

'INVESTING IN ALTERNATIVE ECONOMIC FUTURES'

**The Inaugural SBA Lecture
Parliament House
Canberra
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Dame Pauline Green, President International Co-operative Alliance

Ladies and Gentlemen

It is a great pleasure and an immense privilege to be invited to deliver the inaugural lecture for SBA - Social Business Australia in this most striking and prestigious of venues - Parliament House.

As a former parliamentarian myself, I considered it the greatest possible privilege to be elected to the Parliament of Europe to represent North London, the local area in which I lived, as did my father and his parents before him.

So thank you for giving me this opportunity to speak here at the seat of Australian democracy, especially as I now have two nephews, one niece and their families from the UK, and older family members from Malta where my mother was born who are now established members of this great country.

Ladies and Gentlemen, Social Business is a growing phenomenon across the globe bringing under one umbrella all those business forms where trade or activities are undertaken for social purpose, and where profits or surpluses are used for social benefits. I am delighted that there are representatives from across the social business sector here, but importantly those who help to develop social businesses like Social Traders, a development body in the sector.

Across the world over the last 15 to 20 years the diverse business models that make up social business, or social enterprise as it is sometimes known, have begun to develop a growing confidence in their contribution to social and economic evolution, and they have increasingly come together to use the power of their collective voice, to impact on political and economic decision makers.

It is, therefore, with particular pleasure that I welcome the creation last year of Social Business Australia and know that it will become the standard bearer for the representation of the social business sector in Australia.

The calamitous collapse of the global financial sector in the last 2 years and the consequent recession that has hit large tranches of the world, has given added impetus and importance to the voice of social business.

Let me say right away, that I have been in Australia now for nearly 4 weeks and have had the opportunity to travel across this beautiful and fascinating country, and I want to congratulate you for having weathered the global economic situation with some considerable success, and particularly for sustaining a buoyant and growing economy.

As a consequence, of course, Australia has avoided the major impact felt by so much of the world such as the lack of access to individual and business credit, increasing joblessness, the collapse of the domestic housing markets, and perhaps importantly the destruction of the hopes and ambitions that is blighting so many families in the United States, Europe and so much of the rest of the world.

But what has become increasingly clear over the last decade is that the global economy is not just made up on the one hand, of the privately owned, profit maximising corporate sector, and on the other hand of the public or state sector, but it has another emerging sector – one made up of those businesses that have chosen one or other social business form – such as co-operatives, mutuals, employee owned or community owned businesses amongst others– business forms that straddle the two arms of the traditional economy, and trade with a community service ethos, but private sector business efficiency.

And I want to emphasise the point that social businesses are businesses. Each one of them needs to be able to wash its face commercially, in other words each one needs to make profits, or surpluses, as we often call them. But it is what they do with those profits, that makes them so very different.

Social businesses are based in their local community, are often owned and controlled by their communities. They keep local services in the hands of local people, for local people. Unlike investor owned businesses, the first priority of a social business is not to maximise profit to ensure an ever-increasing payout to shareholders. Rather a social business has multiple bottom lines and their surpluses are used:

- To reinvest in the business to ensure that it is meeting the investment needs of the business, understanding that without a successful business, we cannot meet any social objectives;
- Some, like co-operatives make an economic return to their owner members thereby supporting the local communities in which those social businesses are based, keeping wealth local, and helping to grow local economies;
- Most if not all, invest directly in the local communities themselves, supporting the young, the vulnerable and hard to reach parts of society, but also trying to stimulate the growth of the social business economy within its trading reach.

We have representatives of Foresters Community Finance here today, supporting community organisations to reach a sustainable financial future.

Social businesses range from the huge co-operative and mutual enterprises established as long ago as the late 19th century, right through to the new emerging creative and highly innovative community, employee owned and other businesses that have led the renaissance of communities across the world in the last 10 to 20 years.

In some countries it is a popular misconception that social businesses are structures only for managing social inclusion or worklessness. Whereas, in

reality, they are businesses that can change the future of local, regional and national economies and, they are incredibly significant right now, in the context of their reach into local communities, and in their contribution to social evolution and national economic development in countries from as far afield as Japan to the UK, Sweden to the US, India to Italy to name but a few.

Let me give you an example of the form of social business that I know the best – the co-operative form which, according to the 2010 annual analysis shortly to be published by the International Co-operative Alliance:

- Is owned by nearly 1 billion people globally
- Employs more than 100 million people, 20% more than all the multi-nationals put together

And

- **the largest 300** alone have a combined turnover of nearly US\$1.1 trillion, equivalent to the GDP of the 10th largest economy in the world.

In confirmation of its importance, the Deloitte's publication '*Global Powers of Retailing 2010*' confirms the growing influence of just one part of the co-operative movement, the consumer sector that runs successful retail businesses across the globe.

And, according to Kofi Anan, former Secretary General of the United Nations, over half the world's population is served in one way or another by a co-operative.

Ladies and Gentlemen, any other business sector would give their right arm for statistics like that.

In the United Kingdom, the social business sector has come together rather like Social Business Australia and they have founded a mutual think tank called Mutuo.

For the last two years, Mutuo has analysed and published the impact on the UK economy of the entire mutual sector – in this instance you can read 'mutual' as synonymous with social business. In December 2009 Mutuo reported that overall annual revenues from the entire mutual sector in the UK had reached £98 billion up from £84 billion, an increase of 17.0% over the 2008 figures. The value of Assets is just under £573 billion an increase of nearly £100 billion on the previous year. Employees are just under 1 million at an increase of 13.2% on last year. Based on a working population in the UK of around 33.6 million therefore around 2.8% of the UK working population work in a mutual organisation. These figures are making a significant media and political impact in the UK.

As we move rapidly towards a general election in the UK, the two major political parties, Labour and Conservative are for the first time ever, both arguing for a stronger co-operative and mutual agenda for delivering a range of business solutions for the future.

Business solutions to the problems of service delivery in health, energy, the environment, social care, education, energy, leisure, transport, childcare, doctors, professional services, football and so much more.

This new political understanding and reality is the result of the growing cohesion of firstly, the powerful co-operative sector, but secondly the realisation across the diverse social business forms that by working together, the case for political and economic recognition is watertight, and that we can finally begin to punch our weight with key decision makers.

Perhaps one of the most telling facts in favour of support for the new and emerging co-operative and wider social business sector, **is that successful economies almost always have a rich diversity of business forms.**

For instance the most co-operative economies in the world are those of Finland, Switzerland and Sweden! These are some of the most admired societies in the world – admired for their social cohesion, their equality, their progressive attitude to social and environmental policy, but also successful commercially and financially, with arguably the best standards of living in the world.

In Finland the contribution to the nations GDP from the co-operative movement is 21%. Once again, a very significant figure in the economic life of any country.

How has this happened?

These governments defend and promote social business as tried and tested solutions for economic, social and environmental problems and, with their support, the social businesses in those countries have been actively developing new 'co-operative' structures to bring solutions to 21st century problems, in particular recently in the environmental and energy fields.

The UK government department responsible for energy was so impressed with the case study of community energy generation in the Scandinavian countries that was provided by Co-operatives UK, the co-operative apex in the United Kingdom, that it funded a fact finding mission to Scandinavia, and are now busy supporting the development of just those responses as part of the UK approach to climate change and reduction of carbon emissions – the development of community owned and managed local wind energy plants, hydro energy installations, photovoltaic fields and so much more.

I'm pleased to recognise the Hepburn Wind Farm Co-operative, the first community-owned wind farm has raised more than 90% (7.3 million) of project costs from 1070 members.

So I guess that the first clear message that I would like to give here today is that most successful and sustainable economies are those with diversified corporate structures – that do not rely on just one model of business for their economic health.

The evidence of the economic consequences of the last few years is testament to what can happen when governments become over reliant on the investor owned model of enterprise, and how the pressure for short term value to share holders,

can lead to inappropriate risk taking that can directly jeopardise the whole economy. In contrast, I would ask you to compare this with the proven resilience of co-operative and wider social business.

Social businesses are perhaps the only part of the global economy that can prove that their ownership, participation and engagement model has given them sustainability through the current financial collapse and consequent recession. The whole social business sector has not just retained, but has continued to build its trust with people across the world

Social business gives back to communities and individuals a sense of control and engagement with their own economic good health; and we have examples with us today including Macleay River Co-op and Barossa Community Store, retail businesses that have been serving their communities for decades – in Macleay’s case for 105 years. And how inspiring it was to hear Elinor Ostrum, the academic who at the end of last year became the first woman ever to be awarded the Nobel Prize for Economics. Her work majored on the need for local communities to become strong players in the economy of the future.

This concept Ladies and Gentlemen is co-operative and social business territory - we don’t need to invent it – it is part of our DNA. Now is our moment to showcase what we do, and how we do it. And maximise our influence on global decision-makers and opinion formers in the global economy and the media.

Our contention is that what the world needs is a plural economy in which social business, is allowed to reach its potential; is given a level playing field with the investor led, profit distributing model, in terms of recognition, regulation, financial support and political promotion

So my second key argument here today is to urge government to ensure that the social business sector has a level playing field with other corporate structures.

What do I mean? Well firstly, it is crucial that government, and indeed all serious political parties who aspire to government, understand the difference between investor led businesses and social businesses.

I make this point because all the evidence from Europe and to some extent from the US is that the renaissance of the co-operative model of the last 10 to 15 years, coupled with the development of new social business forms has led to some large corporations trying to steal our clothes. Indeed in the UK just a few months ago, the Chief Executive of ASDA, the British wing of WALMART the US food retailing giant, went public with his big new idea for the future – democratic engagement with his customer base. Involving customers in key decisions about business policy.

Suddenly the language of engagement with, and participation of the customer base, has been reinvented by large corporations as a strong marketing tool, a powerful message that plays well with politicians and ticks many of the boxes of the annual corporate social responsibility report.

But actually, being a social business is not about marketing or CSR, it is an alternative business model that is built on the concept of member ownership, member participation and engagement. In a true social business, these principles cannot be jettisoned when faced with a business slow down or in difficult economic times. Indeed for a true social business it is these very concepts that strengthen the business and build trust and confidence in it at times of stress. So beware wolves in sheep's clothing!

Secondly, government needs to ensure that it has in place an enabling legislative environment that will allow the sector to grow and expand without regulatory or legislative obstruction. Once again there is plenty of evidence to demonstrate that governments, often more precisely, government officials have grown up over the last 30 years with a default mindset - the predominant corporation model, and simply fail to understand that social businesses are incorporated structures equally able to run outsourced public service delivery systems, or commercially successful business ventures.

Over the last few weeks I have watched with interest the Australian Government initiative to reform the health service and even to devolve responsibility to state level. I ask myself whether the Australian co-operative movement has been at the table when these policies were being thrashed out, and whether the potential of a reformed health service built on the participation, engagement, support and loyalty of the population – a co-operative approach - has been considered. In the United States one of the elements in the Obama proposals before Congress for reforming US health care is a strong co-op option.

In the UK, Foundation Trust Hospitals have been built over the last 5 years on the co-operative model – liberating National Health Hospitals from the bureaucratic strait jacket of government control and allowing them to work with their community, patient and staff members to develop a hospital service that best meets the needs of the local people it serves. A new trust relationship between the people and the hospital.

This is what can be achieved when the political, legislative and funding environment is right.

I know that there is work going on here in Australia to develop federal co-operative legislation – I for one welcome that. I know that it touches on the sensitive relationship between state and federal law, and far be it for me to tell you how, or at what level to legislate.

But I would like to tell you that where legislation has been reformed to make it fit for the 21st century, and where crucially the local co-operative movement has managed to find common cause to work with government to formulate good legislation, it has proved to be the building block for the growth and success of the sector.

Co-operation amongst co-operatives is one of the seven guiding principles of the international co-operative movement – my own personal experience is that when that happens it liberates a huge amount of creativity and innovation.

Your co-operative movement has some great strengths and some fantastic businesses with a strong commitment to continue to build the co-operative economy here in Australia. We have with us here today, Murray-Goulburn, number one on the Australian Top 100 co-operatives list and Australia's biggest exporter of processed food, and Capricorn Society Ltd, one of the largest buying co-ops in the Southern Hemisphere. It needs a final last push to bring it all together to allow Australian co-operators to go with the rest of the world, and build the new generation of co-operative businesses that are exciting their colleagues across the globe.

The third key message that I would like to leave you with today is this.

Co-operatives and social businesses are amongst the most innovative and creative businesses across the globe. The emergence of the global market has been a key factor in stimulating the renaissance of the co-operative model and the evolution of the wider social business sector. These businesses together provide a conduit, a bridge between the local economy and the global market. They enable local people to have some ownership and control over their own local environment and community facilities at a time when multi national business is beyond their reach. And suddenly there is a massive thirst for social business information, business advice and specialist support.

In the US, the Obama administration is putting large sums of money in helping to develop the co-operative economy in rural communities to try to keep jobs and the young in their home environment to keep local rural communities alive. At the same time US electrical co-ops are working with US government development aid to bring electric co-ops to villages in Bangladesh. Using their expertise and specialists to drive a better life in one of the poorest countries in the world.

In the UK we have seen a vast array of new co-operative development –

- football trust co-ops bring local soccer fans back into some sort of influence on the direction of their local football clubs, and trying to combat the worst funding excesses of the beautiful game. They do it by bringing together the investment potential of the fan base, collectively allowing them to regain a foothold on the Boards of their local clubs.
- co-operatives formed to bring faster and faster internet capacity and services to isolated communities who would always be at the end of the queue for public investment
- childcare co-ops to bring quality care, owned and controlled by parents, staff and local community interest groups
- co-ops to buy social and health care for the sick and vulnerable who receive direct care payments from government and who alone would be at the mercy of poor and expensive service
- out of hours doctors co-ops meeting the needs of the sick, at hours when medical practitioners either choose not to work or who are resting
- foundation trust hospitals which I have already discussed.

to name just a few.

And let me just give you a short resume of the most recent and exciting development in public service delivery, education – co-operative trust schools. In this model the school has a clear ethos based on the globally shared and understood co-operative values. It has a governance model based on the direct involvement of key stakeholders – parents, carers, staff, learners and local community organisations. It also has additional strategic partners from the local community, i.e. local university, local health sector, local sports body. It puts communities at the heart of their organisation, building active citizenship in the process.

The latest figures on co-operative schools in the UK are 38 fully legal as of today. We expect the figure to be 51 by April 1st, and between 130 and 150 by the end of July.

The demand from the Schools seems insatiable.

Another example is The Phone Co-op – not only public service delivery, but also a fully commercial business able to bring telecommunications to marginalised communities.

These development are being replicated in the same or different sectors as local needs dictate across the world. They are being helped, for instance, as the news spreads that co-operative and mutual financial structures did not collapse with the same devastating consequences as did so many of the world's blue chip financial institutions.

Member ownership makes co-operative and mutual financial institutions inherently more risk averse. They do not of course, raise money on the capital markets, but rely on member deposits to fund their loans. They traditionally have higher capital reserve criteria, and they usually have deposit guarantee schemes as a further security.

And I know here today is mecu – quite definitely not a bank – a financial co-operative owned and controlled by its members. And we also have the national apex, ABACUS, representing credit unions, building societies and friendly societies – these are the real alternative to banks.

As a consequence, although some co-ops or credit unions have felt the heat during this last period, it is minimal, whilst at the same time, increases in deposits and assets have grown just as the market was reducing; loans and mortgage commitments have either continued at the same levels or, in fact, have often also grown.

With the financial markets in extremis, people across the world have turned back to the trustworthy mutual – a financial institution that lends in line with its member deposits.

Its about trust and confidence ladies and gentlemen.

I have been trying to make the case for the recognition, promotion and development of the social business sector of the economy here in Australia and in the global institutions.

I know that your Government has been taking steps to support the sector and I want to acknowledge that – in particular I want to mention the invaluable support that I know the Government is giving to the employee buy-out initiative.

I know that during my time in the European Parliament it was estimated that there was something like 53% of small and medium sized businesses in Europe with owners over the age of 55 years. I have no figures for the Australian equivalent. But if even if a quarter or a half of those businesses had ended up being closed when the owner chose to retire because he or she had no natural successor or none could be found, it would be devastating to jobs and communities. Employee buy-out schemes provide a real alternative allowing staff to assume responsibility for the business, and with an effective business plan often they can buy out the business and retain the orders, jobs and local prosperity on the retirement of the owner.

But I am sure you would be surprised if I didn't think that governments can do more!

They can provide targeted development resources to help the movement itself to create new co-ops. In Canada, the Quebec Government runs an investment fund for projects to generate economic renewal in the city and the aluminium belt, and apportions a percentage of the fund for investment in social businesses – administered by the movement for the movement.

The Italian model is a government led initiative giving tax incentives to co-op businesses to invest in a national development fund for social businesses, again administered by the movement for the movement.

They can establish networks of publically supported co-operative development structures across the country allowing the movement to do what it does best – build new and more co-ops. Traditional business support structures do not understand co-ops or have the sense of how to stimulate bottom-up businesses.

They can put in place modern flexible enabling legislation, and

There needs to be a recognition that when government supports its people to do things for themselves, rather than be done to, governments are more likely to achieve their objectives and garner support and respect.

Ladies and Gentlemen

On December 18th last, the United Nations declared that 2012 will be the International Year of Co-operatives.

The global co-operative movement has determined that it will use 2012 to drive its message into the global institutions and into national governments.

A message of proven, sustainable business success, social renewal, democratic ownership and control and community engagement.

And we will call for the development of a plural global economy offering development opportunities across the world.

We are urging all national governments to support the year by working now with their own co-operative sector by putting in place a domestic legislative and political environment for a growing co-operative renaissance.

I very much hope that we can rely on the Australian government to support and drive action here.

Thank You.

Ends.