

CECOP answer to the European Commission consultation “Entrepreneurship 2020 Action Plan”

Brussels, 1 October 2012

CECOP – CICOPA Europe (European Confederation of Worker Cooperatives, Social Cooperatives and Social and Participative Enterprises) is a European confederation, grouping national organisations in 16 countries, which in turn affiliate over 50.000 cooperative and participative enterprises in industry and services. The vast majority are SMEs and they employ 1.4 million workers across Europe. Among the main sectors of activity, we find metal and mechanical industries, construction and public work, social services, environmental activities, white goods, transport, education and culture, etc. Most of them are characterised by the fact that the employees in their majority are member-owners. Furthermore, several thousands of those enterprises are specialised in the reintegration of disadvantaged and marginalised workers (disabled, long-term unemployed, ex-prisoners, addicts, etc.). More than a thousand worker cooperatives in the CECOP network were created as business transfers to employees of conventional enterprises in crisis or without heirs.

Introduction

While promoting entrepreneurship, it is essential to promote at the same time **long-term and sustained growth**, namely one which takes into consideration long-term economic interests over the short-term ones, which is combined with long-term social and environmental concerns and a type of growth that leads to the generation and equitable distribution of the wealth. The more long-term growth and development will be a priority, the more the three aspects (economic, social and environmental) will reinforce each other. In this respect, **cooperatives**, as stakeholder-based and democratically controlled enterprises, are natural partners in favour of **long term growth and development**. In the same line, the European Commission should more clearly encourage long-term productive initiatives in favour of these enterprises, rather than short-term financial strategies that are in the sole interest of investors and shareholders.

CECOP urges the European Union institutions to analyse why certain enterprises have proved to be **more resilient to the crisis** than others. We need to underline that, in the industrial and service sectors, most cooperatives in the EU have remained alive and their employment levels have remained basically untouched, as is reflected in CECOP the report “The resilience of the cooperative model. How worker cooperatives, social cooperatives and other worker-owned enterprises respond to the crisis and its consequences”¹, published this year. We strongly believe that the experience gained by worker and social cooperatives when resisting to crises could be a great source of inspiration for the development of SMEs in Europe at large.

Facilitating transfers of businesses

¹ http://www.cecop.coop/IMG/pdf/report_cecop_2012_en_web.pdf

In order to avoid the loss of valuable entrepreneurial capital, it is essential for the EU to adopt a strong policy in favour of transfers of businesses. Successful business transfers save jobs and skills, but they also create a **favourable environment for new jobs**: in fact, the 2008 Communication "A Small Business Act for Europe" indicates that more new jobs are created in successfully transferred enterprises than in start-ups. Business transfers should thus remain a priority in future EU policies on entrepreneurship, but also in future EU policies on employment and restructuring.

The European Commission addresses the transfer of businesses mainly from the angle of the "failed entrepreneur" and with a focus on measures in favour of a second chance for the latter. According to CECOP, business transfers should not be addressed only as a career prospect for one individual - the failed entrepreneur - but as an **entrepreneurial and employment solution** for European citizens and regions at large, which is particularly relevant in the current situation of massive jobs losses and enterprise closures. Preventing enterprises from closure is in the core interest of the European countries and regions: local wealth and skills are maintained.

Moreover, the European Commission addresses business transfers mainly as transfers to a new entrepreneur and deny the diversity of forms of transfers that we can find on the ground. It is essential to promote **all types of business transfers**, including **business transfers to employees**. Especially in the current situation, the EU can ill afford to deny successful experiences of enterprises and jobs being saved. During the last years, business transfers to employees have completely disappeared from European Commission texts. Surprisingly, the 2004 Communication on the Promotion of Cooperative Societies in Europe² is the last of the series of Commission documents which, since 1994, had consistently hailed business transfers to employees as an important and viable modality of enterprise restructuring. Nevertheless, this change of priority does not mean that business transfers to employees have stopped or even decreased since 2004. In fact the opposite is true.

The cooperative system has a very rich record of experience in the field of business transfers to employees. In the CECOP network we can find numerous successful examples of enterprises threatened by closure (due to the lack of a successor or due to bankruptcy) that were **bought out by the employees and transformed into cooperatives**. Those transfers are characterised by a high rate of success, comparatively low costs and high policy significance for European industry. Business transfers to employees under the cooperative form are even on the increase with the ongoing crisis, especially in France, Italy and Spain. For example, CECOP's French member, CG Scop (French union of worker cooperatives) has accompanied 128 successful business transfers to employees in 2010 and 2011. 1,279 jobs have thus been saved in those enterprises, without mentioning all the upstream, downstream and surrounding local economic activities where jobs are also at risk when an enterprise has to close down. CECOP wishes to strongly underline that this is not conjunctural policy, and that, instead, what is at stake here is the economic development and social cohesion of entire European regions. The European Commission cannot fail to take this issue very seriously.

The conversion of enterprises in crisis into economically sustainable cooperatives requires an **anticipated and precise diagnosis**. In addition, the earlier the diagnosis can be established, the more successful and sustainable the restructuring will be. The authorities at all levels should cooperate with the cooperative system in facilitating the establishment of early diagnoses of enterprise crises and of the feasibility of transformation into cooperatives. It is important to underline that the success of those transfers are the result of a very rich and sophisticated **support provided by cooperative federations** (support services and consulting, financial support, employees' training etc.).

² COM(2004)18

Very often, the problem encountered in business transfer to employees in cases of bankruptcies is the lack of knowledge about this business scenario amongst concerned professionals (e.g. lawyers, accountants, etc.) and within the judicial system. Training for professionals would thus be essential in promoting this practice. Better knowledge about cooperatives should also be promoted in trade unions and among persons and structures whose mission is to provide information about the creation or transfer of businesses. Preferential rights should be given to employees in order to give them the best conditions for a takeover bid for an enterprise facing closure.

Specific state aid provisions in coordination with fiscal policy at the member state level in favour of saving and developing economically sustainable activities that are threatened by closure, in particular through business transfers to employees, should be suggested by the European Commission.

On the issue related to business transfers, there should be a stronger link between employment and entrepreneurial concerns. In fact DG Enterprise and DG Employment (dealing with restructuring policies) should coordinate their policy measures in order to guarantee anticipated and sustainable business transfers in Europe.

Supporting new entrepreneurs and existing enterprises

“Europe needs more entrepreneurs” states the consultation document. This is absolutely true but CECOP considers crucial not only to promote start-ups or to facilitate the transfer of business threatened by closure or facing bankruptcy, but also to strongly **support existing enterprises**. Between start-ups and closure, there is a whole life of an enterprise asking for specific policies, measures and regulatory systems in order generate durable economic activities and jobs, as well as innovation and presence on the internal market and in the globalized economy.

Thus, policies and structures facilitating enterprise development should be reinforced. Business support entities that are key to the creation and development of enterprises, such as federations, incubators, training centres, R&D institutions, advisory centers etc., should be explicitly promoted.

Inter-SME collaborative networks, such as the ones we already have in Europe under the cooperative form (artisans’ cooperatives, SME cooperatives, activity and employment cooperatives etc.), should be encouraged, as those networks considerably reinforce the sustainability of the SMEs through shared marketing, purchases or other services. Such networks also strengthen SME innovation.

Improve access to finance

Cooperatives in industry and services are facing unfavourable attitudes from banking institutions and very high requirements and access conditions when applying for credits and loans. Those difficulties have encouraged worker cooperatives and their federations to put in place specific financial instruments for their development. Some of them are entirely dedicated to cooperatives (such as CFI, Coopfond and Fondosviluppo in Italy or SOCODEN in France) or even other social economy enterprises (such as ESFIN-IDES in France, Soficatra and CoopEst at the European level).

European institutions could contribute to bring down barriers for access to finance for worker and social cooperatives³. The European Investment Bank and the European Investment Fund should be involved in the creation and **strengthening of non-banking**

³ ZANOTTI Antonio in Zevi A. et al. (2011), Beyond the Crisis: Cooperatives, Work, Finance – Generating Wealth for the Long Term, Brussels: CECOP Publications, p.79

financial institutions for the development of worker and social cooperatives. They should:

=> act as intermediaries between these networks of enterprises on the one hand and the financial markets, the banks and institutional investors on the other, with the issuing of non-voting financial instruments, both redeemable ones (such as classical bonds) and non-redeemable ones (such as participative certificates that can remain as equity for an indefinite period in enterprises, and can thence increase the capacity of the enterprises to obtain bank loans for productive purposes, especially under Basle 3). In addition, the policy environment should promote interaction with banks and institutional investors with the aim to encourage the subscription of these new financial instruments. These mechanisms should respect the **governance system of joint control by the member-stakeholders** over their enterprise and by the latter over their common financial institutions, as decades of experience has shown that this was the safest way to maintain the specific strengths of these enterprises and ensure the long-term effect of the investments carried out in them. The experience since the crisis that flared up in 2008 confirms this fact.

=> favour joint guarantee mechanisms

=> manage common funds among enterprises

In particular, a strong effort towards financial support for enterprises, especially those that strive to be born and to remain rooted on a given territory should be ensured. Such financial support should include, *inter alia*, policies encouraging banks loans to enterprises and policies promoting non-banking financial instruments developed by enterprise networks, like ours.

Entrepreneurial education

CECOP welcomes the idea presented in the consultation paper of creating a European platform for entrepreneurial learning to share best practice and develop common models for policy, implementation and measurement.

Entrepreneurial behaviour, skills and mindsets should in fact be embedded in curricula at all levels of learning and in all disciplines. Entrepreneurship is not always the initiative of one person – the entrepreneur – in the case of cooperatives it is an initiative of several persons. Thus European Commission should promote **all types of entrepreneurial education**, including education specific to cooperatives. The cooperative form of business should be integrated in different educational levels and disciplines related to enterprise creation and management.