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

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The international co-operative movement has prioritised supportive legal frameworks as a key constituent of co-operative growth (ICA, 2013). Unfortunately, there is not a robust literature on co-operative policy to help meet this need. Supportive legal frameworks for co-operatives are a "deeply under-researched area" (Adeler, 2014: 50). We recently conducted a review of the existing research and found that despite its dearth, the literature points to six primary forms of policy support that have been successfully deployed internationally to support co-operative growth: co-operative 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, or "co-op hot spots": the Basque region of Spain, Emilia Romagna in Northern Italy, and Quebec, Canada. This article accounts for how these six policy forms appear in the co-operative dense regions. The aim of this analysis is to facilitate further research in the understudied area of co-operative policy, and to clarify policy successes for organisers in the co-operative movement interested in emulating them.

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Co-operative Recognition

The distinct benefits of co-operatives have been officially recognised in Spain, Italy, and Quebec. The Spanish constitution of 1978 pledged to legislatively support co-operative growth. According to Adeler, this "constitutional norm set the ground for building the rest of the legislation and policies to regulate co-operatives" (2014: 53).

The Italian Constitution of 1947 also recognises the value of co-operatives by noting how:

> The Republic recognises the social function of co-operation with mutual character and without private speculation purposes. The law promotes and favours its growth with the most appropriate means, and ensures, with appropriate controls, its character and purposes (Corcoran & Wilson, 2010: 7).

Quebec does not have a constitution, and so does not have official and salutary language on co-operatives. But the Co-operative Development Policy of 2003 began with the phrasing:

> By acknowledging the central role co-operatives play in the economy and tackling the specific problems they face, the Co-operative Development Policy takes resolute aim at ensuring the harmonious development of co-operatives, marking an important step in the reaffirmation of Québec's leading role in this key sector (Government of Quebec, 2003).

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Having normative support of co-operatives 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.

Financing

Financing is one of the most important supports governments can provide for co-operative development (Rowe, Peredo, Sullivan & Restakis, 2017: 63). In Italy, the Marcora Act of 1985 set up two different funds for financing co-operative development (Adeler, 2014: 54). The first is a general fund for the development of all types of co-operatives. The second is designed specifically to deal with employee take-overs of troubled companies.

Similarly, the Government of Quebec maintains a robust co-operative 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 co-operative projects, addresses a key barrier to co-operative development (Rowe, Peredo, & Restakis, 2017).

Sectoral Financing

The co-operative movements in Spain, Italy, and Quebec have also lobbied for legislation that can facilitate sectoral financing (improved generation and sharing of investment capital within the sector). 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-operative across generational lines. In Spain, a minimum of 20 per cent of profits must be placed into indivisible reserves if the profits result from business with the co-operatives own members; the amount is 50 per cent if profits accrue from business with non-members (Adeler, 2014). 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 capitalise co-operatives and aid their financial stability — attempting to correct the obstacles co-operatives suffer to attract capital (2014: 53).

Changes to Italian co-operative law in 1992 created a solidarity fund to facilitate sectoral financing. All co-operatives must now contribute 3 per cent of their profits to co-operative 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 co-operative start-ups, co-operative conversions, and co-operative expansion (Adeler, 2014). The 1992 law generalised a pre-existing fund started by the largest co-operative federation in Italy, Legacoop (Logue, 2006).

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

Preferential Taxation

Spanish co-operatives receive a favourable tax rate. The Spanish corporate tax rate is 30%. Co-operatives benefit from paying a 20% tax rate, while co-operatives labelled ‘specially protected’ pay a lower rate of 10%. ‘Specially protected’ co-operatives include worker co-operatives, agricultural co-operatives, and consumer co-operatives; their special status derives from the social good they generate (Adeler, 2014: 53).

In Italy, the 1947 Basevi Law allowed co-operatives 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: 54). In 2001, the Berlusconi government sought to minimise the tax advantage enjoyed by co-operatives. The result is that now allocations to indivisible reserves are 70% tax exempt for co-operatives that do at least 50% of their business with members; co-operatives that do less are 30% tax exempt (Logue, 2006).

Supportive Infrastructure

The Spanish Federal Co-operatives Act legislates that each co-operative establishes an education and promotion fund. Co-operatives are required to contribute a minimum of 5 per cent of profits to the fund (Adeler, 2014: 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 co-operative sector, and pursuing broader social and environmental goals (Adeler, 2014).

Italian co-operative law mandates that co-operatives join a co-operative federation. Due to this rule federations are well resourced (membership fees are 0.4% of a co-operative’s annual sales) (Corcoran & Wilson, 2010: 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-operative development (Corcoran & Wilson, 2010).

The Italian government also supported co-operative 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: 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 co-operative movement has benefitted considerably from the formation of Regional Development Co-operatives (RDCs) in 1985. Regional Development Co-operatives are funded primarily by the provincial government and have a mandate to support co-operative development, strengthen existing co-operatives, and organise a co-operative network in Quebec’s seventeen administrative regions (Labelle, 2000). These RDCs, which operate as co-operatives themselves, have played a central role in growing Quebec’s co-operative sector.

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 co-operative enterprises, co-operatives are well positioned to benefit from public procurement flows. And yet this area of policy support for co-operatives 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 co-operatives preferential rights in cases of tie bids (Adeler, 2014: 54). In Italy, a number of municipalities only accept bids from organisations meeting a minimum requirement of disadvantaged employees — a condition that co-operatives are more likely to meet than competitors.

Supportive Policy and Co-operative Movements

Despite the importance of supportive policy for growing the co-operative sector, it is not a magic wand. Robust co-operative movements typically precede legislative victories — policy breakthroughs that can then further grow the sector. Without strong social movement promotion and pressure there is little incentive for governments to develop, implement, and maintain good co-operative policy (Develtere, 1996; Fairbairn, 2001; Diamantopoulos, 2012). Indeed, the three hot spots highlighted above initially emerged with little to no governmental support. Good policy, while vital to the growth of co-operative economies, is no replacement for the hard work of movement building. Ongoing movement-building, coupled with supportive legislative frameworks, is the formula that can help make co-operative dense regions like Mondragon normal instead of exceptional.

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