



# CO-OPERATIVE DEVELOPMENT AGENCY

Consultation



SCOTTISH EXECUTIVE

**CO-OPERATIVE**  
**DEVELOPMENT AGENCY**  
Consultation Paper

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## MINISTERIAL FOREWORD

We have set out in “A Partnership for a Better Scotland” our vision of a Scotland which cares for its people and where opportunities are increasing for everyone, enterprise is rewarded, and people have confidence in their communities and in public services. This requires a devolved Scottish government that focuses on the issues that matter to people most, is outward looking and confident, and delivers real and sustainable improvements in our quality of life.

The Partnership Agreement demonstrates our determination to work with all sectors of the economy and with communities across the country to create a Scotland of which we can all be proud, one where the economy grows year on year, where that economic growth is sustainable and where there is opportunity for all.

However, for the Scottish economy to grow and economic success to be achieved in the long term, it will be essential to develop and sustain a higher level of entrepreneurial activity. We need to do more to encourage and support enterprise and responsible risktaking – and develop a real culture of enterprise. Entrepreneurship is complex – it is not just about start-ups and small firms. To reach our economic vision, we also need greater entrepreneurship in our larger firms, in our public services and in our social economy. This will contribute to a better Scotland where there is greater self-confidence, wider and deeper prosperity, and sustainable jobs.

Our future economic success will depend on our ability to tackle cultural and social barriers to entrepreneurship; and to promote innovative, imaginative ways of mobilising labour, capital and business ideas such as co-operative enterprises. Our Partnership Agreement commitment to establishing the Co-operative Development Agency can play a key role in carrying forward that agenda. I will be looking to the Agency to help promote, create and develop dynamic and sustainable co-operatives in a number of sectors of the Scottish economy because of the benefits they can bring to the economy as a whole and to our social well being.

The Scottish government believes that co-operation and mutuality provides both the private and public sectors with a modern and innovative way of delivering services.

The co-operative is a form of enterprise which can also provide important advantages at the micro economic level – for example the benefits of size, including economies of scale. Co-operative enterprise can also be a means of providing high quality services for users, who can also be members, and can influence the type of service provision in responding directly to customer needs.

Crucially, co-ops can also help Scotland continue to adjust to the needs of the knowledge economy. In many co-ops members have a real influence over management decisions – and participatory management can help generate those crucial intangible assets of knowledge and skills on which our future economic prosperity will depend.

And of course Co-ops can also contribute positively and significantly to our social and community objectives – addressing these and economic growth in a mutually reinforcing way – both through the direct provision of employment and through the delivery of services in places and ways not reached by more conventional businesses. The Executive has adopted this approach in housing policy and in successful models of community development.

Co-operatives are based on the values of self-help, self responsibility, democracy, equality, equity and solidarity, and on an ethic of honesty, openness, social responsibility and caring for others. It is essential that these principles and values provide the foundation stones on which the Scottish Co-operative Development Agency is built.

Within this consultation document we have set out ideas about the scope of the Agency, its focus and priorities, the type of body it could be - with options on the model, and its relationship with the Enterprise Networks and with other active players in this marketplace. We expect that the Agency will act as a first-stop shop for those seeking access to the expertise, advice, training and resources required to support the establishment of new co-operatives, and that it will also offer support services to enhance the growth of existing co-operatives.

Responses to the consultation process will help inform our development of policy and determine the shape of the Agency. I intend to consult widely on the functions and priorities of the new Agency, and would welcome views on any aspects of our initial proposals.

I firmly believe that the implementation of this Partnership Agreement commitment can deliver a new and exciting chapter in the history of co-operative enterprise in Scotland, and I look forward to hearing the views of others.



**Lewis Macdonald, MSP**

Deputy Minister for Enterprise and Lifelong Learning

# CO-OPERATIVE DEVELOPMENT AGENCY CONSULTATION PAPER

## 1. Introduction

This document is part of the formal consultation process for the establishment of a Co-operative Development Agency, as committed to in last year's Partnership Agreement.

*"We will improve the promotion and provision of advice on co-operative development and will establish a Co-operative Development Agency following consultation."*

We are keen to consult with interested parties to inform our policy development and implementation. This paper sets out the broad areas on which we would like to consult.

**We would welcome written views either by letter or email.**



# SECTION A – The Co-operative Context

## 2. Background

2.1 The *Framework for Economic Development in Scotland* (June 2000) set out our vision for raising the quality of life of the Scottish people through increased economic opportunities for all on a socially and environmentally sustainable basis. *A Smart, Successful Scotland* (January 2001) set out our strategy for enterprise in the medium to long term. It provides direction to the Enterprise Networks (Scottish Enterprise and Highlands and Islands Enterprise) who are key partners in delivering this vision.

2.2 Following the 2003 election, *A Partnership for a Better Scotland* (May 2003 – the Partnership Agreement) highlighted economic growth as the top priority, and underlined the Executive's commitment to ensuring sustainable development is at the heart of everything that we do. In particular, it includes a specific commitment to establish a Co-operative Development Agency, following consultation.

2.3 We intend the Co-operative Development Agency to be an integral part of *A Smart, Successful Scotland*. Therefore we wish to ensure that the issues are considered alongside the three main themes of that strategy – growing businesses; skills and training; and global connections.

2.4 The formation of a Co-operative Development Agency will help ensure this form of business structure is an option for some businesses, while also forming an element of our ambitious plans for the economic and social regeneration of Scotland and its communities.

2.5 A central element of the Scottish Ministers' commitment to Closing the Opportunity Gap for the most disadvantaged people and communities in Scotland involves ensuring that people benefit from better public services. The Executive's work on developing the social economy is central to this agenda and we intend that the Co-operative Development Agency will have a role in helping to expand the Co-operative Movement's engagement in this area.

## 3. What is a Co-operative?

There are many different types of co-op in the UK. However, they all share common values and principles, originally outlined by the Rochdale Pioneers in 1844 and most recently summarised by the International Co-operative Alliance at its centennial congress in 1995. The statement adopted then defined a co-op as:

*“an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.*

### 3.1 Values

It went on to say: “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others”.

### 3.2 Principles

Co-operative principles are guidelines by which co-operatives put their values into practice.

There are 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 (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
3. *Member economic participation* – Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members 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: developing their co-operative, possibly setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative and 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 community* – Co-operatives work for the sustainable development of their communities through policies approved by their members.

### 3.3 Co-operative forms

Co-operatives are sustainable businesses aiming to make a profit (which will usually be primarily reinvested in the business, but with additional provision for some distribution to members and/or for community and social purposes). The co-operative model is used by many different types of business to engage with one or more stakeholder groups.

Some of the most common types of co-op are:

**A) Consumer (retail) co-operatives** owned by their customers. Examples in Scotland are:

- Scottish Co-op (part of the Co-operative Group – which also owns the Co-operative Bank and CIS Insurance), which operates more than 270 food and department stores as well as travel, funeral and pharmacy businesses with a combined turnover of more than £500m. See [www.co-op.co.uk/scotland](http://www.co-op.co.uk/scotland).
- Scotmid (Scottish Midland Co-operative Society), with a turnover of £227m and more than 1,700 employees. See [www.scotmid.co.uk](http://www.scotmid.co.uk).
- Lothian Borders & Angus Co-operative Society, with a turnover of £107m and almost 600 employees.

**B) Worker co-operatives/employee-owned businesses** – owned and controlled by their employees. Examples in Scotland are:

- Tullis Russell papermakers in Fife, a conversion from a family-owned business, which has a turnover of £139m and exports to more than 50 countries. See [www.trg.co.uk](http://www.trg.co.uk).
- Edinburgh Bicycle Co-op, established in 1977, which now employs 100 people and recently acquired branches in Aberdeen and Newcastle. See [www.edinburgh-bicycle.co.uk](http://www.edinburgh-bicycle.co.uk).

- GreenCity Wholefoods in Glasgow, a natural foods distributor established in 1978. See [www.greencity.co.uk](http://www.greencity.co.uk).
- Loch Fyne Oysters, a recent employee buy-out with assistance from the Baxi Partnership. See [www.loch-fyne.com](http://www.loch-fyne.com).

**C) Community co-operatives** – Businesses-owned, controlled and run for the benefit of those who live in a certain area or have a common area of interest. Examples in Scotland are:

- Ollaberry and Eid in Shetland
- Eday and Papa Westray in Orkney
- Barra, Eriskay and Leverburgh in the Western Isles.

### **Other co-operatives**

In addition, other types of co-operative also to be found in Scotland are:

**Secondary co-operatives** – co-operatives may also be formed as secondary co-operatives for purposes such as marketing or purchasing (this is particularly common in the agricultural sector, see [www.saos.co.uk](http://www.saos.co.uk) for examples in Scotland).

**Multi-stakeholder co-ops** – it is also possible for co-operatives to incorporate more than one stakeholder group (e.g. employees and service users, as in some care co-operatives) in what are known as multi-stakeholder co-ops. This model is still rare in the UK, although beginning to attract more interest.

**Housing Co-operatives** – there are various types ranging from “fully mutual” (where the only members are tenants) through community-based organisations to tenant management co-ops (where the stock may still be in local authority ownership).

**Supporters’ Trusts** – the Executive has made funding available to allow Supporters Direct in Scotland to continue its work in helping responsible groups of supporters establish Supporters’ Trusts, the majority of which are on the basis of Industrial and Provident Societies. The established Trusts will be looking at ways of working with the local community for the betterment of their club, with continued support from Supporters Direct.

**Credit unions** – financial (savings and loans) co-operatives owned and managed by the members who use them. Membership is usually based upon a common bond such as people living in a certain area or working for a certain employer. Credit unions are mutual societies and are registered through the Financial Services Authority.

**Local Exchange Trading Systems** – Local Exchange Trading Systems are an innovative and co-operative way of satisfying members' needs and doing business without the use of conventional money. They are not-for-profit organisations involving members in the same community exchanging skills or goods and services and either using the local currency to pay for them or doing something in return. LETSLINK UK is a national LETS development agency and network which operates a national advice line, provides training, best practice guidelines and back-up materials for UK LETS.

**TimeBanks** – organisations in which participants “deposit” their time in the bank by giving practical help and support to others and are then able to “withdraw” their time when they need something done themselves. This may include activities such as DIY or shopping. TimeBanks UK is a network organisation supporting the growth and development of Time Banking in the UK by providing training and raising awareness, promoting best practice, and distributing a Time Banking manual and free starter pack.

It is envisaged that the main emphasis of a CDA in Scotland would be to support and assist the above types of co-operative (apart from agricultural co-ops, which already have their own support organisation in SAOS).

### 3.4 Existing legal framework for co-ops

There is not a single, specific legal form for a co-operative. The actual form of the legal structure a co-operative can adopt is varied. The first decision for those wanting to register a co-operative is whether to register as a private company, an industrial and provident society, or as a partnership.

Following the recent merger between two principal co-operative promotional bodies – the Co-operative Union and Industrial Common Ownership Movement – a range of model rules are now available from the new body Co-operativesUK. These aim to speed up the process of registering co-operatives and to reduce the cost. Co-operativesUK also provides the following guidance to which legal structure would be most appropriate:

#### **Private Company or Industrial and Provident Society?**

Private companies are corporate bodies registered under the Companies Acts 1985 and 1989. Co-operatives can register as either a private company limited by guarantee (the most common form of incorporation for co-operatives) or as a private company limited by shares. It is relatively cheap, easy and quick to register a limited company. A minimum of two members is normally required to form a co-operative company under Co-operativesUK rules.

Industrial & Provident Societies (IPSSs) are corporate bodies registered under the Industrial & Provident Societies Acts 1965-78 (IPSA). A minimum of three members is required to

register and maintain an IPS, unless all members are themselves IPSs in which case the minimum is two. Model rules have a particular significance for IPSs as they command lower registration fees.

There are two types of society that can be registered under the IPSA 1965 Act:

- Society for the Benefit of the Community (known as a Community Benefit Society) set up to trade for the benefit of the community rather than its individual members
- Bona Fide Co-operative (known as a Co-operative Society or Co-operative) traditionally set up to conduct business through member participation for mutual benefit.

To qualify for registration as a co-operative a body must show it is a “bona-fide co-operative”. (Keeping it Legal 2003)

### **Common Ownership or Joint Ownership**

Common ownership means that although surpluses generated in a financial year may be distributed amongst members, the assets are the property of the co-operative and may never be divided amongst members. Upon winding up, assets will be donated to another common ownership co-operative. Joint ownership co-operatives allow for the division of assets amongst members.

### **Mutual Trading Status (MTS)**

Mutuals are financial organisations which are owned by, and for, the benefit of their members (savers and borrowers), with no shareholders. Mutual Trading Status is an option that is open to some co-operative consortia, and means that the co-operative may be exempt from paying corporation tax on surpluses. In order to be eligible for Mutual Trading Status, the co-operative must show that it only trades with its members and no one else. Some of the model rules have been drafted so that co-operatives registered with that model will be eligible to apply – however, each case is examined by the Inland Revenue on its merits, and adoption of the rules will not guarantee success.

Many building societies were originally formed as mutuals, as were some insurance and investment companies. However, in recent years there has been a move by some to demutualise, with members voting to turn the business into a public company floated on the stock market.

Recent legislation, the Co-operatives and Community Benefit Societies Act 2003, aims to reduce the amount of time mutual and community benefit societies spend dealing with regulation, and increase the scope of their activities, and provides specific clauses to safeguard their assets.

## 4. Brief History of Co-operatives

Co-operatives have their roots in the late 18th/early 19th century during the industrial revolution, with some of the first known being in Scotland (Fenwick 1769, Govan 1777). The ideas of the social reformer Robert Owen (1771-1858), best known for his experiment at New Lanark, were also very influential. The co-operative venture launched by the Rochdale Pioneers in 1844 is generally seen as a turning point in the growth of the Co-operative Movement.

The radical changes that occurred in that period led to people recognising that joining together was a way they could achieve shared goals. Principles developed at that time are still accepted today as the foundations upon which all co-ops are based.

The Co-operative Wholesale Society (CWS) – now the Co-operative Group – was set up as a supply organisation by Rochdale and other retail societies in 1863, and the Scottish CWS followed in 1868. The Society began to manufacture products for sale in co-op stores, developed the Co-op brand, and founded the country's only co-operative insurer – CIS – as well as The Co-operative Bank. A federal body for all co-ops, the Co-operative Union (now Co-operatives UK) was established in 1869.

In 1895 the International Co-operative Alliance was established to support the development of co-operation around the world.

Today, there are more than 700 million Co-operators in over 100 countries. (Euro Coop 2004). The USA alone has over 47,000 co-ops, with 120 million members – around 40% of the population. ([http://www.cooonline.coop/about\\_international.html](http://www.cooonline.coop/about_international.html))

### European dimension

Likewise in Europe, a recent European Union draft paper on “Co-operatives in Enterprise Europe” (2001) noted:

*“The performance of co-operatives has a major impact on the lives of their 83.5 million members by delivering wellbeing to their citizens and wealth to nations and by promoting entrepreneurship and participation.”*

Statistics show that in 1996, the market share of co-operatives in agriculture was 83% in Netherlands, 79% in Finland and 55% in Italy; in 1999, the market share for co-operatives in milk production was 99% in Sweden, 97% in Denmark and Finland; in 2001 in Norway, dairy co-operatives are responsible for 99% of the milk production, forestry co-operatives for 76% of timber and 1.5 million people of the 4.5 million Norwegians are members of co-operatives.

Specifically, the Mondragon Co-operative Corporation (MCC), in the Basque region of Spain, is an example of how effective and innovative the co-operative business model can be.

Mondragon began in 1956 with 24 workers making paraffin stoves in one small factory. Today MCC employs more than 70,000 people, and is the largest employer in the Basque region (and the seventh largest in Spain). It also has its own bank, social security system, and a recently established co-operative university with 4,000 students.



Discussion has already taken place with Mondragon about the possibility of joint projects in Scotland, and it is anticipated that a CDA could help to consolidate such links with co-ops overseas. For more information see [www.mcc.coop](http://www.mcc.coop).

Recently all the Member States agreed to adopt a Regulation allowing the creation of European Co-operative Societies (see IP/03/1071). A further Communication has just been adopted by the Commission to promote co-operatives in Europe. The Communication sets out steps which may encourage the wider use of co-operatives across Europe. They focus on increased visibility, further improvement of national laws on co-operatives, and enhancement of co-operatives' contribution to community policy.

The Communication can be found at:

[http://europa.eu.int/comm/enterprise/entrepreneurship/coop/social-cmaf\\_agenda/social-cmaf-cooperatives.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/coop/social-cmaf_agenda/social-cmaf-cooperatives.htm)

## 4.1 The Advantages and Benefits of Co-operatives

It is recognised that co-operatives can make a particular contribution to both economic and social development in a number of ways, which can differ from some business models. Examples include:

- encouraging entrepreneurial attitudes while allowing for the sharing of risk;
- fostering entrepreneurial skills and leading to potential future spin-offs;
- securing wealth, employment and other benefits for local communities, since co-operatives cannot easily be bought up or closed arbitrarily;
- increasing employee motivation and thus a more productive workforce;
- using the loyalty of members to build up knowledge and thus a competitive advantage;
- providing a voice for stakeholders, often to public benefit;
- promoting citizenship;
- practicing corporate social responsibility.

## 4.2 Co-operatives in the UK

Co-operatives UK is the apex organisation for co-operative enterprise in the UK, promoting co-operative and mutual solutions and working in partnership with their members to build a strong and successful co-operative movement.

The Industrial Common Ownership Movement (ICOM), which has recently become part of Co-operatives UK, is the UK federation of worker co-operatives and employee-owned businesses. It promotes the principles of democratic employee ownership.

Industrial Common Ownership Finance Ltd (ICOF), the sister organisation of ICOM, was established in 1973 to encourage successful common ownerships to lend money to ICOF which could then be lent on to new co-operative ventures. They have been providing loan finance to co-operatives, employee owned businesses and social enterprises for over 30 years. ICOF is



regulated by the Financial Services Authority (FSA) in the conduct of investment business. ICOF manage several separate funds, one of which is the Industrial Common Ownership Fund PLC which began in 1987 when it was a pioneer of co-operative shares. ICOF will be managing the lending arm of Co-operative Action, a new Co-op Foundation launched in 2002 that supports the development of new forms of co-operative and mutual enterprises.

ICOF is on the board of Community Development Finance Association (CDFA), a trade association formed in 2002 to bring together the UK Community Development Finance Initiatives (CDFIs) – sustainable independent organisations that provide capital in under-invested communities and markets allowing enterprises to grow.

Co-operative Action supports the development of both new and existing forms of co-operatives and mutual enterprises. Grants and loans are awarded to innovative products through the Co-operative Action Fund, created by donations from retail Co-operative Societies throughout the UK.

### 4.3 Co-operatives in Scotland

#### **Scottish Co-operatives Development Committee Ltd**

In 1977 the Scottish Co-operatives Development Committee Ltd (SCDC) was established. It played a part in the creation of over 100 workers' co-operatives.

In 1988 the Scottish Development Agency commissioned an evaluation of the impact of the Scottish Co-operatives Development Committee Ltd. The purposes of the study were:

- to assess the effectiveness of SCDC as a means of stimulating the creation and the development of the co-operative sector in Scotland;
- to assess the extent to which the activities of the SCDC have led to the creation of net additional economic activity.

The SCDC was found to be an effective vehicle in stimulating the creation of the co-operative sector in Scotland, and it was also found that these businesses would have required some form of business support. However, the SCDC was less clearly effective in helping existing co-operatives grow.

## 5. Existing Representation of, and Support for, Co-operatives

### 5.1 Co-operation and Mutuality Scotland (CMS)

Co-operation and Mutuality Scotland (CMS) is a new organisation formed in 2003 by the merger of the Scottish Co-operative and Mutual Forum and the Scottish Sectional Board of the Co-ops, bringing together all the different types of co-operative and mutual in Scotland. Its purpose is to develop and extend co-operation and mutuality in Scotland's communities, with a vision to be:

- a strategic voice for co-operation and mutuality;
- a partner, with government and others, in the development and support of new and existing co-operative and mutual enterprises;
- an effective forum for co-operation and mutual enterprises.

As the representative organisation for the sector, CMS will clearly be a key partner in the establishment of a CDA in Scotland.

### 5.2 Employee Ownership Scotland (EOS)

EOS was originally established as the Scottish Co-operatives Development Committee in 1978 in order to develop and support worker co-operatives. At one time it received substantial funding from local authorities, although this was often tied to urban regeneration objectives rather than business support and development as such. In the 1990s its work became more focused on employee buy-outs and succession, where it has had some success despite limited resources and long-term funding. It is envisaged that the CDA's remit would probably incorporate employee ownership businesses within its range of activities.

### 5.3 Scottish Agricultural Organisation Society (SAOS)

The Scottish Agricultural Organisation Society (SAOS), the membership organisation of "Farmer Controlled Businesses" and rural co-operatives in Scotland, has been promoting and advising co-operative business in farming, food and related rural industries for nearly 100 years. They are grant-aided by the Scottish Executive's Environment and Rural Affairs Department and have assisted the Department to implement the Forward Strategy for Scottish Agriculture. They have also worked closely with Scottish Enterprise in the implementation of the Strategy for the Food and Drink Industry in Scotland. They receive more than half their income from other sources, mainly from consultancy and members fees. While there has been no independent evaluation on the impact or success of this organisation, the material produced and advice given are reputed to be of a high professional standard.

SAOS aims to strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and rural industries, through the development of co-operation and joint activity, by:

- **promoting and developing** co-operation amongst farmers, growers and rural businesses and by collaboration in supply and marketing chains, discovering and implementing market responsive business solutions

- **through partnerships with complementary agencies and organisations**, participating directly in implementation of the Forward Strategy for Scottish Agriculture and the Scottish Food and Drink Strategy, linking member businesses to the opportunities they create
- **supporting co-op directors and member businesses**, providing a collective voice in representing their interests, delivering personal development and advice to directors to ensure high standards of governance, and making available distinct services tailored to the needs of member businesses

SAOS employs five full-time Project Managers throughout Scotland, and has its headquarters at the Rural Centre, Ingliston. The role and influence of SAOS continue to grow as the role of co-operation in Scotland's food, farming and rural economy grows. Their memorandum of articles restricts their sectoral remit to the extent that it is "rural".

## 5.4 Other Organisations

### Housing Co-operatives

Housing co-operatives in Scotland have an established history, and currently receive some support via the Scottish Community Ownership Housing Forum (SCOHF) of the Scottish Federation of Housing Associations (SFHA) and Communities Scotland. As a group that already has a representative organisation and operates within a supportive and well-regulated sector, any further increase in support and advice is best channelled through the existing framework – although there should be a link with the CDA.

### Credit Unions

Credit unions in Scotland are represented by two main trade associations. The Executive currently provides major support for credit unions via the Scottish Credit Union Partnership (SCUP). SCUP includes the two main trade associations, the Scottish League of Credit Unions ([www.scottishcu.org](http://www.scottishcu.org)) and the Association of British Credit Unions Ltd ([www.abcul.org](http://www.abcul.org)), which provide information, training and consultancy services amongst other support. In addition there are a number of development agencies such as Community Enterprise in Strathclyde who also provide business support.

It is also important that consideration is given to the interaction of the CDA with other co-operative forms such as Supporters Trusts, LETS and TimeBanks.

## 5.5 Enterprise networks

Under the Enterprise and New Towns Act (Scotland) 1990, Scottish Enterprise has a specific remit to "assist the establishment or growth of community enterprises or co-operative enterprise". Highlands & Islands Enterprise also have a focus under their Strengthening Communities remit. Despite this, there has been a lack of specific business support for co-operatives and a key issue for the Agency will be its interaction and relationship with the Enterprise Networks.

The establishment of a CDA will be the first time that there has been a one-stop agency in Scotland to promote the major forms of co-operative enterprise.

## 6. Current Numbers of Co-operatives in Scotland

A recurring issue, when researching this area, has been the lack of statistics on co-operatives. There are no comprehensive figures available for Scotland that cover co-operatives as a business structure. Statistics on small firm ownership are not recorded by a business's values and principles, and statistics are only held for enterprises that are VAT registered or employ staff.

Using the most up-to-date information on named co-operatives available from co-operative support agencies, a basic analysis was carried out excluding credit unions (see Annex A). The figures are correct for the sample that was drawn from the Inter-Departmental Business Register (IDBR), but the sample is not representative of the whole co-op sector in Scotland and is skewed by housing co-operatives. Although the figures cannot be said to be representative, they are the closest we have to show the size and growth of co-operatives in Scotland in recent years. The actual number of co-operatives currently active in Scotland is likely to be higher than the figures used.

Excluding the housing co-operatives, from the figures we can say that most co-operatives did not grow, a third grew, and five grew substantially. This is not an unusual distribution for small firms in general.

# SECTION B – Proposals for a Co-operative Development Agency

## 7. The Role

Evidence on the economic benefits of the co-operative structure in comparison with any other business structure is limited. It is, however, possible to look at the existing support mechanisms against the needs and aspirations of the co-op sector.

### 7.1 Is there a gap in support for co-operatives?

It is clear that co-operatives are unlike other businesses in a number of significant ways – in their social purpose and values, in their governance and mechanisms for stakeholder involvement, in their ability to access finance, and so on. It would appear that there is a lack of general business support advice, although in some areas such as agriculture, rural, housing and employee ownership, some specific tailored advice/information is available to those groups. It would therefore seem sensible to provide specialist business support for the co-operative model via a CDA, although it is important to stress that co-operatives should also be able to draw on the business tools and support programmes provided by the Enterprise Networks as a whole.

It might be argued that because of their different form of ownership and original focus, the behaviour of co-operatives will be different to that of other forms of business, and that in particular they will take a different approach to the distribution of trading surplus. It is argued by some that they will take into account a wider range of social/community considerations.

Some argue that high productivity requires worker commitment and this cannot fully be achieved without some form of worker ownership, thus removing a difference of interest between worker and manager. There is some supporting evidence, but there are also some counter examples where management structure inhibited decision making.

The evaluation of SCDC did not find evidence to support the last two of the propositions, but did argue that there was a case for specialist advice and support.

## 7.2 How should the CDA interact with other organisations?

CMS – It is important that the CDA has a strong relationship with the representative bodies who have experience in this area.

EOS – The future role of EOS and its relationship with the CDA will need to be considered within the context of the remit of the CDA and its emerging activities on employee ownership businesses.

SAOS – Their input and experience will be a vital contributor to the CDA. A common interest has already been identified in promoting the co-operative business model in rural economic development. It is important that mechanisms are put in place to maintain a complementary relationship between the CDA and SAOS.

Housing associations and co-operatives already have their own established national organisation providing information, advice and access to sources of funding. It would therefore be sensible not to duplicate or confuse the market by trying to replicate this activity. It is important that the CDA establishes a foothold in the market where areas of market failure are evident and it would not be prudent to use the organisation to compete with well-established organisations, already meeting the needs of their customer base. There are strong arguments therefore that housing co-operatives are not covered by the remit of the proposed CDA.

The Executive supports credit unions in Scotland in a variety of ways, including grants for those who meet the criteria. Some aspects of central support, e.g. for training, are currently under review. It would be helpful to have views on whether credit unions should be covered by the remit of the CDA, either initially or at a later date. Such support might either complement or take over the Executive's current role.

We would also welcome views on whether the CDA should have a role in relation to Supporters Trusts, LETS and Timebanks in Scotland.

## 8. The Remit

It is envisaged that the Agency will provide a first-stop mechanism to support services for this sector, linked to the services available from the Enterprise Networks and other relevant support mechanisms. As indicated previously, there are currently a number of “front doors” for co-ops (SAOS, EOS, Co-op support organisations, Enterprise Networks, etc.). However, the level of market impact is unclear and individual organisations are not naturally linked, so it can be confusing for the customer on who to approach for advice and support.

**Q1 What would be the benefits to co-operatives in Scotland of a CDA?**

**Q2 What do you think the remit of the CDA should be – should it cover all forms of co-operatives or only those that currently do not have representation or a supporting body?**

**Q3 Specifically, should the CDA have a role in relation to housing co-operatives, credit unions, supporters’ trusts, LETS or Timebanks?**

**Q4 Are there barriers to businesses wanting to become co-operatives which need to be highlighted?**

# 9. Aims and Objectives

## 9.1 Main focus/priorities

Careful consideration has to be given to what could be the main focus and priorities of the CDA. For example, should it focus on start-ups (possibly targeting certain sectors) or should it focus on stimulating the growth of existing co-ops, with a view to expansion, increasing profitability and the exploration of new markets.

It may be possible to place emphasis on those economic indicators identified as “hard” outputs such as job creation and safeguarding, and increase in turnover.

The four main areas of possible priorities are:

- Co-ordinate current co-operatives business support;
- Grow base through start-ups;
- Help and grow existing co-operatives;
- Conversion of other business structures to the co-operative model.

There is a danger that if the CDA does not initially limit its focus on one or two of the above, it will spread itself too thinly and have limited impact. Certainly, there is a matter of scale in what a new CDA can be expected to achieve, especially in the initial stage. Also, the utilisation of existing structures currently supporting the business community, e.g. Enterprise Networks, Scottish Development International and Business Gateway will be crucial not just to mainstream the CDA and its client base but to avoid unnecessary duplication of public sector resources.

## 9.2 Potential areas for co-operative enterprise development

It is clear that some particular opportunities exist that fit well with the Executive’s priorities and could be explored with the support of a Co-operative Development Agency.

These include:

- Care provision
- Leisure services
- Renewable/sustainable energy (including potential for international collaboration with co-ops in Denmark and Spain)
- Broadband access
- Waste management and recycling.



- Q5 What do you consider to be the main aim and objectives and priority areas of the CDA initially, and after 2-3 years?**
- Q6 How can we best use the CDA to raise awareness in the business community of the benefits of co-operative structure/focus?**
- Q7 How best can the CDA integrate with existing UK supporting and representative bodies to utilise their expertise and resources?**
- Q8 How best can the CDA interact with organisations outwith the UK?**

# 10. Type of Body, Structure and Funding

## 10.1 Type of body

A number of potential governance models have been considered for the CDA. Any of the models could undertake a range of activities associated with the aims and priorities of the CDA.

### Options

A. Retaining the function(s) within a **Scottish Executive Department;**

#### Pros

Quickly set up.

Seen as a priority issue.

Integration with other parts of the Scottish Administration.

Cost efficient.

#### Cons

Executive tends to operate at strategic policy level. Within government, operational matters/service delivery is largely undertaken by Executive Agencies.

Advocacy role may not be as effective compared to an external CDA.

Lack of necessary expertise of sector.

Focus may be diluted by competing priorities.

B. Setting up an **Executive Agency;**

Executive Agencies are part of the Scottish Administration. Some examples are Communities Scotland, Student Awards Agency for Scotland and Historic Scotland. This may be an appropriate option where a defined function is to be retained within government but Ministers do not need to take personal responsibility for day-to-day decisions. It has the advantage that an agency can normally be set up by administrative action alone (i.e. without the need for legislation). The Chief Executive is normally answerable on operational issues to a Minister in the sponsoring department. Staff are civil servants.

#### Pros

Dedicated, semi-independent agency with own identity.

Focused priorities/objectives.

In control of decisions on allocation of resources.

Outward focus towards customers.

#### Cons

Starting from scratch, learning curve required.

Initial impact limited as structure is formed.

Relationship with Enterprise Networks uncertain.

Time taken to recruit specialist staff.

C. Allocating the function(s) to an **existing public body**;

A CDA could be incorporated for example within existing Enterprise Networks as a dedicated co-operative unit or a possible subsidiary as with Investors in People Scotland. The unit could be combined with the appointment from within the existing Enterprise Networks of a co-operatives champion.

Legal powers currently exist for the Enterprise Agencies to be active in this area.

Pros	Cons
Quickly integrated into the Enterprise Networks.	Cultural change needed to be seen as a priority, both within and outwith.
Makes use of existing resources and connections, and provide a legislative framework to enable funding.	Advocacy role may not be as effective compared to an external CDA (dependent on champion).
Actively integrate to other enterprise promotion activities like Personal Enterprise Shows.	Focus may be diluted by competing priorities.
Spread of impact – national coverage.	Needs senior management commitment.

D. Setting up a **Public Body**;

Public Bodies are defined as:

*“bodies which have a role in the processes of national Government, but are not a Government department or part of one, and which accordingly operate to a greater or lesser extent at arm’s length from Ministers”.*

In simple terms, this means a national or regional public body, carrying out its day-to-day functions independently of Ministers, but for which Ministers are ultimately accountable.

Executive non-Departmental Public Bodies:

- are normally established by statute such as an Act of Parliament or Royal Charter
- carry out administrative, commercial, executive or regulatory functions on behalf of Government
- provide specialist advice to Ministers and others
- have a national remit
- have a board whose members are appointed by Ministers or by the Queen on behalf of Ministers, and which meets at least quarterly
- employ their own staff, who are not civil servants
- manage their own budgets.

Following the Public Bodies: Proposals for Change (2001) report, any proposal to set up a new public body will have to satisfy the Executive’s criteria and be tested against alternative delivery options. The public body will only be set up if there is an absolutely clear and widely recognised need for one.

### Pros

Body would have a defined framework of accountability (as executive or advisory NDPB) to Ministers and the Parliament, with key appointments subject to Nolan procedures.

Can carry out commercial activities where board members need a degree of independence from government, and would have flexibility in appointing specialist staff.

Focused priorities/objectives.

Mechanism for partnership between government and other interests.

### Cons

Would ultimately require legislation to secure accountability framework – time implications and difficulty in securing a legislative slot.

Lead time in establishing new body including appointment rounds for Chair, then Board (each potentially 4-6 month timescale), followed by chief executive and staff.

Integration of body with existing support networks may take time.

Formalised statutory structure may constrain options for development.

## E. Non-public sector options;

The private sector, voluntary sector or another non-public sector body could be utilised to deliver the intended range of activities for the CDA either through a tendering process or through partnership arrangements. The feasibility of market-based solutions would depend on a range of considerations, including the maturity of the market and the nature of the risks to be managed. Various models of private-public or voluntary/public partnerships are available.

### Pros

Open competition could provide attractive options.

Defensible position in terms of service provider(s) decision.

Competitive approach could provide a better value-for-money option.

Focused priorities and objectives.

### Cons

Planning and formation of necessary specification and evaluation of tender responses could take 6-12 months.

Could be complicated, as there may be a number of contracts or service agreements necessary to deliver the aims and services.

Relationship with Enterprise Networks and other interested parties uncertain.

Accountability frameworks unclear, and powers to fund would need to be established and legislation could be required.

**It must be noted that the model adopted may affect the length of time it takes to establish the CDA and any necessary funding stream. If the option chosen requires legislation there could be a significant delay in the preparation of, and Scottish parliamentary approval for, legislation and the formation of a suitable funding mechanism.**

**Q9 What do you think would be the best type of governance model for the CDA?**

## 10.2 Structure

There are probably two main approaches to establishing an effective structure for the organisation.

### **Virtual model**

The first is the use of a “virtual” model where the centre consists of a small number of “core” staff and operates as a co-ordinator and facilitator of access to support services provided by existing (and new where required) providers. It could provide some (limited) services directly. On this basis a single centre would probably be sufficient for the system to function effectively.

The “virtual” model could operate a Referral Service, similar to Business Gateway, acting as an important first stop access to advice and information. This simple approach would ensure consistency and an integrated access to services. It could be supported by a single website and a single access telephone number. The site suitably located and integrated to existing mechanisms, would benefit from having its own identity and domain name. It would clearly act as a single-brand access-point for all services to co-operative business, acting as part delivery, part referral-mechanism, but essentially supported by a strong brand. As the brand became more established, it would be anticipated that the Referral Service would become the principal reference point for all customers – at least in terms of establishing the initial contact.

### **Direct service provider (single unit or dispersed model)**

At the other end of the range the CDA could operate as a direct service provider offering a wide range of support services to a wide range of co-operative organisations. The type of support it could offer is set out below. This approach raises key issues about the location of the centre, and whether a single centre would suffice or whether more localised delivery units would be required – perhaps on a hub and spokes model.

Much will depend on the model adopted and the level of resources available to fund the new agency. It is envisaged that the agency will be responsible for determining the numbers of staff required and the most appropriate staff structure to deliver the body’s remit economically, efficiently and effectively within the resources available to it. It would be hoped that a suitable model could be established early but much will depend on the market reaction to the consultation exercise.

## 10.3 UK examples

The Wales Co-operative Centre is one organisation within the UK currently focusing on the co-operative sector from an economic development perspective in a business growth way. It was established in 1982 as a way to tackle the fall-out from the decline in heavy industry, and initially was largely concerned with redundancies and co-operative start ups. It has a large focus on community credit unions. Their focus has changed recently to that of training and business support, and not all the work they do involves co-operatives.

There is no national Co-operative Development Agency in England but there are a number of Regional Co-operative Development Bodies, members of Co-operatives UK.

## 10.4 Possible activities

The Co-operative Development Agency could possibly cover a broad range of activities. These may include all or some of those listed below:

- promotion and awareness (both general and specific) of co-operatives through events, marketing and the media;
- assist new co-operatives through the start-up process;
- training of those involved in or wanting to start co-operatives, particularly in business skills;
- help existing co-operatives to become more commercial and therefore sustainable;
- education of key stakeholders and support providers (e.g. enterprise network business advisers, other intermediaries);
- development of support tools;
- signposting/referral arrangements to other support organisations;
- guidance on potential sources of funding (grants/loans) both in the public and private sector;
- support developing business plans;
- advice on legal aspects, structure and duties;
- “voice” to promote, advise and develop innovative approaches to expand the sector’s contribution to the Scottish economy;
- development of linkages beyond Scotland;
- commission research on sectors in Scotland and highlight examples of best practice at a local level.

The key activities also need to be linked to the structural options outlined above in section 10.2.

**Q10 What are the gaps in existing support?**

**Q11 How successful is the existing support structure for co-ops in Scotland?**

**Q12 How would the CDA interact with the different bodies in Scotland who are currently more experienced and active in this field?**

**Q13 What activities, both short and long term, do you think the role of the CDA should cover, and any specific areas it should focus on?**

**Q14 What do you think would be the best type of model for the CDA?**

## 10.5 Funding

Estimated running costs have yet to be established. Final costings will depend on the model adopted. Following the end of the formal consultation period, a Pre-Expenditure Assessment will be completed, in order to demonstrate Best Value. With the potential of the Agency having cross cutting responsibility across several areas of Executive activity, funding may not be the responsibility of a single Executive Department. Funding is also subject to state aid rules clearance.

## 11. Key Questions

Here is a summary of the questions posed throughout this document:

- Q1 What would be the benefits to co-operatives in Scotland of a CDA?**
- Q2 What do you think the remit of the CDA should be – should it cover all forms of co-operatives or only those that currently do not have representation or a supporting body?**
- Q3 Specifically, should the CDA have a role in relation to housing co-operatives, credit unions, supporters' trusts, LETS or Timebanks?**
- Q4 Are there barriers to businesses wanting to become co-operatives which need to be highlighted?**
- Q5 What do you consider to be the main aim and objectives and priority areas of the CDA initially, and after 2-3 years?**
- Q6 How can we best use the CDA to raise awareness in the business community of the benefits of co-operative structure/focus?**
- Q7 How best can the CDA integrate with existing UK supporting and representative bodies to utilise their expertise and resources?**
- Q8 How best can the CDA interact with organisations outwith the UK?**
- Q9 What do you think would be the best type of governance model for the CDA?**
- Q10 What are the gaps in existing support?**
- Q11 How successful is the existing support structure for co-ops in Scotland?**
- Q12 How would the CDA interact with the different bodies in Scotland who are currently more experienced and active in this field?**
- Q13 What activities, both short and long term, do you think the role of the CDA should cover, and any specific areas it should focus on?**
- Q14 What do you think would be the best type of model for the CDA?**



## 12. Next Steps

A full list of those organisations to whom we have sent this consultation paper is attached. We have also sent it to all members of the Scottish Parliament. We would be happy for you to copy this paper more widely.

A number of discussion points have been highlighted. Please do not feel obliged to respond to all these points nor feel restricted to only responding to these questions. If you would like to comment on any other aspect of the proposals, we would welcome your views.

The consultation period will run from 20 March to 14 June 2004. Please send or email your responses to the following, [co-operativedevelopmentagency@scotland.gsi.gov.uk](mailto:co-operativedevelopmentagency@scotland.gsi.gov.uk) by 14 June 2004. For purposes of analysis, it would be helpful if those who send a written response also email their response.

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Business Growth Unit  
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### Confidentiality

Copies of all responses received will be placed in the Scottish Executive's library and will be available to the general public. Responses will also be made available to the public at the Scottish Executive website. The views expressed by respondents may also be quoted or referred to in any future review of responses. **If you do not wish your responses to be made public, please ensure that you indicate clearly that all or part of your response is to be treated as confidential.** Confidentiality will be strictly respected. We will still count confidential responses in any statistical analysis and your views will, of course, be taken into account in the same way as for non-confidential responses.

### Electronic publication and additional copies

This publication is available via the internet at:

[www.scotland.gov.uk/views/views.asp](http://www.scotland.gov.uk/views/views.asp)

Additional paper copies of this consultation paper are available from the address above.

# ANNEX A

## Co-operative figures

The following tables show changes in employment and turnover of enterprises in both the co-operative and private sector between 1999 and 2002 (by employee size-band and category).

The tables are based on a sample of 230 co-operatives, found on the Inter Departmental Business Register (IDBR) from a list of Scottish co-ops, in three size bands of 0-9, 10-14 and 15+ employees and in four sectors: food/community, fishing, housing and other. From a sectoral viewpoint, of the 230 sample co-operatives, the majority (155) are in the housing sector employing the highest number of staff, 40 in the "other" category, 20 in the fishing sector and 15 in the food/community sector.

The figures indicate that in 1999 these 230 co-operative enterprises employed some 7,140 staff with a turnover of £290m. By 2002, employment had risen to 8,300, an increase of 16%, with an increased turnover of £414m (42%). In comparison, turnover of the corporate sector as a whole increased by 11% (from £144,249m to £160,005m), but employment in all three size bands decreased by 16.7%.

Figures also showed that of the 130 co-operatives at the lower end (0-9), 15% ceased and 46% actually grew in size, whereas in the corporate sector as a whole a larger number of enterprises, some 28% ceased while 18% grew. Similarly, at the higher end (15+) of a smaller number of co-operatives, 6% ceased but 53% grew while again in the corporate sector as a whole, 17% of enterprises ceased and 27% grew in size.

Table A

<b>Sector</b>	<b>Total</b>	<b>Birthdate</b>	<b>Total</b>	<b>Legal status</b>	<b>Total</b>
A,B Agriculture forestry and fishing	5	1970-1974	5	1 – company	155
D Manufacturing	5	1975-1979	15	2 – sole proprietor	10
F Construction	5	1980-1984	15	3 – partnership	10
G Wholesale, retail and repairs	40	1985-1989	25	7 – non-profit body	55
H Hotels and restaurants	5	1990-1994	145	<b>Grand Total</b>	<b>230</b>
K Real estate, renting and business activities	120	1995-1999	25		
N Health and social work	30	2000+	0		
O Other community, social and personal services	10	<b>Grand Total</b>	<b>230</b>		
<b>Grand Total</b>	<b>230</b>				

Table B

**Changes in employment and turnover of enterprises<sup>1</sup> in the co-operative sector between 1999 and 2002 (by employee size-band)**

<b>Size-band 1999</b>		<b>Total</b>
0-9 employees	Number of enterprises	130
	Employment 1999	550
	Employment 2002	770
	Turnover 1999 (£m)	55
	Turnover 2002 (£m)	61
10-14 employees	Number of enterprises	25
	Employment 1999	300
	Employment 2002	380
	Turnover 1999 (£m)	22
	Turnover 2002 (£m)	30
15+ employees	Number of enterprises	75
	Employment 1999	6,290
	Employment 2002	7,150
	Turnover 1999 (£m)	212
	Turnover 2002 (£m)	323
<b>Total</b>	<b>Number of enterprises</b>	<b>230</b>
	<b>Employment 1999</b>	<b>7,140</b>
	<b>Employment 2002</b>	<b>8,300</b>
	<b>Turnover 1999 (£m)</b>	<b>290</b>
	<b>Turnover 2002 (£m)</b>	<b>414</b>

<sup>1</sup> excludes local and central government

Table C

**Changes in employment and turnover of enterprises<sup>1</sup> in the co-operative sector between 1999 and 2002 (by category)**

<b>Sector 1999</b>		<b>Total</b>
Food/Community	Number of Enterprises	15
	Employment 1999	*
	Employment 2002	*
	Turnover 1999 (£m)	*
	Turnover 2002 (£m)	*
Fishing	Number of Enterprises	20
	Employment 1999	150
	Employment 2002	170
	Turnover 1999 (£m)	*
	Turnover 2002 (£m)	*
Housing	Number of Enterprises	155
	Employment 1999	*
	Employment 2002	*
	Turnover 1999 (£m)	258
	Turnover 2002 (£m)	379
Other	Number of Enterprises	40
	Employment 1999	210
	Employment 2002	170
	Turnover 1999 (£m)	10
	Turnover 2002 (£m)	9
<b>Total</b>	<b>Number of Enterprises</b>	<b>230</b>
	<b>Employment 1999</b>	<b>7,140</b>
	<b>Employment 2002</b>	<b>8,300</b>
	<b>Turnover 1999 (£m)</b>	<b>290</b>
	<b>Turnover 2002 (£m)</b>	<b>414</b>

<sup>1</sup> excludes local and central government

\* denotes disclosive data

## ANNEX B Bibliography

A Partnership for a Better Scotland (Scottish Executive, 2003)  
A Smart, Successful Scotland (Scottish Executive, 2001)  
Measuring Progress Towards a Smart, Successful Scotland (Scottish Executive, 2002)  
Framework for Economic Development in Scotland (Scottish Executive, 2000)  
Meeting the Needs (Scottish Executive, 2002)  
Building a Sustainable Scotland (Scottish Executive, 2002)  
A Smart, Successful, Sustainable Scotland (WWF Scotland, 2003)  
Co-operative Values in a Changing World (Sven Ake Book, International Co-operative Alliance, 1992)  
Public Bodies: Proposals for change (2001) Scottish Executive  
A Smart Co-operative Scotland (2003)  
Keeping it Legal (Bates, Wells and Braithwaite and Social Enterprise London 2003)

## ANNEX C Organisations sent copies of the consultation (Alphabetically)

Baxi Partnership  
Business Enterprise Scotland  
Communities Scotland  
Community Enterprise in Strathclyde  
Confederation of British Industry (CBI)  
Co-operation and Mutuality Scotland  
COSLA  
Customs and Excise Scotland  
Employee Ownership Scotland  
Federation of Small Businesses  
Forum of Private Business  
GMB  
Highlands & Islands Enterprise  
Inland Revenue  
Institute of Directors  
NFU Scotland  
Scottish Agricultural Organisation Society (SAOS)  
Scottish Chambers of Commerce  
Scottish Co-op  
Scottish Council for Voluntary Organisations (SCVO)  
Scottish Enterprise  
Scottish Federation of Housing Associations  
Scottish Football Association  
Scottish Trades Union Congress (STUC)  
Social Enterprise Institute, Heriot Watt University  
Social Investment Scotland  
Supporter's Direct Scotland  
T & G Scotland  
The Association of British Credit Unions Ltd

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