FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES
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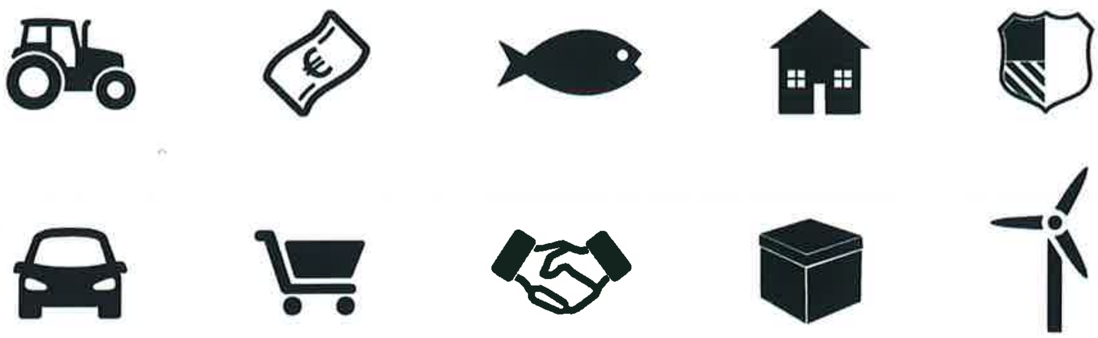
Framing the New Progressive Narrative:

A Mutual and Cooperative Approach to the Economy and Society



THE PEOPLE'S BUSINESS

mutuo

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Industry & Services:

Cooperatives can provide rewarding and fulfilling work

Income 95 bn Euros each year

Provide employment to more than 1.2 million people across the EU

Cooperative business can channel the latent skills and talents of regions otherwise better known for economic deprivation and lack of opportunity.

Employee owned business directly incentivise and reward workers for their efforts. Owner employees are productive, and can contribute disproportionately to wealth creation. Direct ownership puts all the fruits of ownership – income, capital appreciation, information and control – in the hands of the shareholder. With employees as the shareholding beneficiaries, wealth is shared more equitably and work is rewarding.

Through engagement as owners, workers can be shown to be more productive and engaged. Employee ownership is associated with a greater willingness and ability to contribute innovative ideas, and absenteeism and labour turnover are lower in employee-owned business. Both are strong indicators of worker morale.

Top 5 EU states for industry and service cooperatives

1	Italy
2	Spain
3	Germany
4	Cyprus
5	Netherlands

During the financial crisis, worker ownership was seen to be more resilient in terms of economic sustainability, jobs and capital / debt ratio than other types of business. In many cases these firms have been net job creators, saving a large number of enterprises from closure, maintaining most of their jobs and keeping local economic activities alive.

Their strength is linked to the intrinsic motivations of self-management for worker-members, which enable worker-members to take on flexible work hours and adjust salaries rather than reduce jobs during market downturns, or often decide to look for other business opportunities to redeploy the firm's capabilities for local needs or subcontracting, and in how their business purpose is committed to the wellbeing of members and other social objectives rather than the pursuit of short term profits. Worker cooperatives also have a record of economic stability and steady expansion during periods of growth, while remaining embedded in their regions. Better public policies for the promotion of cooperatives will help cooperatives, which in turn can substantially help Europe in its drive for growth and jobs.

Many worker owned firms are the result of businesses that have been transferred to, or bought out by the employees and re-established under the worker cooperative form. According to the European Commission, the EU may lose approximately 150,000 enterprises each year, representing 600,000 jobs because their owners retire, set up a new business or seek other opportunities, while no buyer or successor can be found.

In addition, bankruptcies or business failures also lead to plant closures, when at least part of the activity is profitable. The potential of saving enterprises and jobs through the cooperativization of enterprises, that would otherwise close down, should be a public policy objective.

Policy needs to support direct financial mechanisms to help employees invest in enterprises in order to engineer business transfers to employees, should be supported.

In some European regions, such as Italy's Emilia-Romagna region and Spain's Basque Autonomous Region, cooperatives have established strong industrial clusters owned and controlled by their constituent cooperatives.

Policy should encourage regulatory frameworks for the creation of cooperative consortia, in particular at local and regional level, as those networks considerably reinforce the sustainability of the constituent enterprises.

European and national policies should also support the establishment of cooperatives by young people. Through different levels of education, from primary education, specialist technical schools, to university courses, young people should have access to programs where the cooperative business model is taught.

Turning social security payments into investment
Lessons from the Italian Marcora Law

Worker cooperatives can play a significant part in rejuvenating firms which would otherwise close, in places where there is a supportive policy and business infrastructure to facilitate this. This can act as an essential component of a progressive employment policy.

Perhaps the best known example of this is Italy, where these conversions take place as negotiated employee buyouts between workers, exiting owners, the cooperative sector, and local authorities and bankruptcy courts.

Under a legal framework that is known as the Legge Marcora (Marcora Law), an infrastructure of support has been created to assist the worker buy-out of firms.

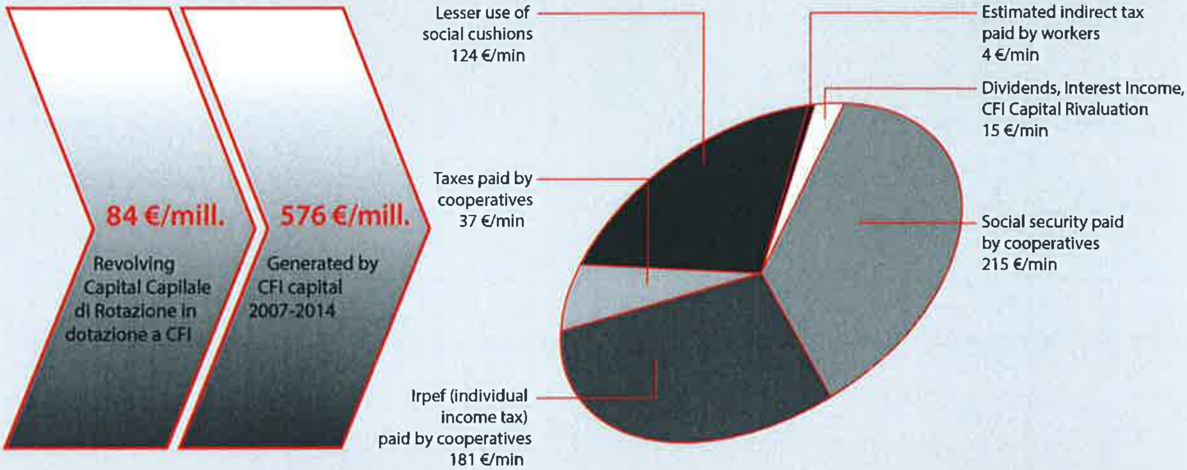
State funding that would otherwise have been spent on unemployment benefits is used to finance these new cooperatives. It has been phenomenally efficient for the taxpayer; it is estimated that this investment has safeguarded nearly 14,000 jobs, in 270 businesses and generated an economic return for the Italian State of 6.8 times the capital invested.

The Italian method of creating WBOs is a negotiated conversion and business restructuring mechanism with a unique set of supportive policies and a financing structure facilitated by a collaborative approach between workers, the cooperative sector, and the state.

How it works:
Employees can begin to consider a buy out project as soon as they anticipate the closing of a firm, if:
- part of or all of a firm is offered to employees by its owners
- a group of employees have been or will be laid off due to the closing of a business
- and after at least nine workers from the closing target company form a new cooperative

CFI Investment 2007-2014

has generated an economic return for the State 6.8 times the capital invested



CFI cooperatives capitalization:
Prompts at least an equal **capitalization** in the cooperative by **member workers**;
Contributes to **improving company rating** and strengthens the ability to access the credit system;
Fosters partnerships of **Mutualistic Funds** and the entry of **other investors**

Once employees form into a worker cooperative they can begin the process of purchasing part or all of the target company via:

- share capital purchases financed by their personal savings/redundancy payments
- advances of up to three years of their cash transfer-based and employer portions of their unemployment insurance benefits
- debt capital financing from either the cooperative sector or an institutional financier with funds secured by projections on future revenues of the worker cooperative and/or by the collateral offered from the acquired assets of the target company.

The minimum contribution per worker to the start-up capital can be no less than €4,000. New ventures are limited liability worker cooperatives to protect workers from risking personal assets should the business fail.

By law, Italian cooperatives must contribute 3% of their annual profits to a national fund (fondo mutualistico) which is dedicated to cooperative development. This money is managed by a specialist agency, Cooperazione Finanza Imprese (CFI), which provides technical assistance, business feasibility studies for assessing the viability of new worker coops, and invests risk capital or debt capital finance for workers. CFI works closely with employees, local labour and business representatives, cooperative associations and consortia, before deciding to invest in or assist in the start-up or further consolidation of a WBO project.

The Italian State Treasury has made available two funds for WBOs in order to promote and secure levels of employment in times of crisis and for the conversion of businesses in crisis into cooperatives. These funds contribute to the capitalization of a new cooperative via share or debt capital financing on a 1:1 ratio with workers' initial start-up or capital investments.