Module 4 Factsheet

Overview

This module looks at the financial elements of co-operative businesses. It explores the instruments co-ops use to raise funds and how successful co-operatives are accessing capital relative to other businesses. This module also contains a discussion of how co-operatives scale up.

Capital sources

Co-operatives, whether starting up or scaling-up, can raise capital from several sources using a variety of instruments built into the structure. In many ways, co-operatives can use the same instruments as investor-owned corporations, with some exceptions. These tools include:

- *Equity* sources including membership shares, investment shares, and member loans (a tool unique to co-ops).
- *Debt* sources including commercial debt (i.e., loans, mortgages, line of credit, and credit cards), debentures (e.g., bonds), and trade credit.
- *Grants* from governments, granting agencies, and large co-ops.
- Other, less common tools for raising capital include:
  - Creating a subsidiary for a separate line of business
  - Fundraising charitable donations (over 300 co-ops are registered charities)
  - Trading on the stock market — co-ops can list some shares publicly
  - Venture capital using similar lenders to equity markets, like the Canadian Co-operative Investment Fund

Fundraising Performance

Using the 2017 Survey on Financing and Growth of Small and Medium Enterprises, we can compare the performance of co-operatives with other small and medium enterprises and draw some of the following conclusions:

- Debt is the most common tool co-operatives use to raise money. In 2017, 38.1% of co-ops requested debt financing and 95% were approved.
- Co-operatives perform well when accessing grants. Although select grants are designed exclusively for co-operatives, the majority of grants received by co-ops are also available to other SMEs. In 2017, 15.6% of co-ops sought some form of grant funding and 84% were approved.
- Co-ops raise considerably less money through equity than other SMEs ($67,025 compared to $1.4 million, on average), though more co-ops access some form of equity. In 2017, 7.2% of co-ops raised money using equity.
- Co-operatives have greater success raising capital than other SMEs.

Fundraising considerations

Given their unique structure, co-operatives often weigh these important considerations when planning on raising capital.

- **Diluting member control**: any time a co-operative raises funds from non-members, it creates an obligation outside of benefitting the co-op's members.
- **Equity as liability**: over time members build considerable equity in the business. As older members withdraw their equity the co-op can experience cash shortages.
- **Cost of issuing securities**: Since most co-ops are small, many cannot afford the legal costs of issuing and reporting on securities (investment shares).

Scaling-up and growth

In 2017, 57.6% of co-operatives experienced some growth and 78% expected to experience some growth in the coming three years. While most co-ops intended to expand their markets, only 6.8% export goods and services. This indicates most co-ops are growth-oriented despite being smaller businesses with very local or regional operations.

Most growth among co-operatives is fuelled by new start-ups. This drives growth for federations and wholesalers of co-ops such as Arctic Co-operatives Limited and the Co-operative Housing Federation of Canada.

The scaling-up of co-ops is driven by mergers and acquisitions. Among the Co-operative Retailing System, for instance, many local retails amalgamate to achieve better efficiencies. In the dairy industry, acquisitions allow co-ops like Agrifoods International, Gay Lea Foods, and Agropur to expand into new markets with additional production capacity.

Recommended resources

Co-operatives First's case study of Gay Lea Foods

Co-operatives First's resource Financial Programs for Co-operative Businesses

Adrian Egbers, Lucas Rivet-Crothers, and Lyming Huang's article SME Profile: Financing and Growth of Co-operatives in Canada, 2017