



Central Co-operative Fund

Consultation on the Proposed Amendments to the Central
Co-operative Fund Regulations

(Subsidiary Legislation 442.03)

Steering Committee Responsible for the Co-operatives Legal Reform
APRIL 2015



MINISTRY FOR THE ECONOMY,
INVESTMENT AND SMALL BUSINESS

1. INTRODUCTION

This Consultation document highlights the main changes that are being proposed to the Central Co-operative Fund Regulations (S.L. 442.03). The amended regulations aim to address the challenges faced by the Central Co-operative Fund in the recent years, primarily by creating a robust governance structure that will ensure that the Fund is administered in a professional and transparent manner. The ultimate objective of the amended regulations is to ensure a maximum level of efficiency in the utilisation of funds in a way that truly benefits the co-operative societies and assist their continual development and growth.

This document is being issued for consultation and stakeholders are kindly asked to submit any comments that they have in relation thereto, in writing, by not later than **Wednesday 13th May 2015**. These comments are to be sent in writing to the Steering Committee Responsible for the Co-operative Legal Reform on **coops.meib@gov.mt**.

The reform focuses on three main areas, namely:

- The administration of the Fund
- Governance structures
- Utilization of funds

The administrative and governance structures being proposed will ensure a maximum level of transparency and objectivity and will thus abolish the requirement for the *Provisional Board* established in terms of Legal Notice 297 of 2012 (SL 442.06). Accordingly S.L. 442.06 will be repealed since it will be superseded with the amended S.L. 442.03.

2. SALIENT AMENDMENTS TO THE CENTRAL CO-OPERATIVE FUND REGULATIONS

2.1 The Central Co-operative Fund Committee

2.1.1 Functions

- To administer the Central Co-operative Fund;
- To employ necessary personnel to fulfil its functions;
- To finance programmes including education and training relating to the promotion and development of the co-operative movement for members of and personnel engaged by co-operatives and other persons who may actively contribute to the promotion of the co-operative movement;
- To commission studies and research on particular areas of co-operative activity or any individual co-operative society in Malta;
- To finance co-operative educational material with a view to promoting co-operative ideals and practices;
- To support and intensify the participation of the Maltese co-operative movement in relevant organisations, activities and projects on an international level;
- To provide assistance to co-operative societies in connection with access and raising of finance;
- To collect, recover and institute proceedings for the payment of sums to the Central Co-operative Fund in terms of articles 91(6) of the Co-operative Societies Act;
- To draw up and approve the annual financial statements of the Fund;
- To appoint the auditor of the Fund;
- To receive and consider the auditor's report on the financial statements of the Fund;
- To investigate any matters concerning the usage of the funds; and
- Any other function that the Minister may assign.

2.1.2 Composition

The Central Co-operative Fund Committee shall be appointed by the Minister and shall be composed as follows:

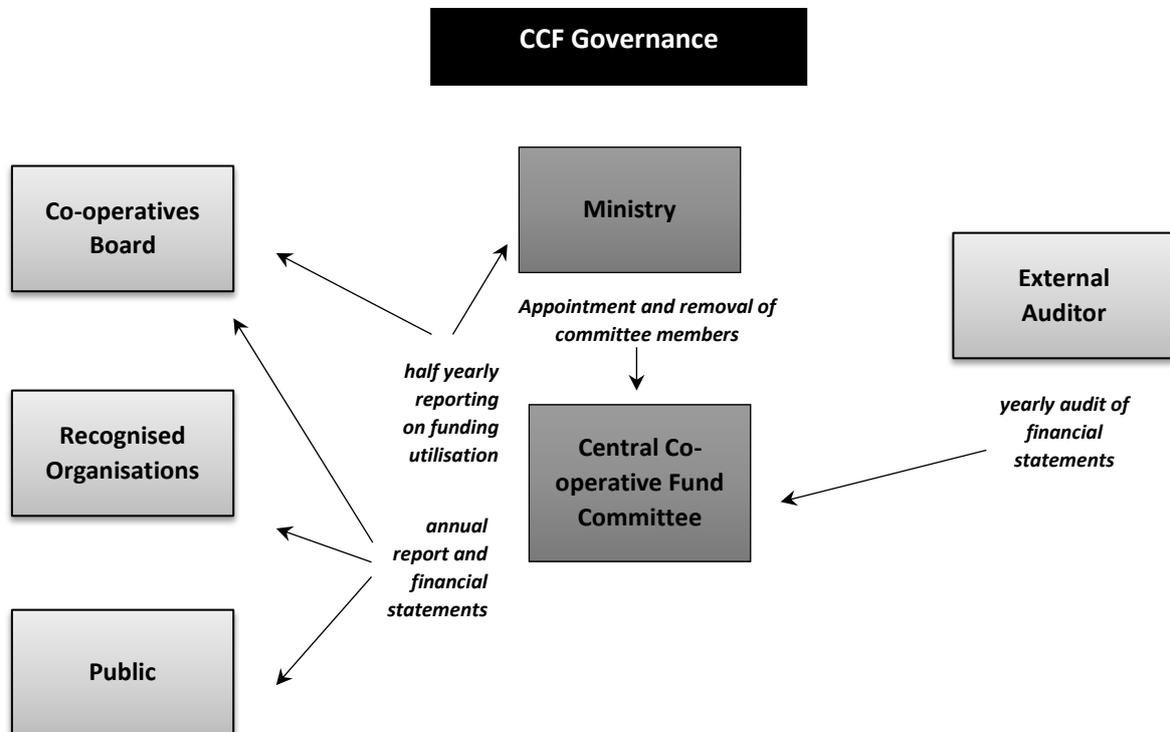
(a) Voting Members

- Five voting members: four independent members and a member of the Co-operatives Board;
- The four independent members shall be appointed directly by the Minister responsible for co-operatives for a period of three years and may be re-appointed thereafter;
- The Minister shall appoint the Chairman of the Committee from one of the four independent members;
- The independent members cannot be involved, directly or indirectly with any co-operative society or with one of the recognised co-operative organisations or with any activity that can give rise to any conflict of interest;
- The members shall be persons of integrity and good moral character and in performing their functions shall respect and apply the principles of good administrative behaviour in accordance with the Administrative Justice Act;

- The members are expected to have extensive knowledge in a field related to their appointment including but not limited to co-operatives, financial management, legal, regulatory and accountancy;
- (b) Non-Voting Member
- A Secretary will be appointed by the Minister from among public officers and will be responsible for performing administrative duties to support the CCF Committee. The Secretary shall not have voting rights in the Committee
- (c) Observers
- At the request of the Chairman, one representative from each of the recognised organisations (vide 2.2 below) may be invited to attend any of the CCF Committee meetings or parts thereof;
 - At the request of the Chairman, any other individual who on the basis of their own expertise and/or past/present experience is considered able to actively contribute towards the promotion of the co-operative movement may be invited to attend any of the CCF Committee meetings or parts thereof;
 - Observers shall not have voting rights.

2.1.3 CCF Governance Framework

The amended regulations propose a sound governance structure that ensures a high degree of diligence by the Committee in administering the funds under its responsibility.



The following are the key features of the proposed framework:

- The Committee shall keep proper accounting and all other necessary records in respect of the financial transactions and operations of the Fund.
- The Committee shall at all times assure an adequate level of liquidity of the Fund.
- The Committee shall at least twice a year submit a report to the Minister and the Co-operatives Board on the utilization of funding. The Co-operatives Board shall have the power to investigate the procedures applied as well as the utilisation of funds by the CCF Committee.
- The Committee shall by no later than three months after the end of each financial year, make available a comprehensive report of the activities and operations of the Fund for the previous financial year including audited financial statements to the Minister, the Co-operatives Board and the Recognised Organisations. A copy of this report shall also be made available to the public.
- The Central Co-operative Fund shall be subject to the existing rules governing public funds including the *Public Administration Act* and the *Public Services Management Code*.

2.2 Recognised Organisations

It is being recommended that a co-operative organisation shall be officially recognised by the Committee if:

- (i) it has as its members at least thirty five percent of all the registered co-operative primary societies; or
- (ii) its members contribute at least thirty five percent of all the paid-up net surplus contributions to the Fund.

This status is to be reviewed on an annual basis. Primary societies will be required to inform the Co-operatives Board of their affiliation with any co-operative organisation. The Co-operatives Board will provide the Committee an annual list of all registered primary societies and their respective affiliations.

Contributions shall not be considered to be in arrears if these are paid to the Central Co-operative Fund within nine months from the end of the financial year of the society.

2.3 Eligibility for Funding

It is being recommended that the following shall be eligible to apply for access to funds from the Central Co-operative Fund:

- a) co-operative societies that make a direct application to the Committee;
- b) any recognised organisation;
- c) the Committee;
- d) the Co-operatives Board; and
- e) any person who actively contributes to the promotion and development of the Co-operative Movement.

The Committee shall prescribe procedures to be followed in connection with application for funding.

2.4 Use of Funds

Funds may only be utilised for the following purposes:

- a) by co-operative societies to finance research & development, training and educational programmes relating to the promotion and development of the co-operative society but excluding general administration costs (including salaries, honorarium and membership fees);
- b) by recognised organisations to finance research & development, training and educational programmes relating to the promotion and development of the co-operative movement, international memberships and general administration costs including honorarium, salaries and related personnel expenditure. Reimbursement of membership fees and administration costs shall be subject to conditions as shall be determined by the Committee from time to time;
- c) by the CCF Committee to finance research & development, training and educational programmes relating to the promotion and development of the co-operative movement, support services and general administration costs including honorarium of the CCF Committee members, salaries and related personnel costs and any expenditure to fulfil its functions;
- d) by individuals or statutory bodies who may actively contribute to the promotion of the co-operative movement, to finance initiatives, training and educational programmes relating to the promotion and development of the co-operative movement.

2.5 Distribution of Funds

It is being recommended that Funding is distributed by the Committee according to the following three-tier structure as shall be determined by the Committee:

- a) Tier 1: full funding is granted towards the financing of research & development initiatives, training and educational programmes relating to the promotion and development of the co-operative movement;
- b) Tier 2: partial funding (up to 80% of the total cost) is granted towards the reimbursement of international and local membership fees to recognised organisations;
- c) Tier 3: partial funding (up to 70% of the total cost) is granted towards the reimbursement of administration costs including salaries to recognised organisations.

In addition the following rules shall apply:

- i) funding shall be subject to the existing rules governing public funds including the Public Administration Act and the Public Services Management Code;
- ii) in any one year, the CCF Committee can distribute up to 100% of the previous year's 5% yearly net surplus contribution;
- iii) the written authority of the Minister is required to distribute more than 100% of the previous year's 5% yearly net surplus contribution;
- iv) co-operatives societies which are in arrears with the CCF contribution cannot benefit from funding;
- v) the funds directed towards membership fees and administration costs of the recognised organisations cannot exceed the total yearly amount allocated on initiatives, training and educational programmes, i.e. Tier 1 funding should be equal or greater than the total

spend on Tier 2 and Tier 3 funding for each individual recognised organisation (Tier 1 ≥ Tier 2 + Tier 3);

- vi) administration costs can only be distributed to recognised organisations on the basis of a formula based on the number of certified registered members and total paid contributions:

$$0.5 \times \left(\frac{A}{B} + \frac{C}{D} \right)$$

whereby:

‘A’ shall mean the primary societies members of the recognised organisation;

‘B’ shall mean the total primary societies registered with the Co-operatives Board;

‘C’ shall mean the paid contributions by the primary societies members of the recognised organisation;

‘D’ shall mean the total paid contributions by the primary societies registered with the Co-operatives Board;

- vii) any beneficiary of Funds shall submit a return to the Committee with a detailed account and proof of the use of the Funds as prescribed by the Committee;
- viii) funds distributed by the Committee shall be subject to such verifications that the Committee may from time to time pursue;
- ix) the Committee shall reserve the right to withhold, suspend or claim back payments made to beneficiaries who either do not allow or obstruct in any way a verification exercise, or misrepresent their funding accounts, or whose funding allocation is not being used for the specific purposed for which it was intended;
- x) the Committee may carry out investigations concerning any shortcomings in connection with the use of Funds and may refer its findings to the police.

3. CONCLUSION

The proposed administrative reform of the Central Co-operative Fund forms part of a wider legal reform for the local co-operative movement. The Government acknowledges that co-operatives can be instrumental to further economic growth particularly within small businesses and is thus committed to promote the co-operative business model within all sectors of the economy. It is therefore vital that a sound enabling legal framework is in place. The administrative reform of the Central Co-operative Fund is the first step that will ensure maximum benefit from the utilisation of the funds contributed by individual co-operative societies for further development and growth of the co-operative movement. Following the consultation period, the amended regulations are expected to be issued and adopted in the second quarter of 2015.