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Sinn Féin

WORKER CO-OPERATIVES

DEVELOPING IRELAND'S INDIGENOUS ECONOMY

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Executive Summary

Across Europe, the Worker Co-operative model has been found to be more resilient, more productive, and provide greater social benefits to workers and their communities when compared with traditional enterprises – however, Ireland has yet to effectively develop its own worker co-operative sector.

Developing such a sector has the potential to create significant indigenous job growth as well as provide greater diversification of enterprise in Ireland. Considering the ongoing uncertainty regarding BREXIT and FDI, worker co-operatives offer a model which can co-exist with traditional enterprise and bring greater balance to our domestic economy. In order to achieve this, Sinn Fein wants to re-establish an institutional space that enables the development of worker co-operatives – the end goal being community wealth building that is sustainable and indigenous.

It is also estimated that in the EU each year 150,000 enterprises and 600,000 workers are affected by succession issues. Succession is the process whereby an owner(s) of a business no longer wishes to own the business but also does not wish to see the business close, and therefore seeks a successor. This can occur for a number of reasons, retirement being the most common. It is for this reason that the French, Italian and Spanish governments have all moved to either introduce or strengthen their worker co-operative Buyout Model - a process through which the workers of an enterprise can buyout the enterprise when it is in the process of succession.

Sinn Féin believes that the development of our own Worker Co-operative sector – and in particular the development of our own Worker Co-operative Buyout Model – has the potential to save thousands of jobs each year; as well as create sustainable, well paid jobs through new enterprises.

What Sinn Féin wants to see is the development of this sector by providing it with dedicated, legal and institutional support.

SINN FÉIN WOULD:

- Recognise Worker Co-operatives as a distinct legal entity.
- Amend legislation to allow for worker co-ops to be created by a minimum of three members, rather than the existing requirement of seven.
- Introduce legislation which gives workers the statutory right to request employee ownership during business succession.
- Create a pathway for the Worker Co-operative Buyout model. This would include updating business transfer law, amend insolvency proceedings in order to strengthen workers as preferential creditors, and give employees the right to be informed in advance of any intention by the owner to sell.
- Introduce legislation to protect mandatory indivisible reserve funds with an asset lock. The concept of an asset lock is fundamental to a worker co-operative, and has been at the heart of the Credit Union sector's success in Ireland. An asset lock prevents the process of management capture, providing workers/owners with legal protection from a buyout.

- Re-establish the Cooperative Development Unit (CDU) as a Worker Co-operative Development Unit (WCDU) in order to co-ordinate the existing worker co-operative network. Provide capital and technical assistance through the WCDU and harness the collective entrepreneurship that exists within the Worker co-operative network. This unit would be tasked with running an information campaign on worker co-ops and directing and monitoring state employment and jobs agencies to encourage the model; as well as assisting in the establishment of worker co-ops through advice and networking. The office would also ensure an understanding of the nature of co-operatives amongst relevant government officials and rollout training programmes for Government departments, bodies and agencies. It would be tasked with collating information on existing and new worker co-ops, in partnership with the Irish Co-operative Organization Society and other interest stakeholders.

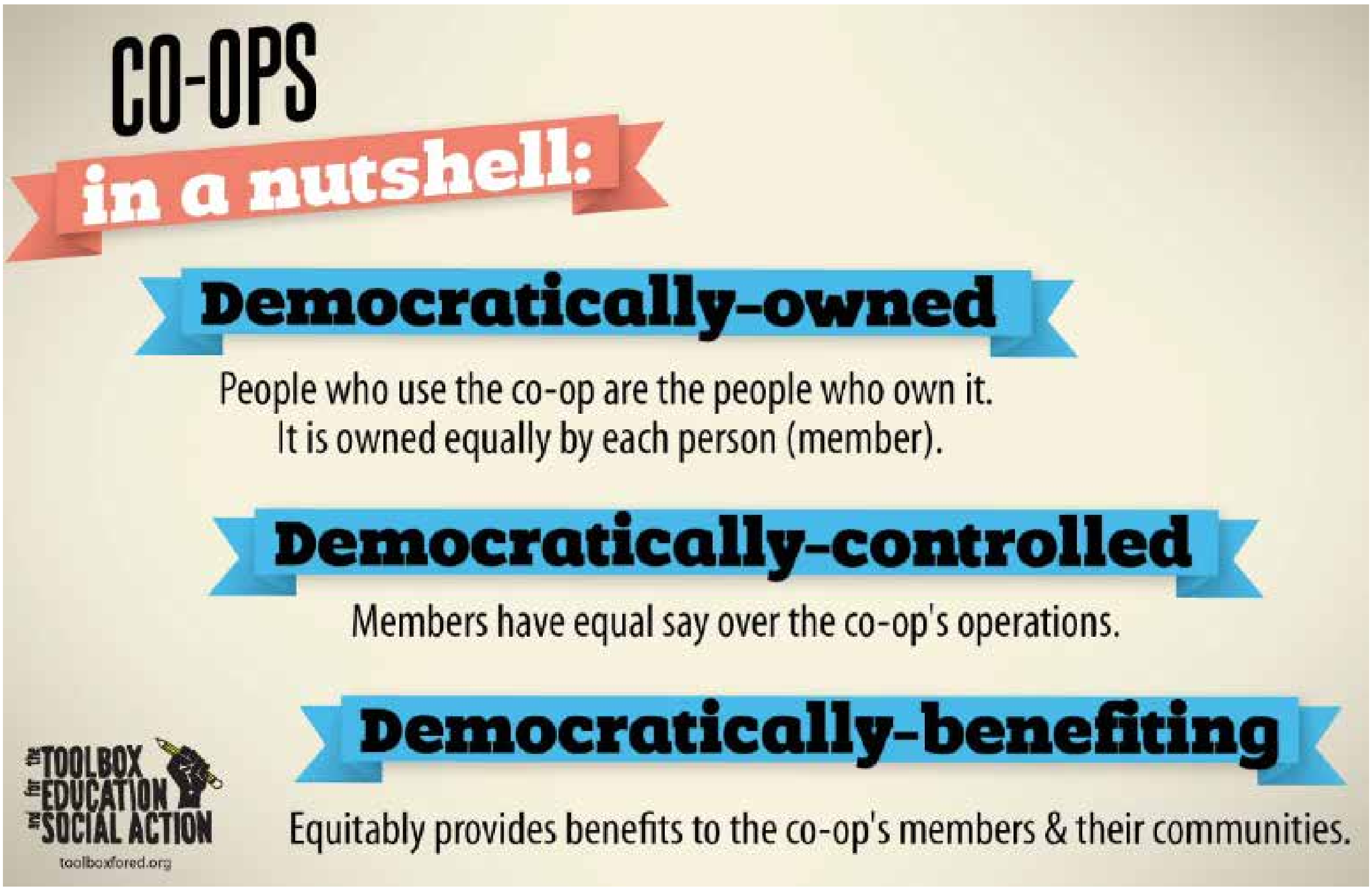
What is a worker cooperative?

A worker cooperative is a business owned and democratically managed by its workers. In this form of enterprise, workers own all or the majority of the shares and the organisation holds the principle of one worker, one vote. Worker cooperatives distribute their profits in a democratic way and in doing so preserve the long term sustainability of employment, and the enterprise itself (WNC 'Sustainable job creation engines', 2012). The key mission of a worker co-operative is to create and maintain sustainable jobs.

In a conventional enterprise power is vested in equity. In a worker cooperative control is derived from working in it. Workers in an employee-owned business have a reason to work together to achieve a common aim – the success of the business. They share the results, both good and bad.

The members of the business are the employees, they jointly decide on the major decisions and elect and appoint leaders. The employees of the business are also the owners; they decide what product to produce, how to produce the product, where to produce, and perhaps most importantly of all they decide what to do with the profits of the business.

Profits are generally distributed with a twofold objective: a) to pay fair and decent wages in return for labour provided b) to ensure the long term sustainability of the business and jobs by building up a mandatory reserve fund (reserves which can be used to pay workers in the incidence of economic hardship), which is subject to an asset lock.



Productivity and Sustainability

Worker co-operatives have been found to be more resilient, more productive, and provide greater social benefits to workers and communities than traditional enterprises (Restakis 2010, Harper in Caroll 2005, Erdal, 2011, Olesen 2013).

They have been highly successful in several countries across the EU. In Italy alone there are 800,000 workers in the sector. Spain is home to the world's largest worker co-operative, Mondragon Corporacion Coopertavia, which has 80,000 workers and in 2015 had sales of €11 billion. The co-operative sector makes up 13% of Sweden's GDP, 16% of Switzerland's, 21% of Finland's, and 10% of France's.

Ireland has historically been quite successful in developing our Agricultural co-operative sector and our Credit Union sector; however, we have yet to develop our worker co-operative sector.

The benefits of developing such a sector could be very significant to workers, our economy and communities across the island.

One particular benefit that the worker cooperative model provides to communities is economic stability. There is a growing literature on the survival of worker cooperatives which strongly indicates that the expected survival of a worker cooperative exceeds that of a conventional enterprise. (Olsen 2013).

In France, the three year survival rate for a worker co-operative is 80-90%, whereas the overall survival rate for enterprises in France is 66%. The 5 year survival rate for worker cooperatives in France is 61-82%, while the conventional enterprise rate is 50% (Olsen 2013).

In Italy, worker co-operatives are also found to be more resilient than conventional enterprises. Between 2007 and 2013, the survival rate after three years of a worker co-operative was 87.16%., while it was 48.30% for a conventional enterprise.

The benefit of having enterprises with such high rates of survival is to provide security and stability to workers and their jobs. The reason behind such high rates of survival has been the subject of much debate.

Erdal (2011) suggested that worker cooperatives survive longer due to being more productive than other forms of enterprises. Harper in Caroll (2005) put forward the case that they succeed in greater numbers because the business plays such a crucial role in the lives of the members, and their livelihood depends on the survival and success of the enterprise.

Birchill (2011) believes that the success of worker cooperatives is rooted in the principle that when you provide workers with a model that allows them to gain control over the conditions under which they work, the outcome will be a positive one.

Worker co-operatives have also been found to be better not only for workers, but also for their environment. The people who work and therefore own the cooperative tend to live near to their place of work. Therefore, it is in their interest not to use substances or methods that are detrimental to the regions environment. Conventional businesses that are controlled by outside investors and shareholders can make decisions that have the key priority of profit in mind; however, workers would arguably prefer a balance of profit and a healthy environment.

Worker cooperatives also present an alternative economic development model which can co-exist and complement the FDI model in creating sustainable jobs. Sinn Féin is very much in favour of attracting FDI, however, we would look like to see a much more balanced approach to creating jobs and enterprises. Considering the growing level of uncertainty regarding the future of FDI and BREXIT; worker co-operatives offer a model where we can develop our indigenous jobs market and become less dependent upon outside investors.

The Worker Co-operative Buyout Model

In 2016, a PwC survey found that only one in seven Irish SME's had a robust succession plan, and half of the companies surveyed had no succession plan whatsoever. While, studies in France, Canada and Australia have shown that well over 50% of SME's in the next 10 years will face the challenge of succession. Furthermore, it is estimated that in the EU each year 150,000 enterprises and 600,000 workers are affected by retiring business owners who do not have successors (CECOP-CICOPA 2013a) and it is for this reason that France, Italy and Spain have all moved to either introduce or strengthen worker cooperative law. One model which has been proposed as a solution to deal with succession issues is the Worker Cooperative Buyout model. This model is almost non-existent in Ireland but is tried and tested in several European countries.

Belfast cleaning society co-op working at music festival 'Tennents vital'

France

In 2014, France introduced measures to facilitate the process of an employee's request to buy their own workplace through the Worker Co-op Buyout model. It is estimated that by 2020 the Worker Co-operative Buyout sector will have created or saved a further 600,000 jobs in France and today it already accounts for 10% of GDP in France.

The French government took three steps in order to introduce such a process. Firstly, business transfer regulations were updated to create a pathway to transfer businesses into worker co-operatives. Secondly, insolvency proceedings were changed to strengthen workers as preferential creditors. And thirdly, national legislation was introduced to institutionalise worker co-operatives as a distinct legal model. These three changes ensured that the model became an attractive safe environment for workers to invest in, and to preserve sustainable and viable businesses.

The rules regarding the functioning of these worker co-operatives were that workers must hold at least 51% of the capital and at least 65% of the votes (Corcoran and Wilson, 2010). Dividends can only represent a maximum of 33% of the profits. A minimum of 16% of the profits must go into the business reserves, although workers tend to distribute 45% of the profits to the reserves which is then there in times of economic hardship. It is for this reason that workers co-ops tend to enjoy an equity capital that is 4/5 times greater than that of a similar sized SME.

In order to provide additional capital to worker co-ops a law was introduced to allow for a 'participation certificate', a financial tool that allowed for outside investors (non-workers) to access capital. It allows for outside investors to hold up to a limit of 35% of voting rights and up to 49% of voting rights if the outside investor is another co-op.

A host of worker co-operative buyouts are currently in the process of being completed in France. One such example is of Delta Meca, a medium sized industrial enterprise in Nantes. This mechanical engineering company was created in 2008, but for a number of reasons the owners intended to close the business in 2014. The workers chose to contact the relevant government department and begin the process of a worker buyout. The French government, along with the co-op network and the trade union movement worked to draw up a contract in order to handover the business and create an employee savings plan to finance the buyout.

Considering the Delta Meca buyout is one of the first of its kind in France, the expected timeline of the buyout process is expected to be considerably longer than a traditional enterprise buyout. This is down to a lack of precedent in the area of worker co-operative buyouts, a lack of familiarity with the process and an onus on ensuring the process is done successfully rather than quickly. The expected completion date for the full transformation of Delta Meca is 2020; however, as the expertise levels of those involved in the sector improves the length of a takeover should shorten.

Italy

In Italy alone there are over 800,000 employee/owners in the worker co-op sector. Emilia Romagna is perhaps the best example in Italy of a successful region for the model. In this region there are 8,000 worker co-ops, 40% of GDP is generated by worker co-ops, and two out of three citizens are members of a co-op (Burchall, 2011).

The Emilia Romagna region's GDP per capita is 25% higher than Italy's overall average, and 36% higher than that of the EU. The unemployment rate is 8%, compared with Italy's overall unemployment rate of 12.4%. The rate of employment for women is higher here than anywhere else in Italy, and it has one of the lowest levels of inequality with a Gini coefficient of .25, which is half that of the EU average.

The success of such a strong indigenous entrepreneurial sector in Italy can arguably be put down to the Basevi and Marcora laws.

The Marcora Law allows for redundant workers to invest up to three years of future unemployment benefit in order to finance a worker co-op buyout. The idea being that unemployment benefit could be diverted in a productive way through self-entrepreneurship and thus forms part of the welfare bridge from unemployment to self-employment. To successfully attain funding for the establishment of a worker co-operative through this process there is a rigorous qualification process dependent upon a presentation of a viable business plan, qualifications or experience that would suggest a level of expertise by the prospective owners, and the investment must be signed off by a state body similar to that of the IDA.

A successful example of such a model comes from Ploermel Steelwork Industries in Brittany. On this occasion workers who were in danger of losing their jobs because of closure invested three months of future wages into the company and the owner offered to use €1.5m from the worker insurance fund rather than using it for redundancy payments. Today, 110 jobs have been preserved and labour accidents have been halved due to workers making the decision that certain working conditions were too dangerous.

The Basevi Law allows for worker co-operatives to transfer their surpluses to a reserve fund free of corporation tax on the condition that the if the coop is dissolved or sold the reserve is dispersed to other co-op associations. The reserve fund is there to ensure that in the event of economic downturn or a period of transition, there are reserves there to pay workers' wages without having to make workers redundant.

Spain

In Spain, there are 275,000 members of worker co-operatives, of which 49% are women. Worker cooperatives during the economic crisis were found to be much more resilient than conventional enterprises in Spain. COCETA in 2010 noted that while 24% of companies closed down in Spain (during the economic crisis), only 6% of worker cooperatives went out of business.

Figures from COCETA also note that of worker co-operatives in Spain, 75% of them have been due to worker buyouts – however, the legal framework is not as secure as France and Italy's and needs to be further updated. (Voinea, 2015)

Spain is home to perhaps the most famous example of a co-operative, the Spanish co-op Mondragon Corporacion Coopertavia (MCC) which is ranked 10th in the Global 300. It is active in industry, banking and consumer sectors, including research, training centres and a university of 4,000 students. It is a federation of 120 cooperatives made up of 256 enterprises. It has 80,000 workers and 15b euros of turnover in 2010. It has 1,293 people in 14 research centres and Mondragons accounts show that 20% of their 2011 turnover was from products and services which didn't exist five years ago, such is the quality of their innovation and research.

The growth of Mondragon and similar co-operatives in Spain has been aided by having a well-established network and cooperative confederation. The Spanish model has also been aided by legislation and laws which favour the model.

The 'C'orporation of Labour' is one model which has been developed in Spain. It is a form of corporation majority-owned by employees but based on stock ownership which enables non-employee capital to be invested. It is a simple, flexible and cheap way for employees to buy troubled companies or start new ones. Since 1997, 66% of all new employee-owned companies use this legal form.

Spain also allows for lump sum distributions of unemployment compensation and severance pay to be used to finance a worker buyout using the 'Pago Unico' law.

The examples provided of France, Italy and Spain illustrate how successful worker co-operatives can be if the sector is supported by relevant and strong legislation. Most importantly, the success stories in France, Italy and Spain show that there is an alternative way to develop our own economy and we should perhaps look towards worker co-operatives in order to create a more balanced jobs environment (Ellerman in Richely, 2009:175).

Ireland's Co-op History

Throughout Ireland's history, co-operatives have made a significant contribution to our society and have done so since 1889, beginning with Horace Plunkett and developing further in the agricultural and credit union sectors. However, despite such success witnessed in the Agri and credit union sector, we have so far failed to develop our worker co-operative sector.

In Ireland, the Agricultural cooperative sector experienced a rapid phase of growth in the 1960's and 1970's. This was as a result of the amalgamation of domestic agricultural organisations in preparation for and in the aftermath of entry into the EEC. The Irish agricultural sector understood that in order to produce on a scale needed to compete in international markets; they would have to work together. This strategy resulted in the creation and success of ICOS, as well cooperation's such as Avonmore, Dairy Gold and Kerrydale.

The Credit Union sector has also developed successfully in Ireland. The Central Bank's report, Consumer Protection Outlook 2017, found that the Credit Union sector had assets totalling €16bn, and that there was a significant €2b increase in assets between 2011 and 2016. Arguably, the continued success of the credit union sector can be put down to the introduction of specific cooperative legislation in 1997 which regulates their activities (Credit Union Act of 1997). This Act provided the credit union sector with the legal security which was desired in order for workers, owners and investors to contribute to the Credit Union sector in such large numbers.

What Sinn Féin wants to see is the early success of both the Agricultural and Credit Union sectors replicated in the development of our own worker co-operative sector. However, this can only be achieved if the worker cooperative sector is provided with dedicated, legal and institutional support.

Gavin (2012) has put down the lack of development in the Irish worker cooperative sector to four reasons:

(1) The lack of legislation specific to worker coops.

(2) An absence of government support for would be and existing cooperatives

(3) A lack of research and educational infrastructure for cooperatives

(4) A lack of understanding among professionals and the general public of worker cooperatives.

Interestingly, the Irish government in 1988 did attempt to develop the co-operative sector further through the establishment of the Cooperative Development Unit (CDU). This state agency was devoted to the development of worker co-operatives. It resulted in the growth of worker co-ops from 47 enterprises to 73 between 1991 and 1992, and again between 1996 and 1998 there was another spike from 66 to 82. It has been said by the WCN (workers cooperative network) that if it were not for an absence of a legislative framework at the time the CDU would have been even more successful in the development of the sector.

In 2002, the CDU was dissolved. The state argued that there was simply not enough demand in the sector to keep the agency going; however, this would appear to run counter to the trend across the rest of the EU. For example, after a review and consultation process in Scotland, in 2005 the Scottish government set up their own CDS (Co-operative Development Sector) which had the remit of assisting in the formation of sustainable co-op businesses. £3m was made available over three years to CDS. It was created as a wholly-owned subsidiary within the Scottish enterprise sector with its own advisory board and executive. The CDS is thriving today (Worker Co-operative Midwest paper 2012).

In the North of Ireland, a number of worker co-operatives have emerged, survived and developed to become sustainable businesses. Three such success stories are The Belfast Cleaning Society, Creative Workers Co-operative and Boundary Brewing. They all follow the principles of democracy, equality and worker ownership and they have all proven be highly productive.

Future uncertainty

Considering the CDU was closed in 2002, a period of time in which much growth in the economy was attributed to FDI, an alternative motive behind the government's decision to close the CDU may have been in order to focus much more resources towards attracting FDI. From Sinn Féin's perspective we would like to see a much more balanced approach towards the development of job creation, rather than Ireland becoming over reliant upon FDI.

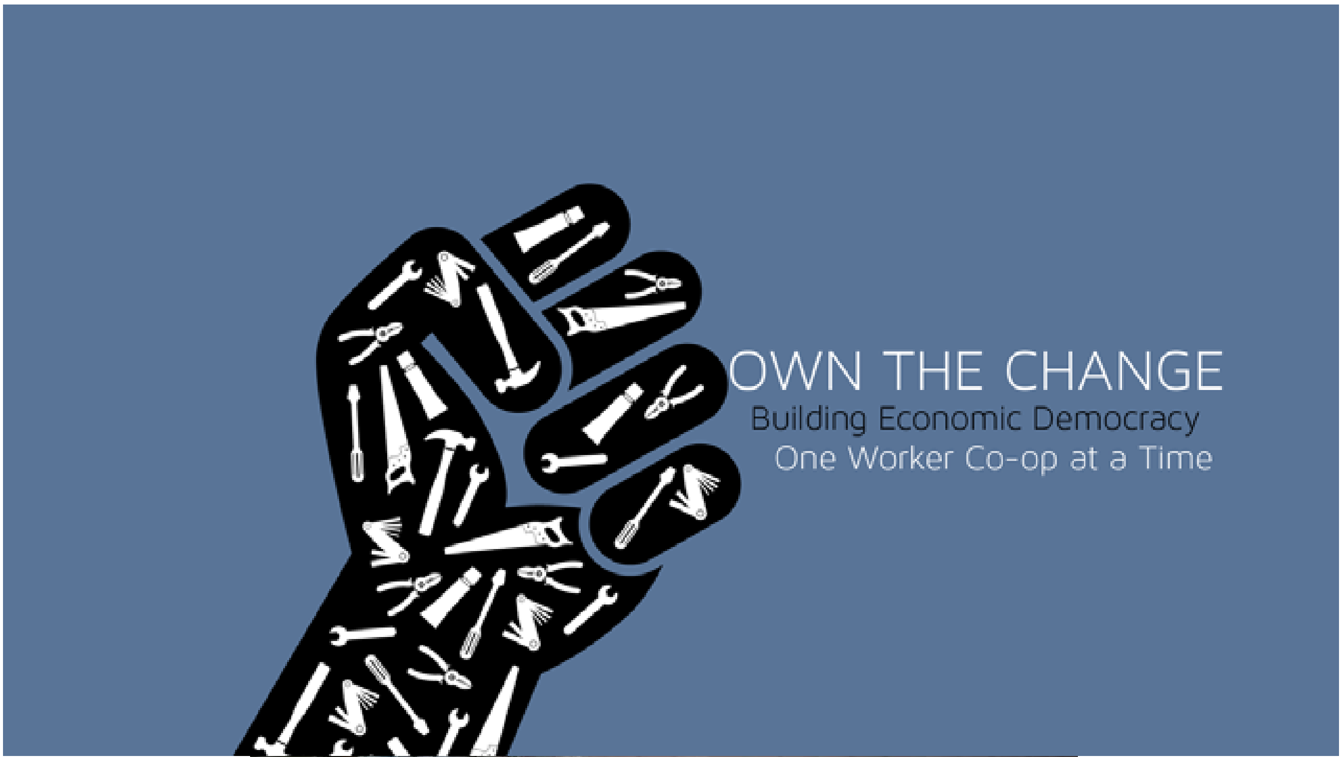
During the economic crisis we saw a number of high profile companies close their doors and leave just when the workers and their communities needed those jobs the most. The Limerick Dell plant which transferred 1,900 jobs to Poland in 2008 is an example of the insecurity that can come with FDI. The estimated knock-on effect to companies and jobs that rely on Dell was thought to be in the region of 7,000-10,000 jobs. Dell made the choice to transfer manufacturing jobs from Ireland to Poland in 2008 for the same reason that those jobs came here in the first place; because the conditions were made by the government to attract Dell. It is only natural that you would expect the shareholders of a conventional enterprise to be attracted by profit; however, it is difficult to imagine the owners of a worker cooperative making the same decision of uprooting their families and business across the continent in order to simply make greater profits.

In Enterprise Ireland's 2025 Strategy, published in 2015, it targets the creation of 266,000 new jobs by 2020 – of which 75,000 will come directly from FDI and a further 65,000 will come indirectly through FDI. To put that in context, over half of the jobs which the government hopes will be created by 2020 will come from FDI. If this strategy is successful, one in five jobs will be dependent on FDI. This is would arguably place Ireland in a very precarious and volatile position at the mercy of MNC's who would leave in an instance if the conditions no longer suited them.

A number of organisations have shared the concern that Ireland is over-reliant upon FDI and our increased dependence on one such investment type is unsustainable (TASC report 'Enforced Flexibility 2016. Social Justice 2014). We must also be cognisant of the fact that too a certain degree FDI is built upon the ability of multinationals to use Ireland for tax avoidance measures. Considering the European Commission's Apple ruling and the potential introduction of EU-wide and international measures to combat tax avoidance, we could see a very different FDI landscape in the future. It is in that context we recommend working towards a more balanced approach to developing the Irish economy and identifying ways in which we can create a vibrant and sustainable indigenous jobs sector.

It was reported in November 2016 by the ESRI and the Department of Finance that a 'Hard BREXIT' could reduce the Irish economy by 4% and see a loss of 40k jobs. The economic uncertainty that has resulted from the BREXIT referendum has according to the Jobs committee report (2017) 'led businesses to postpone investment decisions until there is more clarity'. The Jobs Committee document goes on to say that trade between Ireland and Britain could be significantly affected due to the rising costs related to changes in tariffs and bureaucracy.

There is a clear indication from a number of reports that BREXIT will have a knock-on effect of some significance on the Irish economy, how severe it will be is up for debate; however what is not debatable is that MNC's and FDI enterprises hold the control over whether thousands of jobs stay in Ireland or are transferred elsewhere in Europe. What Sinn Féin wants to see is a jobs environment in which there is a greater emphasis on indigenous job creation, where workers are empowered with ownership and control.


OWN THE CHANGE
Building Economic Democracy
One Worker Co-op at a Time

Level playing field

In order for Ireland to develop its worker co-operative sector the government needs to move towards establishing a level playing field in job creation.

In keeping with the 2002 ILO recommendation 193, Sinn Féin would like to see an environment in which "co-operatives…enjoy equal treatment with other types of enterprise. Governments should create an enabling environment and facilitate access to support services. Governments should provide policy and a legal environment conducive to the creation of worker cooperatives…Grant support...Develop partnerships with co-ops."

Ironically, in the same year as that ILO recommendation to support co-operatives was passed, the CDU was closed by the government. It is Sinn Féin's position that it is time for the government to act on this recommendation considering Ireland is a signatory of the ILO.

At the core of the ILO's recommendation is the motive to establish a level playing field in which there is choice and diversity. If an employee wants to work in a democratic workplace then they should have that choice available to them. And if a customer wants to buy a product from a worker cooperative then they should also have that choice.

What we want to see is a re-balancing of the power and control that exists between the worker and the owner. Consider a situation often outlined by Richard Wolff, a professor of economics in the US, which can often occur in a conventional enterprise; the owner of the business calls a staff meeting in which he/she has some bad news for the staff. The owner tells the workers that the company's competitor has moved to another market and is now much more competitive as they are paying lower wages or are paying lower rents etc. The owner tells the staff that he/she needs to close the business, making all the workers redundant and is moving the company elsewhere – unless the workers make a range of concessions which include lower wages, longer shifts and demand fewer benefits, such as taking fewer annual leave days. In essence the owner is asking the worker to make it worth his or her while to keep the business there. This is not a healthy environment for workers or their communities – and the worker cooperative model presents an alternative model which comes with a track record of establishing successful, sustainable and stable businesses that exist and benefit their communities.

It is perhaps best put by Restakis (2010:238) who said: "Worker cooperatives provide a way of making work meaningful by sustaining employment in situations where jobs would be sacrificed – not because they were untenable but because the business didn't generate the insane levels of return demanded by shareholders".


SAFETY FIRST
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Recommendations

LEGISLATIVE:

The recognition of worker cooperatives as a distinct legal entity.

Legislation to protect a mandatory indivisible reserve with an asset lock.

Amend legislation to allow for worker co-ops to be created by a minimum of three members, rather than the existing requirement of seven.

Implement legislation which gives workers the statutory right to request employee ownership during business succession.

Implement legislation similar to that of the 2014 'Social and Solidarity Economy Law' in France, which would do three things:

(1) It would amend business transfer regulation to create a pathway of transferring conventional enterprises to worker co-operatives.

(2) It would amend insolvency proceedings in order to strengthen workers as preferential creditors.

(3) Employees would be granted the right to be informed that the owners of a company have the intention to sell the company, and enterprises fewer than 250 employees have to be informed at least 2 months, or more depending on the required notice of redundancy, in advance of any intention to be sold.

SUPPORT SERVICES:

Capital and technical assistance must be made available to worker co-ops. This can be achieved by re-establishing the Worker Co-operative Development Unit. The role of this body would be to co-ordinate the worker co-operative network, as well as provide it with technical and capital assistance. The worker co-operative network which currently exists in Ireland consists of trade unionists and key stakeholders whose expertise and assets can be unlocked and harnessed if given an institutional space.

We recognise the importance of establishing a dedicated state body to worker co-operatives and building a worker cooperative network in order to create an environment of indigenous business growth and community wealth building.

Most importantly of all, Sinn Féin wants to see a level playing field established in the jobs environment where Worker Co-operatives enjoy equal treatment with other types of enterprise.

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