

COMMUNITY INVESTMENT FOR AUSTRALIAN CO-OPERATIVES

A Handbook

Acknowledgement

It is sometimes said that co-operatives make money to 'do things', rather than doing things to make money. It's a simple way to think about the co-operative difference where the structure of the business is designed to put people before profit.

Whilst co-operatives do have their challenges in the capital department, as the original peer to peer lenders, they are also pretty good crowdfunding vehicles. The first edition of this handbook was published in 2016 to assist communities in Australia to use the co-op model to raise capital to do more good stuff together.

Since 2016, the environment for co-operative capital raising in Australia has been significantly streamlined:

- Co-operatives National Law has been adopted in all states and territories
- ASIC confirmed it has no role as a regulator in co-operative capital raising
- It was clarified that equity crowdfunding legislation has no impact on co-operatives
- New free tools to assist co-ops were launched by the Business Council of Co-operatives and Mutuals, including the Co-op Builder and Capital Builder

These developments warranted, and are reflected, in this second edition of the handbook. It includes links to the new tools and up-to-date information on the regulatory requirements for co-operative capital raising.

We are indebted to the author of both editions of the handbook, Robyn Donnelly, for her deep knowledge and passion for co-operatives. Thank you.

We thank Hopsters Co-operative Brewery, Sea Lake and District Co-operative and Haystacks Solar Garden Co-operative for demonstrating their commitment to co-operative principles and kindly sharing their rules and disclosure statements as additional resources for users of this handbook.

We thank our colleagues at the Community Shares Unit in the UK including Jim Brown for their contribution to the first edition. New research from the Community Shares Unit was published in 2020 and is referenced in this handbook.

Friends, please note that this handbook is produced as a guide only and should not be relied on as legal advice. As always, seek professional advice for anything you are unsure about.



**BUSINESS COUNCIL
OF CO-OPERATIVES
AND MUTUALS**

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About this handbook

The Community Investment Handbook is for communities who want to work together to build an enterprise that serves their needs and aspirations. Communities can be local geographical areas or groups of people driven by a common purpose or interest.

Co-operatives are self-help organisations formed by people who want to work together to achieve shared outcomes. In Australia, co-operatives are corporations, governed by nationally uniform legislation similar to laws for companies. Recent legislative developments have cemented and clarified the power of co-operatives to raise funds in much the same way companies raise funds.

Communities that want to invest in services they need, want to ensure that their investment is used for and controlled by their community, creating their own circular economy. Co-operatives offer a solution for communities to do this.

The Handbook is a guide for communities considering forming a co-operative and using it to fund activities to benefit their community.

For practitioners, the Handbook provides information about co-operatives and the regulatory environment for fundraising by co-operatives.

Part 1 – Community Investment ¹

Looks at the motivations for communities to invest in themselves and presents information about community investment models and successes in Australia and overseas. This Part also covers the nature of crowdfunding and how raising funds from the 'crowd' can help communities start their journey to creating an enterprise.

Part 2 – Australian co-operatives

Examines different types of co-operatives under the uniform Co-operatives National Law (CNL) and how the choice of co-operative type and its functional design can reflect the community's needs.

Part 3 – Co-operative Securities

Explains the nature of co-operative shares and the characteristics of co-operative securities, such as debentures and Co-operative Capital Units.

Part 4 – Offering co-operative securities

Provides a guide to the regulatory steps and disclosure requirements for offering co-operative shares and debt securities under the CNL.

Part 5 – Resources

Provides links to other resources and organisations to help your community's journey towards starting a co-operative and raising funds for the co-operative to achieve its purpose. It includes some examples of rules and disclosure documents prepared by other co-operatives.

¹ Information for Part 1 of the Handbook has been drawn from the [Community Shares Handbook](#) and the [Practitioner's Guide to Community Shares](#). These resources were written and published by the Community Shares Unit, a joint initiative of Co-operatives UK and Locality to promote community investment in co-operatives in the United Kingdom. The Community Shares Unit has kindly given permission to use this material.

Part One

Community Investment

Summary

This Part looks at the motivations for communities to invest in their own wellbeing. Community engagement and the reach of social media to create interest in investment through crowdfunding has delivered positive change and opened opportunities for communities to collectively determine their needs and aspirations and invest in enterprises that provide services to fulfill those needs.

1.1 Communities and investment motivation

Community investment is about community engagement. It is about ordinary people investing their own money – often small sums, and sometimes larger amounts – to support the development of an activity they need or care about.

Communities have an innate collective power. When community power is engaged, it can wield political and commercial strength, which provides both tangible and intangible benefits to the community and beyond.

Local communities already exist as social units. Social media provides a platform for people with a common interest to form a community unconstrained by geographical boundaries. Our daily media publish stories about how communities can achieve change, support development and demonstrate satisfaction or strength, particularly when faced with a common problem or goal.

When we think of investment, we primarily think about placing money into a venture with the purpose of gaining a reward or profit. Community investment is much broader than this.

For individuals in a community, it means investing in a venture that may provide a monetary gain, as well as a service or other intangible benefit, either for themselves as individuals or their broader community. For the community, it means that a small or medium enterprise can access the social and financial capital of individuals in the community, not only to sustain that enterprise, but also to support its growth for the benefit of the whole community.



Communities may be local groups of people defined by a town, suburb or rural location, or they may be a geographically dispersed group, linked by a common interest or goal. Communities of both kinds may identify a common need or service they believe would benefit their community, which requires funding to establish and operate. Some communities may turn to the government for funding. However, this can have drawbacks: funding

may not be available for the desired purpose or may be withdrawn in the future. Government funding may also be conditional on the service being delivered in a way that complies with government design or policy, which may not satisfy the community's need or preferences.

A community that does not have a retail store is unlikely to be able to access commercial funding to open a retail store; a community interested in renewable energy may find that government funding is not readily directed towards developing a renewable energy generator to serve that community. Funding may be available, but access is competitive so they may miss out.

Forming a co-operative is a way a community can supply the goods or services it needs. A co-operative is a legal entity that facilitates fund raising to establish a business enterprise to satisfy a community's needs.

By facilitating community ownership of the enterprise, co-operatives create value through the services they provide and the communities that invest in them.

People who live in apartments or rent their homes are not able to readily attach rooftop solar panels to take advantage of solar energy and savings on the cost of their electricity. This 'community' needs a way to be able to access similar savings as homeowners and contribute to the development of renewable energy resources. Haystacks Solar Garden Co-operative Ltd is a new enterprise for members to invest in the construction of a solar farm. Members of the co-operative receive a credit on their electricity bill for the power generated remotely by the solar farm.

1.2

Community Shares: the United Kingdom experience

The launch of community share offers in the United Kingdom demonstrates the potential for communities to invest in local enterprises.

[Research](#)² published by Co-operatives UK in October 2020 found that, since 2012, £155 million has been raised from 104,000 people to support more than 440 businesses.

The experience has been that the businesses established through community share offers by co-operatives were sustainable, because their 'owners' needed them and supported them. An impressive 92% of these new enterprises are still operating.

Co-operatives were formed and issued shares to establish or support a diverse projects, ranging from the Manchester football club, FC United, to saving a local pub in Bath, the Bell Inn, to establishing renewable energy projects, social housing, health care and community farms.

² <https://www.uk.coop/resources/understanding-maturing-community-shares-market>

FC United

FC United in Manchester (UK), is a community owned football club. Formed in 2005 to ensure the continuation of their local club, it launched a community share offer in 2009 and raised £2 million to acquire the club and its ground.



“Not only is FC a great club, but it’s mine... I’m a part owner of my team.” (FC Investor)



In 2009 FC United launched
**A Community share offer
raising £2 million**

In 2014 Nesta, an independent research foundation, together with the University of Cambridge, released a report called Understanding alternative finance. The researchers found that the average amount

raised in a community share offer in the UK was £174,286 and the average investment was £368. A survey of community share investors found that:

When deciding to invest through community shares, the factors identified as being most important are the social aims of the project receiving investment. More than 90 per cent of respondents reported 'doing social or environmental good', 'feeling their money is making a difference' and that 'the organisation or projects invested in will create a stronger community' as important or very important factors. The prospect of achieving financial returns was only important or very important to 24 per cent of investors. 68 per cent of respondents say they invested amounts that they felt they could afford to lose.

A year later, in 2015, Nesta reported a 79% increase in the number of offers and average amount raised.

The average deal size for a successfully funded community shares fundraising campaign is £309,342, and energy is the most popular funded sector, followed by leisure & hospitality, retail & wholesale, sports and food and farming.

Community shares are not just about raising capital for an enterprise. The community share is a door-opener/entree for individuals, who may never have considered investing in shares or debentures, but who have an interest in supporting enterprises in

their local community, particularly when those local enterprises provide services that the community members want. **In this way, community shares become a vehicle for community engagement.**

£155m+

raised through community share offers by

104,203

investors



Fordhall Community Farm, Shropshire



This report was funded by:



1.3

The UK ‘community shares’ business model

Investing in community shares engages communities in a ‘virtuous circle’, where it is in their interests as members and investors to also be active as customers, supporters and volunteers. The same applies to other stakeholders, including employees and suppliers, giving new meaning to the term multi-stakeholder, where the same person engages with the enterprise through a multiplicity of roles.

This is in contrast to the conventional business model, where the interests of shareholders are at odds with other stakeholders. Profit maximization for shareholders is at the cost of customers, suppliers, employees and other investors. There is no incentive to volunteer or become an active supporter of an enterprise that works in someone else’s interests.

Community shares promote a different sort of business model, where it is in the interests of all stakeholders to work together to create wealth and to use their democratic rights to determine how that wealth is created and distributed. It is in the mutual interests of all stakeholders to become members and investors, not just when the co-operative is established, but on a continuing basis, as the enterprise grows and develops.

Issuing community shares relies heavily on community engagement - the involvement of people in the life of the enterprise. Co-operatives need to define and understand their target communities,

and to develop a co-operative purpose that aligns with the identity of these communities. Most communities are geographic in nature, but it is not always obvious where the boundaries of geographic communities lie, and whether people within or beyond that geographical community have a shared identity.

Community identity can transcend geography and focus instead on shared interests, values, concerns or beliefs. Examples include a shared interest in renewable energy, ethical food production, affordable housing and support for a football club, or community services provided by a religious group.

Community shares can provide an enterprise with a competitive advantage, by engaging stakeholders in new responses to the cases of market failure. For instance, many small businesses fail because the owner is unable to find a buyer willing or able to purchase the business. Communities can spread the cost and risk of acquisition across a large number of shareholders. A business might be failing through a lack of demand: communities can address this by aggregating demand and ensuring that the business serves the community. A business might be unable to control costs resulting in unaffordable prices: a community can reduce costs by volunteering, or by providing cheaper capital.

Sea Lake & District Co-operative Ltd

In October 2015, a co-operative was formed in Sea Lake, Victoria, to re-open the local hardware store. A hundred people out of a population of 616 turned up at the initial public meeting to float the idea of a co-operative.

60 founding members of the co-operative raised \$200,000 in shares. The same community bought out a local hotel in 2019: The Royal Hotel Co-operative.

60 members raised
\$200,000
in shares

The name 'community shares' is used in the UK to denote share offers that are targeted at communities, who become members of the co-operative through their shareholding. In Australia, the term is not commonly used.

However, there is no legal restriction on using this name for a share offer. Co-operatives offer shares as part of the requirements of membership, and these are usually referred to as 'member shares'. There is more information about co-operative shares in Part 2 of the Handbook.

1.4

Starting a community investment programme

1.4.1 Initial stimulus

The UK Community Shares program began in 2009.

Since its launch, more than 90% of community share offers have been made by new co-operative societies. Most of these co-operatives have been formed in response to one or more of the following:

- a community is about to lose a significant local service. For instance, a pub, shop or post office, or any other community service that is encountering market failure.
- a community is being poorly served by an existing enterprise. For instance, supporters of a football club may feel that the current owners do not serve their interests, or a local service is too expensive or fails to address local needs.

- a community need or interest is not being met. For instance, there may be no local sports facilities, poor broadband connections, or a lack of flexible workspaces for new businesses.
- a community is inspired by new ideas or opportunities to act collectively, for instance, to establish community renewable energy schemes, local food initiatives, or develop community land trusts for affordable housing.

These stimuli result in new co-operatives being formed as pre-start initiatives, or to act as the vehicle for acquisitions and buy-outs of existing enterprises, that are failing in these communities.

1.4.2 Pre-start activities

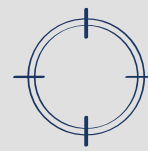
There are four main challenges facing all community enterprise pre-start initiatives:



having a robust, competent steering group or development team capable of taking the idea forward to startup.



establishing the business case for the proposed enterprise; testing the business viability of the idea and showing that the enterprise will be financially sustainable; and ensuring that the proposed development is in scale with the target community.



identifying the target community for the initiative; establishing contact with this community and winning their support for the initiative; and engaging the community in the development process.



obtaining the resources to pay for the pre-start development costs, which can amount to at least 5% to 10% of the capital costs at start-up. A lack of resources is probably the greatest barrier for pre-start initiatives. UK experience is that new co-operatives can take three or more years to become investment-ready.

1.4.3 Acquisitions and buy-outs

Acquisitions and buy-outs mainly arise when a community is driven to rescuing a local business threatened with closure or, in exceptional circumstances, where the community feels poorly served by the business. Communities engaged in acquisitions and buy-outs all face the same challenges as any start-up, but with the extra burden of:

- having to act quickly, especially if there is competition to buy the business or its principal assets.
- having to commit to development costs, with no certainty that it will be successful in acquiring the business, with the risk of substantial losses.
- the difficulty of agreeing a fair valuation for the business, especially when the principle assets may be worth more as non-business assets, such as a building with a heritage or community value and development potential.

The first of these challenges can be difficult to overcome, without immediate access to capital or the patience and benevolence of the existing owner.

1.4.4 Start-ups

Even when a new enterprise has got through the pre-start stage and is able to prove that the project or enterprise is investment-ready, there is still a lot to do before it can launch a share offer. The enterprise first needs to be incorporated. Incorporation of a co-operative with share capital in Australia requires the preparation of two documents.

- **Rules:** also referred to as its constitution or governing document. The constitution defines the co-operative's purpose, activities, how members support the co-operative, management structure and the minimum number of shares a member must acquire.
- **Disclosure statement:** a document that sets out the details of an offer of membership and shares aimed at the target community.

Once the co-operative is registered, it becomes incorporated and is able to offer shares to any person who wants to become a member.

Having incorporated the co-operative, the steering group or development team must follow up on their earlier community engagement to secure the community's involvement and their investment commitment.

Hopsters Cooperative Brewery

Hopsters Cooperative Brewery is a new co-operative enterprise attracting members to take up shares in a craft beer enterprise based in Sydney that focuses on interest in craft beer brewing – “Own it, Craft it, Drink it”

The community will need a

legal vehicle or entity

for the enterprise so that there is a clear definition about the operation of the enterprise and the ownership of any assets.

It will be this legal entity that will provide the investment opportunity to enable funds to be raised across the whole community and to ensure that it is managed in a business like and accountable manner.



1.4.5 Making an offer to the community.

Timing of the offer: Co-operative share offers are be offered from the point of start-up as an inherent part of getting underway. The disclosure statement prepared to form the co-operative is an offer of membership and shares to the public. The difference with a company offer is that the planning and pre-start initiatives, which are essential to forming a co-operative, have already identified the target market for members as investors. Whilst the co-operative offer will aim for a stated minimum amount, there is no limit on the number of members who can join and subscribe for shares.

By way of comparison, companies usually only make public offers after they have formed. Public offers are usually aimed at raising a specific amount within a short period of time. Offers are for large amounts and are managed by underwriters and brokers. A disclosure document, called a prospectus, will be drafted for the offer.

The offer will be made by an enterprise that can demonstrate a track record for financial returns.

Under changes to the Corporations Act in 2016, Crowd sourced equity funding (CSF) allows new companies to make offers to a large range of investors, where the total amount to be raised is less than \$5 million and where there is a cap on investment by individual investors of \$1000.

Target investors: To ensure the desired take up of shares to inject capital into the enterprise, early community engagement both before and after incorporation is crucial.

Offers of member shares by co-operatives are not limited to the total amount to be raised at start-up. Each member is required to buy a minimum number of fixed price shares, but may buy as many as they wish, provided they do not buy more than 20% of the total shares on issue.

Offers by co-operatives are aimed at people who are unlikely to have had any prior experience, knowledge or competencies in investing in an enterprise. It is important to explain the nature of their investment and the risks.

1.5 Crowdfunding

Crowdfunding is the term used to describe funding using internet platforms and social media to encourage people to contribute money either as a donation or in expectation of some reward from the project being undertaken. This is not to be confused with recent legislative changes to allow companies to use crowdfunding platforms for equity investment in their shares.

Crowdfunding seeks small amounts from a large network of people, by appealing to their desire to see a new enterprise start and perhaps receive a product or service in return. Significant sums of money can be raised from a large crowd of people, who individually are prepared to risk losing a modest amount of money.

Crowdfunding is a product of the enormous reach and power of the internet, particularly social media. The internet provides an instant means to communicate messages widely, including messages from people or organisations that want some help. Charitable or international aid organisations use the internet to raise funds for disaster relief and to help raise funds to develop cures for diseases. If individuals have faith in the credibility of the organisation seeking funds, then they will be open to making a donation.

Wikipedia raises funds through annual donation drives aimed at its users. Independent research groups and news providers often rely on crowdfunding for their ongoing operations.

The Climate Council was born as a result of the dismantling of the federally funded Climate Commission in September 2013. A crowdfunding campaign to set up and run an independent climate change scientific organisation, launched on 24 September 2013, raised \$165,000 in one day and \$1 million by the end of the first week. The Council's Annual Report discloses that for the 2014 financial year it received \$2,120,227 in community donations from more than 16,000 donors. The median donation was \$80. It continues today as an independent organisation, funded through public donations, to provide independent advice on climate change.

Crowdfunding can be a useful means to raise money to fund a feasibility study for a proposed co-operative enterprise. For example, people wanting to start a new co-operative for a

renewable energy project will need to conduct consumer surveys and other investigations to establish the viability of the project.

The owners of a local food store in the Blue Mountains wanted to convert their small community focussed business into a community owned co-operative. This required the formation of a co-operative to buy the existing business. Members of the co-operative needed to know that the cost of acquiring the business was fair and reasonable, and this required financial and legal assistance. A crowdfunding campaign to raise funds to establish the co-operative and pay for professional assistance raised over \$50,000 to cover these costs.

While co-operatives may use crowdfunding to fund projects after they have commenced their business operations, the ability to keep returning to the 'crowd' to fund ongoing operations or projects will tend to diminish. Continuing to seek funding could raise questions about the sustainability of the co-operative.

'Crowd' members, who fund start-ups or independent not for profit groups, take a similar risk to the risk taken by shareholders, who buy shares in a new company. They are willing to take risks where the amount to be paid is small, the purpose of the funding is something they believe is worthy and the information about how the funding will be used is credible. Crowdfunding experience demonstrates the potential for funding community owned enterprises through offering shares and other investment instruments using social media and other internet platforms.

The growing acceptance of crowdfunding as a means of raising funds led to changes to the *Corporations Act* in 2016 to permit small start-up companies to raise capital through a crowdfunding platform. This form of fundraising is called Crowd Sourced Equity Funding, or CSF.

Co-operatives can offer shares to the public from the point of start-up. They have a disclosure statement that explains the business model and the rights and obligations of member shares. There is no barrier to their using a crowdfunding platform to publish this information and invite members to join and buy shares.

The CSF funding provisions apply to company share offers, not offers of co-operative shares. Despite this, there is a flow-on benefit for offers of co-operative securities. There are now eight licensed crowdfunding platforms with growing experience in managing the publication and presentation of material for offers of securities.

1.6 Offering co-operative securities

Offering co-operative securities, either shares or other securities, is governed by the Co-operatives National Law scheme (CNL). This is a scheme of uniform legislation comprising laws passed by each State or Territory. The uniform law is contained in a template law passed by New South Wales as the Co-operatives (Adoption of National Law) Act 2012. Each jurisdiction has adopted the template law, except Western Australia. Western Australia passed consistent legislation, called the Co-operatives Act 2009 WA. The CNL is supported by a set of National Regulations called the Co-operative National Regulations. Local differences such as fees and the supervising Registrar are accommodated in local regulations passed by each State and Territory.

The CNL creates a uniform regime for offering securities such as shares, based on requirements for a disclosure document, which must be either approved or lodged with the Registrar in the State or Territory where the co-operative is registered. Once this is done, the offer is open and can be published. Co-operatives are free to use the internet, including crowdfunding platforms, to publish and generate interest in the offer.

Part 4 of the Handbook provides guidance on the regulatory requirements for offers of securities by co-operatives.

Pingala Co-operative member shares sell out in 9 minutes

Pingala Co-operative's plan to connect people interested in renewable energy involved negotiating with an innovative craft brewery in inner Sydney to erect solar panels on the brewery's rooftop. The business model allows members to invest in renewable energy by potentially funding many city based roof top solar 'farms' and satisfy their aim for a renewable energy future.

Building the community interest and demonstrating the financial and environmental benefit delivered a solid equity crowdfunding event.



Total amount raised
\$17,500



Part Two

Australian co-operatives

Summary

Co-operatives are ideal for community enterprises and investments. Part 2 describes the Australian co-operative legal model and the types of co-operative that can be formed. Each type of co-operative will be suitable for different purposes and different communities. This Part of the Handbook offers criteria to help communities choose a co-operative type for their enterprise.

2.1 What is a co-operative?

Co-operatives are autonomous legal entities formed by people to serve their needs and aspirations. They are democratically controlled, and operate on the basis of voluntary membership and economic participation by members.

Under Australian law, co-operatives are incorporated bodies. This means that a co-operative has a legal identity separate from its members. While membership is at its core, a co-operative is its own legal person and, like any other incorporated body, it has the powers necessary to carry on a business enterprise. Importantly, the debts and obligations arising from its business are the debts and obligations of the co-operative. Members have no personal liability for the debts and obligations of the co-operative. A member's liability is limited to the amount of capital they contribute to the co-operative, and no more.

As a business model, co-operatives have many similarities with companies. They are governed by a board of directors, who are responsible to members for the sound management of the co-operative's business. The significant difference between a co-operative and a company is that co-operatives exist to provide goods and services for their members, whereas a company provides dividends to shareholders.

The reward for a co-operative member is that their co-operative provides goods and services that might otherwise not be available or on better terms than elsewhere. All members have equal access to the goods and services provided by the co-operative and they are free to choose how much they want or need. The more they use, the greater the reward for being a member. As owners of the enterprise, members have an incentive to support their co-operative and contribute to its operating success and sustainability. As well as providing goods and

services, co-operatives can also reward members who invest in them through paying dividends and interest.

Governance in a co-operative is democratic. Each member has one vote and any member can be elected as a director. Indeed, the board of directors of a co-operative must have a majority of directors who are active members.

Active membership is a unique feature of Australian co-operatives. A member of a co-operative must agree to actively support their co-operative. Active membership must be an identifiable activity, which may be small, but is linked to the core purpose of the co-operative. Active membership connects members with their co-operative, by articulating the activities on which they agree to co-operate. It is this connection between members and the entity that distinguishes co-operatives from companies. In a co-operative, the member has a participatory relationship with the co-operative, whereas in a company the relationship between company shareholders and their company is financial.

The co-operative member relationship is a mutual one. It is mutual because, while the members continue to support their co-operative, the co-operative will grow and the members will benefit through the use of its services.

Co-operatives are sometimes described by reference to the relationship between the members and their co-operative. Producer co-operatives, consumer co-operatives and worker co-operatives are ways to describe the mutual relationship between co-operative and member. You can read more about this at: [getmutual.coop](https://www.getmutual.coop/business-planning/the-idea/#step-3).³

³ <https://www.getmutual.coop/business-planning/the-idea/#step-3>

2.2 Co-operative Principles

From early beginnings in Europe and the United Kingdom, there is now a worldwide body of co-operatives and co-operation, represented by the International Co-operative Alliance (ICA). The ICA has developed seven co-operative principles to guide the activity and governance of co-operatives, as a sustainable and ethical business model.

The seven co-operative principles are adopted in the CNL. The provisions in the CNL, which regulate co-operative shares, governance and capital raising, are designed to support the seven principles.

These seven principles make the co-operative business model ideal for community and social enterprises. Co-operatives serve communities by identifying their needs and creating an enterprise to address these needs. The enterprise is governed by the communities, who provide the capital the co-operative requires and support it, by their active membership commitment.

Co-operatives combine and blend the roles of member, decision-maker, investor, customer and volunteer. Today and in the future there is great potential for this type of business model to revive and grow strong urban, regional and local communities.

The Seven Co-operative Principles:

- 1 Voluntary and open membership**
Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- 2 Democratic member control**
Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (1 member, 1 vote) and co-operatives at other levels are organised in a democratic way. political or religious discrimination.
- 3 Member economic participation**
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of the capital is usually the common property of the co-operative. They usually receive limited compensation (if any) on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes—
 - (a) developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible;
 - (b) benefiting members in proportion to their transactions with the co-operative;
 - (c) supporting other activities approved by the membership.
- 4 Autonomy and independence**
Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
- 5 Education, training and information**
Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of co-operation.
- 6 Co-operation among co-operatives**
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
- 7 Concern for the community**
While focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members.

2.3 The types of co-operatives

The CNL provides for three types of co-operative:

- **Distributing:** a distributing co-operative has share capital and can distribute its financial surplus to members.
- **Non-distributing with share capital:** a non-distributing co-operative cannot distribute a surplus to members. Having share capital means that it can raise capital to fund its activities.
- **Non-distributing with no share capital:** this type of a co-operative cannot distribute any surplus to members. Members pay subscriptions and levies, but do not purchase shares.

Distributing co-operatives are classed as 'for-profit' entities. They must have a share capital. If they are wound up, members share in any surplus assets in proportion to their shareholdings. Non-distributing co-operatives are 'not for profit' entities,

because of their prohibition on distributing a surplus or profit from their business activities. All non-distributing co-operatives have an 'asset lock'. This means that if the co-operative is wound up, any surplus assets must be donated to another not for profit organisation with the same purpose. Non-distributing co-operatives with a charitable purpose can be registered as charities.

It is a misconception that only distributing co-operatives are able to carry on profit making enterprises, while non-distributing co-operatives are only suitable for community or charitable purposes. Co-operatives exist to provide services to their members, not financial rewards. Many non-distributing co-operatives provide services to members that are other smaller businesses. These member businesses benefit financially through sharing the cost of access to the services provided by their co-operative.

2.4 Co-operatives and active membership

A defining feature of Australian co-operatives is the requirement for active membership. The rules of a co-operative must specify how a member must actively engage with the co-operative.

The active membership rule reflects the purpose of the co-operative. Accordingly, the active membership rule for a co-operative of consumers will usually be to buy an amount of product from the co-operative. A worker co-operative will require its members to work a certain number of hours for the co-operative.

Active membership rules will influence the size and motivation of the co-operative's membership base. A grain-marketing co-operative will require its members to supply grain to the co-operative. This only makes sense to a grain farmer. A co-operative formed to buy the local hotel will have the community to draw on as members. It is true to say that an active membership rule that is easy to comply with will attract more members.

Co-operatives that have a broader appeal, because of their activities, will be able to attract a broader range of members. For example, renewable energy co-operatives can attract members that are both within a local community, and more widely, because of the interest in renewable energy.

While the Hepburn Wind Co-operative Ltd is located in the small communities of Hepburn and Daylesford in Victoria, it attracted members from across Australia. The requirement for active membership could not be based on members buying their power from the co-operative because electricity generated by Hepburn Wind must be fed into the energy grid. The greater motivation for forming the co-operative was to promote renewable energy by establishing a generating facility. The active membership rule only requires members to subscribe to their newsletter. Members of the co-operative benefit indirectly as a result of their co-operative negotiating discounted retail supply contracts for members through licensed retailers.

Hepburn Community Wind Farm

Hepburn Community Wind Farm is a distributing co-operative. As well as providing employment within the Hepburn community, it also manages a local community grants programme. Members can receive dividends on their shares and have access to information about renewable energy and the satisfaction that their co-operative is working to change

public opinion and regulatory policy to grow the renewable energy sector. These are issues that the Hepburn Community feel strongly about and this co-operative is remarkable in that it was able to raise substantial share capital to construct its wind farm. Formed in 2010, it has only recently been paying any dividends on its shares.

Manages a local
community grants programme

Members can
receive dividends
on their shares

Provides employment
within the Hepburn community

access to information
about renewable energy



Active membership rules for non-distributing co-operatives can be as simple as contributing a nominal annual subscription.

Active membership rules can contribute to the co-operative's revenue by requiring members to buy from or sell to their co-operative, while others may want their members to be connected to the co-operative's purpose through meetings, contributing to discussions and planning. Co-operatives that provide services to industries, such as agriculture or small business retailers, will have smaller memberships, but each member may be willing to invest more into their co-operative to increase or improve services. The simpler the active membership rule, the greater is the potential to attract a larger number of members.

The more complex or onerous the active membership rule, the smaller the number of potential members.

The active membership rule provides the basis for the agreement between members to co-operate to achieve the purpose and it delineates the scope of its membership along with access to the capital that a member can bring. An important task for groups wanting to start a co-operative is to draft rules for the co-operative, particularly an active membership rule that promotes the purpose of the co-operative and provides adequate scope for participation and investment by members. You can access a free online resource called the Co-op Builder to help draft your active membership at: getmutual.coop.

There is also a short guide for drafting an active membership rule in Part 5 of this Handbook.

2.5 Choosing between co-operative types

Each group or community will have their own reasons for choosing a particular type of co-operative. The criteria for choosing the type of co-operative for an enterprise can be distilled to the co-operative's purpose, membership base and the available capital raising tools.

Access to funding is a significant factor because funding is a prerequisite to establishing and operating the enterprise.

Enterprises that require a large amount of funding, because their purpose is to acquire or build significant assets, will need a means to raise the capital and a large pool of potential members to provide the capital. Attracting members to invest would suggest that the co-operative should be able to reward investors through dividends.

A community that wants to acquire a community asset may be able to attract government or philanthropic grant funding to buy the asset, but this may be on the condition that the co-operative is not for profit.

Alternatively, co-operatives whose purpose is to establish a community service, which does not require large amounts of capital at the start, may choose to form a co-operative that has no share capital, and relies on member subscriptions.

An enterprise to construct a renewable energy generation facility will need substantial start-up capital. It will be easier to attract members to buy shares if there is both a strong, clear purpose and there is an expectation of some return on their shares. Climate change challenges provide incentives for many people to invest in the establishment of renewable projects in the expectation of measurable environmental impacts and modest financial returns.

In other communities, the importance of retaining or developing a community facility may be far more important than any return on investment.

Co-operatives operate in many different industries and communities. Choosing the appropriate type of co-operative for an enterprise may depend on the personal views of founding members, any advice they receive about the business model choice and cultural influences. The Table below identifies three criteria that are important in making a choice: Membership, purpose and funding capacity.

The Table is followed by some examples of co-operatives and the type of co-operative chosen for their enterprises.

Table 1: Criteria for choosing a co-operative type

Co-operative type: Distributing			
Membership base	Funding	Purpose	Comment
People or small businesses that want to share costs, establish a new local business or improve revenue for their own businesses. Members are likely to stay in the co-operative for a long time so long as they see value in membership.	<p>Can access all funding sources, shares, debentures and CCUs, from members and external investors.</p> <p>Will be able to borrow from financial institutions, if they have a good operating history.</p> <p>Will be able to access competitive government business grants and favourable loan schemes.</p> <p>May have greater appeal to external investors than non-distributing co-operatives.</p>	Enterprises that require significant start-up capital such as agribusinesses, renewable energy generation, small business buying groups and businesses that benefit from sharing technology costs, such as taxi or ride sharing co-operatives.	<p>Distributing co-ops do not have an asset lock and capital or assets built up over time may be lost if the co-operative demutualises or is wound up. An asset lock can be created through a trust for future members.</p> <p>Suitable for acquiring a community retail business for which there is wide support.</p> <p>Worker co-ops may find this type suitable, as it helps build participation in running the co-operative as their own business to secure work contracts – members earn wages, control working conditions and earn additional financial rewards from share ownership.</p>

Co-operative type: Non-distributing with shares			
Membership base	Funding	Purpose	Comment
<p>People or other businesses that want to share costs or improve revenue for their own businesses and want to make sure it stays in local ownership.</p> <p>Local community members wanting to retain buildings or assets in local ownership.</p> <p>Works where the desired value relates to member access to the service and dividends are not important.</p>	<p>Shares, debentures and CCUs. Depending on the purpose the co-operative may have access to business improvement grants or government/philanthropic community grants.</p> <p>Ongoing working capital is secured through subscriptions or levies on use of the facility or the carrying on of the community enterprise.</p>	<p>Where there is very close alignment of the needs of members or their businesses. Members may need to raise significant initial capital, but the benefit to members is highly valued or desired.</p> <p>Water irrigation co-ops that own large infrastructure to be used by farmers; housing co-ops for groups wanting to share the cost of buying land or constructing dwellings.</p>	<p>The availability of capital contributions from members through shares is valuable to provide start-up capital and the asset lock ensures the facility is retained for future generations.</p> <p>Housing co-ops can provide important housing options within a community for the long term and may not be appropriate as a for profit entity. Government housing grants are more likely to be available for this type of co-operative.</p>

Table 1: Criteria for choosing a co-operative type (cont.)

Co-operative type: Non- distributing, no shares			
Membership base	Funding	Purpose	Comment
Community members or businesses wanting to combine for a cultural purpose or to provide other services to their members and community.	Access to grants for non-profit activities, can raise funds through debenture and CCU (debt) offers. Members pay subscriptions or levies.	Business marketing groups, where capital needs are modest, and can be met through or where the purpose is likely to attract government or philanthropic funding, such as childcare services.	<p>The asset lock is important for some purposes, such as a childcare service.</p> <p>The not-for-profit character of this type of co-operative may also lead to tax exempt status if the purpose is charitable or provides education to a particular agricultural or cultural pursuit.</p>

National Health Co-operative Ltd is a non-distributing co-operative without share capital. It was formed to provide medical services to families in the north of the Australian Capital Territory, where there was a scarcity of general practitioners. Members pay an annual subscription and have access to the Co-operative's nine clinics.
(www.nhc.coop)

Co-operative Bulk Handling is a major grain exporter in Western Australia, which is a non-distributing co-operative with share capital. It was formed by grain farmers during the Great Depression, who needed a facility to transport and market their grain.
(www.cbh.com.au/about-cbh/cbh-history)

Redgum Cleaning Co-operative Ltd is a worker co-operative, formed to provide employment for disadvantaged people. The co-operative aims to provide secure and well-paid jobs for members, who own and control the business. It is a distributing co-operative with shares.
(www.redgumcleaning.coop/about-us)

Bathurst Wholefood Co-operative Ltd is a co-operative of consumers and farmers, who wanted to work together to provide a retail hub for locally grown produce. It is a non-distributing co-operative without share capital, with over 500 members. The co-operative operates a retail store six days a week, with fortnightly producer markets.
(www.bathurstwholefood.org)

The Sea Lake and District Co-operative Ltd was formed in 2015 in Sea Lake, Victoria, so the community could buy and save its local hardware store. The community later bought the local Royal Hotel through another distributing co-operative structure, the Royal Hotel Co-operative, by raising share capital from the community.
(www.bccm.coop/what-is-a-co-operative/about-co-operatives/community-owned-community-buyouts)

2.6 Conclusion

Some groups will have strong ideas about the type of co-operative they believe should be formed for their enterprise, while others will seek professional advice. Having a well-researched plan about the funding needs of the co-operative, its purpose and who its members are likely to be, should be at the forefront of any decision-making.

Having formed the co-operative, it may become apparent that the co-operative type does not meet the needs of the group. The type of co-operative can be changed later. However, this does require planning and a strong basis for wanting to change the co-operative type.

Under the co-operative principles, co-operatives help each other directly and through representative bodies. You can get help to choose the type of co-operative for your enterprise, develop business plans and draft rules to shape the co-operative's purpose and active membership, from the [Business Council of Co-operatives and Mutuals](#) (BCCM) or by accessing the resources on getmutual.coop.

You can also seek assistance from the state based co-operative federations, such as the [Co-operative Federation Ltd](#) in New South Wales and [Co-operatives WA](#) based in Perth.

Part Three

Co-operative Securities

Summary

There are many misconceptions about the fundraising powers of co-operatives. Can co-operatives only raise funds from members? Can co-operative shares be traded? This Part of the Community Investment Handbook examines the nature of co-operative shares and other securities that co-operatives can offer to their members and external investors to raise capital.

3.1 Introduction

To raise funds to start a new co-operative or to fund a project, co-operatives can access capital from a number of sources. Some co-operatives begin by looking for grant funding or donations, possibly through crowdfunding. Once incorporated, co-operatives can borrow from financial institutions, and apply for grants and government business lending programs. Alternatively, co-operatives can raise capital from members and external investors by issuing securities. Security is the term used in legislation to describe a range of financial instruments, such as shares, debentures and Co-operative Capital Units (CCUs). Investors may be individuals in the co-operative's local community,

who are referred to as 'retail investors', or they could be professional investors, often referred to as 'wholesale investors', because they invest large sums of money.

The offer of securities by co-operatives is regulated under uniform legislation passed by States and Territories and called the Co-operatives National Law (CNL).

The process for offering co-operative securities is in Part 4. This Part of the Handbook looks at the types of securities that can be offered to members and external investors.

3.2 Co-operative Shares

Most people have some idea about what a share in a company is. Co-operative shares are different. In describing co-operative shares, some comparisons are made with shares in a company to explain the purpose of co-operative shares and how they are used to raise capital.

As noted in Part 2, some non-distributing co-operatives do not have share capital. This type of co-operative relies on member subscriptions and levies for its start-up and operational capital needs.

Shares provide the start-up funding for a new co-operative. It is the investment or stake that members contribute to getting the enterprise going. Once established, member share capital allows the enterprise to weather the ups and downs of its business and development.

The amount of share capital members are required to contribute is determined before the co-operative is formed, through a business planning process. Business planning identifies how much capital is needed for the co-operative to establish itself and commence operating, and estimates how many members can be expected to join and buy shares

to contribute the required capital. The number and fixed price of the shares required from a person for membership is set out in the co-operative's rules.

(i) Co-operative shares are owned by members

A person must be a member of the co-operative to own shares in it. Co-operatives cannot issue shares to someone who is not a member. To become a member, a person agrees to comply with the co-operative's active membership rule and buy a minimum number of shares. There is a limit to the shares a member can own - a member cannot hold more than 20% of issued share capital.

There is no regulatory limit to the number of members a co-operative can have. In practice, membership tends to be limited by the fact that the co-operative's purpose is confined to particular activities, in which someone would need to have an interest in order to satisfy the active membership requirement.

PART 3: CO-OPERATIVE SECURITIES

For example, a co-operative whose purpose is marketing saffron is likely only to attract saffron producers. On the other hand, a co-operative supermarket will attract a greater number of members.

A co-operative formed to acquire assets or serve a community is likely to attract a large number of members willing to buy shares. While the term 'community shares' has no legal meaning, shares in a co-operative with this purpose can be described as community shares.

(ii) Voting rights

All members are entitled to vote at meetings of the co-operative. Each member has one vote, regardless of how many shares they hold. This is very different from a company, where voting is linked to the number of shares. Investors with more shares in a company have more votes at company meetings.

(iii) Shares have a fixed value

Shares must be issued at a fixed price. The co-operative's rules specify the fixed price and the minimum number of shares a person must buy to become a member. The issue price is locked in for the life of the share. Unlike a company share, the value of a co-operative share does not fluctuate with the changing fortunes of the co-operative.

Co-operative shares are not the same as an ownership right in the assets of the co-operative. Shares are the capital contribution from members.

Co-operative shares cannot be traded on a stock exchange. Shares can only be offered to members and membership is determined by application to the co-operative. Co-operative shares can be traded amongst members or transferred to a person who is about to become a member. The restriction on ownership and transfers effectively prevents shares being offered on a securities exchange, like the Australian Stock Exchange (ASX).

The rules of a co-operative can allow shares to be transferred between members, or to new members at a price agreed between the parties. Transfers of shares between members under the co-operative's rules are not restricted by the fixed price. Some co-operatives have a limited number of members because of the nature of their enterprise. For example, co-operatives that manage a local irrigation system are limited by the number of water access points, and taxi co-operatives are limited by the number of taxi licenses available. Share transfers in these co-operatives will have a scarcity value as a result of the limit. Even if a person buys shares from an existing member at a price higher than the fixed price, they can only expect the fixed price to be repaid by the co-operative if they leave it and do not transfer their shares to another person.

A member of a ski co-operative, who wishes to retire, may sell their shares to a new member. Regulatory restrictions on the number of persons permitted in a ski lodge located in a national park have made these shares scarce and therefore highly valuable. The incoming member, or transferee of the shares, may be willing to pay a higher price per share to the outgoing member for the shares, even though they have a fixed price under the co-operative's rules.

While co-operatives cannot offer shares at a discount, distributing co-operatives can offer shares at a premium. A share premium is an additional amount added to the fixed price of the share. By offering shares with a premium, the co-operative does not change the fixed share price, but requires members to pay a higher price for the share at the time of the offer.

Share premiums are a common way to help repay the costs of establishing the co-operative. The costs of setting up a co-operative can be significant, particularly if feasibility studies or legal and

accounting services are required. The founding members have to either cover these costs or obtain grant funding or other money to cover them. These costs can be recognised as a loan by founding members in the co-operative's accounts. If shares are offered at a premium, the amount of the premium can be used to repay these additional start-up costs. The ways that a co-operative can use share premiums are set out in [s80 CNL](#) or [s144 Co-operatives Act 2009 WA](#).

A share premium is best explained by way of an example.

XYZ Dairy Co-operative's share price is \$10, and the minimum shareholding for membership is 2,000 shares, or \$20,000. The founding members each paid \$20,000 for the minimum number of shares, but also bought an additional 200 shares, because the costs at start-up were high. Subsequent members are asked to buy shares at the fixed price of \$10, with a premium of \$1 per share. The \$1 share premium is retained by the co-operative in a share premium account, which can be used for a variety of purposes, including repaying the additional \$2,000 in share capital contributed by the founding members.

The fixed price of shares means that, other than instances where a member sells their shares to another person for a higher price, there is no capital gain for co-operative shares. The absence of capital gain on shares in a co-operative fixes the purpose of the co-operative as an enterprise designed to deliver services to members.

(iv) Dividends

Members benefit from their co-operative, either because they can acquire services on the best terms or because otherwise the service would not be available.

Dividends are payable on shares if there is a surplus. They are capped under the regulations at ten percentage points over the rate of interest on a five-year bank deposit.

Generally, co-operative boards are conservative in determining dividends, setting them in relation to what is considered sufficient for members to keep their capital with the co-operative. This approach is consistent with co-operative principles and recognises the primary purpose of the co-operative as a provider of member services. Boards that retain surpluses build up the co-operative's capital over time and make the enterprise more resilient and better able to serve their members.

Non-distributing co-operatives are prohibited from paying dividends on shares. The whole of the non-distributing co-operative's capital and revenue is devoted to achieving its purpose. Where the purpose of the non-distributing co-operative is to provide cheaper services to members, using its surplus to do so is not regarded as a distribution.

For example, a non-distributing co-operative of regional winemakers, which makes a surplus from its operations, may use the surplus to acquire a more efficient wine bottling plant. Members of the co-operative, who use the wine bottling plant, will reduce their production costs and achieve better financial outcomes in their own businesses.

(v) Shares are repayable.

Shares are repayable when members leave the co-operative.

While members' share capital is a type of risk capital, in the same way that company shares are risk capital, they are not classed as equity or permanent capital, because shares are repayable when a member chooses to leave the co-operative.

The ease with which a person can sell their shares is called liquidity. Shares in a company listed on a securities exchange can be bought and sold, so they are liquid. Shares in a co-operative are not liquid because of their ownership restrictions.

The ability to withdraw an investment in co-operative shares addresses a liquidity problem faced by small shareholders. Community members, who no longer need the co-operative's services or who move away, can have their share capital repaid by the co-operative. This feature can be an attraction for some community investors.

Shares in companies are usually not refundable. Instead, the shareholder must find a willing buyer for the shares. This can be very difficult for shareholders with small investments, especially if the company is not listed on a stock market.

In providing liquidity for its shareholders, co-operatives can create a capital management problem for themselves.

The obligation to repay share capital means co-operatives need to manage their capital prudently.

A co-operative must plan how it will generate enough cash reserves to allow share capital to be withdrawn or repaid, without impacting the financial viability of the enterprise. The most effective way of doing this is by attracting new member shareholders, to replace members who wish to leave the co-operative. An ongoing community investment program is essential for this purpose.

Another method of managing the obligation to repay share capital is to substitute other securities, debentures or CCUs. In this case, the co-operative shareholder is issued with another security, which is repayable after a period of time and carries a specified rate of interest until it is repaid by the co-operative. The effect of substituting a debt instrument is to extend the time for repayment of the share capital. Provisions governing the substitution of share capital with other securities are in [s128 CNL](#) and [s127 Co-operatives Act 2009 WA](#).

(vi) Classes of Shares

Co-operatives can issue classes of shares that carry different rights. For example, shares might have different dividend rights; different priority in a winding up; might entitle the member to access a specific service offered by the co-operative; or might have different rules about repurchase or transfer.

3.3 Debt Securities

Co-operatives can borrow from commercial lenders, members and the public.

There are no legal restrictions on the terms and conditions of the loan arrangements a co-operative may make with commercial lenders. As a borrower in this market, co-operatives are no different from any other entity. As with all borrowers, the board of a co-operative is obliged to make careful decisions in the best interests of the co-operative. Co-operatives can borrow from their members or the general public by issuing debt securities. Debt securities can be either debentures or notes.

3.3.1 Debentures

Debentures are loans for a period of time (the 'term'), specified in dollars, subject to repayment at the end of the term (maturity date). When the debenture is repaid it is said to be 'redeemed'. The investor in debentures receives interest for the term of the debenture.

Debentures do not have any voting rights attached to them, other than a vote at a meeting of debenture holders. Debentures may be secured against specified assets of the co-operative. This means that an asset owned by the co-operative is linked to the debenture, so that if the co-operative fails to repay the debenture or it is wound up, the debenture holders can claim the asset and recover the funds from its sale. A note is another form of a debt security, but it is not backed by assets with a value sufficient to cover repayment of the debt. A note that has no asset backing, is called an unsecured note.

There are different requirements for asset backing for debentures, depending on whether the offer is made to members or to external investors. In brief, debentures offered to members are not required to be secured against assets, while offers of debentures to external investors must be asset backed, if they do not have asset backing they must be called notes.

The rules of a co-operative must cover transfers of debentures. Generally, debentures are transferable, subject to a fee and approval by the board.

Both distributing and non-distributing co-operatives can issue debentures. The payment of interest to debenture investors is treated in the same way as payment of interest on a loan from a bank. The interest is deductible against revenue and is therefore not a distribution of any surplus and is not taxable.

Interest payments to investors in debentures are payable whether or not the co-operative is profitable.

Debentures issued by a co-operative can be offered to members, employees and the general public. Different regulatory processes apply for offers to the public.

A debenture is usually issued in small denominations. For example, the face value of the debenture might be \$100, and investors may acquire one or more debentures in multiples of \$100. The co-operative must issue a debenture certificate, either paper or digital, as evidence of the debenture, and maintain a register of debenture holders.

The terms of issue for a debenture are determined by, on the one hand, the co-operative's funding requirements, its ability to pay interest and repay capital, and on the other hand, by the expectations of the target investor market. Debentures may be structured to accommodate the pattern of a project's expected cash flows and when a surplus is expected. Interest payments might be scheduled as quarterly, half yearly or annual payments. Scheduling interest payments helps plan when the co-operative must ensure the interest obligation can be met.

For projects where there may be little or no surplus at first, interest can be scheduled to commence later or as a final payment at the end of the term. This is sometimes done by issuing debentures at a discount. The investor pays a discounted price for the debenture, which is called the issue price, and expects to be paid the full face value at the end of the term. The difference between the issue price and the face value is the interest payable over the whole term. Debentures issued at a discount to face value are called zero coupon instruments. The name, zero coupon, refers to earlier features of debentures, which were issued as paper documents with tear off coupons, for the investor to present to the debenture issuer to receive the interest payment.

Issuing debentures at a discount is a way of facilitating a debt security in cultures that prohibit the payment of interest.

Generally, issuing debentures is a source of finance for a co-operative that will cost less than borrowing commercially, because commercial lenders seek to make a profit from lending. While investors expect to receive interest from their investment, the community targeted for investment will be likely to invest for the same reasons that they invest in co-operative shares – because they want to support the co-operative's objectives. Individuals who do not normally invest in shares may be prepared to invest in debentures, particularly if bank interest rates are very low. There is value in investing in a co-operative and receiving some interest, while also seeing their savings support local or co-operative enterprises.

In 2015 Bathurst Wholefood Co-operative, a non-distributing co-operative without share capital, needed \$40,000 to upgrade refrigeration and EFTPOS facilities. Bank lending rates were about 12% and banks required security against assets or personal guarantees from the co-operative's volunteer directors. Bank saving deposit rates were about 1.5%. The co-operative offered unsecured debentures to its members. Each debenture was \$100 for a term of 4 years and carried 2% interest payable half yearly. The \$40,000 was raised in about 3 months. Interestingly, most debenture-holders donated the interest back to the co-operative or spent their interest in the store.

While debentures provide funds for the co-operative, as debt securities they are liabilities on the balance sheet.

If a co-operative is wound up, the money owing to debenture holders is repaid prior to any repayment of share capital to members.

3.3.2 Co-operative Capital Units

Co-operative Capital Units (CCUs) are a new type of security available to co-operatives. They are interests in the co-operative's capital over and above the issued share capital.

Over time, co-operatives can accumulate capital in the form of retained earnings and assets they acquire. In these cases, the co-operative's capital will be greater than the amount represented by member shares.

The part of a co-operative's capital that is not member share capital is referred to as the common property of the co-operative. Under the third co-operative principle, part of the co-operative's capital should be reserved and remain indivisible. The common property of the co-operative is what helps co-operatives remain viable and resilient for the future. A co-operative that offers CCUs is creating an interest, like a share, in the co-operative's common property.

CCUs can be offered under very flexible terms of issue.

They can be repayable after a period of time and carry a specified rate of interest, making them very similar to debt securities, such as debentures. However, because CCUs create an interest in the co-operative's capital, unlike debentures, there is no requirement for them to be secured against assets.

Alternatively, they can be non-redeemable and carry a right to a dividend out of any profits. CCUs structured in this way are classed as permanent capital or equity, like company shares. CCUs structured as permanent capital provide a new way for co-operatives to access capital and strengthen the equity on their balance sheet.

All co-operatives can offer CCUs to members or members and employees, providing the co-operative's constitution permits the issue of these instruments. Non-distributing co-operatives will need to seek advice about structuring CCUs, so that the distribution rights of CCUs do not breach their non-distribution rules.

CCUs can be structured to present attractive investment opportunities for members and employees, while also meeting the co-operative's funding need. Equity CCUs, with a right to a dividend, can provide low risk finance for co-operatives, because the dividend is only payable if there is a surplus and the board decides to declare a dividend. Unlike dividends on shares, dividends on CCUs are not subject to a regulatory cap.

Offers of CCUs to members provide a way for them to participate more in their co-operative's financial success. Extending the offer to employees enlarges the pool of potential investors and can align employee interests with the success of the co-operative.

In creating an interest in the co-operative's common property, CCUs can change the dynamic of its governance. While CCU holders do not have voting rights, if they hold a substantial interest in the co-operative's capital, they may influence how the co-operative is managed.

It is important for co-operatives to consider carefully the CCU terms of issue to manage the governance risk. This can be done by limiting the amount of CCUs that an individual investor can hold, or by limiting the total amount of CCUs available to external investors.

There are regulatory constraints on offers of CCUs. A CCU offer requires approval by the Registrar and a special resolution of the members. The Registrar will examine the terms of issue to determine whether they are consistent with co-operative principles, while the member approval requirement recognises members' control over their co-operative's capital.

CCUs were first introduced in New South Wales, by legislation in 1992. They have been available to co-operatives registered in the other States and Territories since 2014, as the CNL has been adopted in those jurisdictions.

There have been seven issues of CCUs by New South Wales registered co-operatives, each of which was an offer to members. The CCUs issued by Namoi Cotton Co-operative Ltd, were classed as permanent

capital and traded like shares on the Australian Stock Exchange. The limited use of CCUs so far may be due in part to financial markets not being familiar with co-operative securities.

3.4 Conclusion

Co-operative securities offer an avenue for all types of co-operatives to raise funds for their enterprise. It is important to understand the nature of co-operative shares as contributions to capital from members and how other securities such as debentures and CCUs can augment member capital and contribute to growth and resilience.

Offering securities to members not only raises funds, but can also increase member engagement and interest in how their co-operative is governed. Members with a greater financial stake will be motivated to see that their co-operative continues to deliver its purposes and that their investment is working towards that their desired objective.

Seeking investment from beyond a co-operative's membership base is a valid exercise, which can also have risks. While co-operatives may create new supporters and partners through offering securities to the public, they need to be aware of the risks so they can plan how best to manage them.

There is added pride for communities who work together to achieve something. Community participation and financial commitment can deliver far more than what individuals can achieve.

Part 4 of the Handbook provides a summary of the regulatory processes for offering co-operative securities. Co-operatives can also find further information about how to offer securities, and what securities might best suit their project, by accessing the [Capital Builder](#).

Part Four

Offering co-operative securities

Summary

This Part of the Handbook provides an introduction to the laws and processes for making offers of shares, debentures and Co-operative Capital Units (CCUs). From the point of starting-up and offering shares in a new co-operative, to seeking additional investment from members or from external investors, choosing the best source of funding is about the costs, benefits, risks and investor motivation.

4.1

The laws applying to security offers by co-operatives

Since 2012, the legislation governing co-operatives has evolved under an agreement between States and Territories to pass either a uniform or a consistent law. Together these laws create a national uniform law called the Co-operatives National Law (CNL). Each State and Territory can either adopt a template law, which is contained in the Co-operatives (Adoption of National Law) Act 2012 NSW, or pass a consistent law. Western Australia passed the Co-operatives Act 2009 and then amended it so that it was consistent with the

template CNL. All other jurisdictions have adopted the CNL, including the Co-operatives National Regulations.

The impact of the uniform CNL scheme is that co-operatives registered in any jurisdiction can carry on business nationally, including raising capital. The regulatory authority is the Registrar in the State or Territory in which the co-operative is registered.

4.2

Offering co-operative securities requires planning

A co-operative needs capital to start its enterprise. Capital is the funding co-operative uses to set up its business enterprise, before the enterprise generates revenue. Once the co-operative's enterprise is operating and costs are met by the revenue from its activities, then a co-operative may need further capital to grow or commence new activities.

Deciding how much capital is needed at start-up or at later stages requires careful planning. Without planning, the co-operative's business model may not be sustainable. Insufficient capital at start-up will make it difficult for the enterprise to begin, and attracting new members and their capital to a poor business enterprise will be difficult.

Initial planning is done by the committee or steering group formed to drive the formation of the co-operative. These people are referred to as the promoters of the co-operative. Once the co-operative is formed, planning becomes the role of the co-operative's board of directors. The initial board of directors may or may not include the promoters.

How a co-operative sources capital depends on its stage of development and the type of co-operative it is. The first task in forming the co-operative is to decide how much capital it needs and can expect from initial members. The business plan developed by the promoters will identify how much capital is required and this amount will be appear in the co-operative's rules as either the minimum share capital a member must buy or what the subscription fees will be.

Only members can have shares in a co-operative, and so any further share capital must come from attracting new members or asking existing members to buy more shares. For non-distributing co-operatives without share capital, new subscription funds must come from new members or an increase in the subscription amount.

Other securities, such as debentures and CCUs, can be offered to members and external investors to bring in more capital.

The regulations governing offers of securities require a co-operative to provide adequate disclosure to prospective purchasers, be they new members or external investors. Offers to existing members can be made under a more less detailed disclosure regime, because it is assumed that members have existing knowledge about the co-operative. Adequate disclosure entails information about the financial prospects and

future viability of the co-operative, which can only be demonstrated through a carefully prepared business plan.

For help in preparing a business plan for a new co-operative, the Business Council of Co-operatives and Mutuals provides step-by-step guidance for new co-operative enterprises at: getmutual.coop

4.3 Offering shares in a new co-operative

The initial share offer by a co-operative occurs at the point of the co-operative's formation and registration. The offer is made by the newly formed co-operative by publishing its rules and disclosure statement and inviting people to become members and buy shares. The offer of membership and shares is the equivalent of offering shares to the co-operative's community of interest.

Co-operatives are voluntary organisations. They can accept new members at any time. In practice, the initial share offer becomes a continuing offer.

All distributing co-operatives and some non-distributing co-operatives must prepare a disclosure statement for new members: [s23 CNL](#) or [s16 Co-operatives Act 2009 WA](#).

In the absence of regulatory guidance on the matter, it is likely that a non-distributing co-operative that requires members to place significant funds at risk, either through the purchase of a substantial amount of share capital or a commitment to paying delete regular subscriptions, will be required to prepare a disclosure statement as part of the formation process.

The disclosure statement comprises information about the co-operative's business model, its purpose and the rights and obligations of membership. It also includes information about the requirement to purchase a minimum number of shares and the rights and obligations attaching to the shares.

Offering membership and shares in a new co-operative is a public offer of securities. Whilst in practice the offer is made to a community of people the promoters have engaged with, the offer is generally open to any person who wants to become a member and can comply with the requirements for being an active member.

The information in a disclosure statement for the formation of a new co-operative is necessarily prospective. Once the co-operative has formed and its operations have begun, the information about the co-operative and its financial position will necessarily be different. Given that applications for membership and subscriptions for shares are continuous, regulations require that the disclosure statement for a distributing co-operative must be

updated regularly. [Sections 68 to 70 CNL](#) require distributing co-operatives to maintain a current disclosure statement and to give a copy to any person who intends to become a member.

There are penalties for failing to maintain a current disclosure statement. People who buy shares have a right to claim compensation from the co-operative for defective or misleading information in the disclosure statement: [sections 72 to 75 CNL](#).

The obligation to maintain a current disclosure statement does not apply to non-distributing co-operatives. Despite this, non-distributing co-operatives, which require members to buy shares, should consider preparing a document that provides up to date information for prospective members.

4.3.1 Information required in the formation disclosure statement

Both s25 CNL and s16 Co-operatives Act 2009 WA require the formation disclosure statement to include:

- the information necessary to ensure prospective members are adequately informed of the nature and extent of a person's financial involvement or liability as a member of the co-operative, including:
 - a. the estimated costs of formation,
 - b. the active membership provisions of the proposed co-operative,
 - c. the rights and liabilities attaching to shares in the proposed co-operative,
 - d. the capital required for the co-operative at the time of formation,
 - e. the projected income and expenditure of the co-operative for its first year of operation,
 - f. information about any contracts required to be entered into by the co-operative, and
 - g. any other information that the Registrar directs to be included.

As a general rule, the Registrar will direct that information about any commissions, fees or other benefits to be paid to the promoters of the co-operative, must be disclosed, along with information about who the initial directors of the co-operative will be.

If the co-operative is being formed to buy an existing business, the Registrar will require detail about the nature of the business and any due diligence undertaken by the promoters, such as valuations and possibly audited financial statements for the business to be acquired. You can access an example of a new co-operative formed to take over an existing business in Part 5 of the Handbook

Shares in a co-operative have different rights and liabilities to shares in a company. Offering co-operative shares should clearly disclose the nature of co-operative shares to avoid any confusion with company shares.

The [Co-op Builder](#) is a free resource, provided by the Business Council of Co-operatives and Mutuals, to help people draft rules and disclosure documents for new co-operatives. It helps users customise information about the purpose and activities of the proposed co-operative, and contains information about the nature of co-operative shares.

4.3.2 Co-operatives can offer additional shares to members

The co-operative's rules will require a member to buy a minimum number of shares at their stated fixed price. The minimum share capital is determined during the business planning stage. Members who join the co-operative may choose to buy more than the minimum number of shares, provided that they do not acquire more than 20% of the total issued capital.

Sometimes a co-operative may find that it needs more capital. It can borrow funds from a financial institution, or it can approach its members for further capital by offering them more shares.

An offer of more shares to members may either be to invite members to buy more shares of the same type, or the co-operative can decide to offer a new type of share. Shares that are offered as part of becoming a member are usually referred to as member shares.

Co-operatives can offer a different type of share with different rights attached to them. For example, a co-operative formed to sell the fresh produce of a group of market gardeners may want to build a cool store. To fund the construction, the co-operative could offer shares that entitle the member to a specified storage area in the cool store. Alternatively, a co-operative formed to buy a football club might offer ordinary member shares and special shares, which include access to a specified number of events at the club each year.

A type of share that carries different rights or entitlements is called a different class of share. A co-operative that creates a new class of shares must set out in its rules the rights and obligations of the new share class.

The CNL does not impose any specific disclosure requirements for offers to members of additional shares or of a new class of shares.

Co-operatives wanting to offer a new class of shares should obtain legal and financial advice to help determine the rights, obligations and price of the shares.

There will be a need to engage with members to gauge the motivation and appetite to invest. An offer of additional or new shares to members is likely to be more successful if the nature of the shares and the purpose of the new capital are well explained.

4.4 Offering debentures and CCUs

Before offering debentures and CCUs, the co-operative's board must have decided that offering securities is an appropriate method of raising funds for the project. Start-up co-operatives will find it difficult to borrow funds from a bank, because they will not have a trading history to show their capacity to repay. Similarly, co-operatives with small memberships may have difficulty raising sufficient funds from their members.

Making the decision to raise funds requires careful analysis, usually done by preparing a business case. A business case examines the funding options, and the costs, benefits and risks of each type of funding. Preparing a business case requires analysis of

the project to be funded and how it will generate revenue to cover the funding costs. It also must include testing the market to understand the risks investors are prepared to bear and the returns they expect.

Co-operatives considering offering securities to members need to commence engagement with members about their appetite for investment through meetings and other communication channels. Offers of securities to external investors require more sophisticated market testing and analysis, unless the external investors are from a community already familiar with the co-operative.

Co-operatives should consider using professional service providers, legal and finance experts, to help with preparing a business case, designing the security and testing the target investor market. A free online resource, the [Capital Builder](#), is available for co-operatives wanting to understand the available sources of funding and how to prepare a business case for fundraising. The [Capital Builder](#) also provides assistance for co-operatives to draft a disclosure document. The [Capital Builder](#) also

provides assistance for co-operatives to draft a disclosure document should it decide to issue securities.

The requirements for disclosure differ depending on whether the offer is made to members or whether it is made to external investors.

The regulatory processes for each type of offer are set out below.

4.4.1 Debenture offers to members

A member offer of debentures can be extended to employees of the co-operative. Opening the offer to employees provides access to a larger pool of potential investors and can build employee loyalty and commitment, by aligning employee interests with the co-operative's success.

The regulatory process for a debenture offer to members, including employees, has the following steps.



Steps for debenture offers to members

Step 1: Check the co-operative's constitution for any restrictions on issuing debentures.

Step 2: Prepare a draft disclosure statement that includes the matters listed in [s350 CNL](#) or [s262 Co-operatives Act 2009 WA](#).

The disclosure statement must cover:

- the purpose for raising the funds;
- the rights and liabilities attaching to the debentures;
- the financial position of the co-operative;
- the risks of investing in the debentures;
- the interests of the directors of the co-operative in the issue of the debentures;
- any compensation or consideration to be paid to officers or members of the co-operative in connection with the issue of the debentures; and
- if any opinions or advices provided by experts are included, the disclosure statement must indicate that they have provided written consent for their advice to be included.

Step 3: Submit the draft disclosure statement to the Registrar for approval.

The Registrar may require additional information and amendments to the disclosure statement before it is approved. The Registrar will require that all directors sign the draft disclosure statement submitted for approval.

Step 4: Prepare for the offer to go live.

a. Set up a register of security holders and system for receiving money for subscriptions and issuing security certificates.

b. Prepare advertising and marketing campaign for the offer.

Step 5: Once the disclosure statement is approved, determine the period of time the offer is to remain open for subscription.

Money received from subscribers for securities must be held in trust, until the target amount of the offer is reached. Once the target amount is reached, the project will be funded sufficiently to proceed and the securities can be issued. If the target amount is not reached, then the money received from investors must be returned.

4.4.2 CCU offers to members

Member CCU offers, like debenture offers, can be extended to include employees.

CCUs cannot be offered, unless the Registrar and a special resolution of the members approve the terms of issue. The Registrar examines the terms of issue for the CCU to ensure that they are consistent with

co-operative principles and the co-operative's rules. Approval by the members ensures that members are aware of the impact of the issue of CCUs as other interests in the capital of the co-operative.

The regulatory process for a CCU offer to members, including employees, has the following steps.



Steps for CCU offers to members

- Step 1: Check the co-operative's rules permit the issue of CCUs.
- Step 2: Prepare a CCU statement for approval by the Registrar in accordance with [s350 CNL](#) or [s262 Co-operatives Act 2009 WA](#).
- The CCU statement submitted to the Registrar must include:*
- entitlements to repayment of capital;
 - participation rights in profits and any surplus assets;
 - entitlements to interest on capital and whether it is cumulative or non-cumulative;
 - priority of payment of capital and interest in a winding up;
 - any limits on holding CCUs by non-members;
 - the rights of CCU holders;
 - terms of redemption;
 - transferability of the CCUs; and
 - any other terms of issue.
- Step 3: After approval of the CCU statement by the Registrar, prepare a special resolution to allow the issue of CCUs, for members to approve at a meeting or by postal ballot.
- Step 4: After approval of the special resolution, prepare a draft disclosure statement in accordance with [s338 CNL](#) or [s252 Co-operatives Act 2009 WA](#).
- The disclosure statement must include:*
- the terms of issue and rights and liabilities of the CCUs, as per the approved CCU statement;
 - the purpose of raising the funds;
 - the financial position of the co-operative;
 - the risks associated with investing in the CCUs;
 - the interests of the directors of the co-operative in the issue of the CCUs;
 - any compensation or consideration to be paid to officers or members of the co-operative in connection with the issue of the CCUs; and
 - if any opinions or advices provided by experts are included, the disclosure statement must indicate that they have provided written consent for their advice to be included.



Steps for CCU offers to members (cont.)

Step 5: Submit the draft disclosure statement to the Registrar for approval.

The Registrar may require additional information and amendments to the disclosure statement before it is approved. The Registrar will require that all directors sign the draft disclosure statement submitted for approval.

Step 6: Prepare for the offer to go live

- a. Set up a register of security holders and system for receiving money for subscriptions and issuing security certificates.
- b. Prepare advertising and marketing campaign for the offer.

Step 7: Once the disclosure statement is approved, determine the period of time the offer is to remain open for subscription

Money received from subscribers for securities must be held in trust, until the target amount of the offer is reached. Once the target amount is reached, the project will be funded sufficiently to proceed and the securities can be issued. If the target amount is not reached, then the money received from investors must be returned.

4.4.3 Public offers of debentures and CCUs

It is important that co-operatives explore all funding options, before deciding how to raise funds for their project.

Funding options may include grant funding from government or from philanthropic sources. Some industries are supported by government agencies, through the availability of government lending at less than commercial rates, or with government guarantees for enterprises that are not able to provide security for borrowing.

Where funding from members, borrowing or grant funds are not sufficient or not available, the co-operative can explore offering debentures or CCUs to external investors.

Offers to external investors are called public offers and are subject to more extensive disclosure requirements than member offers.

Section [337 CNL](#) and [s250 Co-operatives Act 2009 WA](#) deal with the offer of debentures and CCUs to the public. These provisions effectively copy the disclosure and lodgement requirements that apply to security offers by companies. As such, public offers of these securities by co-operatives are subject to the same requirements for disclosure as companies, but the requirements are part of the CNL and are administered by the Registrar.

Public offers of debentures and CCUs are likely to require professional assistance. Designing the terms of issue for the security, testing the target market of investors and preparing a compliant disclosure document, can be complex and may be beyond the capacity of co-operative boards and employees. While the [Capital Builder](#) provides guidance and a disclosure document-drafting tool, it is recommended that co-operatives seek assistance in developing a public offer of securities.

The disclosure document must present more detailed information than a member offer, because external investors cannot be assumed to have the same level of understanding of the co-operative's business model members have.

For public offers of debentures, the CNL requires that debentures must have asset backing, otherwise they must be called secured notes or unsecured notes. Further, the co-operative must appoint a trustee for debenture holders. The trustee looks after the interests of debenture holders. They are also the holder of any security over the assets that support the debentures.

Like member offers, public offers of CCUs must have the terms of issue approved by the Registrar and a special resolution of members, before they can be offered.

The disclosure document for public offers of debentures and CCUs is not submitted to the Registrar for approval. Rather, the disclosure document is lodged with the Registrar. The Registrar may reject the disclosure document, because it does not comply with the disclosure requirements. This must be done promptly, because the CNL requires that the disclosure document is lodged for a period of public exposure for seven days.

During the seven-day public exposure period, potential investors can view the disclosure document and ask questions or submit complaints about the document with the Registrar. The Registrar will also examine the disclosure document and may require the co-operative to amend or lodge a revised document. The seven-day public exposure period can be extended for a further seven days by the Registrar.

The co-operative cannot accept any applications for the securities being offered during the public exposure period.

Once the public exposure period is over, and there are no instances where the co-operative is required by the Registrar or decides to lodge an amended or revised document, the offer is then live.

The process of lodgement and public exposure places greater responsibility on the co-operative to ensure that its disclosure meets the standards required under the regulation. The co-operative and each person involved in the preparation of the disclosure document is responsible for any misleading or deceptive material in the disclosure document, and can be made to compensate investors who suffer loss as a result of the misleading material.

The Registrar retains a power to stop an offer by issuing a Stop Order, if there is serious non-compliance with the disclosure requirements or other possible breaches of the regulations.

4.5 Public offer or member offer?

The decision to raise funds through a public offer or a member offer will generally depend on four factors: costs, benefits, risks and market appetite.

4.5.1 Costs

A public offer will be significantly more costly than a member offer. The preparation of documents for a member offer may be possible using the co-operative's internal resources and expertise. A public offer is more likely to require expert professional assistance. The lodgement fees for a public offer document are significantly higher than for a member offer – an average of \$2,000 –\$3,000 compared with \$200–\$500 for a member offer. Extra time is required to prepare and test the market for a public offer, whereas testing the market across the co-operative's membership is likely to be able to use existing member engagement channels.

Reporting obligations to external investors will impose additional costs over the life of the investments. Offers of debentures and notes require the co-operative to appoint a trustee to protect the interests of investors. The costs of the trustee for debenture holders are incurred over the life of the investments. Depending on the type of debt instrument, the co-operative may have to provide security backing for the investments. By contrast, member offers of debentures do not require security backing or the appointment of a trustee.

4.5.2 Benefits

A public offer may potentially raise more funds than a member offer. A member offer provides an added financial benefit to members: it not only delivers

the services to be derived from the funded project, it provides a financial reward to their investment. Member offers that are also open to employees can increase employee productivity by the alignment of employee interests with the co-operative's success.

4.5.3 Risks

External investors can present a risk to members' control of the co-operative. While investors in debentures and CCUs do not have any voting rights in the co-operative, if a substantial portion of the funding is provided by a small group of external investors, in order to protect their interests, they may seek to influence how the board manages the co-operative. Co-operatives that borrow from a financial institution will experience similar pressure from their lender, if the amount of finance is substantial and the lender becomes aware of a risk to their loan.

Co-operatives considering a public offer can address this risk by limiting how much of the offer can be taken up by non-members, and thereby leave a significant portion for members. They can also limit the total investment a single investor can make.

Other risks, such as the risks of the project failing and the co-operative not being able to pay interest or deliver other returns on the investment, will impact on the co-operative's capacity to raise funds from the public in the future. These more general risks will need to be identified and managed. The more likely the risk, the greater the need for planned management and additional costs.

4.5.4 Market appetite

In any security offer by a company, the market appetite is governed by the risk of losing the capital invested and the expected return on the investment.

Where the investors are members, the return on investment is not just the interest or dividend associated with the debenture or CCU, it is also the services expected from the project. External investors, by comparison, do not receive the benefit of any extra or improved services, and so their focus is the prospective return on their investment.

The offer to external investors will need to explain any other returns or impacts from their investment

and tap into motivations beyond financial returns. Co-operatives that offer an investment in a project that delivers broader environmental or community benefits should try to articulate and measure the impacts that will be delivered from investing in the project.

A co-operative seeking investment from external investors will need to identify the target market carefully so that the offer is attractive. Projects that address broad social issues, such as unemployment or social housing, are more likely to attract investors well beyond the geographical location of the co-operative's project. Projects that bring local employment or other benefits to a community will attract people from that community.

4.6 Conclusion

Shares, debentures and CCUs all present options for raising capital from a co-operative's community.

Understanding the different characteristics of each of these securities and the motivations to invest in a co-operative and community ownership is an important first step in building enterprises that serve the needs of a community.

For those interested in pursuing forming a new co-operative or invigorating their communities to invest in a co-operative enterprise, there are links in Part 5 to more resources and organisations that can help or provide professional and support services. Part 5 also includes some examples of offers and disclosure statements by co-operatives.

Part Five

Resources

Summary

This Part includes references to other reading materials about investment and fundraising in both Australia and the United Kingdom. For those considering forming a co-operative there is a guide to drafting active membership rules for a co-operative and links to online resources that can assist with the preparation of rules and disclosure documents for new co-operatives and guidance about raising funds for existing co-operatives. Finally, the BCCM acknowledges the co-operation of some newer co-operatives who have given permission to use their documents to assist others in their journey towards formation and fundraising.

5.1 Further reading

Australian resources

[Guide to drafting active membership rules for co-operatives.](#)

[CoFa Constitution Library.](#)

[General considerations for Active Membership Co-operatives in Australia - Manual](#), 2nd Edition 2017, Co-operative Federation of NSW.

[Structuring Co-operative Capital Units – Symposium Findings](#), 2012, Limnios, E., Watson, J. & Mazzarol, T. Centre for Entrepreneurial Management and Innovation, University of Western Australia.

[Co-operative capital units as a solution to co-operative financing](#), Discussion Paper, 2014, Limnios, E., Watson, J., Mazzarol, T. & Souter, G. Centre for Entrepreneurial Management and Innovation, University of Western Australia.

United Kingdom resources

The following resources from the United Kingdom refer to legislation in that country called the Co-operatives and Community Benefit Societies Act 2014. The term co-operative society is used for entities similar to a distributing co-operative under the CNL and the term community benefit society is used for entities similar to a non-distributing co-operative under the CNL.

[Community Shares Handbook](#), Community shares Unit, 2020.

[Community Shares Standard Mark – Information Pack](#), Community Shares Unit, Co-operatives UK and Locality, 2017.

[Understanding a maturing community shares market](#), Co-operatives UK, 2020.

5.2 Online help or contacts

For a broad range of Australian resources to help new co-operatives form, including the Co-op Builder, [Getmutual.coop](#)

For information and guidance about co-operative fundraising, including the Capital Builder, can be accessed at [Co-operative Farming](#)

5.3 Example documents

The following documents have been provided for educational purposes only. They have been edited to remove sensitive information.

- A. The Sea Lake Hotel Co-operative Ltd** was formed to acquire an existing business. You can read their rules and disclosure statement below.

[Sea Lake Hotel Co-operative Ltd Rules](#)

[Sea Lake Hotel Co-operative Ltd Disclosure Statement](#)

- B. Pingala Co-operative Ltd and Haystacks Solar Garden Co-operative Ltd** are renewable energy co-operatives. You can read rules and disclosure statements below.

[Pingala Co-operative Ltd Disclosure Statement](#)

[Haystacks Solar Garden Co-operative Ltd Rules](#)

[Haystacks Solar Garden Co-operative Ltd Disclosure Statement](#)

- C. Hopsters Co-operative Brewery Ltd** is a new co-operative enterprise attracting members to take up shares in a craft beer enterprise. You can read their disclosure statement below.

[Hopsters Co-operative Brewery Disclosure Statement](#)

