

3.2. Application of innovative business models

Setting up a business: documents needed, legal issues, preparing a business plan

3.2.3 How to launch a social cooperative (a step-by-step guide)



e-module 3: (social) entrepreneurship
Cooperative start-up implementation
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How to launch a Social Cooperative Enterprise? (1)

Things you need to know:

Choose the legal form

- ✓ The legal structure of your business is very important because it affects the **taxes** you pay, the **money** you can raise, the **paperwork** you need to file, and your **personal liability**.
- ✓ You must carefully choose your business structure, for this reason you should consult with business counsellors, attorneys, and accountants before you register your business, get a tax ID number and file for the appropriate licenses and permits.

We advise you to always check with the cooperative organization of your country or region for advice, since the requirements and procedures vary from one country or region to another.



How to launch a Social Cooperative Enterprise? (2)

Useful tips to start a social enterprise:

- ✓ Consult regional and national **rules**, depending on who has authority over the development of social enterprises in the location where you wish to start your business.
- ✓ Choose a **legal form** for your social enterprise based on the region's rules, since there is a variety of modalities, such as cooperatives, foundations, associations, labour societies, and so on.
- ✓ According to the legal entity of the business, the relevant **laws, and regulations** along with the required procedures must be examined thoroughly before they are carried out.
- ✓ Finally, remember that starting a social business is like starting a traditional firm. The main distinction is in the **business's corporate mission**, which is to pursue the members' collective interests or the broader economic or social interest.



How to launch a Social Cooperative Enterprise? (3)

Choose the type of cooperative, depending on your business plan

Another element of cooperatives that you should be familiar with is the several types of cooperatives that exist before choosing the type of business you want to start. Of course, every kind of cooperative is based on the activity to be developed, the number of partners of the business, the initial capital used, the formal rigor in the constitution and operation of the venture, the legislation in each country, etc:

- ☐ Consumers' cooperative
- ☐ Worker cooperative
- ☐ Purchasing cooperative
- ☐ Producer cooperative
- ☐ Multi-stakeholder cooperative
- ☐ Federal or secondary cooperative



The members and the governance of the cooperative



- ❑ In general, either a one-tier or two-tier structure is used. Many smaller or traditional cooperatives utilize a one-tier system. The two-tier structure is used by more professionalized and bigger cooperatives with a greater level of capital intensity.
- ❑ A Social Cooperative, depending on the country, should consist of a minimum number of members. All the members of a Social Cooperative Enterprise have the right to vote regardless of the number of cooperative shares they hold.
- ❑ The Constitutive Assembly, is the first stage in the formation of a cooperative.
- ❑ The General Assembly and the Board of Directors are the two decision-making bodies of cooperatives.
- ❑ An annual general meeting (AGM) is an opportunity for members of a co-operative to gather, talk about their co-op, make decisions, and help define its future.



The Board of directors



Among the most important responsibilities of the Board of directors are:

- ☐ Handling the financial issues of the cooperative
- ☐ Strategic planning
- ☐ Management
- ☐ Establishing policies and processes
- ☐ Members engagement
- ☐ Cooperative representation.



The Financial Resources



The financial resources of a Social Cooperative Enterprise consist of:

- the capital of the company
- the various donations of third parties
- the utilization of its property income from the business activity
- the grants from the European Union
- other international, national, or local organizations' bequests, donations, and concessions of assets



The statute (1)



- ❖ For the establishment of a Social Cooperative Enterprise, a standard statute can be used which is supplemented by the founders of the Social Cooperative Enterprise.
- ❖ The content of the statute is defined by the legislation.
- ❖ The statute contains the provisions that are necessary, in accordance with this law and otherwise refers to the provisions of the relevant laws.
- ❖ Indicative standard statutes are usually available in electronic form on the website of the Ministry of Labour.



The statute (2)



- ❖ The statutes of a cooperative should include these obligatory content items, modified, and enhanced with additional items, as needed:
 - the name and the trade name of the cooperative,
 - the locality of the head office,
 - the objectives of the cooperative, including whether the cooperative is a single-purpose or a multi-purpose cooperative,
 - the conditions and procedures for admission, resignation/withdrawal, exclusion, and suspension of members,
 - the value of, as well as the minimum and maximum number of, the shares to be subscribed by each member,
 - the procedure and conditions for the subscription and payment of the shares,

The statute (3)



- the type of financial liability of the members,
- the administration of the cooperative registers and the documents to be kept,
- the conditions and procedures for convening and holding general assemblies (form of notice, fixing and notifying the agenda, election of the president of the session, quorum, and voting, etc.),
- the limited size and responsibilities of the board of directors,
- the conditions and procedures for convening the board of directors and the supervisory council,
- financing: capital formation, constitution of legal reserves and funds,
- surplus distribution and loss coverage,
- the distribution of the capital in case of termination of membership or liquidation of the cooperative,
- definition of the financial year,
- auditing,
- conditions and procedures for voluntary dissolution,
- dispute settlement procedures,
- specification of any other legal matter,
- the procedure for modifying the bylaws/statutes.

Registration



- ❑ The registry is kept in the National Registry of Social and Solidarity Economy Department and access to it is free of charge by anyone interested.
- ❑ The registration must be made in the competent Registry of Cooperatives: the one belonging to the Ministry of Labour or equivalent, or in the regional Registry, depending on the country, within the time frame provided by the applicable law.
- ❑ With its registration, the Social Cooperative Enterprise gains access to the financial instruments and enjoys the financial incentives and support measures offered for social entrepreneurship.
- ❑ The Registry can be National or Regional, depending on the country and the scope of the cooperative.



Should I launch a cooperative corporation? (1)



You should consider the following criteria:

Liability: A cooperative's shareholders have limited accountability for the business's debts and obligations, including liability for the unlawful activities of other shareholders and workers.

Formation: In terms of burden and expense, forming a cooperative is moderately difficult. Whether you start a for-profit or non-profit cooperative will determine the particular measures to take. In addition to the usual formalities for founding a corporation, organizing a cooperative will almost certainly include deciding ahead of time when and how to distribute earnings in the form of patronage dividends.

Management Structure: The management structure of a cooperative, like its creation, is determined by whether it is a for-profit or a non-profit and follows the management structures of normal for-profit and non-profit businesses



Should I launch a cooperative corporation? (2)



Operation: Operating a cooperative is both time-consuming and expensive. Election and removal of directors, filling vacancies on the board, holding board and shareholder meetings, preserving minutes of such meetings, recording board resolutions, and shareholder approval of significant management decisions are all covered by state corporate laws

Ownership of Assets/Distribution of Profits: Generally, in a cooperative, the assets of the firm are owned by the cooperative, and shareholders/members have no direct financial stake in them. Shareholders in a for-profit cooperative own the company itself, but their direct financial interest is in the stock they possess.

Tax Treatment: "Double taxation" is one of the biggest drawbacks of a cooperative functioning as a company. Cooperative earnings may be taxed twice: first at the corporate level and again at the individual level when earnings are dispersed as stock dividends to shareholders. Cooperatives, unlike other businesses, can avoid double taxation by distributing earnings as a "patronage dividend" to members, instead of stock dividends.



The Legal Process (1)



1. Submission of registration request

The candidate social business submits to the National Registry of everybody that is responsible in every country or region:

- ❖ The statutes of the Social Business signed by the founding members.
- ❖ A statement is signed separately by each founding member regarding participation or not in another Social Cooperative Enterprise.
- ❖ A statement is signed on the criterion of employment of persons from vulnerable groups as a percentage (usually defined by national legislation)
- ❖ Other relevant supporting documents are signed (where required).

The Registry Department checks the submitted data and proceeds to the:

- registration of the Social Business in the register book.
- provision of a registration certificate which is valid for starting any business activity
- validation of the statute



The Legal Process (2)



2. Submission of additional data

The registered Social Cooperative Enterprise submits:

- ❖ Application for registration of additional data (exact address and the composition of the steering committee).
- ❖ Certificate of commencement of activity at the Tax Office.
- ❖ Minutes of the formation of a body of the steering committee.

The Registry Department checks the submitted data and proceeds to the:

- approval of the request for registration of additional data.
- validation of a registration certificate (valid until the submission of the first annual program of activities and report where it is replaced by the certificate of membership)



The Legal Process (3)



3. Bank account

Establishing a bank account in the company's name for the payment of capital stock is required for the creation of the cooperative. The cooperative society must create a bank account in its name, followed by the phrase "in incorporation," and deposit the paid-in capital as a monetary contribution.

4. Tax Office

- Request for the Tax Identification Number.
- Registration in the Economic Activities Tax.
- Census declaration of registration in the census of taxpayers.

5. Social Security Office

- Application for registration of the cooperative society in Social Security.
- Registration of the workers of the cooperative society in the general Social Security scheme.
- Registration of work partners in the special regime for self-employed workers of Social Security.



The Legal Process (4)



6. Public deed of incorporation

In several countries or areas, the public deed of incorporation is signed by all partners and constituent members in the presence of a notary. It usually includes:

- The minutes of the Constitutive Assembly
- The nominal relationship of the partners
- The bylaws
- The manifestation of the will to establish the cooperative
- The manifestation of the subscription and disbursement of social contributions
- The social contributions subscribed by each partner
- The value attributed to the assets contributed by the partners (if any)
- The certificate of deposit of the contributions in the bank account
- Current certification of the cooperative's corporate name
- If there are integrated legal persons, in addition a certification of the agreement of the General Assembly in which their integration into the cooperative is approved.

Practical Activity



60 minutes

What you
will need

- Printed form: pen/pencil, highlighters and markers (optional)
- Digital form: device connected to the internet (pc, laptop, tablet etc.), document editing software (e.g. Microsoft Word)

Instructions

Below you will find the Questionnaire on Starting Business, that was used for the production of the World Bank's *Doing Business* Compiled Report. This document can be a great guide for you. You can read it and print it so you can fill in your data and make a first draft of your Social Business as a legal entity:

<https://www.doingbusiness.org/content/dam/doingBusiness/pdf/db2020/D20-Starting-a-Business-Questionnaire.pdf>



TRAIN-CE-FOOD project

<https://traincefood.si/en/home-english>

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