

Excerpted from: A California State Bank for Coops, by Professor Lee Webb
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Basically what is needed, looking at the total picture, is the same governmental commitment to urban and rural non-farm cooperatives which was made by the federal government in the 1920's and the 1930's. What the newer cooperatives need is the capital, the experience management, the technical advice, and the assured markets which were made possible by the Capper-Volstead Act of 1933, the Farm Credit Act of 1933, the Rural Electrification Administration of 1935, and many other federal statutes, regulations, and agencies. Such governmental services and assistance could make the difference between a small cooperative movement and a large and expanding sector opening up new job opportunities and lowering the costs of services and products to poor communities, the unemployed and the underemployed.

VI. Conclusions and Recommendations

Much of the American tradition is grounded on a long commitment to the popular ownership of land, or farms, and of businesses of all types. The economic problems of the last few decades - a combination of skyrocketing costs and capital requirements - have made broad public ownership more and more difficult. Cooperatives offer a method whereby people will still be able to secure an ownership position over the resources that affect their own lives. It is also this kind of institution which is responding to the public clamor for increased democratic participation and the increased demands

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for autonomy and self-determination. Such new institutions could help overcome the increased feelings of personal alienations from social, political, and economic life that is increasingly common to our society.

Also wide membership and involvement in successful producer and consumer cooperatives could also revitalize local neighborhood and community life as well as give practical involvement for many people in the worlds of community and business life, thus increasing their personal and social skills.

The step that should be taken is to establish a California Bank for Cooperative Development and a Cooperative Development Agency aimed at making cooperatives a major part of the California economy. Such a Bank and Agency would help create jobs and improve the quality of life both for the employed and the unemployed. The effort is aimed at providing adequate financing for consumer and producer cooperatives supplemented by an extensive commitment to good management and sophisticated technical assistance.

If adequate assistance is available, increasing numbers of Californians can be expected to turn to cooperatives as one answer to their problems that they and their communities are experiencing. Through a combination of consumer and producer cooperatives additional jobs can be created at the same time that the costs for many basic services and commodities can be reduced. These new cooperatives can create jobs, add competition to the marketplace, reduce the producer-consumer price spreads, improve the quality of goods, and reduce the demand for bigger and bigger government programs.

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Cooperatives have in the past been a highly successful way of providing people in many sectors of the economy and parts of the country with jobs and low cost goods and services. The size and numbers of co-ops in agricultural marketing and supply, rural electrification, food retailing, as well as the many credit unions, housing co-ops, and others are evidence of the success of the cooperative form. A major reason for the success of the largest cooperatives - in farm marketing and supply - is their access to federal assistance in financing, management, and technical assistance. These major federal programs of the 1920's and 1930's have helped to bring prosperity to much of American agriculture.

However, less than 5% of today's Americans are farmers. We have become a non-farm society concentrated in the major metropolitan areas. The unemployed and the low and moderate income families need the sources of capital, the trained management and the technical advice that will help them build up cooperatives to help themselves. They certainly do not want to be dependent for their income on government officials and programs. Just as farmers lacked capital and needed help in the early part of the 20th century, so do these families and employees lack funds and assistance in expanding old cooperatives and creating new ones.

Such cooperatives are desperately needed to attract and build new businesses and industries which will expand jobs and employment, help people find good housing they can afford, help farm workers and migrants escape from the farm labor system, increase the emphasis on preventive

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medicine, and save jobs endangered by corporations leaving the state or country through employee-ownership.

Therefore it is proposed that the state of California draw on the 50 years of the federal government's experience in helping to establish and assist cooperatives. The methods suggested rely heavily on the examples of the Cooperative Farm Credit System, the Farmer Cooperative Service, the Bank for Cooperatives, and the Rural Electrification Administration.

The recommendations described below are in outline form. No attempt has been made to focus in on the critical technical questions of bank finance or administrative structure. Instead the recommendations lay out the broad outlines of a new direction and the new structures necessary to carry out the needed policies.

VI. A. Recommendation: A California Bank for Cooperative Development

The purpose of the proposed Bank is to encourage and assist in the development of cooperatives throughout the state of California as a means to create jobs, lower the costs of basic services and commodities, and to overcome the increasingly public alienation with social, economic and political life. Such a Bank as the one proposed below would assist in the creation of cooperatives by making financing available,³² and secondly through the affiliated Cooperative Development Agency assist the development of cooperatives

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by helping to train skilled managers and providing important technical and professional assistance to cooperatives.

VI. A. 1. Structure

A Bank for Cooperative Development should be created with main offices in Sacramento and authority to establish up to twenty (20) branch banks throughout the state.

The policies and operations of the Bank should be determined by the Board of Directors, which should be composed of 15 people. The Directors should be nominated by the Governor and approved by the Senate. At least ten (10) of the Directors that are nominated should have a background in cooperatives. In addition, the Governor should attempt to nominate as Directors people with specific skills, such as management, accounting, marketing, financing, and production.

The members of the Board of Directors should receive no remuneration for their services, except for expenses and a per diem allowance for the days that the Board is meeting.

The Board of Directors should select a President of the Bank and a Treasurer and any other officers they should consider necessary. The President should be chief executive officer of the Bank and responsible for the execution of all policies of the Boards and the operations of the Bank.

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VI. A. 2. Branch Banks

The Board of Directors of the Bank should select the locations of the branches of the Bank, and the President should under policies determined by the Board of Directors appoint Vice-Presidents of the Bank to operate and manage the individual branches.

The Board of Directors of the Bank, in conjunction with the branch Vice-Presidents, should select a Branch Advisory Committee of not less than 15 people for each branch bank. The branch Vice-Presidents should meet and consult regularly with the Branch Advisory Committee about the policies and operations of the Bank.

The branch Vice-President should convene annually a meeting of all borrowers from the Bank in the area served by the branch. The purpose is to receive comments and criticisms on the operations and policies of the branch. In addition, the borrowers of the Bank have the right to nominate at least 8 people from their own numbers to be members of the Branch Advisory Committee.

All loan applications should be handled by the various branches of the Bank, but within limits and policies determined by the Board of Directors. The branches would also handle all collection and loan servicing.

The interest rate, size, length and conditions of any loan made by a branch should be within limits and policies of the Bank as determined by the Board of Directors.

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Every effort should be made by the branches to allocate the loan funds of the Bank between types of potential borrowers.

The branches of the Bank should also make available at reasonable cost sufficient space and facilities within the quarters of the Bank for the offices and activities of the Cooperative Development Agency.

IV. A. 3. Financing

An initial appropriation of \$5 million should be made by the state to pay the startup costs of the Bank. After the initial capital funds are available, the Bank should repay the state.

The initial capitalization of the Bank should total \$50 million. The State Treasurer should be required to purchase the \$50 million in capital notes issued by the Bank.

In addition, the Bank should be authorized to issue up to \$500 million in debt over the first three years of its existence by issuing bonds and other forms of securities. These bonds and securities should be guaranteed by the state of California. The Bank is also authorized to borrow money as needed up to the \$500 million limit from commercial banks, Farm Credit banks, credit unions, and other financial institutions.

Bonds and other securities of the Bank should be eligible for purchase by any state-chartered banks, regulated commercial banks, savings and loan associations, mutual savings banks, and credit unions. The bonds and securities of the Bank should also be eligible for purchase by the various state pension funds.

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VI. A. 4. Eligibility for Bank Loans

Only cooperatives should receive loans from the Bank. A cooperative is here defined as an organization of people created to provide a service or employment directly or indirectly for its members. Such a cooperative must be owned by its members, must provide for a one person-one vote representation, and must be operated on a not-for-profit basis. All operations of the cooperative must furthermore be conducted at cost but with adequate provision for the accumulation of needed reserves and capital funds the disposition of which must be controlled and decided by the members of the cooperative. A consumer cooperative must also do at least 50% of its business with members or pay patronage refunds when earned to all users of the cooperative who request them.

Eligible cooperatives should include credit unions, housing cooperatives, group health cooperatives, consumer cooperatives, employee ownership cooperatives, and all other types of user or employee owned cooperatives. However, cooperatives eligible to borrow through the Farm Credit System and the Bank for Cooperatives should not be eligible to borrow from the California Bank for Cooperative Development.

To receive a loan, a potential borrower should meet certain requirements. A competent and in depth feasibility study should be completed and submitted to the Bank evaluating the proposed project or investment in reasonable detail. In addition, in the feasibility study a clear definition of objectives and success criteria with time and cost limits

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should be outlined and explained. A distinction between financial and success criteria of benefits to cooperative members and financial and success criteria for the cooperative enterprise itself should be included. Finally, the potential borrower should provide evidence of the adequacy of its records, bookkeeping and budget process for its operation.

IV. A. 5. Types of Loans

All loans should be made at the lowest possible interest rates as determined by the net costs of bank administration and operation added to the cost of borrowing money.

The Bank should be authorized to lend to any eligible cooperative for capital equipment, operating capital, facilities and equipment, goods in storage and advances to their members.

Loans should also be authorized to purchase the capital stock or assets of private corporations, partnerships, proprietorships for the purpose of transferring those assets to ownership by a cooperative. In addition, the Bank should also be authorized to make loans to a cooperative for the purpose of purchasing the capital stock or assets of another cooperative.

The Bank should make or refuse loans on the basis of the financial statement of a cooperative, its operating statement, its management, its membership support, its ability to give collateral security when deemed

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deemed necessary by the Bank, or its plan for repayment.

Loans should be made on a strict basis of repayment on an agreed upon schedule.

The Bank may make secured and unsecured loans, short term or long term, to any cooperative which can and will meet its terms and conditions.

VI. B. Recommendation: A Cooperative Development Agency

A Cooperative Development Agency should also be created with an initial annual appropriation of \$50 million. The Agency should be headed by a Director appointed by the Governor and confirmed by the Senate. The Director should be a person with broad experience and commitment with cooperatives.

The Cooperative Development Agency's responsibilities should include: 1) assistance in the training of cooperative management, 2) granting of sophisticated management and technical advice to the cooperatives, 3) supervision of the financial and operational affairs of the Bank, and 4) making of capital and planning grants to new cooperatives.

VI. B. 1. Management Training Division

The Management Training Division of the Cooperative Development Agency should contract with land grant colleges, the state Agricultural and Commerce Agencies for training programs, both residential and evening,

for present or future cooperative management personnel. This Division might also contract with the U. S. Department of Labor for work study funds, CETA funds, or public employment funds to finance a program of on-the-job training for new managers.

VI. B. 2. Technical Services Division

The Technical Service Division should provide various services to cooperatives such as: feasibility studies, market surveys, management surveys and technical and professional assistance needed by co-ops. Such services should be provided either by the staff of the Cooperative Development Agency or through contracts or agreements between the Cooperative Development Agency and any other agency, organization or individual.

VI. B. 3. Bank Supervision and Examining Division

The Bank Supervision and Examining Division should regulate and supervise the activities of the Bank and its branches through regular as well as unexpected audits of operations, management, loan portfolios, and relations with the community.

In addition, the Bank Supervision and Examining Division should hold public hearings throughout the state as part of annual audit to solicit public reaction and comments on the activities and policies of the Bank. The annual audit should be forwarded to the Governor and the Legislature.

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VI. B. 4. New Cooperatives Development Fund Division

A New Cooperatives Development Fund Division should be authorized to administer a fund which should initially include \$25 million of the appropriation of the Cooperative Development Agency. The Fund should be used to make special low interest loans to low income and undercapitalized cooperatives until they have obtained sufficient financial stability to qualify for loans from the Bank on their own.

Collections from these loans, including interest, should be redeposited in the Fund for reuse.

The operations and loans of this Fund should be quite distinct and separate from the loan activities of the Bank. A separate audit of the operations and activities of the New Cooperatives Development Fund should be made public and forwarded to the Governor and the Legislature annually.

VI. C. Recommendation: Additional State Action

The State of California should in addition direct its manpower and training programs towards the development of cooperatives. To that end it should make at least 25% of all manpower and public service employment funds available to cooperatives to insure that co-ops have sufficient reserves of manpower to assist them in getting started and to expand. The cooperatives in return should establish an active training and advancement program to

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insure that these public service workers and others are offered real career opportunities in the cooperatives.

In addition, the State should establish the necessary regulations and rules to give cooperatives certain special consideration in bidding on and securing contracts to sell products and services to the State of California.

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