International Labour Organization

International Cooperative Alliance

International Year of Cooperatives 2025 — Cooperatives Build a Better World

ILO brief

Policy Brief

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Cooperatives: Beyond the dichotomy between non-profit and for-profit

A joint ILO-ICA brief[1]

Key points

- The relationship between cooperatives and profit is complex and often misunderstood. Cooperatives occupy a unique space between non-profit and for-profit institutions: they are best described as limited-profit institutions, reflecting their distinct purpose, associative nature and member-centred governance.
- Proper understanding and accurate legal classification of cooperatives are critical to their sustainability and contribution to decent work and sustainable development.
- In line with cooperative principles, surplus may be distributed to members in proportion to their transactions, while profits from non-member transactions must be transferred to indivisible reserves. Governments should recognize this unique character in policy and law, guided by ILO Recommendation No. 193 and related instruments.

In response to requests from countries, the International Labour Organization (ILO) and the International Cooperative Alliance (ICA) developed this brief to clarify how cooperatives relate to profit. This brief draws upon three legally relevant international instruments while also considering regional and national legal practices: the ILO Promotion of Cooperatives Recommendation, 2002 (No. 193), the Statement on the Cooperative Identity, adopted in 1995 by the International Cooperative Alliance, and the Draft guidelines aimed at creating a supportive environment for the development of cooperatives, adopted by the General Assembly of the United Nations in 2001.

The relationship between cooperatives and profit is complex and often misunderstood, leading to the commonly held misconception that cooperatives are non-profit organizations and, in some cases, to their misclassification within legal and regulatory frameworks. A proper understanding of cooperatives in line with their identity and unique character is critical to their establishment, operation, sustainability, growth, and contribution to decent work and sustainable development. Such understanding positively impacts operations within

[1] This brief was prepared in a specific policy context concerning the Kingdom of Saudi Arabia. Its purpose is to clarify the distinctive nature of cooperatives as autonomous, member-based enterprises, founded, inter alia, on the economic participation of their members, and to distinguish them from charitable organizations. The analysis and framing should therefore be interpreted in light of that context and should not be read as a general statement applicable across all legal systems or regulatory environments. The brief is currently under revision to further clarify terminology and support consistent interpretation across jurisdictions..

cooperatives, relations between cooperatives, and engagement with other entities, enhancing their impact. Accurate classification of cooperatives supports the development of appropriate policies, laws and practices, reinforces the promotion and oversight of cooperatives and facilitates legal recognition, taxation and access to government support. It thus enables a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by cooperative values and principles.

The unique nature of cooperatives necessitates maintaining separate accounts for transactions with members and non-members. In most jurisdictions, cooperatives can provide services to both.[2] Transactions with members should adhere to cooperative principles, whereas transactions with non-members should follow ethical commercial principles. Transactions with non-members should support transactions with members, and the balance between the two should be carefully considered in cooperatives that serve both groups with clear priority given to meeting the needs of members. **This distinction requires separating the profit generated from non-member transactions and the surplus generated from member transactions.** While some laws on cooperatives make the distinction explicitly,[3] others make it implicitly by qualifying the transactions with members as "cooperative acts".[4]

Cooperatives occupy a unique space between non-profit and for-profit institutions: they are best described as limited-profit institutions, reflecting their distinct purpose and governance. According to the System of National Accounts (2008), the distinguishing feature of a non-profit institution (NPI) is that it "may not be a source of income, profit or financial gain to its owners". An NPI "is not prohibited from making a profit, it is simply prohibited from distributing any profit it makes to its owners". In contrast, units that are not NPIs are referred to as for-profit institutions (FPIs). Cooperatives need to be profitable to secure their long-term viability and sustainability, to maintain the value of capital members have brought into the business and of its indivisible reserves, and to meet the needs and aspirations of members.

Cooperatives do not fit the definition of NPIs, since, in line with the third cooperative principle on member economic participation, surplus may be distributed to members.[5] Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Other possible uses of surpluses include developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; and supporting other activities approved by the membership. **At the same time, cooperatives are not standard FPIs, since surplus may be distributed to members only in proportion to their transactions with the cooperative, and not in proportion to their capital contribution.** Moreover, **profit from transactions with non-members must be transferred to indivisible reserves and not distributed to members.** The indivisible reserve constitutes locked-in capital, even in the case of liquidation. A possible remainder after liquidation will be dedicated according to the principle of disinterested distribution to another cooperative or similar organization. Thus, while cooperatives share commonalities and differences with both NPIs and FPIs, their unique character defines them as limited-profit institutions.

The purpose and governance of cooperatives further demonstrate the unique space they occupy between NPIs and FPIs. According to the ICA Statement on the Cooperative Identity and the ILO Promotion of Cooperatives Recommendation, 2002 (No. 193) and, a cooperative is "an association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". This definition designates **members as the key actors who meet their own needs and aspirations through self-help**, a cooperative value, rather than prioritizing profit like typical FPIs or focusing on broader societal goals like typical NPIs. Furthermore, the governance structure of cooperatives, in line with the second cooperative principle on **democratic member control** and the fourth principle on **autonomy and independence**, ensures that members themselves take

[2] Exceptions may be found for example in Japan for consumer cooperatives and in the United States of America for savings and credit cooperatives or credit unions.
[3] See, for example, Article 100 of the Portuguese Law on cooperatives (Código Cooperativo, Lei no. 119/2015).
[44] Most laws on cooperatives in South and Central America include this term. It signifies that this relationship is not a commercial one, nor is it a civil law relationship. In Spanish the term is "actos cooperativos". Its English translation, "cooperative acts", must not be confused with "acts" in the sense of "laws".
[5] Exceptions include general interest cooperatives and social cooperatives under the cooperative laws of Belgium, France, Italy, Portugal and Spain.

responsibility. Those serving as elected representatives are accountable to the membership, and in primary cooperatives, members have equal voting rights (one member, one vote), regardless of their capital contribution. At other levels, cooperatives are also organized in a democratic manner. As a result, cooperatives operate on principles that do not align with typical purely non-profit or for-profit models. The registration of an entity as a cooperative, however, does not in itself guarantee a genuine practice of cooperation. To ensure that cooperatives are accurately recognized and classified, a regular cooperative-specific audit is essential.

In providing a supportive policy and legal framework consistent with the nature and function of cooperatives and guided by the cooperative values and principles, Governments should recognize the unique character of cooperatives in relation to profit. Governments should consult cooperative organizations, as well as the employers' and workers' organizations concerned, in the formulation and revision of legislation, policies and regulations applicable to cooperatives.

Where laws on cooperatives might not be clear regarding the unique character of cooperatives in relation to profit, key international instruments and guidelines, such as the ILO Guidelines for cooperative legislation and the ICA Guidance Notes to the Cooperative Principles, **can serve as global points of reference.** Since its adoption, over 120 countries have used ILO Recommendation No. 193 to support the revision and development of national policies and laws. This Recommendation has also contributed to the elaboration of regional and subregional uniform and model laws on cooperatives. Moreover, an increasing number of laws refer to the cooperative identity.

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