



FACTORIES recovered by workers

# IDEASS ARGENTINA

Innovation for Development and South-South Cooperation





# Presentation

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Since the year 2000 the workers in Argentina decided to not leave the factories closed for bankruptcy or because abandoned by their owners, organising themselves in Cooperatives to retrieve the production. Today 20.000 employees manage more than 300 recovered factories throughout the country, and they are organised into the National Movement of the Recovered Factories (N.M.R.F.),

These factories recovered by the workers are competitive today in the national and international market. The same factories which collapsed under the traditional management systems, work in many different sectors such as cattle refrigerators, pig and poultry; textile and clothing; heavy and light metals; food such as bakery, cold meat and confectionery; health care such as hospitals and clinics; paper mills, tanneries, footwear, printing presses and newspapers; shipyards and construction.

The National Movement of recovered factories is an NGO established in 2001 following the most serious socio-economic crisis of Argentinean history which, among other consequences, caused a massive closure of the factories by bankruptcy or abandonment by the owners. More than 3.000 factories have been disrupted in the whole territory, leaving the workers unemployed at home. This situation led to the waste of a huge patrimony in terms of high technical capacities and skills of the workers, with 20 or 25 years of experience, while the machineries and equipments became useless within the closed factories.

Faced with the reduction of salaries, the lost of social benefits, the lack of pension contributions, of welfare, improper retention of wage deductions, stop-over and application of employment flexibility, the workers organise themselves. First of all they decided to remain at their job places, declaring on strike for their constitutional right to claim for all their owed salaries and all other breaches by the employer. At the same time, workers in these factories choose to organise themselves in Cooperatives with innovative ways and means compared with the traditional cooperatives experience.

Considering the ten-year successful process for revitalising the factories by their workers, and the increasing demand by the Movement, in 2011 the Government of Argentina approved the Decree for the reform of the Bankruptcy Law. This Law, representing a fundamental attained goal of the Movement, foresees mechanisms that facilitate the revitalisation processes of the factories and mechanisms to balance the worker's credits that allow the acquisition of machinery, raw materials, goods and other consumables necessary to the production.

From its side the Movement established a solidarity fund of Recovered Factories, through which the more consolidated cooperatives provide part of the wages of their workers to the other arising cooperatives.

The experience of Argentina generated a wide International interest. In the wake of the crisis affecting the economies of many countries, both industrialised and least developed, this new model of response of the workers to the closure of the factories for bankruptcy or after the owners' abandonment represents an innovative and replicable way of action. Actors and people from more than eleven countries have been visiting the factories of the Movement, expressing their interest in promoting this innovative process within their national contexts.

The Movement of Recovered Factories is available to share its knowhow and experience with actors from any country interested in promoting the workers' revitalisation processes of the factories.



# What problem does it solve?

Recovering the factories through workers organised in cooperatives represents an appropriate answer to the situations of crisis, as that occurred in Argentina, and involved also several countries, causing the closure of the productive factories. Even the relocation of the production, typical of the global economy, often causes the abandon of the factories by their owners. In all these situations the workers loose their job places becoming dependent by rare means of social protection, and in general the overall society loose a huge patrimony represented by the highly skilled technical and labour competences, in addition to the values of machineries and equipments which are abandoned.

However the process developed in Argentina represents an innovative economic issue in its wider meaning.

Entrepreneurial costs do not exist within the factories recovered by the Cooperatives: high management costs, profits of the enterprise disappear and the workers realise the utopia of the entrepreneur, i.e. the workers self-manage the factory as their own.

In each one of these closed factories of Argentina, the employees came into strikes to claim for their owing wages and their social benefits, organising themselves in Cooperatives. These Cooperatives adopted appropriate ways for making the factories functioning and lasting over time, taking into consideration the traditional experiences of the country.

Specifically they decide that:

- All members take the same wage (which has subsequently led to sharing the profits). This aspect meets the three important objectives of unity, solidarity and harmony.
- Cooperatives do not accept external management. The management is realized by the workers. The workers take their decisions in wide and participative assemblies. The Executive Board is subjected to the Assembly and represents the executive branch of its decisions. This is an important aspect that enables avoiding a new traditional ownership where the Executive Board takes decisions at distance from the member and distant from the real situation.
- Cooperatives are not biased by the capital. In many cases they have been proposed to commercialize the products against capitals, but they always rejected this solution as unacceptable.
- Cooperatives did not get any credit or any kind of loans. Among many cooperatives, even if their members are heavily in debts or can loose their homes, they still contribute by giving their labour force. This decision was hard at beginning but gave soon its results.



At the beginning of this experience a country's policy at support of the factories recovered by their own workers was absent. Nevertheless as much as these experiences were increasing and consolidating their productive model, the Ministry of Labour Employment and Social Security and the Ministry of Social Development of the Argentinean Government, provide different strategies to support the recovered factories. The cooperatives submitted to the relevant institutions their legal documentation (statutory; authorities, financial balance sheets, etc. . .) and a project including the amount requested, its use, the direct and indirect beneficiaries, additional necessary information and the provisional budget, in order to obtain different kinds of supports.



At the same time the Movement of Recovered Factories set up a solidarity fund which foresees that the best structured cooperatives would give part of their worker's salary to the new ones, functioning as a guarantee to pay for services and to provide shared available resources.

During the factories' recuperation process the workers took the responsibility for the services, the taxation and for keeping the production active. Even if the employees were running an enormous risk, they realised that they had always taken it during their whole job-career as employed people, in each single worked hour. The difference lies in the revenues that are distributed in equal parts among all the members associated to the cooperative, once they have planned their expenses to buy raw materials and inputs.

This experience showed it is possible to break few traditional paradigms:

- workers cannot manage a company. The 300 factories in full production are a forceful response to that is possible.
- workers are not competitive. The 300 recovered factories demonstrate that it is possible to maintain and even to improve the quality of production and to obtain better prices in the market, in addition to reducing costs by eliminating the entrepreneurial cost.
- Without a self-own capital is impossible to start the economic cycle. These cooperatives demonstrated that even without having a start-up capital is possible to recover the factories obtaining the rental contract, having their own organization, the competence and experience attained in many years of work.

The process by which the workers recover their own sources of job is based on a solidarity system. Common needs become the driving economic force. If the goal is to preserve the sources of labour in the country, the factories closed down in times of crisis could all be in the hands of workers organized in Cooperatives. The reform of the Bankruptcy Act has created the legal basis to implement this innovative policy. The new productive model, which brings the business cost to zero, can provide enormous benefits, producing the needed goods and services of the country.

# Recovery of factories by workers, in practice

The legal strategy applied to each process of recovery of a factory is sustained by a project that demonstrates the viability of its exploitation under the workers supervision. The projects of viability are submitted to the courts that serve bankruptcy or, in case of default, in provincial legislatures to apply for the process of expropriation. When designing the strategy of the project, the workers inevitably take into account the fact that the “traditional” enterprise filed bankruptcy because of a lack of competitiveness and that repeating the same architecture for production would give the project a high level of uncertainty.

To formulate a project, certain managerial principles are taken into account in the movement of recovered factories as they have given excellent results in various experiences.



## The principles

The workers invest their knowledge, time and effort in the organization and reap the economic results of their investment. Work produces capital. The substantial difference is the organizational structures with respect to other type of structures where economic results arise from an economical investment. Capital is a producer of capital itself, and work is not an investment but a resource.

The factories recovered by workers do not constitute a system of self-management whose objective is to create a social economic network alternative to the market. The factories achieve once again their efficiency in the market by competing in it. The factories are not capitalists because their objective is not to maximize the profit of capital, but the well being of its workers.

In the last years many reports and publications have been edited on these recovered factories. Nonetheless, in general they tend to emphasize the traditional approach on the market social economy, such as the self-managed businesses, the capitalist firms, or examples of social firms that should be nationalized. As matter of facts, the recovered factories represent a particular and successful experience from the economic and the social perspective, and generate a fundamental change towards a vision of human being considered as resource of labor for another ones, and architect in the construction of its own future.

## The organization

Its model of management constitutes one of the pillars that supports the viability of the factories associated with the movement. The factories have a system of open management in which the behavior of its members is interconnected with the special characteristics of the scenario in which they act.

A situation of crisis fortifies unity among the workers as they reach high levels of commitment and solidarity. Solidarity and the similarity of the circumstances allow them to feel a greater sense of safety and strength to face adverse scenarios. Commitment is generated by the information shared and the democratic decisions taken in the context of the assemblies.

Since the legal strategy of each factory allows the workers to use the means of production, the project is governed with common spirit, through dissemination of information and democratic decisions, and with solidarity which helps one another in the correspondent tasks and towards the objectives they need to fulfill.



This culture is added to the vast experience that the workers have with the means of production and the facilities. The efforts are focused in a first instance towards cleaning up and maintenance, in order to create the adequate conditions to produce. The first order from the market is adequately met in time and with high levels of quality, motivated obviously for the same conditions of commitment and solidarity.

Every achievement they reach, in turn, fortifies commitment and solidarity of the working team. The horizontal control makes managerial and supervision levels unnecessary and it reduces their respective costs. The gymnastics of this organizational strategy enables the firm to achieve high levels of efficiency, high and adequate levels of quality and an improvement in the economic productivity.

	Traditional Firm	Recovered Factories
<b>Structure</b>	Vertical	Horizontal
<b>Levels of profit</b>	Fixed by the supply of the market	Distribution of results
<b>Politics of profits</b>	Differentiated by scale	Equal distribution
<b>Objectives</b>	Fixed by management	Fixed by consensus
<b>Efficiency</b>	Difference between the firm's objectives and the individual ones	Both the firm's objectives and the individual ones coincide
<b>Control</b>	Vertical	Horizontal
<b>Market Strategy</b>	Competitive	Competitive
<b>Productivity</b>	Start-up costs	Experience
<b>Leadership</b>	Leader	Collective
<b>Decisions</b>	Fixed by management	Democratic
<b>Decisiones</b>	Fijadas por la dirección	Democrática

## The process of recovery

The process of recovery can be divided into three phases:

- The first phases is the ownership of the means of production to start-up the activities
- The second phase focuses on subsistence. The first operations are carried on when concrete orders are received from customers, which allows the creation of the necessary liquidity for the initial working capital. The workers realize this activity at their own risk and they distribute the first benefits to cover their basic needs.
- The third one is the sustainability phase. The Cooperative starts to sell its products or services in the market. This allows them to earn larger margins, which are allocated to create inventories, for maintenance and investment in equipment to ensure the soundness of the process, and/or open new lines of production. The distributed earnings increase considerably.



## The legal entity

Even though the regulation of the cooperatives in Argentina has some restrictions for the recovered factories, this method is adopted because it is the legal entity best suited to the principles that support the factories: the workers invest their knowledge, time and effort in an organization and collect the economic results of their investment.

## The market analysis

The factories, that have been inoperative, leave an unsatisfied demand. Through formal and informal contacts with clients, in general, its possible to create sufficient information to determine the dimension of demand with high level of certainty. With this information workers can decide about the lines of production that need to be activated to meet this demand.



## Physical sizing

The state of the goods used in a factory has a direct relationship with the installed facility. The goods are the following: land and its improvement; building and complimentary works; industrial facilities; machines and equipment; used and auxiliary equipment; furniture, tools and infrastructure.

In the process of factories' recovery, in general, the workers had to face deterioration or absence of production goods, as a consequence of the lack of investment in preventive and regular maintenance during the last periods of firm's operation. They also faced the consequences of vandalism derived from carelessness and abandonment of the facilities or actions of dishonesty of those who have the custody or administration of the goods and facilities of the failed firm. In other cases people who were interested in buying at vile prices in case of an auction stole vital parts of the equipment.

The workers experience on equipment and facilities is one of the main elements of success. Tuning of the equipment is usually carried out with help of other factories of the Movement that provide material and labor of their specialists.

Even though the load of work is high, usually it's possible the reach start-up with a very low or no monetary capital. In this way a certain installed capacity is regenerated, and this will define the quantitative limit of the production.

## The economic dimension

Fixed assets and current assets form the firm.

Fixed assets determine the installed capacity and they include:

- Tangible assets
- Payable expenses or deferred intangible expenses, constituted by: studies and research; establishment and organization of the firm; administration costs and engineering during the installation period; licenses and patents; start-up costs; infrastructure realized outside of the firm and others;
- VAT of all expenses related to what was paid as tax. This remains as a fiscal credit in favor of the firm.

The current assets determine the level of exploitation of the installed capacity:

Costs of finished goods	
	Raw material
+	Direct labor ( including social burden)
+	Manufacture cost: depreciation, indirect personnel, materials, energy and fuel, taxes, insurance, outsourcing, others
=	Production cost
-	Start up costs
-	Increase of stock of current and semi processed goods
=	Overall production cost
-	Increase of the average processed stock
=	Production cost of sale
+	Administration cost
+	Commercialization cost
+	Financial cost
=	<b>Total cost of sale</b>

- Minimum availability of cash in loco and at the bank;
- Sale credits (the sale price shall include the utilities and the depreciation)
- Inventories: average stock of raw material; average stock of material; current and semi processed goods ( the proportion of depreciation has to be subtracted to general production costs); VAT is calculated exclusively on exchangeable goods and it remains fiscal credit for the firm to benefit.

The cost of finished goods sold by a firm is given by the box.





An investor can invest capital to recover a firm. But the objective of the investor is to maximize the returns of the investment. Both the return of the investment and the level of certainty of this return have to be sufficiently attractive for an investor to take the decision to invest amongst other investment options offered by the market.

The experience of the factories recovered by the workers overcame the cultural barrier related to the need of a working capital for the start up. The box shows how the operative strategy of the factories recovered by the workers allows the minimization of the needed capital.

Furthermore the investment in fixed assets is depreciated and they is distributed in the total sale cost within the production, administration, and commercialization costs.

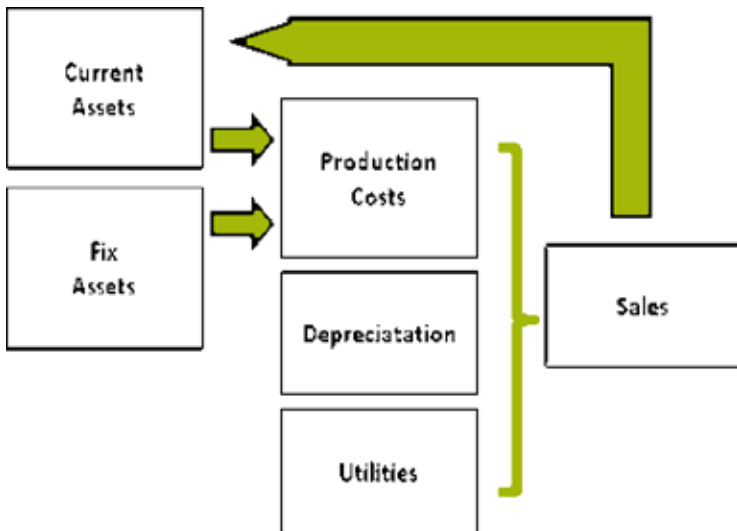
Final sales minus the total cost is to the economic utility

Sales provide cash and banks with an amount equivalent to the economic utility plus the total sale cost. Cash and banks increase in economic utility and a proportion of depreciation subtracted or added to the transfer of liquid assets to tangible assets ( exchange goods) or vice versa.

The total sale costs and the gross economic utility are accumulated in the sheets of the results throughout the period in analysis

From this gross utility we have to deduct the distribution among partners of the cooperative. In case it were a traditional firm the following applications would be deducted: taxes to revenues, management fees, and dividends.

Total Cost		
	Raw Material	In the beginning the decoupling point is in the supplier that minimizes the immobilization of the resources necessary for work
+	Direct Labor (including social burden)	This cost is replaced by applying utility
+	Manufacturing costs	
	Depreciation	This item is replaced by applying the utility to technical reserves
	Indirect personnel	This item disappears since there is no supervision, and the maintenance goes directly under the direct labor cost
	Materials	This application is necessary according to the characteristics of the process
	Energy and fuel	Energy is a deferred cost, the application of labor over fuel depends on the process
	Taxes	Its payment is deferred
	Insurance	
	Rent	
	Outsourcing	
	Other	
=	Production expenses	
-	Start-up costs	They are minimized by the experience of the workers
-	Increase in the Stock of semi processed and processed goods	
=	Production costs	
-	Costs of production of what has been sold	
=	Administration costs	
+	Commercialization costs	
+	Financing costs	
=	<b>Costs of what has been sold</b>	



## Financial dimension

The possibility to push a company to debt allows the investor to improve the rate of return in his investment. These debts have been one of the main factors for bankruptcy, when there is no chance of increasing financial costs or decreasing sales before an elevated breakeven point.

The recovered factories avoid leading the firm to debt since the financial cost reduces utility. For this reason their feasibility projects skip the financial dimension. The evolution of the recovered factories has been sustained, with reduced breakeven points, without financial commitment. This has enabled to face the most critical moments of the economic scenario of the country.

As above mentioned, this new productive model doesn't require an investment in financial capital, since the input comes from the workers investing their human capital. It is the only resource available when credit or subsidies are lacking. In this way the workers are not just one more input for the firm as they are in the typical capital-managed firm, which applies costs of labor. Since the organization is horizontal the costs of indirect labor and the costs of administration, commercial and financial management disappear. After the first two phases, the factories start accumulating tangible assets to take advantage of scale economies in production, of the learning curve on the response to customers and on the operational cost, and this allows them to increase their market. Nowadays, the necessary funds for starting new cooperatives (conformation of the cooperative, re-connection to public services, electricity, gas, water and telephone, maintenance of certain initial production lines) are generally provided by the cooperation of other recovered factories.



## Results

The National Movement of Recovered Factories (Spanish version MNFRT) continues to work in Argentina for the recovery of the factories in all the country, motivated by the results obtained in terms of impact and also for firmly believing that work has to be valued as an indispensable way to satisfy the spiritual and material needs, as a achievement of civilization and the basis for general prosperity. The obtained results can be summarized in the following aspects.

### The impact of the recuperated factories in numbers

As already mentioned, more than 20.000 workers currently manage 300 recovered factories around all the country. These factories, managed by its cooperatives, operate in the most different areas of production such as:

as cattle refrigerators, pig and poultry; textile and clothing; heavy and light metals; food such as bakery, cold meat and confectionery; health care such as hospitals and clinics; paper mills, tanneries, footwear, printing presses and newspapers; shipyards and construction

## The impact in the political economy

The National Movement of the Recovered Factories has been able to steer Argentina to orient its Law of Bankruptcy towards the objective to create jobs, thanks to the nature of the Movement that has no political objectives, but the dialogue with all other partners and officials of the country belonging to all the political parties, who are committed to the recuperation of the factories. In July of 2011 the Senate of the Republic approved the decree that promulgates the Reform of the Law of Competition and Bankruptcy, delivering in hand of the workers of the recovered factories by the President of the Argentine Nation.

The central aspects of the new Law are the following:

- The reform contemplates that the judges have the possibility to grant the immediate continuity of production under the administration of the workers that are organized in Cooperatives. The Cooperatives only fulfil the formal request, through an investment project of production and sales. Once the judges have transferred this to the union, he/she has to allow the Cooperative the use of the factory..
- The reform sets the labor and pledged credits at equal levels. In particular, the interest rates of the labor credits are not suspended, and the latter will be updated since the date when they should have been paid and the effective date of when they are paid. With this modification workers have equal condition with the creditor in terms of interest rate: the bankruptcy gives the right to collect 100% of the labor credits owed to the worker for its food kind (the compensation considered before was of 50%). The Labor Privilege is extended to the Trade Fund, brands and patents (in the previous law the Labor Privilege regarded only the acquisition of raw material, merchandise, and machinery). The workers will be able to compensate the labor credit for the acquisition of the equipment, raw material, merchandise, trade funds, brands and patents.
- With the reform the workers have the right to make an offer to be awarded the ownership of the assets of the bankruptcy, at a price of appraisal defined by the judge. This price should be a fair one



and it should protect the interest of the creditors of which the workers are also part. In the previous law the judge could not adjudge directly the assets and -with the exception of special cases- had to call a tender or an auction.

- Direct adjudication is reached because the mortgage executions and collateral were suspended and also the time limit before liquidation is extended until the judge determines a due date and complying with the economic cycle that cannot be inferior to 24 months, giving the possibility of capitalization to workers to create the supply for direct purchase.

This decree represents a fundamental step to allow to extend the impact of the process of recovery of the factories and mainly to establish that the principle the right to work has to be protected by society that should consider it with the dignity it deserves and provide employment for those who need it. This law creates the conditions so that thousand of workers may keep producing in the failed factories, benefiting thousand of families. The law gives also a chance for the improvement of the conditions of the cooperatives that already manage autonomously the plants who failed.

## International interest

The innovative process of the National Movement of the factories recovered by the workers of Argentina succeeded in extending a great international interest. Actors from different countries have visited the experiences in course, interested in documenting and promoting them in their national contexts.

Journalists, students, professors and other representatives of Brazil, Canada, Costa Rica, Denmark, Spain, United States, France, Japan, Puerto Rico, Venezuela visited the Movement.

The Uruguayan Government organised technical and financial services to support the Recovered Factories, taking the experience of Argentina into consideration.



# Contacts

Web: [www.fabricasrecuperadas.org.ar](http://www.fabricasrecuperadas.org.ar)

The Movement of Recovered Factories is available to share its knowhow and experience with actors from any country interested in promoting the workers' revitalisation processes of the factories. To establish direct contacts:

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## Innovation for Development and South-South Cooperation

**The IDEASS Programme** - Innovation for Development and South-South Cooperation - grew out of the major world summits in the 1990s and the Millennium General Assembly and it gives priority to cooperation between protagonists in the South, with the support of the industrialised countries.

**The aim of IDEASS** is to strengthen the effectiveness of local development processes through the increased use of innovations for human development. By means of south-south cooperation projects, it acts as a catalyst for the spread of social, economic and technological innovations that favour economic and social development at the local level. The innovations promoted may be products, technologies, or social, economic or cultural practices.