

CECOP's position on European Commission Start Up Initiative

Brussels, July 2016

CECOP – CICOPA Europe is the European confederation of cooperatives and worker-owned enterprises active in industry and services. It groups national organisations in 15 countries, which in turn affiliate over 50,000 cooperative enterprises, the vast majority being SMEs, and employing 1.4 million workers across Europe. Among the main sectors of activity, we find metal and mechanical industries, media, ICT, construction and public works, health and social services, environmental activities, white goods, transport, education and culture. Most of them are characterised by the fact that the staff in is majority is made up of member-owners. More than a thousand worker cooperatives in the CECOP network were originally established as business transfers of conventional enterprises in crisis or without heirs to their employees.

CECOP wishes to thank the European Commission for giving stakeholders the opportunity to make their voice heard through this consultation.

One general need expressed by cooperatives in industry and services across Europe is constant business support (providing services, training and counseling) both before and after the start-up phase (especially during the critical period that runs between the immediate pre-start-up and the immediate post-start-up). Although the start-up phase requires specific attention and targeted approaches, support measures and policies coming from EU and national levels should be focus on **all the stages of an enterprise life**: from the start up, through the scale-up and to the risk of extinction and extinction phases.

All policy measures mentioned in this document would have a positive and effective impact on cooperatives in industry and services start-ups and scale-ups if their representative organisations were involved in design and implementation at national and European level.

Boosting entrepreneurial attitudes and skills – stand-up phase

SUPPORT AND ADVICE STRUCTURES AT LOCAL LEVEL

Cooperatives in industry and services represented by CECOP – CICOPA Europe express the need for support and advice structures to encourage entrepreneurial activities provided

primarily **at local level**. Organisations of cooperatives in industry and services across Europe have generally established regional offices providing support services for future cooperative entrepreneurs or existing cooperatives. This local presence is crucial in order to provide an adequate service and to raise awareness among potential future entrepreneurs inside communities that could be catalysed into cooperative activities to meet local needs and aspirations. This is especially relevant for certain sectors like services of general interest (culture, mobility, environmental or social services etc) having a strong local impact and coverage. Moreover, cooperative entrepreneurship creates and, even more crucially, keeps more wealth locally and on a more equitable basis than the average of enterprises.

In countries such as Italy, France or Spain where cooperatives in industry and services have reached their highest level of development, regional authorities recognize cooperatives' contribution to local development, creation of employment, contribution to the general interest and valorization of regional skills, and very often collaborate and support them (partnerships, financial support etc). This "good practice" should be replicated in other European countries and regions.

ENTREPRENEURSHIP THROUGH EDUCATION

According to cooperatives in industry and services, higher education institutions should be encouraged to establish programmes to support **cooperative entrepreneurship**. In fact, cooperative entrepreneurship education should be introduced in all levels of formal education. The values and modalities of cooperative entrepreneurship, which are at the root of cooperative SMEs in industry and services and of the worker-members' involvement in the cooperative's management, are often neglected in curricula, with, as a consequence, ignorance about the cooperative entrepreneurial model among potential future entrepreneurs but also other professions involved in entrepreneurial activities and having a critical impact such as lawyers, accountants, human resources managers etc. Cooperatives in industry and services also consider that it is important to develop digital learning materials, courses and apps to teach cooperative entrepreneurship.

Moreover, for cooperatives in industry and services, access to finance and the development of economic incentives and mentor programs are also very important policies and actions to support potential entrepreneurs.

Creation of a company – start-up phase

OBSTACLES

Access to finance is by far the major obstacle faced by cooperatives in industry and services during the set up phase. Liquidity for the founders of the cooperative is limited when seeking financing; here again the crucial role cooperative organisations play should be mentioned when discussing favourable conditions with financial institutions or providing trust and, in the case of cooperative non-banking financial institutions, a leverage effect on banks.

Another obstacle for cooperative start-ups is the fact that, in many countries, the **cooperative is not considered as an appropriate model for start-ups**. This comes from ignorance or absence of adequate information in places where information is provided to future entrepreneurs. This lack of working knowledge of the cooperative entrepreneurial model requires specific inputs in the educational system, as mentioned above, and also among bankers, accountants and legal advisers.

SOURCES OF FUNDING FOR INDUSTRIAL AND SERVICE COOPERATIVE START-UPS

Generally speaking, own savings (worker-members together providing contributions to the share capital, which can be substantial, as well as, in some cases, workers' loans to the cooperative) tend to be the first source of funding for cooperative start-ups in industry and services. Then come bank loans, public grants and micro loans. Non-repayable loans and grants offered by private entities (companies, foundations, etc.) also exist.

In some EU countries, cooperative organisations have developed an important level of **financial innovation** (risk capital, guarantee mechanisms, matching mechanisms, participative certificates etc.) in order to contribute to the development of cooperatives while preserving members' democratic control over them. Cooperatives are characterized by a specific ownership system, this is why the types of investment they require are those that **do not link capital amounts to the decision-making power**: this is essential in order to preserve cooperatives' democratic control system (they are based on the "one member one vote" governance principle).

An interesting project is Coopstartup¹ created by one of Italian organization Coopfond², which aims at promoting cooperative start-ups. It promotes entrepreneurship among young people by encouraging the adoption of the cooperative model and consolidating the presence of cooperatives in new markets. It specifically focuses on innovation (technological, organizational and social) in line with the Europe 2020 priorities to foster a "smart, sustainable and inclusive growth". Coopstartup provides grants and non-repayable loans to cover set up costs of cooperative start-ups, involve various partners, including external ones to the cooperative movement, to manage the pre-start-up stage, and involves Legacoop³ regional offices to offer affordable administrative, legal and managerial services. As per Italian Law 59/92, Coopfond's funds originate from 3% of the benefits of all cooperatives affiliated to Legacoop.

IMPORTANT POLICIES/SUPPORT MEASURES FOR START-UPS

Complementary to what has already been mentioned above, **training/advisory/mentoring services** to young start-ups aimed at preventing early failures remain a priority for CECOP – CICOPA Europe members. Networks of alumni/experts and links between sources of knowledge (tech/engineering centers) also have a crucial role provided that they also **include the cooperative ones** to ensure that all the possibilities are offered to potential

¹ www.coopstartup.it

² www.coopfond.it

³ Legacoop is one of the most important cooperative confederations in Italy
www.legacoop.coop/quotidiano

future entrepreneurs with full knowledge of cooperative's business model specificities. Presented above as a major obstacle, access to finance for viable start-up projects should remain a priority for policy makers.

Innovation

According to CECOP – CICOPA Europe members, **universities, in collaboration with research centers and enterprises**, have a crucial role in the strengthening and implementation of innovative projects.

The cooperative model allows to associate R&D/research laboratories (including those financed by public funds) with innovation valorization thanks to its cooperative ownership characteristics, allowing to share the decisions about research use and generated wealth and avoiding abrupt cessation of activities, loss of knowledge and jobs, like it happens in cases of speculative sales of the enterprise, a practice which is foreign to the cooperative model. The multi-stakeholder cooperative model, which brings together in ownership and decision processes different types of stakeholders is an adequate model and, e.g., in France (under the legal form *société cooperative d'intérêt collectif* – SCIC), is often used by cooperatives active in innovative sectors (R&D, renewable energies etc).

Innovation should not be reduced only to technology but should also be considered in its capacity to bring solutions to unanswered needs, including organizational ones.

For example, Italian social cooperatives can be considered as an effective and innovative means to introduce a new offer in health and social care. Social cooperatives in Southern Italy set up after confiscation of buildings, lands and other assets from the mafia as an innovative way to allow local communities to regain control over commons such as spaces, activities, history and culture but also to generate revenue by launching activities and financially viable processes.

Access to innovation and value chains through **clusters** should also be promoted.

Cooperatives active in industry and services have a tendency to cluster through horizontal groups and consortia which provide in turn financing, R&D and internationalization, like in Spain's Mondragon Group⁴ and Italy's CGM⁵ and CNS groups⁶.

Scale-up of a company

As mentioned in the introduction statement, CECOP – CICOPA Europe welcomes the fact that the European Commission approaches in the consultation text the scale-up phase as well. Given their long-term mission, the rapidity in the growth of turnover and employment is not, in itself, a major objective of the cooperative type of scale-up

⁴ www.mondragon-corporation.com/eng

⁵ www.cgm.coop/index.php/en

⁶ www.cnsonline.it

(especially when such speed can generate instability), but rather long-term and sustainable growth and employment, with a substantial level of equality in the distribution of economic results, the inclusion of the key stakeholders in the decision-making process, and a strong focus on skills training. The expansion to foreign markets is not a universal scale-up characteristics, as it depends on the economic sectors, some being organized in global chains, others being local in nature.

FINANCING THE SCALING-UP OF A COMPANY

Among the main sources of financing for the scale-up of cooperatives in industry and service, we should mention bank loans, trade credit, equity capital including venture capital, loans from cooperative banks, mutual guarantees and loans and equity capital from other cooperatives (laws in some countries making it mandatory to all cooperatives to dedicate a % of their benefits to the development of other cooperatives).

Cooperative investment funds also play an important role, eg. Cooperative and Community Finance⁷ a dedicated investment fund, intervenes in scaling-up worker cooperatives in the UK.

IMPORTANT POLICIES AND SUPPORT MEASURES FOR SCALING-UP

For cooperatives in industry and services, the most important measures for scaling-up are financial support for the acquisition of capacity-boosting services from both public and private providers, supporting the uptake of resource-efficient solutions to reduce production costs and collaboration between large corporations and start-ups to unleash the scale-up potential. Investment in training of managerial staff for managing changes and challenges has also been reported by our members.

Given that the cooperative is not set-up to be sold, cooperatives need a **medium-long term support** to be sustainable in the long run. Thus, developing tailor-made support measures remains the most important element for sustainable cooperative scale-ups.

⁷ <https://coopfinance.coop/>