

# Farmers' coops and social enterprises, key actors in combating rural poverty in EU - policy frameworks and capacity building needs

*Report elaborated based on the experiences and good practices analysed within the New Crops project with contributions from each of the partners, each of them relevant actors in the national systems of support and capacity building for cooperative and social enterprises.*

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## Introduction

**Cooperatives** came about in difficult economic and social circumstances in the 19th century when farmers gradually discovered that though joining forces, they could improve their access to markets and jointly finance vital complementary activities, such as: procurement, processing, marketing, distribution and promotion. Agri-cooperatives consist today the main stakeholders in the agri-food sector in most EU Member States. Cooperatives enable farmers to concentrate their power and are founded on the principles of economic democracy, transparency and solidarity.<sup>1</sup>

Farmers' cooperatives play an important role in helping farmers to capture a higher share of the value added in the food supply chain, improving the bargaining power of their members and letting members benefit from economies of scale, mitigating market risks, reducing transaction costs. This is a key institutional development as agri-food supply chains are generally characterised by bargaining imbalances between farmers and their upstream and downstream partners, cooperatives playing a key role in strengthening bargaining power and thus maximizing their members' share of the value added.<sup>2</sup>

Romania like most of the other Central and Eastern European countries, new European Union member states, still face difficulty in reforming their rural areas given the complexity of the socio-economic transformation and structural adjustments that they had to make. In many new member states their EU accession was accompanied by increasing disparities between urban and rural areas. Agriculture is still a major sector in these countries in terms of contribution to GDP, employment and exports.<sup>3</sup>

There is widespread recognition that due to the weaker bargaining position of different actors in the food supply chain, these can be subject to unfair trading practices in the EU. As regards producer cooperation, EU agricultural legislation encourages farmers to cooperate, thereby providing a counterweight to their often concentrated downstream (and upstream) partners. The Treaty on the Functioning of the European Union (TFEU) recognises the specific status of the agricultural sector with regard to the application of competition rules to cooperation among farmers.

The European Commission promotes and facilitates the restructuring and consolidation of the agricultural sector including by encouraging the creation of voluntary (as opposed to the compulsory association that was seen in some former communist states) agricultural producer organisations mainly in order to foster the competitiveness of the food supply chain.<sup>4</sup>

While for cooperatives in general and farmers cooperatives active in the agriculture sector – including marketing and credit, there is a long, historical tradition in most European states and many common elements in their legal definition and some common approaches at national level and even a European cooperative status defined, there is, as of yet, no common definition of social enterprise. Many definitions exist and a wide variety of organisational forms are adopted by social enterprises<sup>5</sup>.

Success for cooperatives and social enterprises is not based on any one factor. **Efficient and effective management of the business entity; adequate internal governance in line with cooperative and social enterprise values; and membership and community involvement are all key ingredients.** In addition, the enabling environment of cooperatives and social enterprise can influence success. While empirical evidence

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<sup>1</sup> Agricultural Cooperatives in Europe - Main Issues and Trends Copa-Cogeca 2010

<sup>2</sup> Support for Farmers' Cooperatives Final Report - European Commission, November 2012, Jos Bijman, Wageningen University Management Studies Group

<sup>3</sup> Rural regional development in transition economies: Country case Romania. GERTRUD R. SCHRIEDER, JÜRGEN MUNZ, & RAIMUND JEHLE

<sup>4</sup> Support for Farmers' Cooperatives Final Report - European Commission November 2012, Jos Bijman Wageningen University Management Studies Group

<sup>5</sup> Policy Brief on Social Entrepreneurship Entrepreneurial Activities in Europe - OECD/European Union, 2013

and assessment are often scarce concerning cooperatives and social enterprises, and there is a need to find better measurement tools in order to track efficiency and influence of policy, studies have shown that government policy can help or harm independent cooperative development (Hoyt, 1989; Poppe, Bijman, et al. 2013), whether through the creation of adequate laws and regulation or other policy support measures. Policy is part of an overall institutional environment in which cooperatives and social enterprises function.

## **Findings in the case studies and good practices on farmers coops and social enterprises in rural areas**

As noted in other studies<sup>6</sup>, case studies and good practices conducted in the New Crops project reflect also that farmers' cooperatives (marketing, research and credit) show positive externalities and produce public/semi-public goods. Their contribution to rural development, particularly in disadvantageous areas and/or declining industries, is significant in terms of income, employment and better market conditions (also for non-members in regions with a high market share of cooperatives) as well as environmental effects. There are also examples where new bargaining associations or cooperatives showed innovative behaviour, for which farmers sometimes had to fight in or even break away from larger cooperatives as, e.g., organic or regional products did not fit in the business model.

Given that New Crops included four countries with cooperatives and social enterprise in various stages of development and with various histories, it is useful to note that relevant policy should keep in mind the social enterprise or cooperative life cycle.

### *Initial period needs:*

- Basic knowledge of how cooperatives and social enterprises work and what advantages they offer
- Cooperative and SE laws that are favorable and sufficiently flexible (also fiscal)
- Creation of a market/marketing organizations
- Creation of basic support institutions (credit, logistics, supplies, export, research, etc.)
- Knowledge dissemination (market, technical, political, etc.)
- Ties to rural development issues
- Capital-inputs, machinery, etc.

### *Growth needs:*

- Markets-more sophisticated and need for coordination-production and demand
- Capital needs should take into account non-speculative nature
- Governance and management/professionalization support
- Research and implementation of results
- Capacity building

### *Maturity needs:*

- Competition with IOF at times - need policy that not only is supportive, but not a hindrance (competition laws and SMEs provisions)
- Supply chain - disproportionate power of other actors might need to be addressed
- Debate as to whether policy should favor "social" nature of cooperatives and social enterprises or whether these forms should "compete" with IOF on "level playing field" (what if that is not possible and/or desirable?)
- Capital and support for expansion and focus on efficient systems investment and technology upgrades

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<sup>6</sup> Support for Farmers' Cooperatives Final Report - European Commission November 2012, Jos Bijman Wageningen University Management Studies Group

*Expansion needs:*

- Export Policy
- Control over Price and Supply Chain issues (contracts, warehousing, inter-professional groups, etc.)
- Competition law (risk of hindrance re: joint ventures, etc.)
- Organizational change and innovation permitted under Cooperative or social economy laws (incl. fiscal) to allow adequate funding, joint ventures, M&A, etc.

Based on these findings we can say that farmers coops and social enterprises from rural areas all merit the attention of policy makers and can be a basis for designing support measures.

The 2016 call for action from the Commission Expert Group on Social Entrepreneurship (GECES) “*Social enterprises and the social economy going forward*”<sup>7</sup> relevantly highlights key recommendations that should incite the policy makers and organisations themselves into boosting the potential of the sector to foster socially-inclusive growth and create jobs, by addressing some of the significant challenges that Europe currently faces with. Given the specificity of the New Crops project, we would emphasize:

- the importance of *the sharing of know-how and tools* on how to reach to efficient business models, on *measuring and promoting the social value* generated by the social enterprises and having them properly documented and promoted, in a language adapted to the interested stakeholders; This should include sharing of know-how and tools among traditional social economy actors such as agricultural, credit, consumer and workers cooperatives in old members states with those in the New member states through exchanges among national networks and aided participation of cooperatives in the European cooperative networks. The internationalization strategies of cooperatives in the old members’ states vary from country to country and sector to sector.
- national policy framework should go further from the mere recognition of social economy actors, considering *mechanisms of support that should combine the fiscal facilities, access to funding and creation of funding instruments beneficial to different entities, applying the social criteria to public procurement processes or easier access to contracting provision of public services*. Relevant practices can easily be identified in different EU countries, i.e. the facilities that types of agricultural cooperative benefit in Spain, funds set-up at national level targeting the social enterprises and / or cooperatives (e.g. the Social innovation Fund foreseen in France, the fund for financing social enterprises and social cooperatives in Italy, the loan fund in Poland etc.), the use of structural funds or national resources in general to foster territorial and regional development (e.g. the extensive models of Andalusia or Trentino, the Leader examples in Sweden or the development in the Västra Götaland region)
- the intense need for *investing and developing relevant support structures for social enterprises* that would combine provision of capacity building assistance (long term, focused on business development, tailored and combined based on needs etc), financial support and measuring the social value and impact of the business. The *2017 OECD good practice compendium - Boosting Social Enterprise Development*<sup>8</sup> details models that could inspire investment and policy actions.
- *Multi-stakeholders partnerships should become practice when creating the support structures and policies*, including with the formal educational systems. Social-entrepreneurial skill and competences should be considered closer in educational programs at secondary and higher education. The Italian and Swedish models referred below may be inspirational.

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<sup>7</sup> Social enterprises and the social economy going forward, GECES, 2016, [http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item\\_id=9024](http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=9024)

<sup>8</sup> OECD. Boosting Social Enterprise Development, Good Practice Compendium, OECD, 2017, retrieved from <http://www.oecd.org/publications/boosting-social-enterprise-development-9789264268500-en.htm>, August 2017

## Policy Environment for farmers cooperatives and social enterprises - EU framework and evolution

At EU level, three main international instruments which form the institutional policy environment for cooperatives are: *1995 International Cooperative Alliance Statement on Cooperative Identity*; the *2001 United Nations Guidelines for creating supportive environments for the development of cooperatives*; and the *2002 International Labour Organisation Recommendation No. 193 relating to the promotion of cooperatives*.

The extensive *International Handbook on Cooperative law* (Cracogna, Fici and Henry, 2013), published in 2013, set out a worldwide comparative overview of cooperative laws. It found that cooperatives need a specific legal framework that “adequately reflects their particular nature and function” so that cooperatives can have a level playing field relative to other business forms whilst preserving their distinct identity. Having a variety of business forms available in which to carry out desired social, economic, and environmental goals allows a “proper fit” between enterprise goals and legal form. As well, a trend was noted on the convergence of cooperative laws around the world, as well as the need to be open to amendments due to changing conditions.

The *2015 report of the European Commission on social enterprises and their enabling environments*, referred to as “eco-systems”, carried out over 29 European countries, looked at the eco-system of support for social enterprises. The report observed that eco-systems were still in their “infancy” in most countries and that formal enabling/supportive policy frameworks remained scarce. (European Commission, 2015).

### Policy measures

Cooperative and social enterprise policy measures can include: *Indirect*: favourable conditions for cooperatives or social enterprises within the “normal” business environment; and *Direct*: subsidies, grants specifically to cooperatives and social enterprises. Policy measure *types* (McDonnell and Ellmore, 1987) can include:

- *Mandates*: Rules governing the actions of individuals and agencies Cooperative and social enterprise legislation/incorporation laws Market regulation and competition policies. Regulation also governs participants, scope of representation, organisational models, etc.
- *Inducements*: Transfer money to individuals in return for certain actions Financial and other incentives, including tax
- *Capacity Building*: Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes technical assistance and consulting, research, speeches, extension, etc.)
- *System Changing*: Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

### Definitions of Cooperative and Social Enterprise

One of the justifications for having a specific cooperative or social enterprise law is so that the objectives of the entity is not incoherent with governance, management and business requirements. Understanding what the definition of a cooperative or social enterprise is important when designing a legal structure and policy environment.

What is the definition of “cooperative”? The ICA statement refers to:

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Cooperation among cooperatives
- Concern for community

A more simple definition refers to an enterprise that has (mainly) the following characteristics:

- User-ownership: users of services of cooperative own coop organisation. Ownership means users are main providers of equity capital
- User-control: users of the services of coop decide on strategies and policies of coop
- User-benefit: all benefits of cooperatives are distributed to users on basis of use (proportionate)  
Difficult to make policy or measure its impact unless there is a clear idea of what the policy goals should be.

The definition for social enterprise set out by the Commission is as follows:

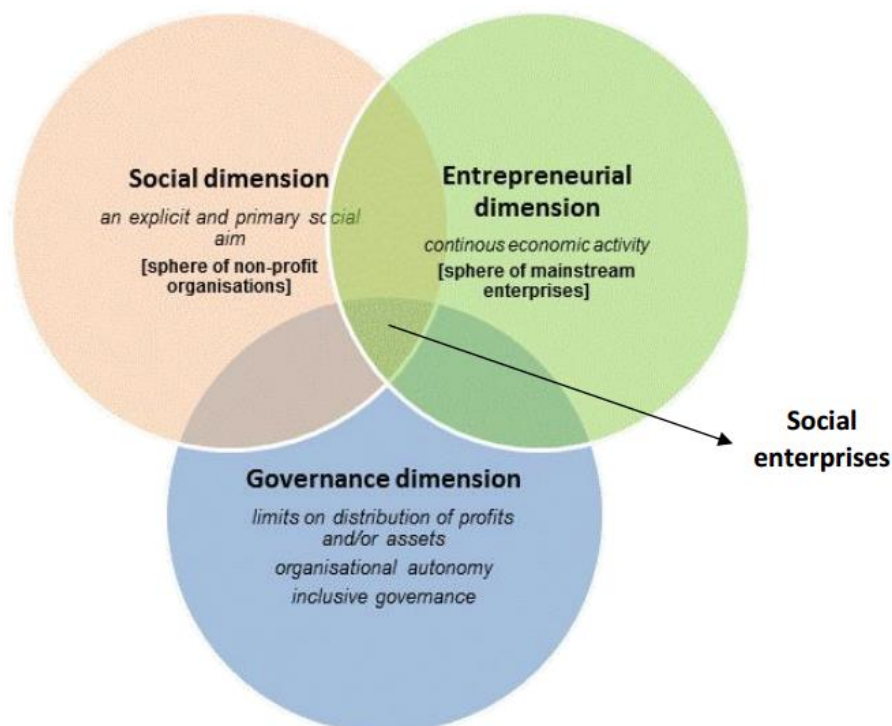
*“A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.*

*The Commission uses the term 'social enterprise' to cover the following types of 'businesses':*

- *Those for which the **social or societal objective of the common good** is the reason for the **commercial activity**, often in the form of a high level of social innovation,*
- *Those where **profits are mainly reinvested** with a view to achieving this social objective,*
- *The method of organisation or ownership system reflects their mission using **democratic or participatory principles or focusing on social justice.**”*

*Definition of Social Enterprise (European Commission, 2015)*

This definition incorporates the three dimensions: entrepreneurial, social and governance, which is illustrated in Figure 1 below.



**Figure 1. The three dimensions of a social enterprise (European Commission, 2015)**

Definitions which contain plural goals are not problematic to the extent that the legislation and policy environment allows for and is adapted for such goals. Problems arise when they are conflicting and counter-productive instead of synergistic.

## Objectives of Policy in relation to the 3 dimensions

When considering the objectives of the policy measures, the objectives must also be identified (e.g. to correct market, achieve social goals, provide services, improve position in supply chain, create a more favourable institutional environment, provide a governance framework etc.), as well as the target group (i.e. to all social enterprises, only certain types of cooperatives, only within a sector, etc.). In the case of cooperatives, they are often tied to territory and cultural and historical aspects, which all affect the objectives of the cooperative enterprise. Cooperatives have an economic/entrepreneurial perspective (improve efficiencies and performance) and a social/governance performance (equitable distribution, creation of stable employment, local development, etc.).

Certain cooperative communities may have a more pronounced entrepreneurial discourse, while other may be based on a shared discourse and common history. Measures related to the economic perspective may have to do with the cooperative's role in the market and position in the supply chain, organisational structure, achieving economies of scale and competition with investor owned firms. On the other hand, the social/governance performance relates to processes of collective action and social interaction as well as non-economic contribution, which is counter to managerial models based on profitability at the expense of solidarity. Attempts to bridge these 2 approaches require a coherent cooperative policy approach.

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## New Crops Questionnaire

In the country studies carried out for New Crops, a questionnaire which relates to all 3 dimensions of social enterprises and cooperatives was answered. It attempts to understand whether the policy and legislative environment is supportive in that particular country. Given that New Crops is not a research project and that a sample of 4 was a limited number, as well as in light of the extensive study carried out by the Commission, the questionnaire had a limited goal: to help all participants have a better understanding of their own systems and those of other project participants, so that they could provide a more nuanced teaching and learning experience in the knowledge alliance. Below we set out a summary of results. The actual questionnaires filled out by each partner of the consortium go into greater details and are available online at [www.ies.org.ro/erasmus](http://www.ies.org.ro/erasmus).

### Results of Questionnaire - comparison of Enabling Environments

#### 1. Legal Forms:

Cooperatives: Cooperative laws exist in Italy, Spain, Sweden and Romania.

A general cooperative law in Spain, Romania and Sweden govern the various types of cooperatives, with the exception of credit cooperatives, which have their own law. The types of cooperatives, which may have several dedicated clauses in the general cooperative laws, include, but are not limited to: producer, marketing, housing, supply, consumer, worker, housing, fishermen, education, transport and forestry. Cooperatives may be first tier (made up of members) or second tier (where the members of the second tier cooperative are predominantly cooperatives). Romania also has a second specific cooperative law just for agriculture. Spain has a national law, but almost every region has its own cooperative laws, with the result that most cooperatives in Spain are set up under the regional laws.

Italy has several different laws depending on their location and on the types of services or activities. The main ones are the social cooperatives (Type A and B); production and worker cooperatives and agricultural cooperatives, the latter which are governed under 2 types of laws, the first being the general agricultural cooperative law and the second one under a professional agricultural entrepreneurship law.

Credit cooperatives are governed by their own specific laws.

Social enterprises: *Italy* has a social enterprise law (Law 155/2005) which regulates the areas of interest and the legal forms that social enterprise may adopt. Such social enterprises carry out productive activities with an economic interest, but they must also have a clear social aim. They may have different legal forms but the private limited company is the most common. The typical areas of competence are research and supply of cultural services, environmental and cooperative education, environmental protection, promotion of public assets and cultural heritage, social tourism and supply of development services for enterprises with a social purpose.

*Spain, Sweden and Romania* do not have a specific social enterprise law, and use a variety of business forms, including cooperatives. *Spain* does have, however, a social economy framework law, which makes reference to the many legal forms that social economy entities may take, and as well it has a social cooperative law. In 2015, *Romania* also adopted a law on social economy with a definition of social enterprise, which can take a number of legal forms: cooperatives, associations, foundations, etc. In *Sweden*, social enterprises usually take on the form of an economic association, although WISE may be founded as economic associations, companies, non-profit associations or foundations.

## **2. Founding and registration**

The legal objectives of cooperatives in all countries must be in line with the statutes, which include references to autonomous association and democratic control by members. In *Italy*, social enterprises are restricted according to their purpose (Type A or Type B).

In *Sweden*, both cooperatives and “economic associations” must be registered with the Swedish Companies Registration Office and an auditor is required. In *Romania, Spain and Italy*, cooperatives must be registered at the Trade Registry. Depending on the form that a social enterprise takes in *Romania and Spain*, it must follow the registration procedures for such forms. Additionally, in *Romania*, the recent adopted norms of application for the Law of Social Economy foresee that each entity that complies with the required criteria can obtain the Certificate of Social Enterprise and thus be registered as a social enterprise at each county’s employment agency.

In *Italy*, there are provincial and regional registers for cooperatives. Social enterprises must register at the Chamber of Commerce and the public registry.

## **3. Members and voting**

In *Italy*, members have 1 person, 1 vote. Non-members may be part of governance bodies, but cannot vote. Non-members who are directors may only vote on the board. Italian social enterprise allows non-members to be part of governance bodies as well. Residency requirements vary. A minimum entrance fee is required.

*Spain’s* cooperative laws allow a departure from the 1 person-1 vote principle, but in all cases, a plural vote must be in proportion to cooperative activity and there is a limit. The bylaws set out such departures. The 17 regional laws vary. Entrance fees are required and set out by the bylaws. For second level cooperatives, a plural vote is allowed. Under limited circumstances non-members are allowed limited voting rights. In relation to social enterprise, this would depend on the legal form chosen.

*Sweden’s* cooperative laws and economic associations adhere to 1 person, 1 vote, but may be otherwise provided for in the statutes. Non-members are not allowed voting rights.

*Romanian* cooperative law and the other governing laws for different types of entities provide for 1 member, 1 vote. Social economy entities, depending on legal form, generally conform to 1 member, 1 vote if applicable. Non-members may not vote. Practice brings in the attention 2 models for voting during the General Assembly that gathers every year: in person or through delegates. In the case of those social enterprises with a great number of members (usually the mutual aid houses, which can have over 10.000 members) the bylaw specifies a maximum number of delegates that represent a number of members (e.g.: 1 delegate at 200 members).



#### **4. Internal Governance**

Mandatory governance bodies for cooperatives and social enterprises:

In *Romania* the main decisions organism is the General Assembly, which elects the Management Board or Board of Directors, the President and the censor or censors committee (if the organisation has more than 100 members, it has to have 3 censors). The Board of Directors can delegate some of its duties to an Executive Director. While the law does not establish a number of members in the Board of Directors, ¼ of them can be external individuals, non-members. No explicit provision.

*Spain*: General Assembly, Management Board and “intervenors” who overlook accounts, President. Non-members/ professional managers may sit on the board.

*Italy*: General Assembly, Board members, board of statutory auditors. (The same applies to social enterprises.) Non-members/ professional managers may sit on the board.

*Sweden*: General Assembly, Board of directors, auditors. Non-members/professional managers may sit on the board.

#### **5. Financing / Distribution of Profits & Benefits/Assets, etc.**

*Romania* allows the issuance of cooperative bonds. For Social enterprises, depending on the form used, revenues may come from a number of sources, such as membership fees, interest and dividends, income from direct economic activity, donations, public funds, etc. Also, social enterprises can access EU funds through dedicated calls for project.

Associations and foundations may establish companies. Associations do not distribute profits to members nor foundations to their administrators, although they can receive revenues. Only members may have an equity interest in their cooperative. 5% of gross profits of the cooperatives are destined to the legal reserve until it equals 20% of the share capital. With respect to an “asset lock”, assets remaining after paying creditors and the return of the divisible amount to the cooperative members must be transferred to another cooperative of the same type in close proximity to the cooperative.

Romanian social enterprises must allocate at least 90% of profits to social purposes and statutory reserves. Assets remaining after liquidation must be transferred to other social enterprises. In the case of social enterprises which are foundations or associations, there is a total asset lock and distribution constraint and in the case of dissolution, the assets must be transferred to similar legal entities.

In relation to cooperatives in *Spain*, equity may be raised through member contributions to social capital, contributions being obligatory and voluntary. Subordinated instruments such as “special participations” made by both members and third parties are also allowed in some Spanish cooperative laws. Both members and non-members can contribute to the financing of the cooperative with other financial instruments in accordance with the decision of the general assembly. The national cooperative law allows for the issuance of participating shares and also bonds. All cooperative laws impose the obligation to set up and assign funds to the Obligatory Reserve Fund with a minimum of 20% of the cooperative results and 50% of extra cooperative and extraordinary results. As well an education fund is obligatory, with 5% minimum of cooperative results and 50% of extra cooperative results being dedicated to such fund. However, it should be mentioned that there are significant differences in the contribution to such funds.

After contribution to obligatory funds are made and taxes paid, the general assembly decides on the distribution of excess and benefits to members and in applicable cases, third parties, all in accordance with the cooperative bylaws. Non distributable funds must be given to cooperative associations in the event of a cooperative converting into another type of legal form.

In *Italy*, cooperatives may increase their cooperative capital in relation to specific objectives and the Assembly determines the amount and time limit. Both obligatory and voluntary contributions are made in varying percentages, but for production and worker cooperatives, 30% of benefits are destined for a legal reserve and

3% for mutual funds. Social cooperative financing can be made by contracts and agreements, sales and donations. Social enterprises distribute profits to both members and workers, in accordance with the regulations relevant to the category of employees. Benefits are distributed only to members.

There is an asset lock in place in Italy, where the non-distributable funds must be given to a cooperative fund in the event that the cooperative converting into another legal form.

In *Sweden* there are not legal limitations on financing and raising capital for both cooperatives and social enterprises, although non-members may not finance the cooperative. This provision is currently under revision in the Act on Economic Associations. The cooperative must have a tax registration, with annual tax reporting. Distribution to members is in the form of a surplus dividend, set out in the Cooperative Societies Act. The general assembly decides on the distribution of profits, as set out in the Act on Economic Associations.

## **6. Exit Provisions**

*Romania*: no restriction on exit.

*Spain*: members may exit, but may be subject to notice and time periods (the time period in Andalusia for agricultural cooperatives is 10 years). Minimum time periods offer stability for the cooperative. If the leave is unjustified, the amount of return on equity capital may be reduced.

*Sweden*: exit provisions have a time period of 2 years, which may be extended to 5 years. Expulsion is governed by the bylaws.

*Italy*: no restrictions, but time periods and conditions set out in the statute.

## **7. Change and Reorganisation**

In *Spain* the reorganisation of cooperatives is regulated by national and regional laws, allowing mergers, transformation, division and, in limited cases, the global assignment of assets and debt. Other types of companies may also convert into cooperatives, and cooperatives may convert into civil or commercial companies. Disincentives exist to discourage cooperatives from converting to shareholding companies through the obligation to give non-distributable funds to other cooperative associations. Pursuant to some regional laws, such transformation must be approved by the relevant authorities.

*Romanian* law allows mergers and acquisitions, but does not allow the reorganisation or transformation of a cooperative into another form of company governed under the Company Act. With respect to social enterprises, mergers and splits are permitted but the possibility of reorganising under a different business form is not addressed.

The *Italian* legislation establishes that any remaining profits should flow into a reserve that cannot be divided among members (asset lock) either during the life of the cooperative enterprise either in case of dissolution or if the cooperative is sold or transformed into a different type of company. Until 1993, these profits were donated to charity; since then, they flow in dedicated funds aimed at the development of cooperation which are managed by its representative bodies. With regards to the conversion of cooperative banks into joint stock companies, the current reform prescribes that the coop banks (i.e. with less than €200 million in net assets) wishing to remain independent will also be required to transfer their assets to one or more mutual funds for the promotion and development of cooperation (*fondi mutualistici per la promozione e lo sviluppo della cooperazione*) established under Law n. 59/92. The question of asset lock is more complex and governed by specific laws/provisions which prescribe different rules as for example the taxation of the reserves. Nowadays as the cooperative banks are under reform, the question is not well defined. Such transfer is not required for larger BCCs which exceed this net asset threshold but their cash reserves (*riserve*) will be subject to an extraordinary tax at the rate of 20%. Any BCCs that do not either join a cooperative banking group or transform into an S.p.A. must be liquidated and wound-up.

*Sweden* permits mergers and acquisitions. The same rules apply to cooperatives as for other companies, according to their form of association. In order to change the form of association, the company must first be liquidated, and then a new business can be started in another form of association

By means of a merger agreement, a co-operative society (the assigning society) is absorbed by another co-operative society (the acquiring society). A merger of this kind means that the members of the assigning society become members of the acquiring society, that the assigning society is dissolved without being wound up and that its assets and debts are taken over-by the acquiring society. The agreement shall, in order to be valid, be approved by the General Assembly of the assigning society.

Prior to 2016, it was mandatory by law to allocate funds to an asset lock. In the new revised law this was removed. The social companies still write in their statutes that there is no dividend, but it is not compelling. They choose to write this in the statutes partly because they are largely dependent on public funding but also because profit distribution is not the purpose of their business.

## **8. Tax**

*Romania* cooperative legislation does not provide special tax provisions for cooperatives. Associations and Foundations engaged in business activity are profit tax exempt for revenues of up to 15,000 Euros or 10% of overall income. They can also receive income tax exempt donations or profit tax exempt sponsorship from companies and 2% of income tax directed by tax payers. Non-profit organisations are exempted from paying taxes on the several categories of revenues such as membership fees and registration fees from members; cash and in-kind donations from members or benefactors; registration taxes; donations or non-reimbursable grants. In addition, social enterprises may apply for property tax exemption on land and buildings. Work integration social enterprises which receive a social label are exempt from property tax on land and buildings.

A special tax regime applies to cooperatives in *Spain* and a special tax treatment related to Corporations Tax, tax on capital transfers and certain legal transactions, and Trade Tax and Immovable Property Tax. Furthermore, cooperatives are broken down into 3 categories, each with different benefits. For example, agricultural cooperatives which limit transactions with third parties are in the most beneficial category. If cooperatives do not fulfill their statutory obligations, such as mandatory contribution to obligatory funds, they lose their tax benefit. Regional differences are not substantial. Social enterprise taxations would depend on the type of business form chosen.

*Sweden* has no specific tax provisions for cooperatives and social enterprises. Associations pay a corporate tax rate 22% as do other companies.

*Italy* also has special tax provisions for cooperatives, depending on their sector. In general, the cooperative are exempted from the payment of a part of the taxes on profits or gains which are allocated to the indivisible reserve and are needed to strengthen the enterprise and its capital. For instance, the exemption from the payment of corporate tax (IRES) can vary from 30% to 70% out of the assets according with the regimen characterising the cooperative (predominant mutuality or non- predominant mutuality). Instead social cooperatives are totally or partially exempted from the payment of tax previously mentioned. Moreover they benefit from a reduced value added tax (VAT). Additionally, social cooperatives type B (similar to WISEs) are exempt from the payment of the social security contribution for the disadvantaged workers employed. There are also tax exemptions from private donations to social cooperatives, NGO and ONLUS organisations. Social enterprises ex legge status have **no fiscal benefits**.

## **9. Public Policy**

In *Italy* and *Spain* there is a limited tax relief for cooperatives. In *Italy*, a variety of instruments and initiatives for promoting cooperatives exist although, there is no such policy in place for promotion of social enterprises. *Spain* and *Romania* have a framework law for the Social Economy, governing all types of business forms of the social economy and allowing for the promotion of the social economy in general. In *Romania*, there are some SME funding grants. Also, allocations from the structural funds have been planned even their effective

use is challenged. The National Program for Rural Development encourages also associative work in rural areas and in particular agricultural cooperatives. *Sweden* has programs for social entrepreneurship and innovation, as well as regional development.

## **10. Networks and Umbrella Organisations**

*Spain* has a federation of cooperatives for each region and then a national confederation, all organised by sectors. There is also an umbrella organisation for entities of the social economy at the regional and national level (CEPES), as well as a platform for the third sector. CIRIEC Spain also has the Observatory on the Social Economy. Business development services and support schemes specifically designed for social enterprises are important. A number of countries have initiated a broad variety of business development services and support schemes specifically designed for social enterprises and social economy entities more widely. These include Italy, Spain, and Sweden. The scope and scale of such publicly funded schemes varies across countries. For example, in *Sweden* the public support initiatives are narrowly targeted at WISEs, while in countries like *Spain*, the support is targeted at the much broader social economy. Sweden has various associations offering training and information, as well as some guarantees and financial support for social enterprises. There is also a cooperative employers association.

*Italy* has various federation and confederations, which are organised, depending on the region. Trentina is known for its cooperative consortia umbrella model, which includes credit, agricultural, social, housing cultural and tourism. Con.Solida is a consortium of social cooperatives. Social cooperatives consortia are the most common support structure for social enterprise in Italy and provide training and consultancy support to their members.

*Romania* has various unions for different types of social enterprises, cooperative sectors and also for credit. Several federations gather a significant number of mutual help houses: the National Union for Mutual Help Houses for Employees in Romania, Federation of Mutual Help Houses, Omenia Federation of Mutual Help Houses for Pensioners. There is also the federation of credit cooperatives, CREDITCOOP, which acts as the central cooperative bank. Handicraft Cooperatives are grouped in the National Union of Handicraft Cooperatives - UCECOM, while consumers cooperatives are grouped in the National Union for Consumers Cooperatives – CENTROCOOP.

Some social enterprises networks also function in Romania. According to EU Commission's report "A map of social enterprises and their eco-systems in Europe" (2015), we mention here: the Romanian network of work integration social enterprises (Asociatia RISE Romania) operating with the objective of supporting work integration of disadvantaged people, the 'Societal' network, promoting the introduction of social responsibility indicators for the management and monitoring of NGOs, "We act responsibly! - the CSR Social Network" facilitating knowledge exchange and promotion of corporate social responsibility.

## **11. Support systems and capacity building needs**

The landscape and level of development of cooperative movement or of the social enterprises varies significantly among partner countries, each of them with particular specificities, which reflect also at policy level when we speak about priority actions.

In *Spain*, core areas of capacity building cover:

- Continuous training needed to improve managerial efficiency by incorporating better management methods and techniques, thus a methodology should be put in place for training of managers, as well as a training infrastructure. This implies the development of well-informed trainers, training materials, practical learning opportunities for all levels of managers, as well as cooperative exchanges.
- Enhancing operational capacities of agricultural cooperatives to produce and market safe and fresh farm products with a view to improving earning capacities and revenues of the member farmers. This implies the adoption and adaptation of methods to enhance business capacities of agricultural cooperatives. For example, exploitation of territorial materials and resources, technology improvements, agreements with

market wholesalers, direct consumer contacts, direct sale methods, utilisation of other local actors to create synergies.

- Institutional capacity building and increasing the level of participation in associations, federations, etc. in product promotion and marketing campaigns. Horizontal integration to improve supply of inputs as well as the marketing of outputs, which includes assessing markets and demand. As well, entering into relationships with finance and technology providers and developing management information systems.
- Understanding government policies and procedures and being able to negotiate with authorities, market and business players, and to ensure dialogue between cooperative members and these entities.

Due to Spain’s administrative structure, the 17 regional governments have taken on the main responsibility for capacity building and extension services, since the early 1980s. The report of “AKIS [Agricultural Knowledge and Information Systems] and advisory services in Spain”, Report for the AKIS inventory (WP3) of the PRO AKIS project, (Javier Esparcia, et al, 2014) sets out the five main types of actors related to capacity building: 1. regional research centres, 2. agricultural county offices, 3. professional farmer organizations, 4. cooperatives and 5. private companies specialized in advisory and capacity building services.

<b>Type of Training and Capacity Building Actor</b>	<b>Description</b>
Regional research centres and joint-centres	Main functions focused on R+D+I and technology transfer. Most of them also offer training programmes (with different level of specialization according to the needs) managed directly or in coordination with some sections of the regional governments. Some of them also develop functions of - more or less occasional- advice services (for example through their experimental farms), as it is the case of IVIA in Valencia, IRTA in Catalonia or IFAPA in Andalusia. In Andalusia, the IFAPA, which is the Agency for Management Agricultural and Fisheries (2011) centralizes management and processing functions of grants and records on agricultural policies, and assumes also functions of promotion and agricultural extension, management studies and training.
Agricultural County Offices (OCAs).	This is the structure linked to former Agricultural Extension Service before the change in the 1980s. They have lost the traditional role of personalized advice to farmers, and currently they have functions focused primarily in the management of grants to farmers from CAP or some other type of administrative issues linked to the management of EU regulations.
Professional Farmer’s Organizations.	With the disappearance of national Agricultural Extension Service in the 1980s and the loss of functions of OCAs (see above), Associations of Farmer/Producer Organisations have taken on most of these services, exercising functions of technical and specialized advice for its affiliates.
Cooperatives	Cooperatives play a major role in capacity building. They are organized formerly in regional federations and on the national level as a Cooperatives Confederation, an umbrella organization for the whole cooperative sector in the agriculture, livestock and agro-food activities. It coordinates with the producer organisations mentioned in 3) above, but at times, offers different courses, management and training programs.
Private consultancy, training and management companies.	The emergence of new needs such as ICT, increasingly sophisticated market demands, the management of public funds from EU policies, etc. private organizations have emerged. This has allowed them to incorporate new features into its advisory and training services. The training and capacity building courses of private consultants does not often focus on the “cooperative difference” but instead treats cooperatives as one more business entity in a given sector.

*Table by authors, adapted from Javier Esparcia, et al, 2014, above.*

Added to this, public and private universities are a relevant actor when we speak about support systems. Courses in social entrepreneurship, agricultural cooperatives, social enterprise, etc. exist across the various universities in the 17 regions, in relation to a wide range of degree programs. Such courses may or may not be specific to social enterprises or agricultural cooperatives. These courses are optional and must meet the requirements of EU curriculum. As well, summer courses and unofficial masters and courses may also exist.

In the *Italian* panorama, a specific cooperative case is represented by the *Trentino Cooperative Movement*. In fact, the Province of Trento is one of the European regions with the highest density of cooperative enterprises, some of which have been active since the end of the 19<sup>th</sup> century. Cooperative members amount to 270,000 people out of a population of 500,000 counting 210,000 family units. Over the years, the cooperative experience in Trentino has expanded from the traditional areas of credit, agriculture and consumers, to now encompass social services, environmental management, energy production, culture and education, with the ever important role sustained by the one unique Federation engaged in innovative cooperative training and education activities for both adults and schools.

The Trentino cooperative model is of interest to anyone studying social economics because it encapsulates many of the transformations undergone by cooperation in Italy and in Europe. The experience of Trentino does not claim to be unique nor exemplary compared to other models, yet some of its characteristics can help reflection, especially when seeking new strategies to contrast the difficult times in which our societies are currently living. For further details see AA.VV, [The Co-operative model in Trentino \(Italy\). A case study, Report OECD LEED](#), Trento 2014.

The importance of the cooperative system within the economic and social development it is formally recognized by the government of Province of Trento which signed a protocol with the *Federazione trentina della cooperazione* aimed to reinforced and relaunched the collaboration between the two organizations. A relevant area of collaboration concerns the support of the local government in *promotion of specific training programs for cooperative managers and board members* in order to increase the development of the cooperatives in line with their ethical nature and the new challenge of the social and economic context and the start-up of new form of social enterprises.

In addition, the cooperative system has updated its own training system pact. In this aspect, the Federation has defined the professional profiles of the board members and managing figures of the credit, consumer, labour and services cooperatives establishing professional standards of reference. These professional profiles will be included in regional and therefore national repertoire of qualification. Moreover, the Province of Trento recognizes the Federazione Trentina della Cooperazione the authority for the validation of cooperative competences.

The collaboration with the local government takes into consideration also the investment in the *young people competences in field of cooperative entrepreneurship*. Protocols of collaboration between the Federazione and the Education system in Trentino regard:

- The implementation of *Associazioni Cooperative Scolastiche (Scholastic cooperative associations)* for managing classroom activities acquiring basic knowledge about the cooperative enterprise characteristics (see details and achievements on <http://www.coopeduca.it/>)
- Support in implementing the education reform law by providing and realizing the programme “*Cooperative for students training*” (CFS - cooperative formative scolastica) (see details and achievements on <http://www.scuolalavoro.coop/>).

The School-Work Alternation Project is an education method brought in by laws within the recent Italian School Reform. The main goal of this project, which combines and integrates classroom studies with time spent at a business to learn on-the job (on-the-job training experience with real problem-solving situations), is to help young people (upper secondary schools) in acquiring not only basic knowledge, but also those skills required for a successful school-to-job transition.

Within this context, the Federazione trentina della cooperazione has been implementing in collaboration with all types of schools (high schools and technical colleges) of the region, a pilot project aimed to strengthen transversal competences, attributing particular importance to the development of “cooperative entrepreneurial” competences that can be translated into a real citizenship skill. Specific training school cooperative (CFS - cooperative formative scolastica) made up of students are committed in this experience, taking part in guided visits in cooperative enterprises, in specific in-depth learning moments with coop experts, in the organization of work placements, and in the promotion of work/study experience. Moreover, FTC provides a validation pathway of such entrepreneurial experiences acquired by students in contexts that may be formal and informal. The FTC program foresees a standard pathway of 100 hours carried out in 3 years.

In *Sweden*, a note can be made on the effective use of the structural funds for the development of social economy in the countries. The Swedish Agency for Economic and Regional Growth<sup>9</sup> has been particularly instrumental in developing the policy framework and providing support to in particular for the work integration social enterprises. Based on a commonly agreed “*Action plan for work integration social enterprises*”, the agency has coordinated activity with other public stakeholders relevant to the social economy field, one of useful products they developed being the [www.sofisam.se](http://www.sofisam.se) with a coherent, comprehensive and structured *knowledge bank available online* on social enterprises existence, functioning and management. The educational system covers relevantly the need to develop competencies in the field. There are schools (universities, high schools, etc.) that have separate courses on social entrepreneurship. There are also courses, which trains supervisors and co-operators of social enterprises. Support structures for different types of entities are active as well. *Coompanion Co-operative Development Agencies (CDAs)* (<http://coompanion.se/>) is an advisory organisation for cooperatives and has offices in 25 locations across Sweden. They provide information, advice and training in how to start up a business. CDAs can provide some professional support as part of their mandatory function. SKOOPI (<http://www.skoopicoop/>) is a national stakeholder and network organization that works with support and training for work integrating social enterprises. SKOOPI also work with advocacy to influence the conditions for starting and running work integrating social enterprises. In May 2017, Svensk Kooperation (Swedish Cooperation)<sup>10</sup> started as a new important opinion maker for the cooperative corporate form. Their purpose is to spread knowledge and to help modernize the image of cooperative entrepreneurship.

In *Romania*, despite the extensive needs at different level (the social enterprises/cooperatives themselves, citizens/students when we speak in general about developing social entrepreneurial skills/competences, policy makers in general and employees in the public system in particular, institutional structures, etc.), the capacity building systems or support schemes are limited. At the same time, the involvement of the umbrella organisations and networks varies significantly when we speak about their capacity to develop support services for their members. The formal educational system is still at early stages when we speak about developing social entrepreneurial skills and even less on cooperative start-up or managerial skills (very few of the universities have in their curricula program focused on the social economy in general). *NESsT Romania* is among the few successful support structure and contributor to the social development enterprises in Romania. Their policy approach combines provision of funding, business counselling, knowledge-sharing and mentoring<sup>11</sup>. Romanian American Foundation is a private donor that over the last years have actively focused on entrepreneurship development, with two models that are worth mentioning: *Green entrepreneurship* focused on the creation of new green social enterprises that would capitalize on the local natural and cultural resources in a responsible manner<sup>12</sup>, respectively the *Rural Entrepreneurship*<sup>13</sup> program aiming to support small farmers who prove to have an entrepreneurial spirit and initiatives to create clusters of producers.

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<sup>9</sup> <https://tillvaxtverket.se/english.html>

<sup>10</sup> <http://svenskkooperation.se/about-swedish-cooperation/?lang=english>

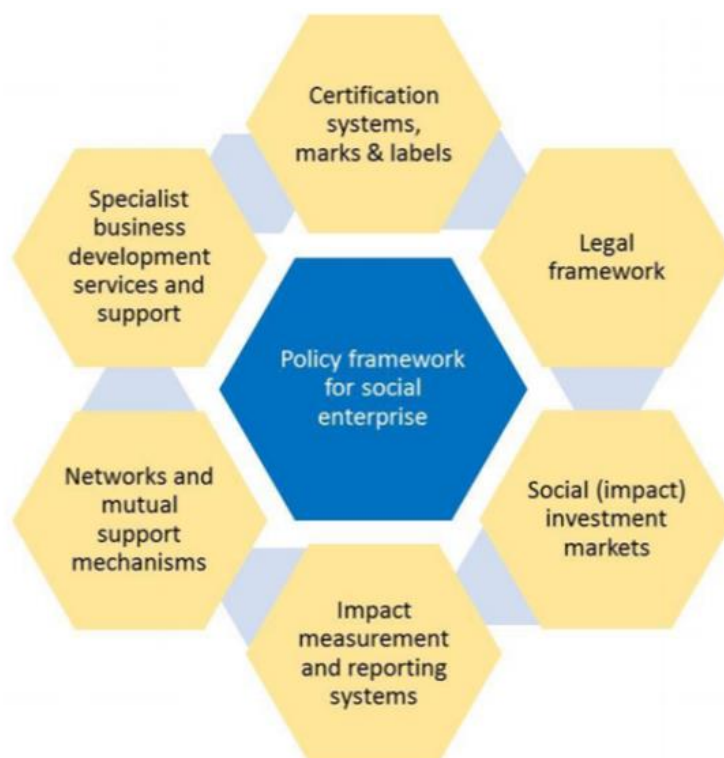
<sup>11</sup> NESsT model is presented in details in the *Boosting Social Enterprise Development, Good Practice Compendium, OECD, 2017*

<sup>12</sup> Details on the program are available at <http://www.rafonline.org/en/programe/antreprenoriat-verde-intreprinderi-sociale-pentru-dezvoltare-sustenabila/>

## Concluding Remarks

Much work remains to be done in relation to creating an adequate policy environment for social enterprises for most countries in Europe. In New Crops it appears that the Italian model is most adapted to the necessities of the social enterprise business form. With respect to cooperatives, both Spain and Italy have well developed laws and policy environments.

Suggestions have been made in the EU Commission report with respect to an ideal policy framework as seen in Figure 3.



**Figure 2. Select features of an eco-system for social enterprises** (European Commission, 2015)

In addition, the report noted the barriers and constraints to the development of social enterprise:

- poor understanding of the concept of SE
- lack of specialist business development services
- lack of supportive legislative frameworks
- lack of access to markets
- lack of access to finance
- absence of common mechanisms for measuring and demonstrating impact
- austerity and cuts to public spending (in the case of SE)
- internal factors such as lack of capacity, entrepreneurial spirit and professional skills, competences for scaling up, etc.

While many of these factors may be seen to be equally applicable to cooperatives, legislative frameworks are generally more developed for cooperatives. However, legal frameworks are only part of the enabling environment. A recent ICA report, carried out by Tilberg University (Groeneveld, 2016) and presented at the ICA Almería 2016 Research conference set out the factors which lead to successful cooperatives:

<sup>13</sup> Details on the program are available at <http://www.rafonline.org/en/programe/rural-development-through-entrepreneurship-and-association/>





**Figure 3 Factor for cooperative success (Groeneveld, 2016)**

The analysis led to the following conclusions:

- The cooperative sector is generally small in societies characterised by large inequalities and where power is captured in the hands of just a few people.
- a favourable general business environment is associated with better co-operative performance.
- good governance conditions are positively correlated with co-operative performance.
- the perceived level of corruption in a country is negatively correlated with cooperative performance. A rise in perceived corruption presumably marks a deteriorating environment for co-operatives.
- income equality is significantly and negatively correlated with cooperative performance.
- A stronger co-operative economy that is able to enact all seven Co-operative Principles could lead to a decrease inequality and greater equity in a country.
- a positive relationship exists between the overall state of democracy and cooperative performance in individual countries. In other words, the more democratic a society, the more fertile the situation for cooperative will be.

These conclusions make clear that successful cooperatives not only rely on good governance and successful management, but also on a healthy and efficient policy and civil society environment. The cooperative sector needs to look after the management and governance of its businesses, but the conclusions suggest that it must also continue to demand and work for an adequate enabling environment and sufficient policy support.

### **Going Forward**

Across Europe, the following typology of public support measures has been identified by the report on social enterprise eco-systems:

- Awareness raising, knowledge sharing, mutual learning;
- Specialist business development services and support;
- Investment readiness support;
- Dedicated financial instruments (e.g. social investment funds);
- Physical infrastructure (e.g. shared working space); and
- Collaborations and access to markets.
- Networks and mutual support mechanisms

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