,000 down over the term of the loan, or £12,000 down if they had an endowment mortgage. The reason for this overall loss is that demutualisation comes with a price – higher interest rates on loans, as well as lower interest rates for savers.

According to a report from the All-Party Parliamentary Group for Building Societies and Financial Mutuals, PLCs charge an extra 0.21% margin to provide them with a profit that is distributed as shareholders' dividends. An additional 0.21% does not sound much, but over the term of a 25 year loan it adds up to very substantial sums.

The size of those sums mean that it is not only former Northern Rock members who were misled into believing that their 'windfalls' were worth having; the same is true with all the demutualised building societies. Moreover, the 'best buy' tables of price comparison websites are typically led by mutual organisations – including some that are not household names. The Stafford Railway Building Society, Wesleyan Assurance, LV (formerly Liverpool Victoria Friendly Society) and Yorkshire Building Society all frequently perform well in terms of product pricing.

In many cases, the beneficiaries of demutualisations have been private equity firms. The most audacious and unscrupulous swoop on a mutual was made by Andrew Regan, whose Lanica Trust was backed by private equity. Similarly, the AA has gone from a members-owned mutual, to becoming a portfolio company of private equity houses, CVC and Permira (via short-term ownership of British Gas parent Centrica). Demutuality is still taking place in much of the world, in many sectors, including in the finance industry in India, and in agriculture in North America.

## **Credit unions**

Today, credit unions fulfil a similar role to that played by friendly societies in the past. Loan sharks can charge as much as two or three times the capital sums in repayments – US-based 'pay day loan' operators charge as much as 2.6 million per cent (calculated on an annualised basis) on short-term borrowing. By comparison, in the UK, credit unions normally charge 1% a month – 12.7% annualised. (UK credit unions are limited, legally, to charging no more than 2% a month.)

Credit unions are financial co-operatives owned by their members. They are run by committees consisting of elected members and any profits go back into the union. There are about 540 credit unions in Britain, with more than 600,000 members and £400m in savings.

Globally there are 42,000 credit unions and 157 million members. There are 10,000 credit unions in the United States alone, with 84 million members and assets of over \$600bn. Ireland – where fear of poverty and famine is embedded in the national consciousness - has one of the world's most developed credit union sectors, with nearly three million members and savings of over €13bn.

## **Insurance**

Mutual insurers have also played an important role in the advanced economies – and still do in the US, where there are more than a thousand mutual insurers, holding over \$80bn in premium income. In Europe, some of the largest mutual insurers have demutualised. Standard Life was forced into demutualisation after it made bad investment decisions and required investors' equity to meet regulatory solvency requirements. Friends Provident demutualised and subsequently declined in market significance, with various bidders circling the company at the time of this booklet's publication. Demutualisation of financial institutions is not restricted to the UK – the successful mutual Swiss Life demutualised in 1997.

**demutualisations . . . little more than the theft of value built up over generations for the benefit of a temporary group of members and also for private equity firms and other outside investors.**

During the severe floods of 2007, some affected householders were alarmed by fears that insurance companies would no longer offer them cover.

Co-operative Insurance Services, however, reassured their customers living in flood prone areas that CIS would honour their commitments



## Micro-finance

The role of co-operative and ethical finance sources has been fundamental to the establishment of many progressive schemes. In the UK, the Ecology Building Society has funded many homes and conversion schemes that improve energy conservation and contribute to sustainable living practices. Co-operative and Community Finance (formerly known as Industrial Common Ownership Finance) has provided millions of pounds in loans to co-operative and democratic businesses since 1973. CCF has worked with the Plunkett Foundation's ViRSA programme to support the retention of village shops by providing £2m in loans – often with social and environmental objectives that go even further than keeping villages alive.

In Italy, the Italian Federation of Co-operative Banks provides competitive financing for renewable energy projects run by co-ops.

Globally, micro-finance institutions are of increasing importance – and have been the means for many individuals, families and communities to survive. Their role is recognised as having been so great that Muhammed Yunus, who founded the pioneering Grameen Bank micro-finance lender, was given the Nobel Peace Prize in 2006.

Yunus, an economist, founded Grameen in 1974 in Bangladesh, recognised that the cycle of poverty could only be broken if micro-entrepreneurs had the means to pump-prime their activities. He overcame the traditional obstacle to lending to poor people by not requiring personal security against loans, instead providing local monitoring of loans that worked as a means of reinforcing community mutual trust.

The Grameen principles have worked so well that they have now been widely copied, not just across much of the developing world, but are also applied in poorer areas of the United States. Microcredit institutions – backed by some of the world's richest entrepreneurs, including George Soros, Bill Gates and Warren Buffet – also played an important role in stimulating the emerging markets of the former 'Soviet bloc' countries, following the fall of communism.

But while Grameen is a not-for-profit institution, recently there has been a big move by major lenders to enter the microcredit market and even for some of the not-for-profit microcredit lenders to convert to PLCs – recognising that large profits can be achieved even in microlending. However, Yunus has warned that the widespread move into the microcredit market by for-profit banks could lead to a second wave of global 'credit crunch' asset write-downs, caused by bad lending decisions.

Grameen has 7.5 million borrowers, of whom 97% are women. The bank has over 24,000 staff, more than 2,500 branches, works in 82,000 villages and has loaned \$7.1bn, of which \$6.4bn has been repaid and \$580m is outstanding. Grameen is now a massive group of profitable businesses, with the profits disbursed as dividends to its members – its own borrowers. As well as supporting microenterprises, Grameen also provides loans for homes and education. The group provides a range of other services to members, including telecoms and even pensions for borrowers.

## Conclusion

Co-operatives and other mutuals, if managed and regulated properly, can operate more effectively and more competitively than can many large corporates. Their place in the market can be an important driver towards greater efficiency and a more competitive approach from the major corporates

Mutuality in various forms provides benefits to its members – and it is equally clear that demutuality has frequently failed them. In other activity sectors where mutuals have created value for their members, attempts are repeatedly made to strip that value out of those mutuals formed by many generations of members and hand it over to a single generation of members.

The value of mutuals and the chimera of demutuality windfalls has to be constantly stressed if the co-operative and mutual sector is to survive as a major force.

Regulation must apply more effectively in the corporate sector to prevent the collapse of major corporations such as Enron and to ensure that markets such as banking and energy do not rip off customers (as they too often do) and stronger regulation must also apply in the co-operative and mutual market place, to prevent failures in this sector.

## Sources:

*Windfalls or Shortfalls? The true cost of demutualisation*, published by the All Party Parliamentary Group for Building Societies and Financial Mutuals and written for it by the Association of Chartered Certified Accountants.

Grameen Bank: [www.grameen-info.org](http://www.grameen-info.org)

<http://www.coopandcommunityfinance.coop/index.php?content=news&archive=1>

## 2. FOOD

There is growing concern about food: security of supply, quality and price. Global food stocks have almost halved since 2000 and as oil production peaks and reducing carbon emissions becomes a key target, demand grows for more local production rather than the long-distance trade in cheap food.

### Supply and quality

The Co-operative Group is well placed to extend its contribution to the food supply, owning over 70,000 acres in England and Scotland and already being the largest food producer in the UK. Co-operative Farms currently grow a variety of cereals and a growing range of fruit and vegetables including potatoes, strawberries, cider apples and peas. They are committed to farming in a sustainable and responsible way, caring for the environment and wildlife, as well as having good relationships with the communities in which they farm.

The larger co-operative food retailers are located in high streets: a good environmental move as fuel prices rise and out-of-town shopping sales decline. Co-operative societies in Scotland and Wales have developed a large range of locally produced products and an example of this good practice gradually being adopted in England is the Oxford Swindon and Gloucester Co-op's Local Harvest scheme, providing customers with fresh local food.

The Midcounties Co-operative has continued and extended the Oxford, Swindon & Gloucester Society's "Local Harvest" initiative which puts a range of produce sourced from across its trading area on to the shelves in a number of Co-op supermarkets. Local Harvest supports local farmers,

helps to protect local jobs and improves the choice of fresh food at a number of stores. It has been welcomed by local producers and growers supplying the stores, one describing it as an unqualified success which enabled his small family farm to survive.



The Local Harvest initiative grew from rising customer and member concerns post foot & mouth, especially an increased feeling of the need for fairness to farmers and a growth of the desire to buy local food. Customer research showed 85% of customers support the idea of a local food scheme and it was in the top three concerns at the Active Member Conference in 2007.

150 products from 17 suppliers in its trading area are sold under the 'Local Harvest' brand, including dairy, meats, eggs, seasonal fruit and vegetables, breads and flour, beers and soft drinks, dried whole-foods, breakfast cereals, ice cream, cakes. These have been either manufactured or produced within a 40 mile radius of the store.



The Society also supports community owned village shops, which might not be able to trade without Midcounties' help and in 2007 was named top UK food retailer for supporting rural communities, scooping a “highly commended” in the Business in the Community UK Awards for Excellence.

The Local Harvest campaign is very much in line with our aims,” says Andy Parsons of Swindon Climate Action Network. “We hope that more retailers will follow the Co-op’s example and adopt similar schemes.

“Our local food campaign will benefit local producers, the local economy, people’s health and the global climate. We want to get the message out and about as widely as possible so that everyone can play their part.”

Stroud Community Agriculture, a well-run co-operative in Gloucestershire, farms 50 acres on two sites. There are currently 100 members, 2 part-time farmers employed, and 1 apprentice. The co-operative offers the local community with an accessible source of locally grown organic produce and regular weekly vegetable shares for 170 families.

Box-holders get into the into a padlock, select which they are entitled do not want in a gift are available and organic produce is sold



store by entering a number and weigh the produce to and leave any vegetable they box for others. Meat and eggs charged for as taken. The at affordable prices.

Beneficial measures taken by the Co-operative Group - the world's largest consumer co-operative with 4000 stores - include bans on:

- the growing of GM crops on its land
- artificial colours & monosodium glutamate [potential links with food allergies and childhood hyperactivity]
- a range of toxic chemicals used in washing up liquid, household cleaning products and fabric conditioners [linked to cancer, fertility problems and environmental damage]
- cosmetics which have been tested on animals
- over 20 pesticides which can legally be used
- use of stalls and tethers for pigs
- use of animal by products in animal feed five years before the government ban was passed
- sweets and chocolates on shelves near tills

Constructive action/innovation includes:

- supporting organic food production in principle and aiming to stock some affordable organic produce
- sourcing GM-free animal feed ingredients
- being the first to champion the Fairtrade label, putting Cafédirect coffee on its shelves in 1992, playing a leading role in the Fair Trade movement giving a better deal for growers and producers in developing countries and stocking fair trade products in all their stores nine years ago
- supporting the RSPCA's standards by selling a range of Freedom Foods, working to achieve zero pesticide levels in foods and publish pesticide residues testing results
- reducing amount of fat and salt in own brand products
- reducing packaging
- improving labelling, giving percentages of the ingredients used and country of origin on all their own brand products.
- introducing Braille on to the packaging of medicines and published information in Braille, large print or on cassette. Now labelling trans fats on its products.

## Prices

Food prices in the UK rose 7.4% from 2007 to 2008 – with some items rising in price by a third. Globally, the problem is much, much worse. In Kenya, for instance, annualised food price inflation is a whopping 44%.

If a 7.4% hike creates anger in Britain, think about the impact of nearly doubling food costs in countries where food accounts for as much as 80% of income. The result, in perhaps a quarter of the world or more, is a reduction in food consumed, or a move to cheaper foods. And those most affected are those already without enough to eat.

When you look at what is happening on staple foods, it is clear that we are entering “a danger zone”, as the World Bank's president phrased it. Wheat prices rose, globally, 120% in a year; rice prices by 75% in just two months; maize jumped 30% in a mere three weeks. This is crisis territory – as reflected by the food riots that have taken place in some countries.

There are several causes for this dramatic food price inflation – much of it directly or indirectly related to climate change; extreme weather in Australia, Asia, Africa and the United States has damaged agricultural production; the diversion of agricultural production from food to biofuels is another important factor. The US produces 40% of the world's maize crops, and 30% of this is now being diverted to biofuels. Simply ending the diversion of maize to biofuels would cut world maize prices by an estimated 20%.

But there are demand as well as supply factors. As China and India expand their middle classes and incomes, so its wealthiest people eat more meat and less grain. Animals consume several times the amount of grain to produce the same weight in food, so the quantity of grain required rises. Nor can we ignore the fact that the global population is continuing to rise – India is predicted to have a 50% population increase in the next 50 years, while the least developed nations are expected to double in population size in that period.

All these pressures will, in the medium and long term, mean that the value of land will rise. This might be assumed to be good news for farmers in developing nations, but it is not necessarily true: fertile land is being taken with or without financial compensation for industrial development and many food producers left with no alternative but to drift to city pavements.

We can already see indications of how the mismatch between new wealth and indigenous resources will be played out. On the international scene competition for fertile land and water may be the cause of more global tension, conflict and a new type of empire.

While the Gulf States, in particular, have highly valuable oil resources, they are short of many other resources – and even of local businesses in which to invest. As a result, the oil nations' sovereign wealth funds are being invested elsewhere, for example buying equity in some of the world's largest (US-based) banks and buying land in other countries.

Abu Dhabi is involved in developing new economic zones in Sudan and in controlling agricultural lands there. Similarly, China has created close links with several African countries to exploit their resources on an exclusive basis. The UK and US are buying land in Eastern Europe for food production and processing. Japan, meanwhile, is buying rights to burn carbon from the underused carbon permits of developing nations. It is also likely that richer countries will use natural energy resources - such as solar, hydro and wave - in developing nations to help meet their energy requirements.

These are all early indicators of how land in the third world will increasingly be regarded as a potential and comparatively cheap asset by the richest nations and their largest companies. Global agri-businesses see opportunities in developing nations to transform agricultural practices: in particular, using genetically engineered crops. Private equity firms – the modern economy's bellwether of the main chance – are showing interest in buying land in developing nations as a resource that can be exploited, with much higher agricultural and financial returns than are achieved at present.

The World Bank has become increasingly worried not only about food prices and inflation, but also the disconnect in Africa between agricultural production and population. As more people move to the cities to increase their earning power, farmers lose their access to their traditional markets. At the same time, people in the cities become vulnerable to being charged high prices for poor quality produce.

One option being actively considered by the World Bank in countries such as Uganda is to use farming co-operatives to improve the marketing and distribution of produce to population centres. Increasing the financial returns to rural farmers and improving the rural infrastructure through the creation of effective co-operatives could play an important part in reducing the rural-to-urban migration. In both Africa and Asia, threequarters of the population lived in rural areas in 1975, but this is predicted to fall to around 45% by 2025. In Latin America, it is predicted that 85% will live in urban areas by 2025.

## **The co-operative contribution to food distribution and land tenure**

Food co-operatives, farmers' and country markets already connect farmers and consumers in much of Britain and Ireland. Cutting out the wholesaler enables producers to obtain higher (and fairer) rewards for their produce, while providing high quality food to consumers, often at a lower price than is available in supermarkets.

Farmers' and country markets can play an important part in protecting the rural environment: consumers support local producers, food can be of higher quality (because it is not damaged in transit), it is more environmentally sustainable because there are fewer 'food miles', while it builds demand for traditional, local varieties of food. Often the value of traditional local varieties is undermined by centralised buying by supermarkets, whose priorities include how well a variety travels – which may conflict with consumers' demand for succulent, juicy fruit, for example.

Farmers are under severe commercial pressure in the advanced economies, even if this does not usually threaten their physical survival. Co-ops offer additional ways of combating this. As farms diversify into other trades – bioenergy, tourism, crafts, for example – trade-based co-operatives and federations frequently provide important practical assistance. They can be a forum for passing on expertise and lessons learnt, as well as increasing buying and marketing power, and lobbying strength.

### **Community Land Trusts**

Co-operative-based structures can also help to support their localities in a variety of ways. Community land trusts can provide facilities for local people to live affordably in their own areas, despite pressure from incomers raising land prices. They can similarly retain communal land for community benefit, including as agricultural smallholdings.

Community land trusts have become important in many, mainly rural areas, especially in the US and in Scotland – for example, by enabling farmers, smallholders and other residents to buy their way out of feudal land ownership in the Scottish isles of Gigha and Eigg.

## **Food co-operatives in the developing world**

There are many ways in which mutualised systems of organisation can help improve efficiency and fairness in the food industry – and the need for this has never been greater. Farmers in the developing world hold assets that are at long last being recognised as having a real value. The question is whether that value will now be extracted by them, or by private equity and other investors moving in to exploit that historically low valuation of land.

The International Co-operative Alliance records that in Brazil, the third of the major developing nations, agricultural co-ops also have a central role in the economy. Co-ops generate 40% of agricultural production by value and 6% of the sector's exports, worth \$2.82bn in 2006.

Farmers in the developing world hold assets that are at last being recognised as having a real value. Sadly those who understand this best are least likely to pay the farmers that real value. This was seen recently in India, where farmers rioted when their land was expropriated at below what they regarded as the market price for use for free trade zones – enticing first world corporations, at the expense of indigenous-owned farms.

Nor are governments supporting co-operatives simply as the means to increase the rewards for agricultural output. There are complaints in India that state governments are encouraging farmers to enter into direct contracts with global food retailers, such as Wal-Mart, rather than organising themselves into stronger co-operative organisations, which would increase the prices they can achieve for their produce.

**Mutualised systems of organisation can help improve efficiency and fairness in the food industry – and the need for this has never been greater. The value of land could be realised by farmers in the developing world if they organise themselves to a much greater extent through co-operatives.**

“With million of households in India possessing very little land, and millions more landless, co-operative farming is essential to pull subsistence farming out of the current abyss,” wrote Dr Sudhirendar Sharma, a former World Bank official, who is now director of Delhi's Ecological Foundation. There are similar, and growing calls in much of Africa for farmers to be supported to organise through agricultural co-operatives.

Improvements in land yields and returns could be achieved if a larger number of the isolated independent farmers in Africa and Asia organised through co-ops – sharing expertise and knowledge, increasing access to markets and technologies, marketing their products and raising finance via micro-lending and other sympathetic institutions.

As 77% of India's land holdings are less than two hectares (5 acres), co-operatives clearly have a major potential role in achieving economies of scale and improving access to markets – as they have already done with sugar and dairy produce. Academic studies and the experience of successful farming co-operatives in the UK and Ireland have shown that agricultural co-operatives have helped smaller farmers achieve economies of scale. A study by Di Falco, Smale and Perrings concluded that membership of agriculture co-operatives by small farmers in Southern Italy led to greater crop diversity, improved crop marketing, lower marketing costs and, ultimately, higher crop yields.

However, commentators within India argue that this must involve a reduction in state government interference in the way agricultural co-operatives function and a recognition that genuine co-operation is a form of decision-making that is democratic and independent from government. Studies suggest that where agricultural co-operatives have been formed by governments on a top-down basis – including, but not only in India - this has failed to change the fundamental relationships within or between farms. Moves towards co-operation must, naturally enough, be voluntary, not compulsory. To be successful they probably need to operate within some type of market economy, rather than a planned economy. There are, for instance, concerns about the level of autonomy achieved by farming co-operatives in China.

Isolated farmers in much of Africa and Asia could improve the returns and yields on their farms if they organised through co-ops – sharing expertise and knowledge, giving access to markets and technologies, marketing their products, raising finance via micro-lending institutions.

This approach is already being taken sporadically by the United Nations Development Programme. One particularly interesting scheme backed by the UNDP involves turning the failure of Soviet collectivism into an effective basis for agricultural co-operation. In Uzbekistan, land reform has led to the creation of 200,000 new small farms. But while these independent farmers are pleased with their independence, they have been left without an effective system for produce distribution and marketing. The UNDP is working with them to create new, bottom up structures, that enable small farms to be internationally competitive. As part of the project, the UNDP is providing a range of skills training – having seen the positive effects of this in an earlier scheme in Indonesia.

Similar challenges afflict some of the most developed market economies, where there are strong wealth differentials. Oxfam America has been active in establishing the Federation of Southern

Co-operatives in the United States. In turn, the federation provides support to 35 producer co-operatives that are black-owned and based in the Southern states. Founded in 1967, the federation helps black people to stay on their own land, to avail of modern farming and distribution methods and to obtain maximum income for their production.

## **Food co-operatives in the developed world**

According to the International Co-operative Alliance, over half of all agricultural co-operatives are located in the United States. France, Germany and the Netherlands have significant numbers of agricultural co-ops, while the very large co-ops are located in Japan and South Korea.

The benefits of agricultural co-ops in advanced economies have been well recognised. Today, almost a third of US agricultural production is marketed through agricultural co-ops. In total, there are over 3,000 farming co-operatives in the US. The US Rural Business-Co-operative Service, which is backed by the federal government, states: “Co-operatives ... have contributed greatly to the development of one of the world's most productive and scientific-based agricultural systems.... Co-operatives have also played an important role in rural communities, where they are an integral part of the social fabric.”

There is evidence that membership of agricultural co-ops in the United States helps farms to adapt to changing commercial conditions, maximise benefits from crop rotation and diversify into new markets – including supporting them to move into energy markets. (See Downing, Volk and Schmidt)

Yet these acknowledged strengths have not prevented the demutualisation of some of the largest and most profitable agricultural co-operatives in North America and Ireland. Just as in the UK financial services sector, short-term trading surpluses have been seen as 'freewheeling' assets that can be plucked for personal gain – ignoring both the collective endeavour that engendered them in the first place, and that they are actually needed as reserves for when the good times end.

Canada's Saskatchewan Wheat Pool – whose origins went back to 1902 - was demutualised in 1996. Within three years it teetered on the edge of bankruptcy, when commodity prices fell. There are now new pressures in the US to demutualise agricultural co-operatives - despite agricultural co-operatives being a cornerstone of the rural economy in much of North America. Many originated during and after the Great Depression, when farmers and small traders realised that it was only if they worked together that they could withstand economic forces that could rival a hurricane in impact.

There are a variety of ways in which mutualised systems of organisation can help improve efficiency and fairness in the food industry – and the need for this has never been greater. Farmers in the developing world hold assets that are at long last being recognised as having a real value. The question is whether that value will now be extracted by them, or by private equity and other investors moving in to exploit that historically low valuation of land.

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### 3. ENERGY

Meeting the world's growing demand for energy is as daunting a task as that of satisfying the need for food. It is not merely that non-renewable sources of energy are depleting fast and becoming much more expensive, it is also that demand is rising rapidly. According to US energy secretary Samuel Bodman, global primary energy needs will rise by more than half by 2030. And this in a period of sharp contraction in available supplies.

High energy wholesale prices create a market where renewable energy sources become genuinely competitive and high retail prices create economic incentives to reduce energy usage, which is beneficial in terms of fighting climate change.

Energy prices have already jumped dramatically in recent years. In the UK, household energy prices rose by about a third in the first half of 2008 – and are predicted in an industry analysis commissioned by Centrica (owners of British Gas) to rocket by a further 60% in the coming period. Gas prices have already risen nine-fold in less than eight years, yet the Centrica report concludes that the rises have not yet matched the increases in oil prices – which rose by 40% on the wholesale markets in early 2008. Gas and oil wholesale prices are linked on most of the world's energy markets.

High energy prices are both a challenge and an opportunity for the co-operative sector and other progressive thinkers. They obviously inflict pain, but there are a number of wider impacts on society. For one thing, high prices create economic incentives to reduce energy usage, which is beneficial in terms of fighting climate change. In the United States, there has quickly been a significant reduction in car use, an increase in train journeys, a fall in the number of flights (and an increase in airline bankruptcies) and a switch to the purchase of smaller cars.

And, very importantly for the co-operative sector, high energy wholesale prices create a market where renewable energy sources become genuinely competitive. Previously, solar, wind and geothermal energy schemes were often not financially viable, relying, at least to an extent, on ethical principles to drive them. But in future years, many more of these projects will become commercially as well as environmentally sustainable. Given the important role of co-operatives in the renewable energy market place, this is good news for the sector.

#### Microgeneration

It is also possible that we will see a trend away from reliance on the major electricity generating power plants, in particular those fired by coal, oil and gas. Many smaller co-operatives and community groups use electricity generated by small wind turbines on or around their own buildings. As small-scale projects – solar and wind, in particular – become more viable, so more businesses and householders will rely on these, while selling surplus electricity back to the grid. We can already see evidence of this trend, with Co-operative Financial Services installing solar panels across much of its head office in Manchester, generating its own electricity.



The Co-operative Group's New Mills store in Derbyshire is now powered by a micro-hydro installation on the Rover Goyt nearby, which is owned and funded by local people.

## Energy conservation

There are significant opportunities for co-operatives as advisers to consumers on how to reduce their energy consumption. In fact, the combined energy supply and energy advice sector is perfectly suited for consumer co-operatives. Consumers as owners gain most by reducing their energy expenditure. Energy co-ops can gear themselves most effectively as low energy businesses, taking a cut from reducing customers' home heating bills achieved by improved energy insulation. They can even – as has already happened – work with credit unions to finance home improvements to reduce energy consumption. Similarly, the employee-owned social enterprise Eaga Partnership manages the Home Energy Efficiency Scheme/Warm Front on behalf of the Government.

## Wind energy

In the UK, the Baywind Energy Co-operative has been a pioneer. The scheme originated in 1993, when Sweden's Vindkompaniet AB established The Wind Company and recognised Harlock Hill in Cumbria as a potential site for a wind energy project. The landowner, a farmer, was keen, and the scheme was supported the local authorities, leading to the creation of the Baywind Energy Co-operative as an Industrial and Provident Society. Within six months, £650,000 was raised from the co-operative members, with additional finance from the ethical bank Triodos. Baywind now has six turbines operating over two sites.



Baywind's success has led to it partnering other wind co-operatives – Westmill, Boyndie, Fenland and the Isle of Skye – to set-up the Energy4All social enterprise, helping create other wind co-operatives. New wind turbine co-operatives are now being established in the Scottish Highlands – the Great Glen Co-operative and Kilbraur Wind Energy Co-operative.

Despite the promising development of the community-owned UK wind sector, as at 1999 this generated total capacity of a mere three megawatts, against the comparable figure in Germany of 4,621 megawatts. The number of people involved in collective schemes in the UK was less than 2,000, against the 100,000 in Germany and the 175,000 in Denmark. Even in 2008, the UK has one of the lowest levels of wind generation in Europe.

Shared ownership of wind projects has several advantages. It provides greater acceptability and less local opposition to a project, leading to a higher likelihood of obtaining planning approval. Capital is cheaper and comes from sources that would typically not be available for a profit-orientated energy scheme. Transmission costs are lower and transmission efficiency is higher because of the close geographical connection between supply and demand.

## Distribution of energy

Although co-operatives will mostly be involved in small and medium size energy projects, there are also opportunities for mutuals to provide part of the infrastructure for the distribution of energy. This is the basis on which the Touchstone co-operative operates in the US. It is also the basis of Northern Ireland Energy Holdings (NIEH), which operates the Scotland to Northern Ireland electricity interconnector. It is a not-for-profit organisation, owned by its customers, with trading surpluses ploughed back as investments into the infrastructure, or as discounts on future supplies.

NIEH has so far returned £23m in profits to its members, as well as being a brake on rising energy prices in Northern Ireland.

Large-scale energy distribution schemes are well suited to the co-operative or mutual structure. Mutuality can reduce costs to customers and many of these major projects are unattractive to PLCs as the rate of return is insufficient for them. Consequently, a possible Republic of Ireland to Wales electricity interconnector may also be structured as a mutual organisation. The Welsh water company, Glas Cymru, operates as a mutual. In Scotland, not-for-profit structures are being developed for investing in public infrastructure, through Public Private Partnerships.

But the most exciting opportunity in the energy sector is the potential for a vast increase in the number and size of energy co-operatives.

## **The United States and Canada**

Energy co-ops are already a core part of the US economy. It is fair to say that the economy of the US is dependent on co-operatives and without them many rural parts of the country could not function. In all, there are more than 900 energy co-ops in the US, operating in 47 states. The origin of energy co-ops in America goes back to the early 1900s, when it was only through co-operatives that the rural areas of America were connected to electricity. Today, most of the world's rural energy co-ops are located in the US.

One of the very largest utility businesses in the US is the Touchstone Energy Co-operative, which is a secondary co-operative, consisting of 660 local co-ops. These member co-ops are responsible for electricity distribution across 75% of the US land mass – in particular to those areas where it is economically unattractive for a profit-orientated electricity generation company to seek business.

In all, there are 865 electricity distribution co-ops in the US, with 36 million consumer-members – more than 10% of the population. Many of the newer energy co-ops exist to reduce the costs of energy for their members, passing on the benefits of bulk buying.

Increasingly – and without much recognition outside the US – these energy co-ops are adopting renewable sources for electricity generation. US energy co-ops now generate 11% of their electricity from renewable sources, most of it using hydro plant. With the support of the Federal Government's USA Rural Development Program, the energy co-ops are also promoting energy conservation and reduced use of electricity.

A electricity cooperative that serves 53 small, native villages in rural Alaska and is using wind power to reduce dependence on diesel power today was declared the winner of the 2007 Wind Cooperative of the Year Award. The Alaska Village Electric Cooperative of Anchorage, Alaska, received the award at the annual convention of the National Rural Electric Cooperative Association.

It is worth mentioning that while most US energy co-ops are owned and run for their consumer members, there are also workers' co-operatives in the home of modern capitalism. One of these, PV Squared, installs solar panels for homes and businesses.

Farmers also play a key role in Windfarm Canada, established to assist farmers create extra income streams. There is also considerable interest through North American farming and energy co-operatives in producing biomass and biofuels to convert agricultural waste and crops into energy. One example is Canada's Community Supported Energy (CSE) projects. These involve not only using wind generation, but also biomass, geothermal, geoelectric, hydro and solar generation. One of the CSE projects is a wind turbine in Ontario that is 50% owned by WindShare, a co-operative of 427 local residents. However, given the crisis in food supplies and prices, support for bioenergy from crops should probably be limited to crop waste and the use of land not suitable for the growing of food crops.

## **Generation of renewable energy in Europe . . .**

Community ownership of windfarms is common across much of Northern Europe. While not all of these are legally registered as co-operatives, they typically have co-operative-type structures of shared ownership. Germany has the highest level of wind-generated electricity of any advanced nation – twice as high as any other nation, as of 1999 - with 75% of this produced by community-owned wind projects. Over 100,000 Germans invested in wind energy schemes as of 1999 – presumably the figure is much higher now.

In Denmark, the Middelgrunden Wind Turbine Co-operative meets about 4% of Copenhagen's electricity demand, through 20 turbines sited at the city's harbour. It has 8,000 co-operative members and is the largest windfarm in Europe. In total, renewables generate over 20% of Danish electricity supply, with 23% of wind capacity owned by co-operatives. In addition to the wind generation, 300 of the 400 district heating networks in Denmark are owned by consumer co-operatives. Danish farmers are heavily involved in waste-to-energy schemes, with farming co-ops running over 20 large-scale digester plants.

Co-operative windfarms played an important role in helping Sweden meet its energy deficit, following its decision in 1980 to phase out nuclear reactors. Sweden's community wind projects date back to 1989, when a commune was established on the island of Gotland. Today, much of Sweden's wind-generation of electricity is based on Gotland. As well as shared property communes, Sweden also has a large consumer co-operative sector involved in the ownership and management of windfarms. Both tend to generate electricity within a locality to meet demand within that locality – reducing the costs and inefficiencies of distributing electricity over longer distances. Farmers have played an important part in the setting-up and financing of windfarms, helping them to make greater use of their land ownership and reflecting expectations of rising electricity prices.

In Italy, hydroelectric co-ops play an important role, with more than 30 energy co-ops providing energy to 45,000 consumers. Most of these have their antecedents back in the 19<sup>th</sup> Century, when a co-operative structure was the only one that enabled electricity to be connected to mountainous areas and villages in rural Italy. That link between the co-operatives and their local community is retained.

### **. . . and other parts of the world**

Energy co-ops operate across much of the world. In Israel, building on the collectivist traditions of the kibbutz movement, there are now windfarms and a solar power plant in the Negev desert, helping to generate electricity in a country where the geography creates difficulties for using other forms of energy.

### **District heating**

District heating schemes show clear evidence of how a co-operative structure can be used for energy distribution and are ideally suited to a co-operative form of organisation. Local small scale heating projects can use geothermal heat sources from the ground (where the geography is appropriate), or biomass, solar, wind, or other locally sourced heat supply. This heat source is then available across the network of local homes. Because the heat source is limited to a particular building or group of buildings, using a co-operative format to run the scheme is a natural option.

In Latvia, co-operatives of property owners have established district heating schemes as a means of operating collectively to reduce heating costs. Denmark is recognised as one of the world's leading pioneers of district heating schemes, with over 60% of heated floor area supplied by district heating schemes. More than half of these are collectively organised, run either by co-operatives or municipalities.

In Canada and the US, district heating projects are used to heat collective housing schemes including apartments (or 'condos', or condominiums, as they are termed there). One of these is the highly regarded Drake Landing Solar Community, a planned neighbourhood in Alberta, that claims it provides 90% of space heating using solar panels. Solar district heating projects typically rely on storage devices that enable heating to be available when needed.

Farmers also have a financial incentive to create biomass district heating schemes. In Austria, there are about 350 wood-burning district heating schemes in rural villages, most of which are run by agricultural co-operatives as a means of creating a market for wood wastes. These schemes generate about 1% of Austria's total domestic heating supply. A similar project in a Greek village was established by a co-operative run by farm workers, with the support of villagers, academics and the European Union. Similar projects are now being examined across the Balkans.

## **Energy co-operatives in developing economies**

While energy co-operatives have, to date, mostly been a feature of the advanced economies, there are also welcome signs of them being used in developing economies. A solar photovoltaic plant was established by the Cagayan de Oro Electric Co-operative in the Philippines four years ago. It is reportedly the first of its kind in a less developed economy – and is the second largest in South East Asia. The PV unit is only one aspect of the co-operative's operations, it is the third biggest electricity distributor in the Philippines.

Energy services companies – ESCOs – have become established across the world to work with companies and domestic consumers to reduce energy use and demand. While most ESCOs are structured as profit-generating companies – in fact, many have been set-up by energy companies, perhaps hedging their risks on the future of the sector - some in the US are co-operatives. In Zambia, a farmers' co-operative formed an ESCO, advising rural communities on how to obtain and use energy efficiently. A village co-operative in Java has also acted as an ESCO. However, it is surprising that – outside the US – not more ESCOs are run as or by co-ops.

U.S. Wind Farming, Inc. has entered into an agreement to develop new wind energy/hydrogen cooperatives in China. At present, China produces just over 6 gigawatts (GW) of wind energy, making it 5th in the world for total wind energy. (Germany leads with 22.2 GW.)

China currently tops the world in production and retention of solar energy, it is also the largest producer of solar water heaters and a major consumer. The country is turning into the world largest market for solar energy.

In Bangladesh the rural women who act as service providers for Prokaushali Sangsad Limited (PSL) are organized into co-operatives, involved in the assembly and distribution of solar PV based home lighting systems. The co-operative also assembles and sells lamps to be used with the batteries. These small systems are locally manufactured; they are cheaper and people living in the area can afford them. While users can access improved illumination, better education facilities and reduced use of fossil fuels in their homes, women members of the co-operatives earn a living by assembling lamps and other components required in solar PV-powered home systems.

India, the fourth largest installed wind power capacity in the world, and the wind energy leader in the developing world, has begun exporting wind turbines to other countries. Several years ago a cabinet-level department for promotion of renewable energy technology was created: the Ministry of Non-Conventional Energy Sources

Over the past 10 years a pioneering project, with 35 co-operative members who assemble and sell photovoltaic solar home systems, has been introducing solar technology to remote and inaccessible villages in the Himalayas. Run by the Barefoot College in Tilonia, Rajasthan, the project has shown that with appropriate training, poor and rural communities can install solar equipment in their villages and maintain it without any further external help.

The energy sector is in crisis – not for suppliers, who are raking in record, vast profits - but for consumers the world over. It was just such a crisis that led to the founding of the co-operative movement, finding solutions for people in crisis through collective action. As is being shown in many parts of the world, co-operatives can again play a central role in finding solutions to these very contemporary crises.

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## **4. GOVERNANCE**

Co-operation is about values – the values of democracy, involvement, fairness, equality and respect – so corporate governance should be a strength of the co-operative and mutual sector. Good corporate governance and co-operative values encapsulate the very reasons why people support and belong to the co-operative and mutual sector. Yet far too often larger co-operatives and mutuals have fallen short on issues of corporate governance and members' participation.

In truth, this is hardly surprising – these are the ethical battlefields where co-operation and raw capitalism meet. And in some cases this conflict has led to co-operatives and other mutuals conceding what has been termed 'the co-operative difference' and mimicking the approach of major corporates.

There are many cases of fine leadership of mutuals, but too often the democracy of mutual societies has been abused, elections subject to undue influence and managers have had more power than have the directors. Too often the directors have had neither the skills, knowledge nor the presence to impose themselves on senior managers and provide the necessary strategic leadership of mutual societies.

Equitable Life, Standard Life and Northern Rock illustrate the failure of corporate leadership. True, Northern Rock's commercial failure followed its calamitous decision to demutualise and operate what proved to be a high risk business strategy, but that course of action began when Northern Rock was still a building society owned by its members and its directors chose to move it out of the mutual sector into the corporate world.

### **Members' participation**

Though members of worker co-operatives are, generally, fully involved in decision-making, large co-operatives have yet to find some way of achieving a satisfactory level of democratic input from members, own and control them, especially when proposals to close co-operative enterprises are on the table.

Members who own co-operatives and are said to control them should be notified well in advance of major proposals and a mechanism put in place for them to make effective input.

The Co-operative Group, perhaps influenced by the steady flow of letters from dissatisfied members in the Co-operative News, set up a Constitutional Review to identify an appropriate governance structure for the society. Following submissions from many groups, the Constitutional Review Board made recommendations in April 2008 and on 19<sup>th</sup> July 2008 members attending the Special General Meeting in Birmingham are now being used to draft amendments which were put before members at a Special General Meeting in October 2008.

## **Demutualisation**

The demutualisation failure is not unique to the UK. Around the world, similar exercises are taking place and are akin to the privatisation of public services. The motivation is to convert value into profit and the main beneficiaries are the financiers who put up the investment cash for the operation. While members of mutual societies can be persuaded they will benefit, the calculation is only genuinely attractive to those members who have no long-term commitment to a society.

Savings and loans institutions in the US – sometimes, though rather misleadingly, described as the US equivalents of building societies - were historically not-for-profit mutuals. But most of them demutualised, as the biggest, Washington Mutual, did in 1983. Parallel with this process of demutualisation went deregulation, with savings and loans institutions permitted to offer more facilities. What the institutions did with that flexibility was to make many very bad lending decisions. Yet, while savings and loans institutions were given the same opportunities to conduct business as the banks, they were subject to a lower level of regulatory scrutiny. This was abused, to the detriment of the institutions, consumers and, ultimately, the federal government and the global financial system.

Between 1986 and 1996, savings and loans institutions across the US collapsed, with the number falling from 3,234 to 1,645, and in the process they lost \$160bn, of which \$125bn was picked up by the federal government. This, in turn, led to a massive fiscal deficit and a financial crisis that overhang successive administrations.

In Europe, too, many of the largest co-operatives have had serious troubles. The most successful have faced pressure to demutualise, while the least successful have collapsed. Finland's Eka co-operative was made subject to mandatory restructuring and forced into the private sector.

The end of mutuality can reflect a very different sort of scandal. Before mutualisation, in 1997, the highly successful Halifax Building Society paid its chairman, Jon Faulds, £265,000. In the year 2007, the markedly less successful Halifax Bank of Scotland paid its chairman, Dennis Stevenson, £708,000. In the case of Alliance & Leicester – whose performance as a PLC is even more disastrous than that of HBOS, and which has had to be rescued by Banco Santander – its executive chairman who was also chief executive was paid £208,000 shortly after demutualisation, whereas in 2006 its chief executive (who did not have responsibilities as chairman) was paid £1.4m (including bonuses).

Some of the demutualisations have had the active involvement of private equity firms, which have generated substantial profits for their investor members. In other cases, private equity firms have taken over demutualised companies in post-demutualisation sales – as with the purchase of the AA from Centrica – and have bid for former building societies that have hit hard times. Questions need to be asked of directors who have overseen demutualisations about how they believe they have served the interests of the majority of their members, given that it is clear that over the medium and long term members are badly served by the process.

There has been a distressingly similar story in Kenya, where the co-operative sector has been less regulated than have for-profit businesses. According to the Kenyan Standard newspaper, the sector has been blighted by “a long-standing crisis of poor management that up to a few years ago saw almost all the ten largest co-operatives fail to meet fiscal prudence or solvency benchmarks”. It added: “Co-operatives can significantly improve the range of opportunities for the rural poor. They can be the engines for better agricultural production, rural finance and local capacity-building in

entrepreneurship. By solving the problem of providing financial services for the unbanked majority — over 70% of income earners — they can promote growth that is ‘felt’ by the vast majority employed in agricultural activity. But to do so they must be well run and regulated”.

It should be self-evidently true, that absolving co-operatives from normal commercial regulation is not a real service to those consumers who are dependent on co-operatives – and that point is relevant irrespective of which country co-operatives are trading in.

## **The competence of directors and senior managers**

It would be wrong to focus solely on demutualisations when we think of the betrayal of co-operative principles, or the mismanagement of a mutual organisation. There is also the very significant matter of the competence of directors and senior managers.

What did for Standard Life was a 'bet' that equity values would rise during a period in which they fell. Faced with falling share prices, managers and directors did what gamblers often do – they continued to back their hunch and put more good money after bad. Eventually they bet so much of their savers' money that they breached their solvency requirements, which could only be rebuilt by demutualising and obtaining an injection of investors' capital. While this, once more, reflects a failure on the part of regulators, more than anything it reflects a failure on the part of key people within the business.

A more spectacular example of failure can be viewed at Equitable Life. Although a supposedly 'democratically-run' and customer-owned society, Equitable Life was run like the personal fiefdom of its senior managers. Or, as it was put by Lord Penrose – who conducted an inquiry into the operations of Equitable Life on behalf of the Treasury – it was run in an “autocratic” manner by Roy Ranson, the managing director and appointed actuary of Equitable Life between 1992 and 1997.

Ranson was found by his professional body, the Institute of Actuaries, to have failed to maintain professional standards of competence and integrity, failing to identify, monitor and manage the risks facing the society. These were failures that eventually caused the society to collapse. Ranson was “dismissive of regulators and their concerns”, found Lord Penrose. Policyholders were misled about the value of their investments and a misleading impression was given about the financial strength of the society. Directors were treated with disdain and were not provided with adequate information. The society's financial crisis was not adequately addressed by the board, or by the senior managers.

Equitable is probably the most severe failure in the history of mutuality in the UK. But the significance of its failure does not lie in its uniqueness. Rather, it is that the managerial and democratic failings of Equitable are actually similar to those in other mutual societies – including some co-operative societies – over the years. What happened to Equitable could have happened in many other societies over the years, but with less dire financial effects.

Too often the democracy of mutual societies has been abused, elections subjected to undue influence and managers have had more power than the directors. Too often the directors have had neither the skills, knowledge nor the presence to impose themselves on senior managers and provide the necessary strategic leadership of mutual societies. There are, of course, many cases of fine leadership of mutuals – but this needs to be common practice, not best practice.

Failures of leadership in the mutual sector have a wide impact – across all the members, employees and users of the mutual. The significance and importance of the role of mutuals in key sectors in society, in which their members can be literally dependent on them, makes those members all the more vulnerable if there is mismanagement.

## **Recommendations**

- Savings and loans institutions, given the same opportunities to conduct business as the banks, should have the same level of regulatory scrutiny.
- All co-operatives should be subject to normal commercial regulation
- Members should be notified well in advance of major proposals and a mechanism put in place for them to make effective input. A few delegates on a committee cannot do this. Input from owners and controllers should be given appropriate weighting by executive officers.
- In addition to achieving grassroots input, no excuses should be accepted for any lack of skills and leadership in the mutual sector. Mutuals must recognise the need for dynamic and ethical leadership. Nothing else is acceptable.

### **Sources:**

'The bigger they are, the harder they fall', by Steven Burt, European Business Review, 1991.

## ENDNOTE

This time of turmoil on all key fronts for human survival (economic, social and environmental) is a good time to re-evaluate the way we organise ourselves. Is a system which allows for obscene profits and bonuses to those that gamble with our money the way to continue? Will we understand the indigenous American Indian proverb "[o]nly when the last tree is cut; only when the last river is polluted; only when the last fish is caught; only then will they realise that you cannot eat money" - only after it has become too late?

Market places are a good thing: they allow for exchanges of vital goods and services. However, even Adam Smith – the 'father of capitalism' – warned of the problems of a 'free market' if not accompanied by 'moral sentiments'; that "every successive generation" has "an equal right to the earth" .<sup>1</sup> Co-operatives, in which the future of one is tied to the future of all, instead of the 'me, me, me and after me I don't care about the Great Flood' of full blown capitalism, are the answer.

Some do not want to seriously consider alternatives to the current system as any transition would cause 'unimaginable social chaos' or 'not be realistic to implement'. Is this true? Is not the current system causing terrible chaos and untold misery? The current system would have been considered impossible a few decades or centuries ago (e.g. from usury being considered a sin to credit cards now charging over 220% interest <sup>2</sup>).

As human beings we are by nature apprehensive about change so of course there will be reluctance and objections to any proposal, but let us remember that the current system is a relatively new invention and cannot be compared with what we have lived with for the majority of our time on this planet. And of course it would not be realistic or feasible to change the system 180 degrees overnight, but the way the system works now, it works against co-operatives, against local and long-term sustainable ways of working.

So first we need to work on halting the system's biases against co-operatives (need for 'economies of scale' to survive or EU tax challenge to coops<sup>3</sup>), and have a more just system. Banking cooperatives which were not involved in the subprime and other extreme practices, like the 125% mortgage, have been forced to contribute to the government's bank bail out.<sup>4</sup> They should now be more widely recognised and supported

As a recent open letter by the International Co-operative Alliance (ICA)<sup>5</sup> to the governments of the G8 stated, co-operatives are "true to global values and principles of self-help, sustainability, community ownership and control, democratic participation, fairness and transparency".

The co-operative model of business is not at the mercy of stock markets because it relies instead on member funds for its value; and is not subject to executive manipulation and greed because it is controlled by local people for local people. It is a business where the profits are not just distributed to its shareholders, but are returned to those who trade with the business, thus keeping the wealth generated by local businesses in the local community for the good of the local environment and families."

Co-operatives are the answer to abolishing 'boom and bust'; they are the answer to all those needing and deserving a just world; they are the answer to the current concurrent economic, social and environmental crises. A dream? Why? Let's prove doubters and objectors wrong and save our future!

### Sources

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