

Proposed Amendments to Tiered Regulatory Framework for Credit Union Investments (CP 76)

31st March 2014.

Proposed amendments to a "Tiered Regulatory Framework for Credit Unions" (CP76).

Introduction

Since the release of Consultation Paper 76 there has been much discussion on the proposals, both at local level and at various forums such as the Irish League of Credit Union's road shows, consultation papers have been produced and debated, and submissions have been prepared by interested parties.

However as an entity who believes in the cooperative model and the positive contribution that they can play in the future development of the Irish Economy, Kenmare Credit Union believes that CP76 offers an opportunity to explore a number of options that may support the future development of the wider Co-operative sector.

Why Co-ops

The International Cooperative Alliance (ICA), founded in 1895, is an international, non-governmental organisation which unites, represents and serves Cooperatives worldwide. It is the largest non-governmental organisation in the world. According to the ICA¹ over one billion people are members of affiliated Cooperatives in ninety-four countries and Cooperatives provide jobs for over 100 million people, which is 20% more than Multinational Corporations. Internationally cooperative organisations operate in all sectors of the economy including agriculture, banking, fisheries, health, housing, industry, insurance, tourism and consumer activities.

In declaring 2012 International Year of Cooperatives (IYC), the United Nations (UN) acknowledged the important role cooperatives play in the daily lives of millions of members. The Secretary-General, Ban Ki-moon declared that "*Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility*"². In adapting the slogan "*Cooperative Enterprises build a better world*"³, the UN highlighted the contribution of cooperatives to socio-economic development, and in particular recognising their impact on poverty reduction, employment generation and social integration.

¹ <http://www.ica.coop/ica/index.html> Retrieved 27.04.2011

² <http://social.un.org/coopsyear/index.shtml> Retrieved 27.04.2011

³ <http://social.un.org/coopsyear/index.shtml> Retrieved 27.04.2011

At a European level the European Union views Cooperatives as enterprises that can *"simultaneously address entrepreneurial and social objectives in a mutually reinforcing way"*. The EU Communication of 23rd February 2004 goes on to invite Member States to be guided, when drafting national regulations governing co-operatives, by the *"definition, values and cooperative principles"* as detailed by the ICA to enable cooperatives to compete effectively in their markets and on equal terms with other forms of enterprises.

Co-operatives and their members have been contributing to Irish Society since 1889 when the first Dairy Cooperative was established in Co. Limerick. Under the guidance of Sir Horace Plunkett and following the establishment of the Irish Agricultural Organisational Society (ICOS) the number of agricultural cooperatives expanded rapidly. The second stage of cooperative development in Ireland took place from the 1950's with the establishment of the first Credit Union. Credit Unions spread rapidly from the 1960s.

In the Ireland of 2014 Cooperatives range in scale and activity but they are an important part of Irish Life:

- In the agricultural and food sector, Co-ops and their associated companies account for total sales of €11bn and have some 150,000 members and employ 12,000 people in Ireland.
- Housing cooperatives have provided homes for thousands of families across the country, and they are now promoting wider community development opportunities in education, training and employment and in child and family services.
- The Credit Union movement has over 2.9m members in Ireland with savings of close to €12bn, with over 9,000 volunteers and 3,500 employees. It is an important provider of savings and loan facilities to members, and it builds their capacity to manage their finances.

Across the full range of cooperatives, a majority of Irish people are members of the Cooperative movement, and yet cooperatives remain a relatively unsung success story in promoting sustainable economic development and building better communities.

The United Nations resolution 64/136 adopted in 2010 recognises that *"cooperatives.....are becoming a major factor of economic and social development and contribute to the eradication of poverty"*. Why has an organisation as eminent as the United Nations (2010)⁴ recognised that cooperatives have a role to play in *"the economic and social development of all*

⁴ United Nations (2010) Resolution 64/136 Cooperatives in social development, New York, United Nations.

people"? Briscoe & Ward (2000)⁵ provide one answer; they examined the key advantages of all types of cooperatives and have identified the following as giving cooperatives a competitive advantage over conventional corporations:

- Building of social capital.
- Mutual aid – cost efficient provision of services.
- Local and individual self-reliance.
- Redesign of organisations around users' needs.
- Positive impact on the environment – use of local resources, taking a longer term view.
- Efficient and cost effective.

While these advantages apply to all cooperatives, the movement provides specific advantages to workers which are especially important at a time when unemployment is high and the global economy continues to experience significant challenges. In a globalised world the "job for life" is a thing of the past and workers increasingly find themselves in insecure employment situations, Restakis, (2010:238)⁶ notes that "*worker cooperatives provide a way of making work meaningful by sustaining employment in situations where jobs would be sacrificed – not because they were untenable but because the business didn't generate the insane levels of return demanded by shareholders*". In addition to providing meaningful employment to members, a strong cooperative sector in a region or country provides advantages such as;

- Job creation.
- Worker empowerment.
- Indigenous economic development.
- Building communities and,
- The model is proving to be resilient in the face of our current economic difficulties.

All of the above point to a sector which could have a major impact on future growth of the Irish economy however research by this author and others have identified a number of issues which are hampering the development of new co-operatives in the sector and preventing cooperatives playing on a level playing field with other organisational models, these include;

- Appreciation of the cooperative model.
- Under-utilisation of the cooperative model.
- Lack of credit.

⁵ Briscoe, R. & Ward, M. (2000), *The Competitive Advantages of Co-operatives*, Centre for Co-operative Studies, NUI Cork, Litho Press.

⁶ Restakis, J. (2010) *Humanizing the Economy Co-operatives in the Age of Capital*, Canada, New Society Publishers.

- Education has a key role to play in creating active members, as well as future leaders, who possess the vision to drive the movement over the next 50 years.
- Professionals such as accountants and solicitors need to be made aware of the cooperative advantage.
- The lack of legislation specific to worker cooperatives.

The current consultation process offers opportunities for the Credit Union sector to embrace the principle of “co-operation among co-operatives” and the following proposals have the potential to go some way towards addressing some of the challenges faced by the sector at present.

Proposals and explanatory notes

5.2.1.

In addition to the proposed classes of lending we are proposing that Credit Unions will be able to make the following type of loan;

- A loan to a co-operative who’s primary objective is the creation of employment i.e. a workers co-operative.

Curl (2009:8)⁷ defines the modern worker cooperative as a firm which is “*owned and operated only by its worker-owners*”. Worker cooperatives share a common ideological background with other types of cooperatives. They are generally considered to have social as well as economic goals, and follow the set of internationally accepted cooperative principles (Carroll, 2009)⁸. This unique ownership structure creates a number of opportunities not available to employees of conventional corporations:

- They empower their members through internal democracy (Curl, 2009)⁹.
- They offer group self employment to people without the resources to start a business alone (Curl 2009)¹⁰.
- In place of the typical hierarchical command structure and job insecurity of the capitalist form of business, job security is offered (Curl 2009)¹¹.
- The United Nations in Resolution 64/136¹² recognises that cooperatives contribute to indigenous economic development as they promote “*the fullest possible participation in the economic and social development of*

⁷ Curl, J, (2009) For All The People, Oakland CA, PM Press.

⁸ Carroll, B. (2009) Workers Co-operative Strategies, Cork, NUI.

⁹ Curl, J, (2009) For All The People, Oakland CA, PM Press

¹⁰ Ibid

¹¹ Ibid

¹² United Nations (2010) Resolution 64/136 Cooperatives in social development, New York, United Nations.

all people”, and in doing so are “becoming a major factor of economic and social development and contribute to the eradication of poverty”.

- Worker cooperatives can play a vital role in building communities as they *“have a unique capacity not only to build a sense of community but also to challenge and reform the economic structures that are so often the cause of social breakdown” (Restakis, 2010:236)¹³.*
- Rothschild (2009)¹⁴ contends that worker cooperatives, by giving members the opportunity to voice their opinions in the economic realm, enhance their members’ capacity and confidence in dialogue and democratic decision making in political and civil life.

Over the past decade, the Workers’ Cooperative Fund of the Irish League of Credit Unions, has helped set up a number of Worker Cooperatives. Such “Cooperation among Cooperatives” espouses one of the core principles by which cooperatives put their values into practice. With a network of close to 400 branches and 2.9 million members, the Credit Union has the potential to promote the worker cooperative model in every parish in the Country. However if the model is to develop additional credit is needed and the Credit Union sector has the resources and knowledge to support the sector, hence we are requesting that in addition to the loans detailed in 5.2.1 Credit Unions will be able to make loans available to the worker co-operative sector.

5.9

In addition to the proposed reserve requirements we are proposing that all Credit Unions be required to contribute a percentage of earnings (e.g. 3%) to a co-operative development fund.

As detailed above challenges facing the continued development of the co-operative sector in Ireland include:

- Appreciation of the cooperative model.
- Under-utilisation of the cooperative model.
- Education has a key role to play in creating active members, as well as future leaders, who possess the vision to drive the movement over the next 50 years.
- Professionals such as accountants and solicitors need to be made aware of the cooperative advantage.

A co-operative development fund, administered by representative bodies such as Irish League of Credit Unions, would be used for purposes such as the creation

¹³ Restakis, J. (2010) *Humanizing the Economy Co-operatives in the Age of Capital*, Canada, New Society Publishers.

¹⁴ Rothschild, Joyce (2009) ‘Workers’ Cooperatives and Social Enterprises A Forgotten Route to Social Equity and Democracy’, *American Behavioural Scientist*, 52:7, 1023-1041

of training and education programmes for schools and universities, the promotion of the co-operative model to professionals such as accountants and solicitors, as well as being used to further research into co-operatives. In addition the fund would be used to help create new co-operatives, develop existing ones, and to convert private firms into worker cooperatives and thus promote the creation of employment in local communities.

5.9

Consideration should be given to the classifying of a portion of reserves as indivisible reserves. An indivisible reserve is property owned by the Credit Union and the movement which can never be divided among members, and it is created by allocation a set percentage of annual surpluses to the reserve.

The indivisible reserve can never be cashed out by individual members; the reserves provide long term capital that supports longevity of the Credit Union across generations and it can be used as a reserve like any other retained earnings. The reserve is a means by which members can demonstrate strong commitment to the Credit Union movement and its values and it enables members to focus on the co-operative advantage. It further helps avoid disagreements and conflicts that may result from a right that the majority at any given time would have to sell the assets of the Credit Union, assets which were built up by the work and volunteerism of their predecessors. The principle of the indivisible reserve assures Credit Union development, by guaranteeing the continued control of the organisation based on assets produced by several generations.

Indivisible reserves have no direct impact on the daily operations of the Credit Union however they define the parameters of strategic planning, by prohibiting a strategy to maximise the book value of the Credit Union for the purpose of any speculative sale. Therefore it concentrates the planning objectives on the essentials of the Credit Unions specific nature of maximising the services provided to members through their dealings with the Credit Union (Dividends, access to loans, other services). It also centres activities on member relations and how members use the Credit Union.

Conclusion

We welcome the consultation process by the Central Bank in relation to introducing a tiered regulatory approach for Credit Unions. We have a number of reservations about the proposals set out by the Central Bank, however as these are being addressed by other parties we have focused on using the process as a means to address some of the challenges faces by members of the Credit Union and wider Co-operative movement.

Our approach, as set out in this paper, is to propose a number of amendments which if adopted would promote the further development and future security of the credit union and co-operative sector in Ireland. President Michael D. Higgins at the Co-operative Alliance Conference - Co-operatives the Way Forward – held in Croke Park, 15th May 2012 called on us to *“increase public awareness and promote the co-operative sector here in Ireland”* and he urged us to *“look at co-operative societies across the globe, learn from their experiences and mirror some of their achievements here in Ireland.”*¹⁵

We are calling on individual credit unions and their representative bodies to engage in the consultation process so that the requirements and views of the movement are given due consideration by the Central Bank.

¹⁵ <http://www.president.ie/speeches/co-operative-alliance-conference-co-operatives-the-way-forward/>
Retrieved 27.03.14