Financing to convert a business into a worker co-operative

By Alberto Zevi

Each firm finances itself through:

- a) capital and member loans,
- b) the loans (at short, medium and long term) from the banks and other investors,
- c) financial advances from customers,
- d) credit from suppliers,
- e) the enterprise cash flow,
- f) the undistributed surplus,
- g) the occasional contribution from the State or other bodies.

Generally, the enterprises finance themselves through a combination of all the above.The financing from the members is very important. In fact, third parties think necessary the involvement of those who manage the firm (who are directly or indirectly the members).

At the same time cooperative worker members do not have big amounts of savings. So they are hesitant to invest in risky initiatives. This is a factor that increases the weakness of worker cooperatives. If a cooperative has a low member economic participation the banks will put a limit on their loans. And also customers and suppliers.

The variable capital base, that is a feature of the cooperatives connected to the "open door" principle also doesn't help. Third parties feel that there is less of a guarantee for them.

In the Italian experience worker cooperatives has developed mainly in sectors in which the amount of capital Is not very important. In these cases the necessary capital is created by undistributed profits. That means that for a certain number of years members pay themselves limited salaries and allocate the surplus to indivisible reserves. This behaviour has been supported by favorable tax laws. Differently from capital, indivisibles reserves are not variable, therefore they are considered by third parties a better guarantee compare to capital.

The characteristics of the worker cooperatives explain why there is not a great number of this kind of cooperative operating in the industrial sector or why "in bonis" conversions are not very wide spread.

After the Marcora Law and after the approval of a new provision in 1992 (law 59/92) the problem of starting capital was partially overcome.

With the Marcora law, as we saw yesterday, the necessary capital can come from the worker members and also from a specific financial firm specialized in participation in the share capital of worker cooperatives.

The 1992 provision was (and still is) very important.

This last measure introduced two very important innovations.

The first was the obligation for all types of cooperatives to set aside 3% of the profits to a special fund, named Mutualistic fund for the Cooperatives Development. This fund must use these resources in the financing of cooperatives;

The second innovation was the possibility for every cooperative to increase their capital through the issue of special shares (initially named investor member shares and saving shares) that can be subscribed by non mutualistic members.

These shares entail ownerships rights that carry more weight compared to those for ordinary worker. However this does not mean that they can carry a majority of votes.

In the Italian experience there has not been a wide use of these shares from third parties due to the fact that they have not considered them attractive enough to invest in the cooperatives.

The main investor was and still is the Mutualistic Fund and/or other cooperatives.

I consider this experience very important for different reasons.

1) The fund created by the Marcora Law and the second one created by law 59, year by year have increased their experience in accumulating a knowledge in the behavior of cooperatives thus improving efficiency and that is as important as the capital they put into the cooperatives.

2) The funds themselves accumulate big amounts of capital that are used within the cooperative movement for other cooperatives development.

3) With the capital invested they contribute to the strengthening of the single cooperatives and so encourage third investors (mainly banks and other financial or industrial investors) to support the cooperatives;

4) The increase investments in capital by the financial firms is normally linked with an increase in the capital subscribed by worker members.

5) A stronger economic commitment from the worker members means also a stronger relation between the workers and the cooperative. This means that the members think more of the long term life of the cooperative rather than the short term.

6) Also suppliers and customers feel more confident and so becomes cooperative friendly.

In Italy , from the point of view of financing, the existence of specialized banks and the financial networks created by the cooperative movement had been very important.

From 1910 up to the end of the ’90 a specialized bank that investing only in cooperatives companies existed. This bank no longer exist. The reason is that for a long time ordinary banks did not like to work with cooperatives. But year by year they have become more cooperative friendly thus making the existence of a specialized bank unnecessary.

In the ’70s cooperatives created more than one financial network. Generally these networks raise, voluntary, capital from the cooperatives that have liquidity and lend these capital to cooperatives that have short term needs.

Another tools that was created by the Italian cooperatives are the “guarantee consortium”. These are cooperatives in which the members are cooperatives having the task to partially guarantee the loans to the single cooperatives made by banks or other lenders.

All the above had created the Italian experience for cooperative financing.