



WINS

WORKERS' INVOLVEMENT IN
SOCIAL ECONOMY ENTERPRISES

CONCLUSIONS AND POLICY POINTERS

Worker's Buyout Solutions



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Conclusions and Policy Pointers

Introduction

Company that is facing an ownership succession problem may find its natural successor with the group of people that make it tick. A cooperative model offers a tool for new ownership structure, which would make the enterprise inclusive and participatory, and provide equitable management model, which allows for consensual decisions and whose purpose is business viability and job maintenance.

The cooperative model offers a great capacity for self-determination, where all the worker-members co-decide on important aspects such as working conditions, organization, and operation of the company.

The WINS project aimed to promote employee involvement in conventional enterprises and in companies of the social economy (SEEs), encouraging them to know those rights and their obligations and companies to develop professionally in accordance with the principles that govern Social Economy Enterprises especially in Italy, Spain, North Macedonia and Slovenia. During the project the WINS project partnership decided to focus on challenges like effective operation of these rights in Social Economy Enterprises, digital platform cooperatives, false cooperatives, worker buyout (WBO) and ESOP¹ models.

Through realization of the online co-creation workshop focusing on workers buyouts, held on 11th of March 2022, the project partners and experts representing trade unions, social economy enterprises, policy researchers and academia, aimed to find answers to the following questions:

- *What are the current perspectives of workers buyout?*
- *What are the problems and obstacles?*
- *What solutions can we find?*
- *Any policy pointers?*

The questions above have been discussed from three different perspectives in three separate workgroups:

1. Worker buyout models and processes
2. Legal and financial framework for worker buyouts
3. Stakeholder engagement

¹ ESOP = Employee Shared Ownership Plan

This Conclusions and Policy Pointers mainly **targets EU level decision makers but also includes recommendations at national level** – this way aims to contribute to the implementation of the Social Economy Action Plan. From the European perspective we must work on the use of the Social Economy Action Plan to put WBOs on the agenda and promote other public policies measures and financial instruments that support transformation processes and participatory leadership programs for workers. When it comes to the Western Balkans, taking into consideration the state of development of the labour market, the lack of policies to promote economic democracy and share-ownership, IPA² funds must be better programmed to ensure support in the development of such measures.

The project partners aimed to draft this text based on facts and evidence found and drawn up in the project final report, experience of the project partners and experts. Inputs were also taken from those experts and policy makers who participated in the project and / or shared their thoughts on the six online European events organised in the framework of the WINS project between 2020-2022.

Worker buyout models and processes

Conclusions

1. There is **no single reason for business transformation processes** in cooperatives or other social economy enterprises. In Italy most WBOs are established from companies in crisis while WBOs from enterprises without succession are more frequent in Spain. In Slovenia there are other forms - the European [Co-Operative Employee Stock Ownership Plan \(ESOP\)](#) and a proposal of an “European Marcora” that builds on the good practice from Italy (Marcora framework) and Spain (Pago Unico law) - in the last few years that address the problems in the SME sector – one deals with the succession problem and the other with the problem of insolvency and cost-optimization by foreign owners.
2. The **major obstacle** to designing a business transformation model is **access to the necessary financing** to undertake the project, either through the different aid schemes of the public sector (such as the single payment that is the capitalization of unemployment benefits) or with the support of the cooperative sector (mutual funds) or through innovative systems to generate means of financing for those who manage the process without being the workers themselves.
3. **In many cases workers** cannot be expected to be the ones to advance the money initially because they usually **have neither the financial capacity nor the borrowing capacity** to undertake the projects. The European ESOP model and the proposal of an “European Marcora” helps

² Instrument for Pre-Accession Assistance

collectives of workers that are in risk of losing jobs due to insolvency or production cost optimization. The model provides financial liquidity to companies by allowing workers to receive the anticipated unemployment benefits in lump-sum and access other institutional financial mechanisms.

4. It is noted that the **lack of knowledge and prejudice** towards cooperatives and/or self-management of the enterprise on the part of the workers have an impact on the transformation processes, generating difficulties for external financing, preventing to reach many cases that could benefit from a transformation. This fact also hampers the generation of sufficient technical capacity, advisors, and trainers in each territory to address potential processes.

Policy pointers:

1. A **common framework** is needed at the European level that includes EU member states and accession countries, especially in terms of **positive tax treatment** of self-managed and worker-owned companies and that there is a **legal regulatory framework at all levels** that favors these transformation processes. Unless common regulatory framework on EU level is established, the development of the WBO practice and worker's cooperatives and their recognition in the national policy framework will be considerably delayed. We propose usage of IPA **funds** for implementation of projects for technical assistance of relevant Ministries to establish the needed policy and financial framework to encourage the development of the WBO practice through various mechanisms.

In addition to the institutional environment regulating tax issues, red-tape, and financial instruments, **the guidelines on the structural features of employee-ownership models** should be considered, which are crucial and must be unified throughout the EU. Capital and legal structure must be established and defined by regulatory frameworks so that the issues discovered with cooperatives and employee-owned firms in the past are avoided. These are: governance issues (the need for a democratic participation and influence), economic rights (claim over net income and individuated net asset value), open membership (price of membership shares not dependent on the value of assets of a cooperative), inclusivity and preventing degeneration (a mechanism to include all employees automatically to avoid rent-seeking behavior of existing members) etc.

Legal and financial framework for WBOs

Conclusions:

1. **Countries are not the same**, WBOs are more prevalent in Spain and Italy, in these countries the legal and financial framework is more developed than in countries with less experience such North Macedonia and Slovenia. However, Slovenia has developed an advanced European model for ESOP with the aim to introduce it in European level. North Macedonia has no established WBO practice.
2. Based on experience of countries with more advanced models, it is necessary to **reduce the time required** for the transfer of companies before entering bankruptcy proceedings, as this has been identified as the weakest point during the buyout process.
3. **Early detection** of the situation of risk or closure of the company is fundamental to implement all the existing legal and financial tools and mechanisms in a pre-insolvency situation to obtain greater viability of the transformation processes and the maintenance of the greatest number of jobs. National regulations on early warning systems for companies that, according to certain indicators, might evolve towards insolvency should be enabled.
4. **The establishment of negotiating commissions** made by the representatives of workers, the company, trade unions and other stakeholders should be supported with the objective of preventing a business financial crisis. Consultation may favor the definition of the alternative options that can be applied in relation to turnaround and restructuring operations. Among the possible options workers' buyouts initiatives might be envisaged.
5. The **Marcora Law** in Italy has established a base on which a culture of transmission and transformation of enterprises into cooperatives has been built. This has also made possible the appearance of very important financial instruments, but not sufficient for all sizes of enterprises and not fully transferable to other countries where the cooperative legal and regulatory framework is still underdeveloped.

Policy pointers:

1. A **regulatory framework facilitating the transformation** of conventional companies into worker cooperatives is needed. This framework should be based on a number of supporting measures focused on the provision of both financial and human resources needed to start-up the buyout process and to monitor its development over time. Financial resources are necessary to facilitate workers' acquisition of shares either through tax exemptions on their capitalized unemployment benefits or through dedicated financial guarantees and sureties.
 2. **Interim financing** (essential to ensure the success of restructuring plans) from private bodies should have a favorable tax treatment, while that from public bodies should not be considered state aid.
 3. The **creation of financial instruments** providing guarantees or financing for business transfer processes, that assess the viability and monitor the implementation of business projects should be supported.
 4. In takeover bids, a preferential right should be recognized to worker cooperatives established by the employees of companies entered into insolvency or bankruptcy proceedings who want to acquire or rent the company or parts of it.
 5. **Free and confidential professional counseling services** for companies in difficulties should be established by regulatory development to enable counseling for small and medium-sized companies in an early stage of difficulties, which should also include unions, federations and confederations of worker cooperatives.
 6. Introducing **educational and mentorship infrastructure**, which helps workers' collectives, provides the necessary know-how, teaches ownership values, provides financial literacy courses, helps with business planning etc. is a must.
 7. **Ensure capacity building** for all the above-mentioned mechanisms for public institutions and social partners from Western Balkans, thus improving the institutionalization processes of the WBO practice in these countries.
 8. This model solves the above-mentioned major **financing obstacle for healthy companies** since the finance for the WBO is either seller-credit (the seller sells the shares in return for a stream of payments over several years) or a loan is obtained from a financial institution guaranteed by the company itself, not by the workers or their assets.
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Stakeholders engagement

Conclusions:

1. From the **European perspective**, the map of **stakeholders** ranges from the main European institutions to other entities linked to the European social economy and to certain extend, entities that deal with SME sector in general, passing through the ETUC, and reaching other companies and organizations at the European level that affect WBOs linked mainly to banking and ethical finance.
2. At the **national level**, important stakeholders are the relevant ministries (typically ministries of labor and / or economy) and other government bodies as well as development agencies and non-governmental bodies involved in WBOs. We must count on trade unions and cooperative organizations, both at national and territorial level.
3. **Company level:** an important role in the involvement is also played by workers representatives at company level.
4. **Other stakeholders:** we must not forget other vital stakeholders, such as advisors, accountants and lawyers who are in contact with small businesses, in the early detection of the need for the transfer of a business.
5. But certainly, the main actors in the business transfer process are **the employees**. Of course, at different levels of involvement within the WBO.
6. The transversal point of concern is to raise awareness of **what WBO is**. It is very important to rely on local networks of workers and trade unions, but also to disseminate more generally since many SMEs do not have workers' representatives within the company. This awareness must reach all institutions and local socio-economic areas where the companies are located.

Policy pointers:

1. To **strengthen stakeholders' commitment** to transformation processes, it is necessary to develop and foster the capabilities necessary to carry out WBOs at all levels, and to mentor and support WBOs when they are under way. It is also important to collect and carry out studies on WBOs, in order to develop academic interest in this theme and to make financial institutions aware of them.
2. It is necessary to **explain/ communicate to the workers** what a cooperative is and why it is not a commercial enterprise. It is necessary to reflect on economic democracy, its processes, and the key role of worker cooperatives in general.
3. We need **proactive public bodies** receptive to Social Economy enterprises, which are social allies to reach an agreement between public institutions and all other actors in the field of WBOs. We must explain to the public sectors that WBOs are a win-win situation that generates jobs and has a positive effect on public finances.
4. Finally, it is necessary to **create networks of entities involved in WBOs** to generate projects and round tables that address the constant challenges of business transmission. These networks should include partners and collaborators from Western Balkan countries, to ensure continuous transfer of knowledge and capacity building.

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The WINS project partnership.



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