Policy Supports for Cooperative Development: Learning from Co-op Hot Spots

James K. Rowe, Ana Maria Peredo, Megan Sullivan and John Restakis

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Introduction

The international co-operative movement has prioritized supportive legal frameworks as a key constituent of co-op growth (ICA, 2013), but there is not a robust literature on policy support for co-operatives. Supportive legal frameworks for co-operatives are a "deeply under-researched area" (Adeler, 2014, p. 50). Based on our review of existing literature, however, we found that there were six primary forms of policy support that have been successfully deployed internationally: co-op recognition, financing, sectoral financing, preferential taxation, supportive infrastructure, and preferential procurement. The most developed examples of these policies are found in areas of dense co-operative concentration: the Basque region of Spain, Emilia Romagna in Northern Italy, and Quebec, Canada. Below is a summary of how these six policy forms are deployed in the co-op dense regions. The findings are also included in table format at the end of the document (table 1). The information was compiled to facilitate further research in the understudied area of co-operative policy, and to clarify policy successes for organizers in the co-operative movement interested in emulating them.

1) COOP recognition

The distinct benefits of cooperatives have been officially recognized in Spain, Italy, and Quebec. The Spanish constitution of 1978 pledged to legislatively support cooperative growth. According to Monica Adeler this "constitutional norm set the ground for building the rest of the legislation and policies to regulate cooperatives" (2014, p. 53).

The Italian Constitution of 1947 also recognizes the value of cooperatives by noting how: "The Republic recognizes the social function of co-operation with mutual character and without private speculation purposes. The law promotes and favors its growth with the most appropriate means, and ensures, with appropriate controls, its character and purposes" (qtd. in Corcoran & Wilson, 2010, p. 7).

While Quebec does not include salutary language on cooperatives in its constitution, the Cooperative Development Policy of 2003 began with the phrasing: "By acknowledging the central role cooperatives play in the economy and tackling the specific problems they face, the Cooperative Development Policy takes resolute aim at ensuring the harmonious development of cooperatives, marking an important step in the reaffirmation of Québec's leading role in this key sector" (Government of Quebec, 2003). Having normative support of cooperatives officially voiced by governments at all levels can help heighten legitimacy for the sector, open the door to more substantive legislative support, and becomes a key source to reference when government action is not commensurate with stated support.

2) Financing

As is reported in the literature on co-op development, and was echoed by interviewees during our research trip to Cleveland, financing is one of the most important supports governments can provide for cooperative development.

In Italy, the Marcora act of 1985 set up two different funds for financing coop development (Adeler, 2014, p. 54). The first is a general fund for the development of all types of cooperatives. The second is designed specifically to deal with employee take-overs of troubled companies.

Similarly, the Government of Quebec maintains a robust coop loan fund (Labelle, 2000). The Fund housed with Investment Quebec, covers start-up and expansion costs including capital asset acquisitions, and product and market development. Having access to a lender of low-interest capital for both large and small cooperative projects, addresses a key barrier to coop development.

3) Sectoral Financing

The cooperative movements in Spain, Italy, and Quebec have also pushed for legislation that can facilitate sectoral financing (improved generation and sharing of investment capital within the sector). On the former front the Spanish Federal Co-operatives Act mandates an indivisible reserve fund. Indivisible reserves can never be paid out to individual members, thus creating a store of investment capital that supports the longevity of the co-op across generational lines. In Spain, a minimum of 20 percent of profits must be placed into indivisible reserves if the profits result from business with the coops own members; the amount is 50 percent if profits accrue from business with non-members (Adeler 2014, p. 53). Capital in the indivisible reserves can be re-invested into the co-op or leveraged for loans. According to Adeler: “the spirit of the law has been to capitalize co-operatives and aid their financial stability – attempting to correct the obstacles co-operatives suffer to attract capital” (ibid).

Changes to Italian co-op law in 1992 created a solidarity fund to facilitate sectoral financing. All co-operatives must now contribute 3% of their profits to co-op development funds managed by the different co-operative federations in Italy (Logue, 2006). Contributions to the solidarity fund are tax exempt and pooled together to offer below-market loans to support cooperative start-ups, co-operative conversions, and co-operative expansion (Adeler, 2014, p. 54). The 1992 law generalized a pre-existing fund started by the largest co-op federation in Italy, Legacoop (Logue, 2006).

In Quebec, sectoral financing has been facilitated through a mechanism called the Cooperative Investment Plan (CIP). Initiated in 1985, the CIP offers coop members and workers with an income tax deduction of 125% for any capital invested in their coop. The program has generated close to 500 million dollars of equity capital since inception.

4) Preferential taxation

Spanish cooperatives enjoy a favorable tax rate. The Spanish corporate tax rate is 30%. Cooperatives benefit from only paying a 20% tax rate, while coops labeled 'specially protected' pay an even lower rate of 10%. 'Specially protected' cooperatives include worker cooperatives, agricultural cooperatives, and consumer coops; their special status derives from the social good they generate (Adeler, 2014, p. 53).

In Italy, the 1947 Basevi Law allowed cooperatives to assign all of their surpluses to indivisible reserves, with no taxes levied (Logue 2006). For Adeler: "This policy provided co-operatives with main sources of capital that contributed significantly to the development of the movement" (2014, p. 54). In 2001, the Berlusconi government sought to minimize the tax advantage enjoyed by cooperatives. The result is that now allocations to indivisible reserves are 70% tax exempt for co-ops that do at least 50% of their business with members; coops that do less are only 30% tax exempt (Logue, 2006).

5) Supportive infrastructure

The Spanish Federal Co-operatives Act legislates that each coop establish an education and promotion fund. Coops are required to contribute a minimum of 5 percent of profits to the fund (Adeler, 2014, p. 53). The fund, which is audited every two years, can be used for the training and education of workers and members, for promoting and growing the cooperative sector, and pursuing broader social and environmental goals (ibid).

Italian co-op law mandates that co-operatives join a co-op federation. Due to this rule federations are well resourced (membership fees are 0.4% of a cooperative's annual sales) (Corcoran & Wilson, 2010, p. 10). The result is heightened political influence for the sector. Federations also offer technical assistance in the areas of finance, accounting, taxation, and legal, and are a key support for co-op development (ibid).

The Italian government also supported cooperative development through the establishment of regional economic development agencies, which provide shared services in research and development (Logue, 2006). Changing political dynamics in Italy, however, have weakened regional economic development agencies, and they no longer have the impacts they once did (Restakis, 2010, p. 82). This is a reminder that policy is always contingent, and susceptible to changes in the balance of political forces. Strong social movements significantly assist in the formation of supportive policy. Similarly, when movements are fractured, or political coalitions break up, policies become vulnerable.

The Quebecois cooperative movement has benefitted considerably from the formation of Regional Development Cooperatives (RDCs) in 1985. Regional Development Cooperatives are funded primarily by the provincial government and have a mandate to support cooperative development, strengthen existing coops, and organize a co-operative network in Quebec's seventeen administrative regions (Labelle, 2000). These RDCs, which operate as cooperatives themselves, have played a central role in growing Quebec's cooperative sector.

6) Procurement flows

Public sector procurement is how government and public agencies obtain goods and services. Procurement is a growing area of interest for those wanting to use public dollars to forward social and ecological goals. Because of the social mission often at the core of cooperative enterprises, coops are well positioned to benefit from public procurement flows. And yet this area of policy support for cooperatives is underdeveloped. The clearest example of supportive procurement flow in the three countries highlighted in this section is Article 138 of the Basque Co-operatives Act which gives worker-cooperatives preferential rights in cases of tie bids (Adeler, 2014, p. 54). In Italy, a number of municipalities only accept bids from organizations meeting a minimum requirement of disadvantaged employees – a condition that cooperatives are more likely to meet than competitors. A key limit to capturing procurement flows for public benefit entities like co-ops is legislation prioritizing liberalized competition (McMurtry, 2014).

Table 1. Characteristics of enabling policy environments, by region

Policy Forms	**Spain**	**Italy**	**Quebec**
1. Governmental recognition: acknowledgement of the economic development and social justice benefits of co-operatives.	Constitution (1978) pledges to support co-op growth.	Constitution (1947) recognizes the value of co-operatives.	Co-operative Development Policy (2003) notes that co-operatives play a key role in the economy and affirms Quebec's aim to remain a leader in the sector.
2. State Financing: support in the form of grants and loans	Not applicable	Majorca Act (1985) set up two funds for financing co-op development.	Government of Quebec maintains a robust low interest co-op loan fund for starts up and expansion.
3. Sectoral financing: legislation that supports the development of financing mechanisms within the co-operative movement itself	Federal Co-operatives Act mandates an indivisible reserve fund. A minimum of 20 percent of profits must be placed into indivisible reserves if the profits result from business with the co-ops own members; the amount is 50 percent if profits accrue from business with non-members. Capital can be re-invested	Solidarity Fund created in 1992. Co-operatives contribute 3 percent of their profits to co-op development funds. Contributions are tax exempt and pooled together to offer below-market loans to support co-operative start-ups, co-operative conversions, and co-operative expansion.	Co-operative Investment Plan (CIP) (1985) offers members a tax deduction of 125 percent for any capital invested in their co-op. The program has generated close to 500 million dollars of equity capital since inception.

	or leveraged for loans.		
4. Preferential taxation: tax code changes that benefit cooperatives	Corporate tax rate is 30 percent; co-ops pay 20 percent (or 10 percent, in the case of "specially protected" co-ops, including worker-coops). "Specially protected" co-operatives include worker co-operatives, agricultural co-operatives, and consumer co-ops; their special status derives from the social good they generate.	Basevi Law (1947) allows co-ops to assign all their surpluses to indivisible reserves with large tax exemptions. In 2001, the Berlusconi government sought to minimize the co-operative tax advantage. Allocations to indivisible reserves are now 70 per cent tax exempt for co-ops that do at least 50 per cent of their business with members; co-ops that do less are only 30 per cent tax exempt.	Not applicable. Canadian tax system does not distinguish between co-ops and other corporations.
5. Supportive infrastructure*:* state-funded technical assistance (money ear-marked for the technical side of cooperative development).	Co-operatives Act requires that each co-op establish an education and promotion fund. At minimum, 5 per cent of profits are to be directed towards the fund.	Co-operatives are legally required to join a co-op federation. As such, federations are well resourced, politically strong, and a key support for co-op development.	Regional Development Cooperatives (RDCs), funded by the province, (formed in 1985) support co-op development.
6. Preferential procurement: public purchasing that privileges cooperative sellers.	Basque Cooperatives Act gives worker co-ops preferential rights in the cases of tie bids.	Many municipalities only accept bids from organizations meeting minimum requirements of disadvantaged employees (co-ops more likely to meet criteria).	Under developed.

Sources: Adeler, 2014; CCA, 2009; Corcoran & Wilson, 2010; Government of Quebec 2005; Labelle, 2001; Logue, 2006.

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