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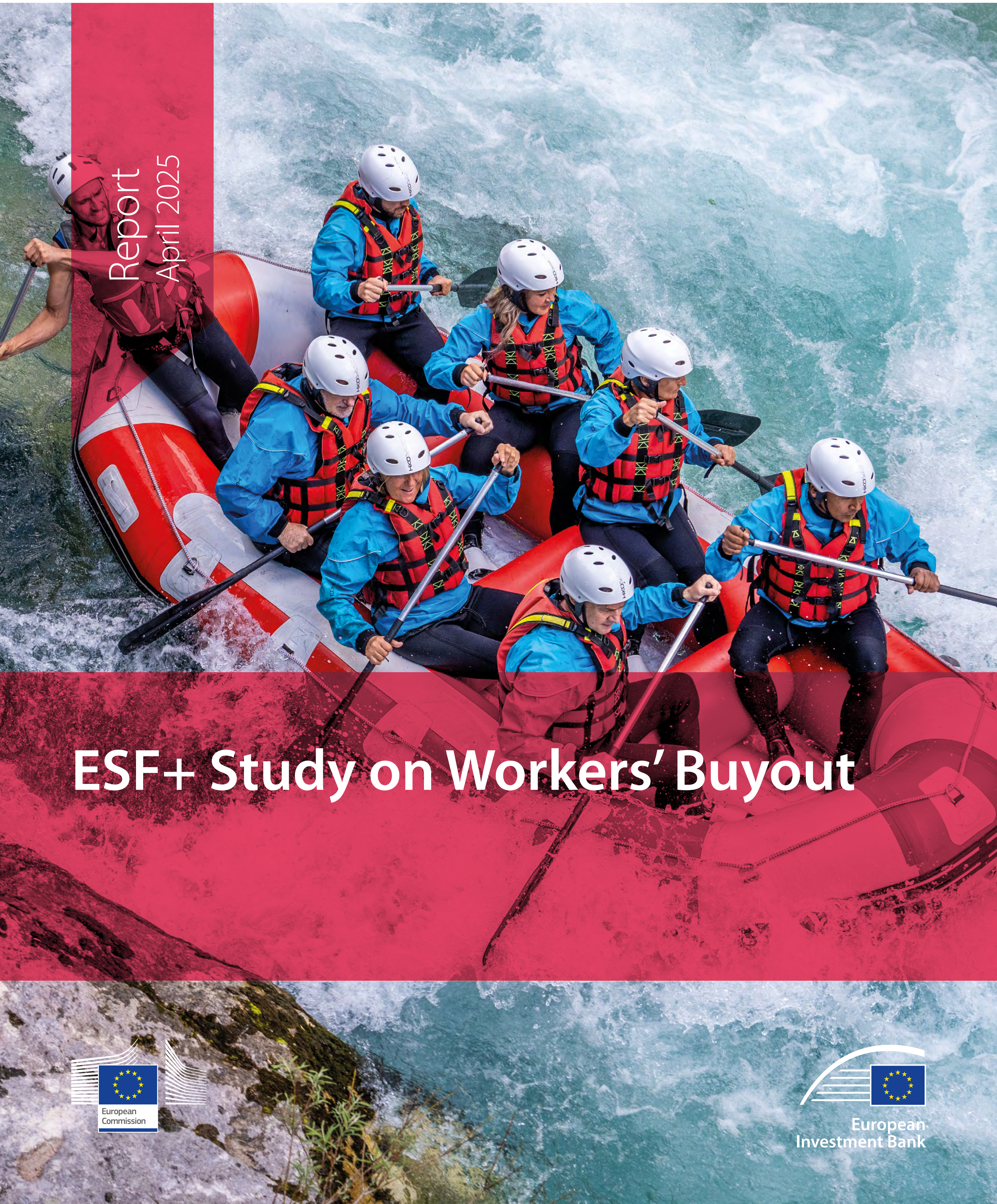

Report
April 2025

ESF+ Study on Workers' Buyout

European Commission

European Investment Bank

ESF+ Study on Workers' Buyout

Summary Report

DISCLAIMER

This document is to be referred to as: fi-compass, 2025, ESF+ Study on Worker's Buyout, Summary Report, 96 pages.

Available at: https://www.fi-compass.eu/library/market-analysis/esf-study-workers-buyout.

Abbreviations

Abbreviation	Full name
CCFS	Cooperative financial intermediary structure (Consorzio Cooperativo Finanziario per lo Sviluppo)
CEO	Chief Executive Officer
CFI	Business Finance Cooperation (Cooperazione Finanza Impresa)
CGSCOP	National Confederation of the Cooperatives (Confédération générale des SCOP)
COCETA	Spanish Confederation of Worker Cooperatives (Confederación Española de Cooperativas de Trabajo Asociado)
DG EMPL	Directorate-General for Employment, Social Affairs and Inclusion
EaSI	Employment and Social Innovation initiative
EC	European Commission
ECB	European Central Bank
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EIF	European Investment Fund
EOB(s)	Employee-Owned Business(es)
EOC(s)	Employee Ownership Cooperative(s)
EOT(s)	Employee Ownership Trust(s)
EP	European Parliament
ERISA	Employee Retirement Income Security Act
ESF	European Social Fund
ESF+	European Social Fund Plus
ESOP(s)	Employee Stock Ownership Plan(s)
ESPP	Employee Share Purchase Plan
ESPAZO COOP	Union of Galician Cooperatives (Unión de Cooperativas de Galegas)
EU	European Union
EUR	Euro
FCPE de reprise	Fonds Commun de Placement d'Entreprise
ICAs	Individual capital accounts

ICP	Information, consultation and participation
IED	Institute for Economic Democracy
InvestEU SISW	InvestEU Social investment and skills window
LMBO	Leveraged Management Buyout
MRP	Employee Participation Programme
MSs	Member States
PEPPER	Participation of Employed Persons in Profit and Enterprise Results
RRP	Recovery and Resilience Plan
SA	Public Limited Company (Société Anonyme)
SAPO	Joint-stock company with workers' participation (Société anonyme à participation ouvrière)
SARL	Limited Company (Société à Responsabilité Limitée)
SAS	Simplified Joint-Stock Company (Société par actions simplifiée)
SCIC	Cooperative Company of Collective Interest (Société Coopérative d'Intérêt Collectif)
SCOP	Cooperative production company (Société coopérative de production)
SCOPINVEST	Intervention en fonds propres des société coopérative de production
SE	European public limited-liability company (Societas Europaea)
SLs	Labour Societies (Sociedades Laborales)
SMEs	Small and medium-sized enterprises
SOCODEN	Cooperative society for development and mutual aid (Société coopérative de développement et d'entraide)
SOCODEN-FEC	Cooperative Mutual Aid Society – Confederal Expansion Fund (Société Coopérative d'Entraide – Fonds d'Expansion Confédéral)
UK	United Kingdom of Great Britain and Northern Ireland
URSCOP	Regional Branch of the National Association of Cooperatives
USA	United States of America
WBO(s)	Workers' buyout(s)
WOB(s)	Worker-owned business(es)

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01 Introduction

The concept of a social market economy is being actively promoted within the European economy. Strategies and tools for workers' involvement are considered a crucial aspect of transferring businesses to employees, and they are being analysed and developed as part of a common European strategy. In addition to strengthening social cohesion building employee ownership, Workers' buyouts (WBOs) can also be an effective tool for addressing many of the challenges identified in the small and medium-sized enterprises (SMEs) sector, such as the transfer of business ownership, especially in the case of a succession challenge, which threatens 150 000 enterprises annually in the European Union (EU)[1]. In recognition of the significant potential of WBOs to foster a more resilient and inclusive economy, the Social Economy Action Plan[2] adopted by the European Commission (EC) in 2021 explicitly calls for both financial and non-financial assistance to support these types of transactions. The need to establish an enabling framework for WBOs has also been recognised by the Council of the EU in its Recommendation on developing the social economy framework conditions[3], adopted in 2023.

The aim is to establish a framework that facilitates and supports the transfer of ownership to workers, thereby strengthening employee participation in business decision-making processes and safeguarding employment. The aim is also to promote employee buyouts as a tool for addressing the succession challenge with the view of preserving jobs and the continuation of viable economic activity within the EU SME sector.

Within this context, information, advocacy, and technical expertise services have emerged as vital elements, especially in the context of transferring enterprises to employees. The national initiatives that provided expertise in the WBO processes have proven to be instrumental in saving numerous enterprises and hundreds of thousands of jobs each year.

Recognising the importance of workers' involvement, some EU Member States (MS) are actively developing comprehensive strategies and tools that enable smooth and effective transition of enterprises to employee ownership. These strategies aim to foster a greater sense of employee ownership, reinforce workers' rights, and contribute to the sustainability and success of transferred enterprises.

So far, France, Italy and Spain have presented successful examples of the transfer of enterprises to employees. Furthermore, other EU countries, such as Slovenia, are starting to pilot different initiatives to support WBOs.

Creating a supportive EU environment for the transfer of enterprises to employees by emphasising these principles and strategies at the highest level is key. This would also ensure long-term stability, growth and preservation of jobs within the social market economy framework.

The parameters of WBO can be seen as representation of acquisition of a company by its own employees to avoid closure, save jobs and preserve company know-how. This study analyses those parameters from various perspectives in countries with successful WBO traditions, namely France, Italy, Slovenia and Spain.The conclusions of the study together with the respective recommendations are presented in Figure 1 below.

1 European Commission, *Transfer of businesses.* [Online]. Accessed on 18 December 2023, available at: https://single-market-economy.ec.europa.eu/smes/supporting-entrepreneurship/transfer-businesses_en.

2 European Commission, *Building an economy that works for people: an action plan for the social economy.* [Online]. Accessed on 18 December 2023, available at: https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10117.

3 Council of the European Union, *Council Recommendation on developing the social economy framework conditions.* [Online]. Accessed on 18 December 2023, available at: https://data.consilium.europa.eu/doc/document/ST-14113-2023-INIT/en/pdf.

Figure 1: Conclusions and recommendations.

Quick wins

1

Conclusion
WBO, as an alternative route of business take-over, is suffering from a general lack of knowledge and recognition in most of the Member States.

Recommendation
Raise awareness and knowledge sharing on WBO.

2

Conclusion
Beyond the access to finance for workers, the transactions require a number of pre-conditions (regulatory framework, tax incentives) that are not in place in most of the EU MS.

Recommendation
Building and strengthening enabling ecosystems supportive to WBO in Europe.

3

Conclusion
Banks and traditional investors are reluctant to support WBO transactions which are considered risky.

Recommendation
Follow up on the EaSI and use the InvestEU SISW guarantee / counter-guarantee to support social enterprises and cooperatives with an emphasis on WBO.

Medium-term

4

Conclusion
Cooperative support organisations, in the social economy sector are struggling to finance technical assistance services they provide to cooperatives and social entrepreneurs.

Recommendation
Encourage the use of ESF+ grant for providing technical and advisory services to cooperatives in particular, and to social entrepreneurs in general.

5

Conclusion
Opportunity to ease access to social impact investors to address market gaps or suboptimal situations in terms of equity and debt financing.

Recommendation
Promote WBO as a social impact investment within the Social Impact Investor Community.

Long-term

6

Conclusion
Experience of more advanced countries demonstrated the need of legal and tax incentives to support WBO and generate a pipeline of transactions.

Recommendation
Facilitate the development of an enabling regulatory framework to support WBO in the MS.

Source: Author.

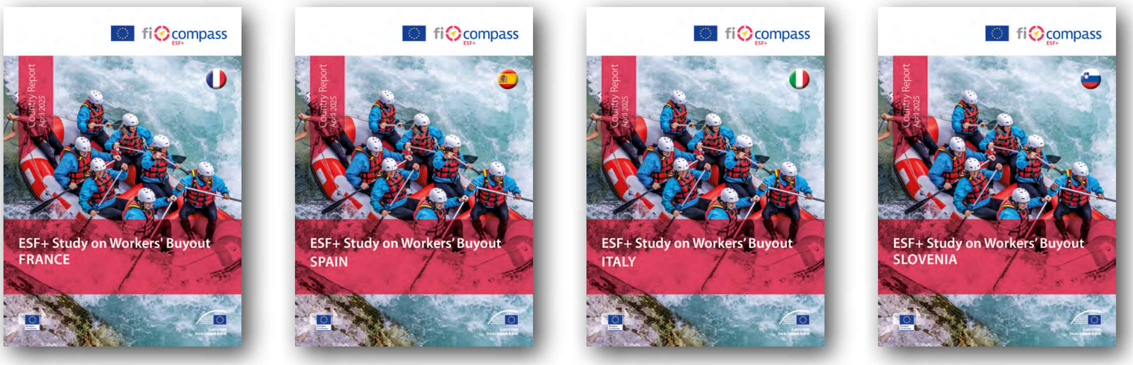
1.1 Objectives and structure of the study

The objectives of the study are to comprehend the concept of WBO and to create a basis for its financial assistance using European Social Fund Plus (ESF+) financial instruments, in tandem with supporting grants.

The study intends to provide a solid and evidence-based framework enabling an informed decision as to whether to develop and implement financial instruments to support WBO. It also aims to provide a foundation for the future actions of the European Commission and selected EU Member States related to developing financial instruments to support WBO, including engagement with the relevant stakeholder groups and development of the WBO ecosystem.

The study is structured as follows:

- Chapter 2: WBO overview within a European context, defines WBO and presents the most common models as well as current trends and insights within the WBO context.
- Chapter 3: Country Report – Summary, summarises the country reports for the countries analysed, including case studies of selected companies.
- Chapter 4: Final conclusions and recommendations, provides understanding of the needs and preconditions for the establishment of WBO, financial implications, potential conditions for use of ESF+ financial assistance and suggested next steps.
- Annex I: Country Reports, provides in-depth case studies of WBO in France, Spain, Italy and Slovenia.



1.2 Methodology

The study was undertaken at EU level with a focus on mapping the WBO framework in France, Spain, Italy and Slovenia.

It draws on findings from a range of sources and inputs including desktop research, online discussions and semi-structured interviews and workshops with national experts.

In addition, to present preliminary findings and to discuss the next steps in further advancing this study, two additional workshops were organised:

- A workshop with representatives from the European confederation of industrial and service cooperatives (CECOP) on 10 October 2023.
- A workshop with representatives from the European Investment Bank (EIB) and European Investment Fund (EIF) on 26 October 2023.

02 WBO overview within a European context

2.1 Definitions and most common WBO models

WBO refers to a process whereby a substantial majority of employees[4] acquire stock of the operating company at which they are employed. Unlike managerial buyouts, WBOs are non-discriminatory and open to all employees[5]. This type of acquisition can occur through a direct conversion of the legal entity underlying the operating company or by creating a separate legal entity to purchase the shares of the company in question. A WBO is a process of creating worker-owned businesses (WOBs), in which workers are granted, partially or fully, ownership rights. Ownership rights consist of economic rights, that is, rights to distributed profits and a recoupable claim over capital appreciation, and governance rights[6]. A WBO is therefore a process of transferring a part or full set of ownership rights to the collective of workers, either directly or through an intermediary legal vehicle[7].

Across the EU, the role of WBOs in addressing social, environmental, and economic issues is increasingly recognised. WBOs have the unique ability to uphold the principles of democracy and social justice while simultaneously fostering entrepreneurship and increasing added value in the economy. As a result, they are present in various forms and in various business sectors throughout the EU.

4 An employment contract is in most cases still an effective criterion for determining who is entitled to obtain ownership rights through a WBO. Nevertheless, this method of allocation of ownership rights is being challenged by the increasing reliance of companies on 'independent contractors' who are de-facto employees. This trend has been greatly accelerated by the advent of labour-based platforms. To overcome this problem, some have suggested a return to the original description of the economic firm made by Ronald Coase, according to which an employee is a worker that participates in the production process of a company under the supervision, control, and direction of said company's authority structure [Coase, R.H. (1937), The Nature of The Firm, Economica, 4 (16), 386-405; Coase, R.H. (1989). The Firm, the Market, and the Law. University of Chicago Press].

5 The so called Non-Discrimination Criterion in WBOs follows the definition of liberty by Isaiah Berlin, which includes both the legal right to become owner (negative freedom of access to ownership rights – meaning that no worker is prevented from joining the WBO on legal grounds) and the actual capability to receive ownership rights (positive freedom of access to ownership rights – meaning all workers should be able to obtain ownership rights, where the limitation is usually of a financial nature) (Gonza, 2024). Gonza, T. (2024). *Comparative Analysis of Organizational Structures of Employee Centered Enterprises* [PhD Thesis]. University of Ljubljana.

6 While the conventional definition of ownership rights includes the governance right and full economic rights (right to distributed and reinvested profit), several of today's most widespread WBOs fall short of fulfilling all these criteria.

7 Some definitions require that a WBO grants control of the company [Eurofound. (2019) 'Employee buyout'. Accessed on 7 August, available at: https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/employee-buyout]; while others maintain that a 'significant' share of ownership transfer to workers already constitutes it as a WBO [Oakshott, R. (2000). Jobs and Fairness: The Logic and Experience of Employee Ownership. Norwich, UK: Michael Russell].

Figure 2: Overview of the main WBO models.

	Cooperative conversion	ESOP* / EOT**	ESPP***
Main features	An operating company is converted to an employee-owned cooperative, which includes workers as members (and sometimes external investors as members in addition to workers).	A special purpose vehicle (e.g. a cooperative) is founded that buys a share of the company (0-100%) from the existing owners, only employees are beneficiaries/ members of the SPV, the acquisition debt is financed through leverage (future profits used to pay off the acquisition).	A profit-sharing scheme where employees can direct profits to buy newly issued shares by the company.
Challenges	Full conversion of the operating company is a complex process that requires a well-developed institutional infrastructure.	Dedicated financial instruments are essential to complement seller's credit in financing the WBO, regulatory certainty and tax incentives important to promote WBOs.	The model rarely leads to substantial WBOs, generally a minor share of company is held by employees through ESPP. Not suitable as a tool for ownership succession.
Presence in EU countries	France, Italy and Spain.	Slovenia and Hungary (outside EU- the US, UK, and Canada).	France, Germany, Austria, Hungary and Slovenia.

Notes: * Employee stock ownership plan (ESOP) ** Employee Ownership Trust (EOT) *** Employee share purchase plan (ESPP)

Source: Author.

While the concept of WBO can be applied broadly, in most EU countries with a well-functioning WBO infrastructure, conversions have largely occurred during times of crisis, where the primary objective was generally to save jobs in companies facing insolvency[8]. These WBOs, known as 'negotiated WBOs', are usually initiated by the employees themselves, who receive assistance from dedicated supporting institutions that often help them raise the capital necessary for the buyout. Most commonly, negotiated WBOs imply full conversion, so that either the legal entity is changed, or a new legal entity is created for the operating company in such a way that workers of the new business are part of the ownership structure. In the cases of Italy and France, the new legal entities are cooperatives, and in the case of Spanish conversions, the legal entities are both cooperatives and employee-owned businesses (Labour Societies (Sociedades Laborales, SLs), in which both workers and external investors can be owners of the firm. Negotiated WBOs have demonstrated great success in terms of survival rate, generated state revenue, and job retention; however, they have remained a relatively marginal phenomenon in all countries that established a supportive infrastructure.

8 The European Commission similarly limits WBOs to cooperative conversions as a tool for job creation and job retention. Accessed on 12 June 2023, available at: https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/cooperatives_en.

France, Italy, and Spain are the three EU Member States with the most advanced supporting infrastructure for WBOs. All three have developed a regulatory framework supporting WBOs, as well as organisations operating at grassroots level to support businesses looking to undertake a WBO. In France, the success of WBOs can be mostly attributed to the country's strong cooperative and worker ownership tradition. This tradition is reflected in the presence of mutualist and cooperative banks and other financial intermediaries, established, and supported by the National Confederation of Cooperatives (CGSCOP). This organisation is significantly keener to support WBOs than its conventional counterparts. Support has also been granted by state-funded institutional investors, as well as EU funds.

In Spain, where there is also a strong worker-ownership movement, the main driver of WBOs appears to be the supportive legislation put in place at a national and regional level to help workers finance a WBO. This includes the right to claim unemployment benefits in a lump-sum through the Pago Unico system[9], the possibility of obtaining financial aid from national and sub-national funds, as well as tax advantages. In Italy, WBOs have been enabled both from the country's strong cooperative network and from bold supportive legislation, such as the 49/1985 'Marcora' law. The symbiosis between state-financed institutions and cooperative organisations has proven crucial for the proliferation of WBOs in the country.

Although less well-known, legislative frameworks for WBOs have also been established in Hungary, Austria and Germany. Advanced discussions on the possibility of introducing dedicated legislation for WBOs are taking place in Denmark, Ireland and Slovenia.

In **Spain**, there is a rich tradition of employee ownership and cooperatives, notably seen in the Mondragon Corporation and the country has established various legal and financial instruments to support WBOs. The Pago Unico system allows unemployed or at-risk workers to use unemployment benefits to finance a WBO. Tax incentives further boost WBOs, and recent changes in insolvency law prioritise workers in company auctions. SLs are conventional firms in which most shares are held by employees, offering flexibility and external investment opportunities. Anti-degeneration rules, strengthened by internal agreements, aim to prevent ownership concentration. The increasing interest in adopting a leveraged buyout model, akin to ESOPs and EOTs, holds potential but is currently constrained by the legal mandate for WBOs to establish direct worker ownership if they wish to access the support systems designed to promote WBOs. Cooperatives are also recognised as a worker-ownership option. Direct ownership requirements pose challenges, and SLs risk employee-ownership degeneration. Cooperatives are less prone to this issue but may struggle to attract external investors.

Italy is renowned for having one of the world's most sophisticated frameworks for WBOs, largely due to the 49/1985 'Marcora' law[10], which has provided institutional and financial support for these enterprises since 1985. This law enables workers facing unemployment due to company insolvency to channel their potential unemployment benefits into forming worker or social cooperatives, with the aim of preserving employment by acquiring the assets of struggling companies. Business Finance Cooperation (Cooperazione Finanza Impresa, CFI), a state-funded institutional investor, assists these cooperatives with technical and financial resources. Despite being recognised as a success, the Marcora framework had facilitated the rescue of fewer than 400 companies through WBOs by 2023.

9 The Law on Social Economy defines the different business models recognised in Spain as social enterprises, with the purpose of granting some economic, fiscal, or promotional advantages to them. Regarding WBO, the Law on Social Economy regulates one of the most frequently used instruments for the promotion of both worker cooperatives and EOBs, that is the capitalisation of unemployment benefits. This regulation allows individuals who are receiving unemployment benefits to request the full amount they are entitled to as a lump sum payment. They can then use this amount to make their contribution to the capital of the cooperative or EOB in which they will become new worker members., Law 2011/5 of 29 March 2011 on the Social Economy. Accessed on 2 October 2023, available at: https://www.boe.es/buscar/act.php?id=BOE-A-2011-5708.

10 Law 49/1985 of 27 February 1985 on measures for credit for cooperation and emergency measures safeguarding employment levels (Legge 49/1985/49 del 27 febbraio 1985 provvedimenti per il credito alla cooperazione e misure urgenti a salvaguardia dei livelli di occupazione). Accessed on 25 October 2023, available at: https://www.gazzettaufficiale.it/eli/id/1985/03/05/085U0049/sg.

Efforts to extend its use to business succession cases remain limited. In successful instances, business owners have often played crucial roles by offering favourable terms and sometimes co-financing WBOs. Italian cooperatives follow democratic governance principles and require the allocation of 30% of profits to an indivisible reserve, with a 3% contribution to mutual funds for legislative support. Italy's Marcora law has been instrumental in preserving jobs and promoting WBOs in insolvent companies. However, its application beyond company crises and scalability is hindered by the lack of tax incentives and mechanisms for leveraged and gradual buyouts.

In **France**, the landscape of WBOs comprises three distinct models, each showcasing unique characteristics and support systems. The most widespread model centres around Cooperative production companies (Société Coopérative et Participative or Société Coopérative de Production, SCOPs), which are worker cooperatives known for their strong institutional backing and democratic governance. SCOP-based WBOs allow workers to become direct owners of their companies, and they receive substantial financial support from entities such as the Cooperative society for development and mutual aid (Société coopérative de développement et d'entraide, SOCODEN) investment fund, cooperative banks, and several institutional investors. While SCOPs promote inclusivity by allowing all employees to become members, the presence of high membership fees can sometimes pose a challenge. Additionally, there is a mandatory reinvestment rate for SCOPs of 16%, designed to mitigate the risk of underinvestment, which reflects the sub-optimal system of incentives in the decision-making structure of SCOP. In 2014, the French government introduced the 'SCOP d'amorçage', a transitional cooperative, to enable external investors to hold a majority ownership stake for up to seven years while preserving employee decision-making power; however, adoption has been limited (three reported cases).

Another model, the Company Mutual Fund (Fonds Commun de Placement d'Entreprise, FCPE de reprise), introduced in 2006, resembles the US ESOP model but requires employees to personally finance acquisition of shares, potentially excluding those with lower incomes. Furthermore, the absence of exit regulations and reliance on personal investments have raised sustainability concerns, leading to restricted adoption (also three reported cases).

Lastly, the joint-stock company with workers' participation (Société anonyme à participation ouvrière, SAPO) issues 'labour shares', a unique approach in which the company finances all shares, allowing employees to become members of a democratically governed entity, the Workforces' cooperative society (Société coopérative de main-d'oeuvre), without personal financial contributions. Nevertheless, SAPOs have become largely obsolete over time.

Hungary has implemented two distinct WBO structures: the ESPP and an ESOP-like model known as the Employee Participation Programme (MRP). Under the MRP, a dedicated entity owned by employees holds shares of the operating company, with dividend rights tied to employee participation while control remains with the majority shareholder. Dividends or capital gains from MRP shares benefit from tax exemptions, offering tax-efficient profit-sharing opportunities for employees. Financing options for MRP WBOs include in-kind capital contributions or cash contributions, both of which are tax-deductible for the company, providing a cost-effective capital source. Tax incentives encourage employee participation and profit-sharing, exempting employee shares from initial taxation and imposing a flat 15% tax on dividend distributions. MRP-related dividends and capital gains also enjoy participation exemption. However, regulatory standards for employee inclusion and equity distribution in the MRP are lacking, potentially enabling misuse of the vehicle for Management Buyouts and tax incentive exploitation by sellers, capital, and beneficiaries.

Germany recently introduced changes to its ESPP WBO model that created a better tax incentive for employees to purchase shares using their wages and bonuses. The German ESPP model entails taxation on the discount received when acquiring company shares. Notably, as of 1 January 2021, eligible employees with one year or more of employment may benefit from a deduction of EUR 1 440, an increase from EUR 360, with a planned increase to EUR 5 000. Additionally, effective from 1 July 2021, income tax deferral may be applicable to grants by start-up or small companies under certain conditions. A key consideration is that for tax breaks to apply, shares must be offered in addition to wages to all the workers. It is imperative to note that discrimination against part-time employees is generally prohibited.

A similar model was introduced in **Austria**. Austrian ESPPs are characterised by their flexibility, primarily governed by Austrian law without specific regulations for share acquisition or purchase plans. Shares are typically available to employees at reduced prices, accompanied by specified holding periods, necessitating a minimum of five years to secure favourable tax treatment. Unlike share option plans, where employees are offered an option and the right to participate in future capital appreciation of the company but do not hold shares, the ESPP grants full shareholder rights, including voting privileges, and dividends, regardless of employee status. Acquiring shares at reduced or no cost results in taxable benefits, subject to individual income and social security contributions. The annual tax-free allowance of EUR 1460 applies to direct equity participation, provided it encompasses all employees or designated groups. Early share sales incur tax obligations for employers, who may seek reimbursement from employees. Vesting conditions aim to enhance employee loyalty, with potential tax implications upon fulfilment.

In **Germany** and **Austria**, ESPPs are accessible to all companies, but find more significant traction within larger corporations due to their advantageous tax treatment. The plans offer discretion in their application, enabling companies to tailor them to specific employee groups. However, tax benefits apply only during active employment. Regardless of the tax incentives and regulatory framework, ESPP plans rarely if ever lead to significant employee ownership and could hardly be classified as a WBO model, since they generally create a division between executive and non-executive employees based on their willingness to invest bonuses in shares.

There is increasing recent interest in EU countries in using WBOs as a tool to address ownership succession challenges. An example of a highly effective and successful WBO model, which is commonly adopted as a succession plan, can be found outside the EU. ESOP, a leveraged WBO model originating from in the **United States of America (USA)**, stands as the most common form of WBO model worldwide, with just under 7 000 businesses employing 14.7 million USA workers adopting that structure. ESOPs were developed in the USA during the 1950s and obtained legislative support through the Employee Retirement Income Security Act (ERISA) legislation in 1974[11]. The USA ESOP model operates on the premise that, as workers typically lack the resources to acquire ownership, they require a means of leveraging their future labour for WBO financing. Therefore, the core feature of the ESOP model is the establishment of a buyout mechanism that converts anticipated profits into worker ownership, without requiring workers to invest their personal savings or risk their personal assets or property. Concerning capital structure, ESOPs employ individual capital accounts (ICAs), a feature also present in Mondragon and certain other cooperatives. ICAs ensure that each worker possesses a recoverable claim to their individualised share of retained profits, while preventing the degeneration of worker ownership frequently seen in WBO models where workers individually hold appreciating shares. In the case of the ESOP model, it is important to highlight three characteristics that render it an exceptionally effective WBO model, particularly when addressing ownership succession challenges: leveraged financing, which provides equal access to ownership rights for all workers; a dedicated special purpose entity that enables a gradual transition; and the ICA capital structure, which ensures an optimal incentive system.

11 ERISA was a major legislative overhaul of retirement, health, and other employee benefit plans designed to deal with various abusive practices, especially in pension plans. ERISA essentially codified the existing ESOP by making it part of retirement plan law and subject to most of the same requirements for eligibility, vesting, and allocation. More information about ERISA available at the National Centre for Employee Ownership website, accessed on 12 June 2023, available at: https://www.nceo.org/article/federal-legislation-esops#:~:text=ERISA%20essentially%20codified%20the%20existing,other%20defined%20contribution%20plans%2C%20however.

The second and more recent example of a leveraged WBO model is the EOT in the **United Kingdom of Great Britain and Northern Ireland (UK)**, the regulatory framework of which was established in 2014 and which had been implemented in close to 2 000 companies at the time of writing. In 2023, employee buyouts became the second most popular exit option in the UK, after private equity buyouts[12]. EOT shares many similarities with ESOP. Legislation followed an influential policy document, entitled Sharing success: the Nuttall review of employee ownership (2012)[13], which outlined a mechanism that very closely resembles the ESOP model, with a few key differences. The UK model mimics the ESOP financing mechanism to the extent that it features a special ownership vehicle that purchases shares from the shareholders or the company directly and pays for the shares using anticipated profits of the operating company. Even in terms of governance rights, both the USA and UK WBO models are trust-based models, with governance rights not being granted to workers by legal default (although many ESOP and EOT companies opt for a participatory governance structure, since it generally leads to improved corporate performance). However, unlike the ESOP model, EOTs only have a collective capital account, thereby not granting the workers a recoupable claim over the invested portion of the profits.

The ESOP and EOT models allow for gradual and partial WBO conversions through leveraged buyouts of stock through a special purpose vehicle (an EOT), helping to address the financing challenge, which is commonly faced by WBOs. The establishment of an ESOP or EOT is less frequently prompted by a company crisis. Instead, these models primarily serve as solutions for the problem of ownership succession[14], which is a prevalent concern within the SME sector in the EU today[15]. While ESOP and EOT WBO models are mostly used to address the ownership succession problem, the role of gradual and leveraged WBOs is much broader, since WBOs based on a special purpose vehicle can be adopted for different purposes, such as saving jobs in a failing business, protecting against hostile takeovers, providing corporate finance, or creating motivational structures for employees[16]. Because the ESOP and EOT models give ownership rights to workers through leverage (without requiring personal investment from the workers) and can also take the form of partial buyouts, they also serve as a tool for rewarding workers, building organisational affiliation, improving job stability, and increasing added value of the business.

12 Evelyin Partners (2024). Who's selling, when, how and why? A report into business exit. Accessed on 25 September 2024, available at https://www.evelyn.com/media/4c2p3yd4/business_exit_report-may-23-final-web.pdf.

13 Graeme Nuttall (2012) Sharing success: the Nuttall review of employee ownership. Accessed on 12 June, available at: https://assets.publishing.service.gov.uk/media/5a79ab1b40f0b63d72fc7918/12-933-sharing-success-nuttall-review-employee-ownership.pdf.

14 Despite the potential for negotiated WBOs to serve as a tool for succession, this specific application has not been widely adopted. One of the main issues seems to be the inflexibility of the models, which only permit the conversion of entire companies in a single effort, as well as a legal structure that discourages seller's credit.

15 European Commission Press. (2023) Support for SMEs. Accessed on 15 August, available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_06_307.

16 Research findings indicate that ESOPs have a positive impact on corporate performance. Studies have shown that companies with ESOPs experience an additional 8.8% revenue growth compared to non-ESOP companies (Kramer 2010). Empirical studies also indicate that ESOPs are associated with higher productivity, profitability and job stability. A meta-analysis of multiple studies found that ESOPs lead to a 2.3% increase in productivity, a 2.4% increase in profitability, and a 4.5% decrease in turnover. Companies with higher levels of employee ownership tend to outperform those with lower levels. ESOP companies are more likely to survive in the market, with some studies indicating a 20% to 50% higher survival rate compared to non-ESOP companies (Blasi, Kruse, and Weltmann 2013). ESOP firms have also shown greater resilience during crises, such as the Covid liquidity crisis, outperforming non-ESOP firms and requiring 75% less assistance from the USA federal government (Blasi, Kruse, and Weltmann 2021). Studies show that workers in ESOP companies have higher median incomes, with hourly rates 4%-18% higher than comparable non-ESOP firms (Kardas 1998). ESOP companies also provide higher bonus compensation, with an average of 9.6%-10.8% compared to 2.8%-3.0% in non-ESOP companies (ibid.). Workers in ESOP companies also benefit from the value of assets held in individual capital accounts, which is particularly relevant for low- and middle-income workers. ESOP accounts have significantly higher median values compared to other retirement plans (Joseph Blasi and Douglas Kruse 2019). The financial benefits and economic security achieved through ESOPs positively impact workers' quality of life, perceived autonomy, and job satisfaction (Kruse 2016). ESOP companies have lower turnover rates, with workers being 50% less likely to seek another job compared to workers in non-ESOP companies. ESOP firms provide stable employment, with significantly fewer layoffs during economic downturns and recessions. On the other hand, job stability contributes to workers' well-being and organisational commitment. Finally, ESOP WBOs can serve as a corporate finance tool, since ESOPs offer affordable capitalisation due to pre-tax ESOP contributions that pay for acquisition debt. The company receives new capital through the issuance of shares, and tax benefits are secured when loan instalments are paid through tax-deductible ESOP contributions. This tax advantage makes ESOPs an attractive solution for capitalising a company. The productivity gains from workers becoming shareholders can compensate for the dilution of existing shareholders when the ESOP is properly structured and managed.

In contrast to negotiated EU WBOs, the idea of an ESOP or EOT-type WBO more commonly originates from management or the existing owner. What the US and UK models show is that there is significant potential for scaling worker ownership by using leveraged and gradual conversion WBO mechanisms. A new development in the realm of EU WBOs is the European ESOP model, a social innovation created by incorporating the fundamental structural elements of the USA ESOP and the UK EOT models, while also introducing several innovative features such as the 'roll-over' mechanism and a participatory governance structure[17]. The European ESOP is a WBO model that uses the leverage of the future profitability of the underlying company to finance the acquisition of shares on behalf of the workers. This model employs a cooperative as the WBO vehicle, guaranteeing democratic representation at the cooperative level, where the worker representatives form a voting block at company level proportional to the stock held by the cooperative. Cooperative membership is contingent on employment within the firm, ensuring that ownership through the cooperative is exclusively accessible to workers. This model also ensures that new employees are automatically and progressively included in ownership, while departing employees are gradually compensated for the value of their shares.

2.1.1 EU policy context

The specific legal requirements for WBOs vary according to national legal framework. In some cases, employees may need to establish a new entity to meet the legal criteria for purchasing all or a portion of the original business. This new entity can be a temporary employee association that seeks additional investors or a newly formed legal entity such as a workers' cooperative. Unfortunately, there is no EU regulatory framework that provides specific details for WBOs.

The only area that is governed is the right of employees to be informed and, depending on national legislation, consulted and involved in decision-making processes within their organisations. The information, consultation and participation (ICP), so-called ICP rights[18] of employees are governed at the EU level through various legal instruments. The key EU directives that establish and regulate these rights include:

- Directive (EC) 2001/86 on employee involvement in the European Company[19] relates to the involvement of employees in the European Company (SE). It sets out provisions for employee involvement in the decision-making of SEs, including the establishment of a special negotiating body for employee participation.
- Directive (EC) 2002/14 on information and consultation[20] lays down a general framework for informing and consulting employees in the EU. It establishes minimum requirements for the provision of information and consultation to employees, particularly in companies or establishments with a certain number of employees.

17 Ellerman, D., Gonza, T. & Berkopec, G. (2022), 'European Employee Stock Ownership Plan (ESOP): the main structural features and pilot implementation in Slovenia', Springer, Vol. 2, No 186. Accessed on 12 June 2023, available at: https://link.springer.com/article/10.1007/s43546-022-00363-7.

18 ICP rights refer to the rights of employees to be informed, consulted, and involved in decision-making processes within their organisations. These rights can vary depending on the legal framework of each country. Generally, ICP rights encompass the following elements:
- Information: Employees have the right to receive timely and relevant information from their employers regarding matters that affect their employment, such as business performance, restructuring plans, and changes in working conditions.
- Consultation: Employees have the right to be consulted by their employers on decisions that may have a significant impact on their employment, such as major organisational changes, collective redundancies, or health and safety matters. Consultation involves a two-way exchange of information and the opportunity for employees to express their views and have them taken into account.
- Participation: Employees may have the right to participate in decision-making processes within their organisations. This can include mechanisms such as employee representatives on company boards, works councils, employee shareholders, or other forms of employee involvement in strategic discussions and decision-making.

19 Council Directive (EC) 2001/86 of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees. Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32001L0086; Proposal 1989/268-2 for a Council directive complementing the statue for a European company with regard to the involvement of employees in the European company. Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/CS/HIS/?uri=CELEX:32001L0086.

20 Council Directive (EC) 2002/14 of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community - Joint declaration of the European Parliament, the Council and the Commission on employee representation. Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32002L0014.

- Directive (EC) 2003/72 on The European Cooperative Society[21] addresses the involvement of employees in the event of transfers of undertakings. It establishes minimum requirements for employee information and consultation in situations where a business or part of a business is transferred to a new employer.
- Directive (EC) 2009/38 on European works councils[22] designed to improve the right to information and to consultation of employees in Community-scale undertakings and Community-scale groups of undertakings.
- The General Secretariat of the Council of EU recently called for the creation of an enabling framework for business transfers, where WBOs could play an important role in taking care of the continuation of small and family businesses to avoid job losses[23].

In addition to the above-directives, a range of other EU directives give workers' rights to information and consultation in specific situations, such as in case of transfer of business (Directive (EC) 2004/25 on takeover bids[24]) or restructuring and insolvency (Directive (EC) 2009/38 on restructuring and insolvency – the so-called 'Second chance Directive'[25]).

Overall, the level of employee involvement varies across EU countries, from basic information-sharing and consultation requirements to more advanced mechanisms of co-determination, where workers have a direct role in organisational decisions.

2.1.2 Purposes, benefits and advantages (impact) of the models

Before investigating existing WBO models throughout the EU, we discuss the reasons for considering a WBO, the potential financing mechanisms that facilitate WBOs, and the capital structures underlying different WBO models. The discussion under this section is based on the analysis of international practices of WBOs.

From the seller's perspective, there are various reasons for pursuing a WBO:

- A WBO can serve as a last-resort effort to rescue a struggling business, preserve jobs and maintain economic opportunities within local communities. Several EU countries have established dedicated financial support systems for WBOs aimed at preventing unemployment, which we examine in this study.
- WBOs can serve as a means of facilitating ownership succession, offering an alternative to other pathways such as family succession, acquisition by a competitor, or purchase by a private equity fund.
- A WBO may give the founders of SMEs a way to maintain their legacy and the business's organisational culture that they built.
- Owners and managers may opt for a partial WBO to improve motivation and organisational affiliation, and increase the productivity, growth, and crisis resilience of the business.
- A WBO may serve as a tool to build up supplementary pensions savings, as is the case with the US ESOP model.
- Finally, a WBO may simply be planned as a reward for employees who have contributed to the success of the company.

21 Council Directive (EC) 2003/72 of 22 July 2003 supplementing the Statute for a European Cooperative Society with regard to the involvement of employees. Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003L0072.

22 Directive (EC) 2009/38 of the European Parliament and of the Council of 6 May 2009 on the establishment of a European Works Council or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees (Recast) (Text with EEA relevance). Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32009L0038.

23 Council of the European Union, *Council Recommendations on developing social economy framework conditions – Political agreement*. Accessed on 18th of January 2024, available at: https://data.consilium.europa.eu/doc/document/ST-13287-2023-INIT/en/pdf.

24 Directive (EC) 2004/25 of the European Parliament and of the Council of 21 April 2004 on takeover bids (Text with EEA relevance). Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32004L0025.

25 Directive (EU) 2019/1023 of the European Parliament and of the Council of 20 June 2019 on preventive restructuring frameworks, on discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and amending Directive (EU) 2017/1132 (Directive on restructuring and insolvency) (Text with EEA relevance.). Accessed on 5 September 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019L1023.

From a policymaker's standpoint, there exist a multitude of social and economic objectives underpinning the economic policies that advocate for the promotion of WBOs.

- WBOs create business structures that provide more stable jobs and enjoy improved crisis resiliency (anti-cyclical policy).
- Scaling ownership structures leads to increased added value that is more equitably distributed among the population (promoting inclusive growth).
- Pre-distribution through WBOs implies creating market conditions that produce a more equitable distribution of income and wealth – redistribution of the ownership of the capital sources of wealth and income (decreasing economic inequality).
- Complementing labour income with capital income for the general population helps to stabilise purchasing power during inflationary pressures.
- Localising business ownership decreases the third-party problem in the context of the effect of the business towards its immediate environment – owners that live in local communities will be more conscious of the company's impact.
- WBOs improve career opportunities and create decent jobs outside of urban centres and in EU peripheries (preventing brain-drain).
- WBOs promote ownership structures that anchor capital ownership in local communities by preventing speculative relocations of production, which trigger unhealthy competition between MS to lower taxes and loosen labour regulatory environments (preventing social dumping).
- WBOs provide a socially responsible exit alternative for business founders looking to sell a company; selling to private equity or a competitor entails a higher risk of the owner lacking accountability towards the local community and the environment.

There are several different financing mechanisms that can facilitate WBOs:

- The regulatory framework may create a cheaper source of capital by allowing leveraged WBOs financed by a tax-deductible contribution by the operating company itself.
- In rare cases, the existing owner may offer the company as a gift.
- The employees may use part of their wages/bonuses, use their savings, or raise personal loans to collect buyout capital, where the personal loans are serviced through monthly income or wages (this can be very tax-inefficient).
- Some countries allow workers to capitalise on the unemployment benefits that they would be receiving in the case of the failure of the company to finance the WBO.
- The employees may also resort to fundraising/crowdfunding.
- Government entities, as well as public and cooperative financial institutions, may offer financial support for WBOs in the form of (transaction or fund) guarantees, subsidies, accessible debt capital or convertible equity.

There are several possibilities for organising the capital structure in a WBO:

- **Collectivised ownership.** Certain models of WBO (social cooperatives in Italy, EOTs in the UK, and to some extent SCOPs in France) feature a collective ownership structure, in which workers are granted the rights to distributed profits, but do not have a recoupable claim over the retained profits and capital appreciation.
- **Individual direct ownership.** Some WBO models (SLs, FCPE de reprise, other ESPP models) feature a capital structure that involves direct share ownership (workers are shareholders), where shares appreciate with the growth of the business. Once a worker leaves the business, they must sell their shares to the new workers if the business is to maintain its worker-owned legal identity.

- **Individual indirect ownership.** Some WBO models (ESOPs and cooperatives in the USA) feature internal capital accounts for each worker-owner, which grant an individualised claim over the capital appreciation. Unlike the individual direct type of ownership, the right to capital appreciation is not tied to a capital instrument (e.g. a share) but is tied to membership status (e.g. being an employee).
- **Mixed indirect ownership.** Some WBO models (European ESOP, Mondragon cooperatives) feature both individual accounts and collective accounts, so that only part of the retained profits can be claimed by the workers, while the other part is 'captured' by a collective account, insuring against the inability of the business to cover the repurchase liability upon the exit of an individual worker/member.

2.2 Challenges and constraints for WBOs in the EU

Despite their positive socio-economic impact, WBOs encounter substantial challenges in the EU, which significantly constrain their potential to enhance economic performance and living standards. WBO models in Europe are 'country specific', reflecting 'idiosyncratic institutional evolution influenced by historical and political facts, or by different cultural and ideological traditions' [26]. While pluralism of WBO models is desired to some extent, the lack of EU-level policy guidelines can lead to certain problems, i.e. the possibility of tax misuse, sustainability issues, and the lack of scalability potential due to limited use of WBO models in the EU. This section explores these issues in greater detail.

2.2.1 Financial constraints

Financing the WBO remains a key constraint. Usually, when transferring their business to employees, the owner is looking to maintain jobs and ensure the sustainability of the company. However, this presents a significant challenge as the seller cannot ask for a high price since employees typically have less cash available for investment compared to external investors. This challenge is further amplified when the business being transferred is in a strong financial position.

- **Limited financing resources of the employees** – one of the initial financing requirements in a WBO is securing the funds necessary to purchase the vendor's shares at the agreed valuation price. The involvement of more associates or shareholders enhances the ability to raise the required capital for the buyout and decreases the financial burden on individual shareholders. Nevertheless, the criteria for accessing credit vary primarily based on the level of equity funding acquired by the workers. This underscores the significance of equity support schemes, particularly when the capital raised by the workers falls short of meeting the threshold required to obtain a bank loan. Equity support schemes become essential in these cases as they provide crucial assistance by bridging the gap between workers' equity funds and the necessary level to qualify for traditional bank financing.
- **Lack of partial leveraged WBO model** – most of the existing WBO models in the EU rely on full conversions of the operating company and underuse the potential behind the leverage to finance the buyout. Because full conversions are more complex and expensive, assets of the underlying company generally do not ensure a sufficient guarantee for lenders[27].

26 Tortia, Ermanno C. (2021). *Capital as Common-Pool Resource: Horizon Problem, Financial Sustainability and Reserves in Worker Cooperatives*. Journal of Co-Operative Organisation and Management. Volume 9, No 2. Accessed on 12 August 2023, available at: https://www.sciencedirect.com/science/article/abs/pii/S2213297X21000094?via%3Dihub.

27 Gonza, T., Ellerman, D., & Kosta, M. J. (2024). Democratic Ownership: Scale Through Leveraged Conversions. In Routledge Handbook of Cooperative Economics & Management (1st ed.). Routledge.

- **Limited interest from commercial banks –** from a bank's perspective, a WBO introduces a degree of risk because the business will be managed by a team that may not have a proven track record in business management. Additionally, in the case of a cooperative, restrictions on use of profits are perceived as a constraint in terms of return on investment. To mitigate these risks, banks commonly require a minimum cash investment from the employees as a condition for lending money and in addition, they often require collateral or a guarantee scheme.
- **Financing sources are frequently supplied by national entities deeply rooted in the cooperative movement, rendering them inaccessible to companies throughout the entire EU and challenging their reproduction across all Member States.** Especially in healthy and profitable companies, it can be very challenging for workers to self-finance a WBO. Therefore, in countries with a well-developed cooperative network, dedicated funds are often deployed to help workers finance these types of transactions. However, if the aim is to affirm WBOs as a widely adopted solution for company succession, more readily available financial instruments are needed in all EU countries.

2.2.2 Sub-optimal capital structures

The capital structure refers to the internal financial architecture of a company, which determines how profits and capital value are distributed among workers and what sources of financing are used to finance operating capital. Capital structure defines the rules concerning access to current profits and accumulated retained earnings. In a worker-owned company, issuing shares outside of the workforce dilutes worker ownership, leading to the end of worker ownership (demutualisation).

Depending on their design, capital structures may facilitate or disincentivise this process. The capital structure of worker-owned businesses may also limit access to retained profits and thus negatively affect the workers' incentive to invest profits, leading to operational inefficiencies.

Issues that may arise from sub-optimal capital structures:

- **Making worker ownership unsustainable.** Demutualisation is often caused by the excessive laxity of regulation, which facilitates the acquisition of the company by external investors or otherwise allows for the degeneration of worker ownership. The EU WBO model which is most susceptible to demutualisation due to its capital structure is Spain's SL.
- **Allowing for the exclusive inclusion and arbitrary distribution of equity among workers in WBOs.** Certain EU WBO models, most notably the Hungarian ESOP, FCPE de reprise in France and SLs in Spain do not regulate at all or sufficiently include workers in the ownership, potentially leading to only a minority of workers being included in the WBO (often managers and well-paid professionals).
- **Forcing the first generation of workers in a WBO to bear the full cost of the WBO.** While collective ownership structures can be useful to limit liquidity constraints on the operating company upon departure of worker-owners, they also pose some fundamental challenges. In the case of leveraged buyouts, one of the major problems is the financing of the acquisition debt used to finance a WBO. In a company with no individual claim over the retained profits, the first generation of workers might need to forgo several years of 'ownership income' (e.g. profits) to pay off the acquisition debt. When the next cohort of workers comes in, it immediately reaps the benefits of ownership, as the first generation of workers had fully paid the WBO. This can pose a threat to the sustainability of the WBO, since the first generation of workers might attempt to get reimbursed[28]. This can be done either by getting an external investment to pay off part of the acquisition debt, diluting worker ownership (this has already happened in EOT companies in the UK), or by selling off part of the WBO stock outside the company at any point to access some of the capital value[29].

28 Ellerman, D., & Gonza, T. (2024). A critical analysis of different forms of employee ownership. International Review of Applied Economics, online, 1–16. https://doi.org/10.1080/02692171.2024.2435408.

29 This is especially relevant for future initiatives in promoting leveraged WBOs.

- **Disincentivising workers to reinvest profits rather than pay them out to themselves.** If workers lose any claim to retained profits and have a right to decide on allocation of profits at the end of the year, experience shows that, generally, they will tend to underinvest. To deal with this issue, France's legislation mandates a minimum rate of investment, applying only to SCOPs, which is a sub-optimal solution, since the ideal rate of reinvestment varies based on the characteristics and particular needs of the company, as well as the industry in which it operates[30].

2.2.3 Non-financial constraints

- **The lengthy bureaucratic processes** involved in certain steps of the WBO process (such as obtaining unemployment benefits/severance pay in advance) often do not align with the deadlines imposed by the closure of liquidation procedures.
- **Company takeovers are usually highly confidential operations** and employees learn of the company's sale only a short time before the deal is signed with the new buyers. The rationale for keeping business transfers confidential is to prevent destabilisation of both employees and clients of the company, and its ecosystems (bankers, competitors, etc.). In addition, the sale of the company by the owner requires disclosure of confidential information concerning its financial performance and management remuneration, which may strain the relationship of the owner and employees. The confidentiality challenge is a major constraint to WBOs.
- **The lack of managerial skills of the buyers (employees)** to effectively manage the company after the buyout and their consequent lack of motivation to take managerial and entrepreneurial responsibilities can also be a constraint. This challenge becomes particularly pronounced in small companies where managerial responsibilities are often centralised and there are few line managers to support the owners in running the business.
- **The technical arrangement of a WBO is very complex,** involving fiscal incentives and financial engineering usually requiring debt financing. This is not necessarily easy to understand both from a seller and a buyer's perspective. Based on the interviews conducted in this study, we found that employees and owners perceive the process as complex and burdensome, not suited to small companies, and requiring external advice (accountant, lawyers, etc.).
- **Impossibility of achieving partial WBOs.** While recent initiatives in Denmark, Hungary, Slovenia, France (in the case of the FCPE de reprise) and Spain have been more mindful of the versatility of WBOs, established national frameworks for WBOs in the EU only permit full conversions. This leads to more complex legal, organisational and financial administration, limiting the use of WBOs to address succession problems, to create reward structures for workers and for more hesitant business owners, to 'test' employee ownership before engaging with it more substantially.

30 Surplus profits are distributed as follows. A portion equivalent to 15% is allocated to the legal reserve. This deduction is no longer required when the amount of this reserve reaches that of the capital. Another portion is reserved for a statutory reserve namely the 'development fund'. At least 25% of profits are allocated to all employees of the company, whether or not they are shareholders, at the end of the financial year, provided they have been with the company for at least three months or have been with it for at least six months. [check the previous sentence for sense - says two contradictory things] If the articles of association include interest on shares, the total amount of such interest may not exceed, each year, either the total allocations to the legal reserves and to the development fund, or the amounts allocated to employees in accordance with the preceding provisions.

2.3 Financing mechanisms at the EU level

EU-level financial support for WBOs has been limited, though some recent initiatives are demonstrating potential for leveraging EU funds to bolster WBOs.

Employment and Social Innovation (EaSI)[31]

The EaSI programme aims to promote sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions. In the 2014-2020 period, the EIF and the EC introduced targeted support measures through the EaSI Guarantee Instrument. Within this framework, the EIF offered improved terms and conditions for guarantees and counter-guarantees, encouraging financial intermediaries to sustain their provision of funding to individuals and businesses, including micro-borrowers, micro-enterprises, and social enterprises. Via the EaSI Guarantee Instrument, the EIF extended guarantees and counter-guarantees to financial intermediaries, furnishing them with partial credit risk protection for newly issued loans to eligible recipients. Leveraging the risk-sharing mechanism between financial intermediaries and the Commission, the EaSI Guarantee empowers chosen microcredit and social enterprise finance providers to broaden their reach to under-served micro and social enterprises. This, in turn, facilitates financial access for target groups encountering challenges in the traditional credit market.

In 2019, as part of the EaSI programme, the EIF and Cooperative Mutual Aid Society – Confederal Expansion Fund (Société Coopérative d'Entraide – Fonds d'Expansion Confédéral, SOCODEN-FEC), a cooperative public limited company established by the French organisation CGSCOP, joined forces to provide EUR 25 million of guarantees for loans of up to EUR 500 000 to cooperative enterprises, including financing of WBOs[32].

In that year, a similar agreement was reached between the EIF and CFI, the main institutional investor for WBOs in Italy. CFI has also been exploring ways to use the Pan-European Guarantee Fund[33] to finance its operations[34].

31 For the period 2021-2027 the EaSI programme became a strand under the European Social Fund Plus (ESF+) and has a budget of €762 million. The EaSI strand builds on the former EaSI programme 2014-2020, maintaining the focus on evidence-based policy-making and social experimentation, support to job mobility and the non-financial instrument activities related to the former Microfinance and Social Entrepreneurship axis. As part of ESF+ it follows the same policy objectives as ESF+ with the European Pillar of Social Rights as the main framework. However, for the purpose of this report, reference to EaSI is made in relation to the Guarantee instrument under EaSI programme 2014-2020.

32 Juncker Plan: Socoden-FEC and EIF join forces to provide EUR 25 million of guarantees for loans to cooperative enterprises (2019) Juncker Plan: Socoden-FEC and EIF join forces to provide EUR 25 million of guarantees for loans to Cooperative Enterprises. Accessed on 7 August 2023, available at: https://www.eif.org/what_we_do/guarantees/news/2019/efsi-easi-socoden-cgscop.htm.

33 The Pan-European Guarantee Fund was designed to help businesses recover from the economic shock of the COVID-19 pandemic. The programme focused on small and medium-sized enterprises, receiving more than 65% of the mobilised investment. Accessed on 7 August 2023, available at: https://www.eib.org/en/publications/european-guarantee-fund-at-a-glance.

34 De Berardinig, M. (2021). The workers buyout: businesses regenerated by workers (Il workers buyout: le imprese rigenereate dai lavoratori). Accessed on 7 August 2023, available at : https://www.commercialisti.mo.it/upload/commercialisti_ecm10/gestionedocumentale/2021.04.21CFI-LeggeMarcoraeWBO_784_17460.pdf.

InvestEU Social investment and skills window (InvestEU SISW)

InvestEU SISW[35] aims to mobilise public and private investment to support three main policy areas: (i) microfinance and social enterprises, social impact; (ii) education, training and skills; and (iii) social infrastructure. There are several ways in which InvestEU can support WBO:

- **Investment Financing:** InvestEU SISW can provide financing solutions to support WBO initiatives, such as loans, guarantees and equity investments. This funding can help workers acquire ownership of their businesses through buyouts, providing the necessary capital for the transaction.
- **Technical Assistance:** InvestEU SISW may offer technical assistance to support microfinance and social enterprise finance providers providing finance to WBO projects. For example, under the Social Inclusive Finance Technical Assistance (SIFTA)[36], the EIB is providing targeted capacity-building services to such finance providers in the form of tailored training, workshops, peer-to-peer exchanges and study visits on a wide range of topics related to financing micro and social enterprises. It also provides rating, assessment and evaluation services to such providers.
- **Partnership Building:** InvestEU SISW aims to foster partnerships between public and private actors, which can be leveraged to support WBOs. Through collaboration with financial institutions, cooperatives, and social impact organisations, InvestEU SISW can facilitate access to financing, expertise, and networks for WBO initiatives.

ESF and ESF+

In addition, the European Social Fund[37] (ESF) and ESF+[38] can also support WBO initiatives. The ESF and ESF+ aim to promote employment, improve job opportunities and enhance social inclusion and thus provide financial resources to various projects and programmes that align with its objectives. When it comes to WBO, such support may include funding training and upskilling programmes for workers involved in the WBO, providing resources for business development initiatives, or supporting the implementation of social enterprises and cooperatives. This could be in the form of grants or financial instruments such as the financial instrument supporting WBO in the Italian Region of Campania.

Recovery and Resilience Facility (RRF)

National governments could also make use of the RRF. The aim of this programme is to make national economies and society more sustainable, resilient, and ready for green and digital transitions. National RRPs are often established to provide financial support and resources to businesses and industries that have been affected by crises or economic challenges. In some cases, these funds may include provisions or programmes that support business transfers, employee ownership, or worker cooperatives as part of their efforts to foster economic resilience and recovery.

35 For more information on InvestEU SISW, please visit the InvestEU portal at: https://investeu.europa.eu/investeu-programme/investeu-fund/about-investeu-fund_en.

36 More information about the SIFTA programme is available at: advisory.eib.org/about/service/social-inclusive-finance-technical-assistance.htm.

37 In the 2014-2020 programming period, the European Social Fund (ESF) is one of the five European Structural and Investment funds and is EU's main instrument for supporting jobs, helping people get better jobs and ensuring fairer job opportunities for all EU citizens. It has a budget of EUR 84 billion.

38 In the 2021-2027 programming period, the European Social Fund Plus (ESF+) is the European Union (EU)'s main instrument for investing in people and supporting the implementation of the European Pillar of Social Rights. With a budget of EUR 142.7 billion for the period 2021-2027, ESF+ will continue to provide an important contribution to the EU's employment, social, education and skills policies, including structural reforms in these areas.

2.4 Current trends and future perspective

Relevant EU activities

Supporting WBOs and creating financial participation models in the EU economy has been on the radar of EU institutions for decades. The EC has issued numerous studies, reports and policy recommendations over the last 30 years related to the topic. The Participation of Employed Persons in Profit and Enterprise Results reports (PEPPER[39, 40, 41] and 2009[42] are part of this body of work). The recently published PEPPER Report (2024) includes a systemic study of the European ESOP for different national legal settings and calls for the EU authorities to provide regulatory guidelines on the ESOP model to Member States[43].

In September 2007, the then French Finance Minister Christine Lagarde announced a new 'European Participation Model' and in October 2010, the European Economic and Social Committee continued with the initiative under their Financial Participation of Employees in Europe programme[44].

In December 2012, the Commission's Action Plan on European Economic Law and Corporate Governance endorsed a strategy to create more responsible and sustainable ownership models, highlighting the success of employee ownership and its long tradition in Europe[45]. In 2016[46], the European Parliament (EP) called upon the Commission to encourage Member States and local and regional institutions to disseminate good practice in the SME sector, including different models of WBOs.

In November 2022, the Directorate General for Internal Market, Industry, Entrepreneurship and SMEs issued a Transition Plan for the Local and Social Economy, which calls on EU Member States to create a supportive environment for WBOs through the European ESOP model[47].

39 Uvalic, M. (1991), The PEPPER report: promotion of employee participation in profits and enterprise results in the MS of the European community, Office for Official Publications of the European Communities; Commission of the European Communities; European University Institute, Brussels; Luxembourg Florence. Accessed on 23 May 2023, available at: https://op.europa.eu/en/publication-detail/-/publication/9412b12d-5aa1-4c5c-9a6b-1fb119243200.

40 European Commission, *Report from the Commission: PEPPER II: Promotion of Participation by Employed Persons in Profits and Enterprise Results (including equity participation) in Member States,* COM (96), 697 Final, European Commission, Brussels. Accessed on 23 May 2023, available at: http://www.eurofound.europa.eu/sites/default/files/ef_files/docs/areas/participationatwork/pepper2.pdf.

41 Lowitzsch, J. (2006) *The PEPPER III Report: Promotion of Employee Participation in Profits and Enterprise Results in the New Member and Candidate Countries of the European Union,* Inter-University Centre Split/Berlin, Institute for Eastern European Studies, Free University of Berlin, Rome; Berlin. Accessed on 23 May 2023, available at: https://www.eurofound.europa.eu/areas/participationatwork/pepperreports.

42 Lowitzsch, J., Hashi, I., Woodward, R. (2009) The PEPPER IV Report: *Benchmarking of Employee Participation in Profits and Enterprise Results in the Member and Candidate Countries of the European Union*, Inter-University Centre Split/Berlin, Institute for Eastern European Studies, Free University of Berlin, Berlin. Available at: http://www.intercentar.de/fileadmin/files/PEPPER_IV/PEPPER_IV_Web.pdf, accessed on 23 May 2023.

43 See Chapter VIII: Jens Lowitzsch, John Menke, Denis Suarsana, Graeme Nuttall, Tej Gonza, and Thibault Mirabel (2024). Towards a European Employee Stock Ownership Plan (European ESOP). Published in The PEPPER V Report Benchmarking Employee Participation in Profits and Enterprise Results in the European Union, the United Kingdom and the United States (2024), pp. 261-288.

44 European Economic and Social Committee: Opinion of the European Economic and Social Committee on 'Employee financial participation in Europe' (own-initiative opinion), SOC/371, Brussels, 21 October 2010.

45 European Commission (2012): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Action Plan: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies, Strasbourg, 12.12.2012, COM (2012) 740 final.

46 European Parliament (2016): *Draft report on how best to harness the job creation potential of small and medium-sized enterprises (SMEs).* Accessed on 23 May 2023, available at: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML%2BCOMPARL%2BPE575.159%2B01%2BDOC%2BPDF%2BV0%2F%2FEN.

47 European Commission (2022): Transition pathway for Proximity and Social Economy. Accessed on 4 June 2023, available at: https://single-market-economy.ec.europa.eu/sectors/proximity-andsocial-economy/proximity-and- social-economy-transition-pathway_en.

At 'FI CAMPUS 2023 – Financial instruments in changing times' [48], a panel on 'Delivering financial instruments for worker buyouts: employees taking over their company' was organised to discuss the possibilities and needs for setting up financial instruments to support employee buyouts[49].

In the Recommendation on developing the social economy framework conditions adopted by the Council of the EU in November 2023, it was recognised that promoting the development of the social economy is vital for job creation and leads to a positive social impact. As the Recommendation states, as part of their endeavours to support the social economy sector, Member States should get involved in facilitating business transfers to employees to ensure the continuity of small businesses during restructuring, thereby averting job losses. The opinion of the Council is that encouraging mainstream businesses to transition to employee ownership further strengthens this inclusive economic model.

Emerging institutional models for WBOs

Currently, there is a clear divide between most of the EU and countries such as Italy, France and Spain which, as will be described in greater detail in the following chapters, have relatively well-established infrastructures for WBOs. Nevertheless, recent developments show that there is growing interest in WBOs among other EU MS, with various national initiatives emerging at both legislative and non-governmental levels. This section identifies such initiatives in countries other than Italy, France and Spain and provides an overview of the calls made by EU institutions to promote WBOs and employee ownership.

Three countries at the forefront of discussions on the potential provision of legislative support for WBOs are Slovenia, Ireland and Denmark. Their governments have made commitments to regulate and provide tax incentives for a leveraged WBO model. Enabling the financing of WBOs through leverage has emerged as a central focus in various recent WBO endeavours. This emphasis is evident not only in the recent improvements to Spanish SL-based WBO models, but also in WBO initiatives taking place in Germany, where a leveraged WBO model based on a separate legal entity has been employed to streamline the transfer of ownership to employees[50].

Slovenia is currently without institutional and legislative support for WBOs, yet there is growing interest from government, the financial sector, and businesses. The Institute for Economic Democracy (IED) in Slovenia has conceptualised and introduced through a pilot implementation phase a leveraged WBO model, the Slovenian ESOP, tailored for ownership succession challenges. The government is developing regulations to incentivise this model, introducing an Employee Ownership Cooperative (EOC) structured as a cooperative. The capital structure is mixed and can include both individual and collective accounts, with strict equity distribution criteria tied to wage differences. To become members of the cooperative, workers pay a small fee, which should not represent a significant financial burden to ensure inclusivity. In 2024, the Slovenian government approved a draft law framework for the Slovenian ESOP[51], and the ESOP legislation is expected to be passed in the early 2025. Anticipated tax incentives include tax breaks for sellers selling shares to ESOP WBOs, tax-deductible ESOP contributions used to finance the buyout and to maintain ownership among the workers, and tax benefits for interest rate profits from debt capital providers. Commercial banks in Slovenia have been hesitant to finance ESOP leveraged acquisitions, referring to the lack of specialised expertise.

48 Flagship event organised in Brussels under the fi-compass advisory platform delivered by EIB in cooperation with the European Commission. Accessed on 4 June 2023, available at: https://events.fi-compass.eu/event/6c54c9a3-6d52-47a6-a6fb-ca177bbb6792/websitePage:7e54b8f5-7969-42c7-a51e-074c70eac690?ficompassmenu=.

49 European Investment Bank, *Delivering financial instruments for workers buyout: Employees taking over their company: Fi-Compass. fi-compass.* Accessed on 4 June 2023, available at: https://www.fi-compass.eu/content/delivering-financial-instruments-workers buyout-employees-taking-over-their-company.

50 Amado, A., Kelemen, M., Nolte, J., Yoldi, A. (2021) IN4BTE: Information, consultation and participation rights as a factor of success for the business transfer to the employees in SMEs. Diesis Network, Brussels. Pages 28-40. Accessed on 4 June 2023, available at: Final report of the In4BTE project – Information, consultation, participation rights as a factor of success for the business transfer to employees in SMEs. Chapter on France. In (Ed: Alazne Amado, Anabel Yoldi, Jone Nolte, Melinda Kelemen) pp 28-40, Diesis Network, Brussels, 2021 | Request PDF.

51 Official government statement, accessed on 25 September 2024, available at: https://www.gov.si/novice/2024-07-10-vlada-potrdila-izhodisca-zakona-o-lastniski-zadrugi-delavcev/.

In addition, they would also benefit from support from both national and EU institutions. Capital markets are underdeveloped, and low demand is attributed to limited information, stereotypes and insufficient infrastructure.

Until recently, **Denmark** has not been a fertile ground for WBOs. The country does not have a dedicated mechanism for WBOs, and spontaneous cases are rare. Nevertheless, stakeholders from politics, academia, and business have noted that, in recent years, there has been growing interest in this subject across different social groups – from social justice movements to business organisations. In 2019, the Danish government established an advisory group to explore possibilities for the development of the worker-owned sector in Denmark. One of its proposals was the establishment of a new legal entity largely inspired by the UK EOT model, which would allow for leveraged and partial WBOs. As in the UK, the model would be tax-incentivised, although it would differ from EOT in that, like the European ESOP model, it would guarantee democratic governance to the employees. One of the main organisations operating in the field of worker ownership, Kooperationen[52], has also been exploring the possibility of promoting conversions through worker cooperatives and has been developing a fund financing these types of WBO.

Belgium is rarely mentioned when talking about supportive infrastructure for WBOs – at least in comparison with Italy, Spain, and neighbouring France. Its regional public authorities have been quietly introducing advanced tools in support of worker-owned businesses and WBOs in particular. One such tool is the Brasero system, which was introduced in 2014 and allows the Wallonian public body W.Alter (formerly known as Sowecsom) to provide cooperatives with one euro of public capital for each euro invested by the workers, up to a limit of EUR 200 000. Matching contributions facilitate access to financing in the form of loans from traditional financial partners (e.g. banks), specialised financial partners, or the mobilisation of citizen savings. Between 2015 and 2022, the tool was used to provide financing to more than 100 enterprises. In addition, microcredits are given to individual workers who want to purchase shares in the cooperative by the public regional promoting institution, Wallonie Entreprendre. Belgium faces similar challenges in the WBO field to some other EU countries – the lack of systemic solutions which would allow for gradual buyouts to bridge the problems of legal and organisational complexity, access to finance, and limited applicability of the WBO model.

Dissemination of good practice

Arguably, the most straightforward opportunity for expanding WBOs is dissemination of existing related good practice from EU Member States with well-developed financial mechanisms to those which lack or have an underdeveloped supportive infrastructure for WBOs.

Of the existing good practice in the EU, the Italian Marcora law and Spain's Pago Unico system show greatest potential for EU-wide adoption. While both frameworks owe part of their success to a plethora of supporting non-governmental organisations, which took decades to develop and thus cannot be artificially recreated in other Member States, they mostly rely on financing mechanisms and institutional actors which have been established from scratch, through a top-down approach. The most notable of such mechanisms is the possibility of workers capitalising would-be unemployment benefits to finance a WBO. MS could also establish dedicated institutional investors, such as Italy's CFI, which could have a pivotal role both in providing part of the financing and in technical assistance to workers wanting to carry out a WBO. To successfully establish a framework inspired by Pago Unico/Marcora, comprehensive support will be essential. This support should encompass the establishment of a legislative foundation, dedicated financial mechanisms, and technical assistance organisations.

52 Kooperationen is the Danish Cooperative Employers' Organisation with a network of 117 member companies and 14 000 employees.

These institutions can provide the necessary source of financing and expertise to help workers take over failing companies and turn them into successful worker-owned cooperatives. It cannot be expected that specialised knowledge will be developed quickly; however, it is crucial that technical expertise and business mentoring aspects are not neglected in the dissemination of good practice. In policy literature, some experts have recommended the EU-level adoption and adaptation of key elements from the Marcora and Pago Unico frameworks. This can be achieved by providing institutional support through the reform of existing infrastructure in Member States[53]. Some elements of the French model for SCOP-based WBOs have also shown potential for EU-level adoption, especially the combination of financial instruments (mixing debts and equity financing) with technical advisory services to cooperatives and WBOs, and to a certain extent the use of EU funds (EaSI guarantee, and ESF grants).

Use of ESF+ funds

Recent initiatives, particularly in France, highlight the potential of using ESF+ funds for WBOs. While ESF+ has clear priorities such as addressing youth unemployment, workforce upskilling, and social inclusion, it also recognises the importance of supporting the growth of the social and solidarity economy, including through WBOs, to successfully tackle these challenges. ESF+ resources have been used by organisations supporting worker cooperatives, such as the regional branches of CGSCOP in France, to finance their technical assistance and advisory services to cooperatives (awareness raising and dissemination activities, individual support to newly established or already existing cooperatives). While ESF+ grant support is not specifically focused on WBOs (more generally on supporting cooperatives), this sets an important precedent, indicating that national and regional counterparts of CGSCOP could seek ESF+ funding for business transfer programmes. These funds can provide a lifeline particularly to organisations that do not operate within a cooperative framework and are therefore compelled to fully self-finance their activities. The potential impact of ensuring the survival of such organisations could be substantial, as their existence is vital to the proliferation of any kind of WBO model.

While ESF+ funds have not yet been used to directly finance WBOs (with the exception of the Italian Region of Campania, see box below), advanced talks have been taking place about the possibility of deploying such funds to support social economy innovative social enterprises[54]. Such support could prove vital in countries or regions where the banking sector is reluctant to finance these types of transactions, potentially opening new opportunities to encourage widespread use of WBOs.

WBO Revolving Fund (Fondo Rotativo WBO), Campania Region, Italy

The fund was launched in 2016 and the funding agreement signed with Confeserfidi in 2018. Confeserfidi is a financial company, operating on a national scale and supervised by the Bank of Italy. It provides high-value financial solutions and professional advisory services to small and medium-sized enterprises. With an amount of EUR 1 million available from the ESF Regional programme for the 2014-2020 period, it provides soft loans specifically designed to promote the creation of enterprises and self-employment of employees that work for enterprises facing difficulties. The loans of up to EUR 225 000 per operation can finance up to 75% of the eligible costs. They have 0% interest rate, must be repaid within five years and have a grace period of 12 months. In October 2019, three requests for financing were received, and two were approved in August 2020. The two WBOs financed were 'ASSTEAS Società cooperative' with EUR 225 000 and 'La NINFEA Soc. Coop. soc' with EUR 155 600, for a total of EUR 380 600 disbursed, out of which EUR 285 500 was from the ESF and EUR 95 100 from national co-financing.

Source: Author.

53 This option was explored in a recent paper by Gonza et al. (2021). 'Marcora for Europe: How Worker-Buyouts Might Help Save Jobs and Build Resilient Businesses'. European State Aid Law Journal, Vol. 2021, No 1.

54 Other regions in Italy are also considering this type of support and some are in the process of planning – e.g. Sardinia. At the time of writing, the Sardinian representatives did not provide more detailed information.

Emerging reasons for WBOs

Ownership succession in the SME sector is both a considerable challenge, as well as one of the greatest upcoming opportunities for WBOs in the EU – if not the greatest so far. SMEs are the backbone of the EU economy, accounting for 99% of all EU businesses[55], employing two thirds of the working population in the private sector and contributing to more than half of the total value added generated by businesses in the EU[56]. SMEs are typically owned by a small group of entrepreneurs or founders; the Commission warns that a third of these owners will retire within the next 10 years, putting the problem of succession at the top of the list of challenges for the EU SME sector[57].

The impending wave of retirees from the 'baby boom' generation, often referred to as the 'silver tsunami', has garnered significant attention in the literature. This is due to the anticipated adverse effects it is expected to have on employment, economic stability in local communities and career opportunities beyond urban centres. As early as 2006, the Commission called on Member States to provide adequate support infrastructure, establish transparent succession markets and educate and inform stakeholders from the business sector on how to tackle this issue. To date, several MS still have not adopted the necessary measures to mitigate the adverse effects of the silver tsunami, with estimates suggesting 600 000 jobs are at risk at EU level every year[58]. The impending retirement of SME business owners presents a substantial demographic shift that warrants attention and strategic planning. According to available data, a significant number of business owners are expected to retire within the next decade. Approximately 450 000 firms with 2 million employees are being transferred each year across Europe. These retiring business owners account for a considerable proportion of the SME sector, which constitutes a vital segment of the European economy.

Given the above, there is a pressing need for effective ownership succession strategies which will ensure continuity in affected companies. According to the EC, lack of timely preparation for the transfer of ownership is the most common reason for the unsuccessful transfer of ownership of an otherwise successful business[59]. Preparing for the transfer of ownership and identifying the people who are going to take over the management of a business is a lengthy process that should start several years before the departure of the existing shareholder, and not only when they retire or leave. Lack of succession planning poses a significant threat to the local environment and community, potentially leading to the depopulation of rural regions, brain drain and capital flight from the company to regions with lower taxes, less regulation and cheaper labour. The Commission also recognised the need to define an ownership succession tool that allows for the gradual exit of the founder over several years.

In the past, the most common tool for addressing ownership succession in Europe has been family succession[60]. However, generational trends suggest that family succession is declining throughout the EU. The low success rates of companies passed on to family members, particularly in the third and fourth generations, are also a cause for concern and do not provide much encouragement. The existing alternatives are going public on the stock market, which is often unsuitable for an SME, a merger & acquisition (M&A), generally carried out by a larger competitor, and the recently popular option of private equity sale. While foreign investors may bring financial capital into EU countries, succession is usually mainly about paying out one or a few shareholders and does not necessarily increase capital investment in companies.

55 European Commission. Definition of SMEs. Accessed on 4 June 2023, available at: https://single-market-economy.ec.europa.eu/smes/sme-definition_en. 2023.

56 European Parliament. Small and Medium-sized Enterprises. Accessed on 4 June 2023, available at: https://www.europarl.europa.eu/factsheets/sl/sheet/63/mala-in-srednja-podjetja.2023.

57 European Commission Press. Support for SMEs. Accessed on 4 June 2023, available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_06_307.

58 European Commission, *SME Strategy for a Sustainable and Digital Europe.* Accessed on 4 June 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:103:FIN.

59 European Commission, *SME Strategy for a Sustainable and Digital Europe.* Accessed on 4 June 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2020:103:FIN.

60 Ibid.

Takeovers in the SME sector often result in lagging investment, especially in the areas of digitalisation and innovation[61]. Moreover, according to the European Central Bank (ECB), foreign absentee ownership can increase employment volatility in firms by around 10%[62].

WBO as a succession tool – the cases of the US and UK WBO models

A noticeable gap exists in the availability of sustainable and socially responsible succession tools, with worker ownership being one such option. Addressing the ownership succession challenge through WBOs is not a novel concept in the EU. In December 2012, the Commission's Action Plan on European Economic Law and Corporate Governance[63], called for the development of a strategy to promote more responsible and sustainable ownership models, emphasising the historical success of worker ownership, which has deep roots in Europe. However, the European Federation for Employee Share Ownership notes that the EC Action Plan has not been fully implemented at EU level, leaving the SME sector at risk. In 2022, the Commission published the Transition Pathway for Proximity and Social Economy, in which key stakeholders from the social economy sector pointed to WBOs as a model for securing responsible and sustainable ownership. Despite numerous EU-level calls, WBOs have remained underused for ownership succession, remaining an unfamiliar option for many retiring business owners. This is the case even though several MS have existing legislative frameworks supporting WBOs. This situation raises the question of whether these existing frameworks are less suitable for addressing the ownership succession issue.

In the USA and the UK, addressing ownership succession through WBOs is an established practice, and important developments in this area are also taking place elsewhere in the world[64]. The ESOP WBO model is regarded as the 'ultimate instrument in succession planning'[65]. The ESOP and EOT, which are two models for leveraged WBOs through a special purpose vehicle, have both led to impressive results, especially in terms of scalability. In the USA, there are currently more than 6 500 existing ESOP businesses holding assets of over USD 1.6 trillion and employing 14.7 million workers or roughly 10% of the country's private sector workforce[66]. Over the past 10 years, the USA has experienced an average annual increase in the number of ESOP WBOs of about 250. In the UK, legislation introduced in 2014 made it significantly more convenient for business owners to transfer their companies to the workers, thereby giving them a strong incentive to address ownership succession problems in this manner. In 2022 alone, 332 businesses were transferred to an EOT, and by the beginning of 2023, there were a total of 1 418 EOT-based worker-owned businesses across the UK[67]. By early 2025, there were more than 2 000 EOT businesses in the UK, with employee buyouts becoming the second most popular exit choice for business owners two years in a row; in 2023 it was second after private equity buyouts, and in 2024 second after family succession. In Canada, EOT legislation was passed in the summer of 2024, with the government granting tax incentives for business owners who are selling stock through leveraged WBOs[68].

61 European Commission, Transition Pathway for Proximity and Social Economy. European Commission. Accessed on 4 June 2023, available at: https://ec.europa.eu/docsroom/documents/52015.

62 ECB. 'Are Foreign-Owned Firms Different? Comparison of Employment Volatility and Elasticity of Labour Demand'. ECB Working Paper Series, Vol. August 2014, No 1704.

63 European Commission, Action Plan: European company law and corporate governance - a modern legal framework for more engaged shareholders and sustainable companies. Accessed on 4 June 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0740.

64 Nuttall, Graeme. (2022) How the UK is encouraging Employee Ownership Internationally. Fieldfisher. Accessed on 20 September 2023, available at: https://www.fieldfisher.com/en/insights/how-the-uk-is-encouraging-employee-ownership-inter.

65 Frisch, Robert A. (2001) ESOP: The Ultimate Instrument in Succession Planning. 2nd ed. New York: Wiley.

66 National Center for Employee Ownership (2023). Employee Ownership by the Numbers. Web article. Accessed on 20 September, available at: https://www.nceo.org/articles/employee-ownership-by-the-numbers.

67 Data from the Employee Ownership Association reports available at: https://employeeownership.co.uk/resources/reports/.

68 Accessed on 27 February 2025 on the website of the National Center for Employee Ownership (NCEO) at https://www.nceo.org/employee-ownership-blog/canada-employee-ownership-trust-legislation-now-law.

- **Leveraged and gradual WBO approach**

What appears to be the determining factor for the success of ESOPs and EOTs as succession tools is the underlying leveraged buyout mechanism, which can facilitate WBOs in healthy and profitable companies where buyouts are too costly for workers to self-finance[69]. In the cases of the US ESOP model and the UK EOT model, the repayment of the acquisition debt used to finance the WBO is financed fully through the contributions by the operating company. The seller can agree to seller's credit, where they gradually receive payments from profits generated by the entity which are used to pay off acquisition debt. Second, external leverage can come from banks or financial institutions, using the company's assets as collateral for purchasing shares. Often, a combination of these sources is used, especially in leveraged buyouts in the USA. Leveraged buyout mechanisms can be effectively established in models based on a separate legal entity, which is better suited for these types of transactions. The leveraged financing mechanism, combined with a gradual approach embodied in the WBO, may partly address the financing problem, since company assets may be used as a guarantee for a partial WBO.

- **The role of fiscal incentives**

In addition to the structure of the WBO model, the role of fiscal incentives proved to be crucial to the success of the UK and US models. Four key incentives encourage the adoption of ESOPs: tax-free rollover treatment defers capital income tax, ESOP contributions are tax-deductible, LS-corporations enjoy exemptions based on ESOP trust ownership, and there is a tax break for creditors in debt-leveraged ESOP buyouts. EOTs in the UK offer similar incentives, such as capital gains tax exemptions, tax-deductible company contributions to the EOT, tax-free profit sharing for workers and potential exemptions from inheritance tax. However, both ESOPs and EOTs must meet specific criteria, including benefiting all employees, transferring a significant share of ownership and limiting profit and equity distribution among workers, to qualify for these tax benefits. At the EU level, it would be important to clarify the state aid rules for the deduction of corporate income tax for the share of profits used to finance the buyout and the maintenance of employee ownership.

- **Challenges to the US and UK WBO models**

Although the ESOP and EOT models have demonstrated scalability potential, certain challenges limit their scalability. One of these is the lack of a participatory governance structure, which, based on empirical research, contributes substantially towards positive corporate performance of employee-owned businesses[70, 71, 72]. In the case of the US ESOP, the fiduciary duty is to consider very narrow financial interests of the trust beneficiaries, leading to ESOP stock being sold to bidders that offer a price per share higher than the ESOP valuation. The second problem is linked to the UK model, which does not ensure the individual rights to capital appreciation, meaning that it only offers a profit-sharing vehicle. The problem of collectivised capital has been broadly discussed in the relevant literature[73]. Finally, in the case of the US ESOP, the capital appreciation is accumulated for years before workers can access that value, often leading to a high repurchase obligation[74] that falls on the operating company[75].

69 Gonza, T., Ellerman, D., & Kosta, M. J. (2024). Democratic Ownership: Scale Through Leveraged Conversions. In Routledge Handbook of Cooperative Economics & Management (1st ed.). Routledge.

70 Blasi, J., Kruse, D., and Freeman, R.B. (2018). 'Broad-Based Employee Stock Ownership and Profit Sharing: History, Evidence, and Policy Implications'. Journal of Participation and Employee Ownership Vol. 1, No 1, pp.38–60. Accessed on 4 June 2023, available at: https://doi.org/10.1108/JPEO-02-2018-0001; Mygind, N., Poulsen, T. (2021). 'Employee Ownership – Pros and Cons – a Review'. Journal of Participation and Employee Ownership. Vol. 4, No 2, pp. 136–73. Accessed on 4 June 2023, available at: https://doi.org/10.1108/JPEO-08-2021-0003; O'Boyle, E. H., Pankaj, C. P., Gonzalez-Mulé, E. (2016). 'Employee Ownership and Firm Performance: A Meta-Analysis'. Human Resource Management Journal. Vol. 26, No 4, pp. 425–48. Accessed on 4 June 2023, available at: https://doi.org/10.1111/1748-8583.12115.

71 Ibid.

72 Ibid.

73 Ellerman, D. (2020). 'On Some Alleged 'Problems' and Alleged 'Solutions' in Democratic Firms'. Journal of Participation and Employee Ownership. Vol. 3, No 2/3, pp. 135–47. Accessed on 4 June 2023, available at: https://doi.org/10.1108/JPEO-04-2020-0012; Tortia, E. C. (2021). 'Capital as Common-Pool Resource: Horizon Problem, Financial Sustainability and Reserves in Worker Cooperatives'. Journal of Co-Operative Organization and Management, Vol. 9, No 2. Accessed on 4 June 2023, available at: https://doi.org/10.1016/j.jcom.2021.100137.

74 Gonza, T. (2025). Sustainability of employee ownership: The role of capital structure in ESOP plan terminations. Journal of Participation and Employee Ownership, ahead-of-print(ahead-of-print). https://doi.org/10.1108/JPEO-07-2024-0014.

75 These challenges and solutions to these challenges embodied in the European ESOP were discussed in Ellerman et al. (2022).

- **Support from financial institutions and instruments**

A gradual WBO through a WOB is simpler and requires less developed support infrastructure; however, experts argue that much more can be done to facilitate company transitions to worker ownership, which would provide an additional opportunity for scale. The main challenge in financing WBOs is the need to change the prevailing institutional approaches to corporate finance, which are primarily based on equity financing[76]. Due to the nature of financing, warrants play a crucial role in creating financial support for WBO financing[77]. Warrants in WBO transactions are financial instruments that give the holder the right to purchase shares of the issuer at a specified price on a future date or during a future period[78].

2.5. Main insights into existing WBO models in the EU

There are two extremes of institutional support for WBOs in the EU represented by Italy, France and Spain at one end and the remaining EU countries at the other. Despite this, interest in WBOs is increasing among MS with numerous national initiatives identified both in terms of legislative and non-governmental initiatives. Based on our research, the following conclusions may be drawn:

- **The most established models for WBOs in the EU have primarily been structured as tools for preserving jobs in companies facing a crisis and they often rely greatly on the presence of a well-developed cooperative sector and dedicated governmental and non-governmental organisations supporting WBOs, which limits their duplication in other EU countries.**

The most established and widely recognised WBO models today are in France, Spain and Italy. WBOs in these countries have served primarily to address the problem of job losses in businesses facing insolvency or in those which are expected to move out of a region/country, whereas increasingly there is a recognition that WBO models can serve as tools to deal with transition and succession challenges in healthy businesses. The WBO models were developed in unique institutional conditions that rely on a strong and longstanding cooperative and WBO tradition, which limits the potential for replicating these models in other EU countries. Nevertheless, as demonstrated in particular by the Spanish and Italian cases, there are various top-down measures which can be implemented to increase the number of WBOs from scratch. These include the possibility of capitalising unemployment benefits, various tax incentives – including for company owners, who want to sell their businesses to the employees – granting workers the right to first refusal in buying the company where they are employed and the establishment/activation of state/EU funds to finance WBOs. Existing WBO practice indicates the importance of support infrastructure (e.g. dedicated financial instruments and institutionalised WBO expertise).

76 Richard C. M., Hockett, R.C., Mackin, Ch. (2019) 'Encouraging Inclusive Growth: The Employee Equity Loan Act, Challenge', Vol. 62, No 6, pp. 377-397, DOI: 10.1080/05775132.2019.1668645.

77 Steiker, J.G. (2008) 'Warrants in ESOP Transactions. The Journal of Employee Ownership Law and Finance'. Business Valuation Review. Vol. 20, No 2 and El-Tahc, A., Hricko, M., Aguilar, I., Golumbic, L., Salek-Raham, A. (2022) 'Warranting Further Discussion: Why the Use of Financing Warrants in ESOP Transactions Benefits American Workers. Business Valuation Review'. Vol. 41, No 1.

78 In recognition of the importance of such instruments, a proposal which was recently developed in the USA to address the existing financing market gaps in the case of WBOs is the Employee Equity Investment Act (EEIA). In 2023, EEIA was proposed in Congress as a federal loan guarantee and secondary market-making programme that aims to facilitate WBOs through ESOPs and cooperatives in the USA.

- **The existing WBO models in Europe are not best suited to different possible applications of a WBO, such as addressing the ownership succession problem or providing rewards and motivation for workers.**

So far, the prevalent WBO models in the EU have not allowed for leveraged and gradual WBOs. Consequently, WBOs in healthy, profitable companies are rare and limited to partial or unsystematic solutions (e.g. ESPPs), limiting WBOs from becoming widespread solutions, especially for the problem of ownership succession, but also for addressing changing generational values of the modern workforce and building organisational affiliation. When established WBO models have been used as a solution to the problem of succession, the process has often been facilitated by the 'generosity' of exiting owners or the presence of credit unions keen to support WBOs. Recent developments show growing interest in leveraged and partial WBOs, which would be facilitated by a special purpose vehicle and could lead to new opportunities for scaling up WBOs. Member States in which ESOP or EOT models are currently being explored are Denmark, Slovenia, Ireland and Spain. Additionally, stakeholders in other countries are trying to employ the existing WBO infrastructure to create a mechanism for leveraged gradual WBOs. In Spain, ASLE group is exploring options to employ SLs as a dedicated ownership vehicle through which partial WBOs may be facilitated. A model based on a separate legal entity and financed through leverage is already being used in Hungary.

- **Due to the absence of EU-level guidelines for WBOs, legal entities underlying WBO models across the EU are often too loosely regulated, which makes them more prone to socially undesirable use of tax advantages and likely to feature unsustainable employee ownership structures.**

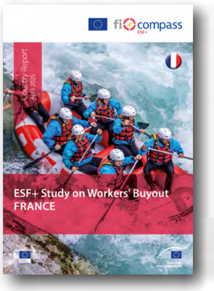
Certain recent WBO initiatives, which have not been built on democratic and socially responsible principles, fail to regulate equity distribution among workers, leaving the door open for various kinds of misuse of tax incentives (for example, they may facilitate and tax-incentivise Managerial Buyouts), and do not uphold core principles of participation in governance and management. This is especially true for the Hungarian ESOP, with some other WBO models likewise failing to regulate the inclusivity of workers, leading to low inclusion rates. Some well-established WBO models, such as the Spanish SL model, encounter succession challenges that could be effectively resolved through a reform of the capital structure. Such reform should ensure the sustainability of worker ownership, even in the face of generational turnover. In several Member States, tax incentives or other forms of aid are granted by public authorities to WBO models which fail to fulfil criteria of sustainability and social responsibility, with one of the main reasons being the absence of a unified EU-level agenda for regulating and standardising WBO models. The lack of guidelines allows for *ad hoc* national attempts to legislate and incentivise WBOs, which may not always align with EU goals and objectives and international best practice in the field.

03 Country Reports – Summary

To illustrate the WBO situation in Europe, four countries, namely Spain, Italy, France, and Slovenia, have been analysed in more detail. Spain, Italy, and France have the most developed ecosystems for WBOs, while Slovenia is chosen due to the nascent nature of its WBO ecosystem. Each country is made a case study, examining the national financing ecosystem for WBOs, with selected companies serving as illustrative examples. The respective country case studies are analysed in more detail in the individual Country reports referenced in Annex I".

3.1 France

3.1.1 WBO in France



WBOs account for a secondary share of all business transfers in France[79, 80], although they are not measured statistically. Business transfers are generally carried out by external investors/ buyers; family of the company director; and to a lesser extent workers. In 2019, the Company Sales and Acquisitions Observatory estimated the potential market for business transfers at 68 000 businesses (with between 1 and 249 employees) per year (excluding commercial property or business capital, agricultural businesses). Of this total, it is estimated that 20 400 (30%) will be sold internally (families and employees), including 15 000 businesses sold to employees, 17 000 will disappear, and 30 600 will be sold to an external third party[81]. CGSCOP says about 200 cooperatives are created each year: around half from a business transfer with the other half being brand new cooperatives. These numbers seem to be stable over time. Moreover, the 5-year survival rate is around 76% for cooperatives compared to 61% for non-cooperatives according to CGSCOP.

However, the issue of business transfers in France remains a major challenge. There is a structural ageing of the business community, with baby boomers coming to the end of their careers. In addition, the post-COVID-19 pandemic economic slowdown could lead many business owners to pass on their business sooner than expected. According to the report of the French Senate (October 2022)[82], the estimated number of businesses to be sold over the next 10 years varies from 250 000 (according to the Ministry of Economy, Directorate of Economy) to 700 000 (according to the French Federation of Chambers of Commerce).

In France, **the predominant mechanism for WBOs** is often facilitated through cooperatives, with the common legal structures being SCOPs or Cooperative Company of Collective Interest (Société Coopérative d'Intérêt Collectif, SCIC). These cooperatives typically adopt the legal forms of Limited Company (Société à Responsabilité Limitée, SARL), Public Limited Company (Société Anonyme, SA), or Simplified Joint-Stock Company (Société par Actions Simplifiée, SAS) when implementing WBOs.

79 Aubry, C., Wolff, D. (2016) 'Business transfer: A complex object of study, between management sciences, anthropology and psychology (La transmission d'entreprise: Un objet d'étude complexe, entre sciences de gestion, anthropologie et psychologie)', Vie et sciences de l´entreprise, Vol. 2016/1, No. 201, pp. 32-50.

80 Senate report 2016-2017/440 of 23 February 2017 on Modernising business transfers in France: urgency for employment in our territories (Moderniser la transmission d'entreprise en France: une urgence pour l'emploi dans nos territoires), pp. 121, Accessed on 20 September, 2023, available at: https://www.senat.fr/rap/r16-440/r16-440.html.

81 The National Observatory for Business Buyers and Transferers of very small enterprises (VSEs) and small and medium-sized enterprises (SMEs) (L'Observatoire national cra de la transmission des TPE/PME) (2019). Accessed on 16 December 2023, available at: https://www.cra.asso.fr/uploads/Observatoire-CRA-2019-maj21-06-19.pdf.

82 Senate report 2022-2023/33 of 7 October 2022 drawn up on behalf of the Enterprise Delegation by the follow-up mission on business transfers. Accessed on 20 September, 2023, available at: https://www.senat.fr/rap/r22-033/r22-033.html.

The existing legal framework is relatively well-developed regarding tax incentives, and labour regulation and aims to support WBOs. Within the framework of French labour law, provisions have been established to facilitate employees interested in embarking on entrepreneurial ventures. Individuals keen on starting or taking over a business are entitled to temporary leave or part-time work dedicated to business set-up. Furthermore, should an employee initiate or take over a business, they stand to benefit from the non-enforceability of the exclusivity clause. Notably, workers exploring cooperative ventures have the option of receiving unemployment benefits in advance, which can be subsequently converted into cooperative capital. Under the auspices of the creation of a cooperative under French WBO law, employees associated with the cooperative are eligible for a tax deduction, allowing the cooperative to deduct 25% from the taxable result of the company for profit-sharing with the employees. Additionally, entrepreneurs involved in establishing cooperatives may enjoy a reduction in or exemption from capital gains tax. Moreover, the Law on Social Economy[83] affirms the right of employees to be informed about the owner's intention to sell, ensuring transparency in business transactions with a notice period of no less than 2 months before the sale.

Financing the WBO remains a key constraint. Usually, when transferring their business to employees the owner is looking to protect jobs and ensure the sustainability of the company. This comes with a major constraint: the seller cannot ask for a high price. Workers usually have less cash to invest than external investors. This is even more challenging when the business to transfer is in good shape.

From a workers' perspective, the need is to raise the capital required to buy out the shares of the vendor at the valuation price. This is why the number of associates / shareholders involved in the deal does matter: the more associated workers there are, the greater the capacity to raise equity capital to leverage a bank loan, and the lower the contribution per shareholder. This is because if there are more workers involved, to raise the same total amount, the amount needed per worker is lower. In France, company buyouts are usually financed by the cash or equity funds of the buyers combined with a bank loan with the support of a guarantee scheme. In 2017, a French Senate report noted that "buyers invest first their own cash on average between EUR 100 000 and EUR 500 000. Bank credit and love money [funding from friends and family] are the second main sources of finance"[84]. However, the conditions to access credit vary depending primarily on the level of equity fund collected by the workers. This is why the access to equity support scheme is so important when the capital collected by the workers is not sufficient to trigger a bank loan.

From a bank perspective, a WBO brings some risks, as the business will be managed by a team of people that do not necessarily have a proven track record of managing businesses. In the case of a cooperative, the limitation regarding the use of profits is also seen as a constraint in terms of return on investment. This is why, to mitigate the risk, banks usually ask for a minimum cash investment from the workers to lend money. From the interviews for this study, in a reported 80% of the company takeovers, the cash injection from workers' finances is on average between 25% and 30% of the total price of the company buyout. In the three company case studies, the proportion of equity capital provided by employees varied between 25% and 36%.

83 Law 2014/856 of 31 July 2014 on the social and solidarity economy (Loi 2014/856 du 31 juillet 2014 relative à l'économie sociale et solidaire), Art. 18-20. Accessed on 19 July 2023, available at: https://www.legifrance.gouv.fr/loda/id/JORFTEXT000029313296.

84 Senate report 2016-2017/440 of 23 February 2017 on Modernising business transfers in France: urgency for employment in our territories (Moderniser la transmission d'entreprise en France: une urgence pour l'emploi dans nos territoires), pp. 121, Accessed on 20 September, 2023, available at: https://www.senat.fr/rap/r16-440/r16-440.html.

Non-financial constraints are also important. They include confidentiality and trust around the sale of the company, the lack of motivation and skills of employees to take over management roles, and the lack of awareness regarding the implications and consequences of a WBO, including legal aspects. Overcoming these barriers requires technical assistance provision for workers to support them navigating the complexity of WBO.

To supply financing and technical assistance, there is a network of stakeholders and enterprise support organisations helping WBO, notably cooperatives. On the public side, there are two main actors: Bpifrance, the State-owned National Promotional Development Bank for SMEs provides financial instruments and products to support business transfer in general (no particular focus on WBO). Some regional authorities or regions have a dedicated strategy and policy support instrument for WBO, mainly through the provision of grants to the regional branch of the National Association of Cooperatives (URSCOP), and the provision of grants to cooperatives resulting from a company buyout.

On the private side, the major stakeholders include CGSCOP, the credit unions (e.g. Crédit Coopératif), and non-profit associations such as France Active, as well as Initiative France and Réseau Entreprendre. They offer loans, guarantee schemes, and quasi-equity financing.

Although France already benefits from a relatively large portfolio of financial instruments and products supporting WBO, particularly through a cooperative, suboptimal investment situations do exist:

- SOCODEN, the financial holding of CGSCOP, which offers subordinated loans (prêts participatifs) to cooperatives, needs increasingly to find next external sources of financing, as the sum of annual fees of its members does not match members' needs. The SOCODEN business model is based on membership fees. However, with the increasing number of cooperatives requiring financial support, SOCODEN increasingly needs to diversify its funding sources. In addition, since 2019, SOCODEN has benefited from the EaSI guarantee (up to 80%) on its subordinated loans portfolio to cooperatives. This has helped SOCODEN to increase the number of its beneficiaries and maintain attractive financial conditions.
- Equity (en fonds propres) intervention from the Société coopérative de production (SCOPINVEST), a subsidiary of SOCODEN, which provides quasi-equity investments (titres participatifs) to cooperatives, requires recapitalisation to increase its ability to meet demand. The total amount of the fund (EUR 9 million) is limited in its ability to meet the expected growing demand for financing, while SCOPINVEST does not benefit from a guarantee. Bpifrance offers a guarantee for equity and quasi-equity fund management companies on their investments[85] but it is not sufficiently attractive, primarily because of the associated guarantee cost, says CGSCOP.
- In addition, the support provided by regional authorities for WBOs in the form of a SCOP through a grant scheme (EUR 1 for EUR 1 or EUR 4 000 for EUR 4 000) does not exist in all regions. In addition, their terms and conditions differ between regions and do not necessarily fit well with employees' needs (limited cap per shareholder and per company, length of the process to get the funding, etc.). They are, however, an important element in the mix to secure financial plans of WBO operations. The main stakeholders interviewed (CGSCOP and the French Chamber of Social and Solidarity Economy) call for a national mechanism that would provide additional support to employees and bridge the equity gap.

85 Bpifrance, Garantie de Fonds Propres Relance. [Online]. Accessed on 16 December 2023, available at: https://www.bpifrance.fr/catalogue-offres/garantie-de-fonds-propres-relance.

- Beyond access to finance, WBO in the form of a cooperative suffers in France from a bad reputation, which prevents development in this form. Indeed, business transfer through a cooperative is essentially perceived as a solution when an existing company fails and becomes bankrupt. Usually, only when such circumstances affect a large industrial company, or strong commercial brand does the media discuss cooperatives. Therefore, the public and employees are under the impression that they only offer a solution for businesses that are not performing well, instead of a solution for future business transfer needs. This highlights the need to increase awareness of the potential of cooperatives to enable sellers to exit (no consequence on the business valuation) and for employees to buy out.
- Finally, the provision of technical assistance services and advisory services to employees and vendors willing to engage in a WBO mechanism is instrumental, but its financing is a challenge. WBO is a complex scheme that requires managerial, legal and financial skills new to the majority of employees. As highlighted by the representatives interviewed for the company case studies, such support is instrumental to the success of the deals, but is costly, which raises the question of financing advisory services. ESF funding was used to a limited extent in 2014-2020 by the national operational programme and regional operational programmes to co-finance these activities. In the framework of the 2021-2027 period, CGSCOP aims to apply for ESF+ grant support, while only a few regional managing authorities have used ESF+ to provide support to regional branches of URSCOP.

3.1.2 Potential use of ESF+ and other EU-level funding: practical hints

The use of ESF+ financial instruments in France is constrained by the lack of interest from national and regional ESF+ managing authorities and the financial institutions to use ESF+ resource on financial instruments in general, and on cooperatives in particular.

There is no fundamental change between the 2014-2020 programming period and the 2021-2027 one. France maintains its ESF+ arrangement with a national operational programme overseen by the Ministry of Labour and 17 regional operational programmes managed by the regions. The focus of ESF+ support remains on addressing youth and older jobseeker unemployment, improving worker skills, social inclusion measures, and educational initiatives. The national operational programme has seven priorities, with only one emphasising the social and solidarity economy.

ESF+ in France primarily employs grant schemes at regional and national level to fund advisory services provided by intermediate bodies, financial intermediaries, and national networks such as France Active, and Initiative France. Notably, this support[86] does not particularly target advisory services for WBO, and not all regions use ESF+ for supporting SCOP.

In 2021, two regional managing authorities considered using ESF+ through financial instruments to support social economy entrepreneurship. However, regional managing authorities ultimately decided against it due to concerns about the complexity of integrating financial instruments with the ESF+ fund, the lack of expertise among financial intermediaries in combining national funding sources with ESF+, insufficient demand at the regional level, high transaction and management costs of financial instruments and instability in audit rules at the beginning of the programming period.

86 More information about this support measure is available at: 20230419_code-150_global.pdf.

For these reasons, to better support cooperatives in the framework of WBO, managing authorities could co-finance technical assistance services provided by the regional branch of the URSCOP at the regional level and by CGSCOP at the national level.

France has no experience of combining financial instruments with grants. However, the company case studies show that combining grant support from regions with a variety of financial tools effectively helps meet the financial needs of the WBO operation.

To enhance WBOs and ensure effective operations, in the study we have identified the need for support in the following areas:

- Promote knowledge-sharing and awareness of WBO, and cooperatives in particular.
- Develop a comprehensive WBO national strategy.
- Facilitate worker access to technical advisory services supporting WBOs.
- Provide targeted financial support to address suboptimal situations.
- Foster statistical research and policy evaluation.

Furthermore, the French country report also demonstrates that there are two areas where EIB Group financing could be instrumental in supporting the WBO:

- Follow up on the EaSI guarantee mechanism within the new Social Investments and Skills Window. The EIF portfolio guarantee plays a crucial role in enabling SOCODEN to provide more loans at a competitive price, particularly ones aimed towards WBO operations. Given the fact that the rate of defaults of WBO operations that are structured as cooperatives is noticeably low, incorporating these loans into the EIF-guaranteed loan portfolio helps balance the portfolio's risk.
- Supporting SCOPINVEST's quasi-equity fund (which is connected to SOCODEN) to enhance its ability to meet existing demand. The aggregate sum of the fund, which is around EUR 9 million, is somewhat constrained in addressing the anticipated increase in demand for financing. SCOPINVEST, which has no backup guarantee scheme, faces limitations in its capacity to assume risk and ramp up the quantity of quasi-equity investment.

3.1.3 Company case studies

The three case studies have been selected based on their representativeness of the French context. Similarly, it was decided to involve companies that were different from each other, and that could express the particularities and potentials of the WBO phenomenon in France.

Company 1 - Terra

Terra is a consultancy and research company focused on waste management and the circular economy. Founded in 1979 by the future vendor (single owner of the company), TERRA offers its customers - eco-organisations, companies, local authorities and public bodies - tailor-made solutions to support circular economy projects, check and guarantee waste management and characterise waste flows. The company was bought by its employees in 2017. At the time, it had 38 employees. The company was not in crisis. The founder was close to retirement age and had mentioned on several occasions over the previous 2 years, at management board meetings, his intention to pass on the business.

Source: Author, based on an interview with a representative from Terra.

Company 2 - Neodyme

Neodyme is a technical assistance company providing services to clients from sectors such as industrial, health, security and environmental risk management. Incorporated in 2004, it is located in Joué-lès-Tours in Centre Region (Centre-Val de Loire). It works mainly in the B2B sector, and most of its clients (85%) are industries or enterprises providing services to industrial clients. The founder with the majority of the shares always considered WBO in the form of a SCOP, and he raised awareness of the subject well before considering leaving the company. When he encountered debt problems and the COVID-19 pandemic happened, he decided to accelerate the process in 2020.

Source: Author, based on an interview with a representative from Neodyme.

Company 3 - You

You is an enterprise operating in Nantes, in the western part of France, since 1995. It specialises in wood framing, carpentry and upholstery. You works with architects, project managers, private individuals and public bodies, including local authorities. It mainly works on extensions of existing houses. In 2021, the former chief executive officer (CEO) wanted to start a new project and began to look for a third party who could take over the business. However, when the workers became aware of this, they suggested creating a SCOP to buy out the business.

Source: Author, based on san interview with a representative from You.

Table 1 presents an overview of the main characteristics of the case studies. It presents the rationale, context and financial implications of the three WBOs analysed.

Table 1: France company case studies' summary.

	Company 1 Terra	Company 2 Neodyme	Company 3 You
Reasons for WBO – needs and preconditions	• The founder was close to retirement age. • Leveraged Management Buy-Out (LMBO) was a possibility but there was no willingness to experience strong growth.	• The majority shareholder had to take on personal debt to become the majority shareholder and his personal situation changed. It became difficult to hold such debt. • The COVID-19 pandemic and its negative effect on the business. • Willingness to do WBO through a SCOP well before the crisis. • Since 2013, some employees have been shareholders.	• The founder looked for a third party able to buy the business so he could start a new project. • The workers suggested becoming a SCOP and buying out You. • The URSCOP provided support to the founder to reassure him on timings and consequences.
WBO description	• Two years of discussion between the founder and the management team. • Management team was extended from five to nine employees (out of 38). • 38 employees in 2017. • Two difficulties: - convincing the founder about cooperative status; - agreeing on a sale price. • In 2024, Terra will have more than 30 members or shareholders out of 48 employees.	• In 2020-2021, Neodyme was in transition; the first six months it was still an SAS and in the second semester it became a SCOP. • SCOP-related information was shared with employees well before considering the WBO. • Today there are about 70 to 75 shareholders. • Difficulties: - negotiating the sale price with the founder while working for him; - convincing enough employees to become shareholders.	• Nine-month long process that started in winter 2021 when the current CEO started to motivate co-workers to become a SCOP. • In 2023, there were 34 employees of which 21 were shareholders. • Difficulties: - convincing the founder; - motivating employees with sufficient funds; - competing with a third party offer to buy the company and its premises, while the workers could only afford to buy the business itself.
Financial implications of WBO	• Financing requirement of EUR 1.3 million. • Financing provided mainly via debt.	• Financing requirement of EUR 1.7 million. • Financing provided mainly via debt. • Negotiations impacted the founder as well as the 40 shareholders.	• Financing requirement of EUR 850 000. • Financing provided mainly via debt.
Debt and collateral requirements	• Crédit Coopératif Bank: loan of EUR 500 000. • SOCODEN (CGSCOP): subordinated loan (prêt participatif) of EUR 300 000. • Bpifrance: EUR 100 000 loan. • France Active: subordinated loan of EUR 100 000.	• SOCODEN subordinated loan (prêt participatif): EUR 300 000. • Crédit Coopératif bank loan: EUR 200 000. • France Active: subordinated loan of EUR 100 000.	• SOCODEN subordinated loan (prêt participatif): EUR 75 000. • CIC Ouest bank loan: EUR 275 000. • Banque Populaire bank loan: EUR 275 000. • France Active: subordinated loan of EUR 100 000.

	Company 1 Terra	Company 2 Neodyme	Company 3 You
Capital structure of the company / Liabilities	• Shareholders contributed EUR 198 200 of personal equity funds. • SOCODEN acquired eight shares (EUR 160). • Total capital of company: EUR 198 360. • At the end of 2022, the total capital was EUR 235 800 following the contribution of new members (30).	• Shareholders contributed EUR 424 000 of personal equity funds. • Neodyme used EUR 446 000 from the treasury to buy the shares of the majority shareholder – the funds from the treasury correspond to the financial support received in the framework of the COVID-19 pandemic.	• Shareholders contributed EUR 100 000 of personal equity funds. • SCOPINVEST quasi-equity investment (titre participatif): EUR 100 000.
Transaction costs	None	None	None
Other non-financial support	• URSCOP: Technical assistance subsidised by the Regional Council of Ile-de-France - EUR 33 400. • Legal advisory services - EUR 10 000.	URSCOP: technical assistance / feasibility study - costs unknown	URSCOP: technical assistance - costs unknown
Role of additional funding	A grant of EUR 119 000 from Air France as part of the Air France Revitalisation Fund	The Centre Region supported the WBO with a EUR 76 000 grant	• The Pays de la Loire Region. supported the WBO with an EUR 82 000 grant. • Vendor loan of EUR 160 000 to be paid in 4 years.
Private funding	• SOCODEN. • Crédit Coopératif. • France Active. • Air France. • SOFISCOP[87].	• SOCODEN. • Crédit Coopératif. • France Active. • SOFISCOP.	• SOCODEN. • SCOPINVEST. • CIC Ouest. • Banque Populaire. • France Active.
Public (national) funding	Bpifrance	• Bpifrance. • Centre Region.	• Region Pays de la Loire. • Bpifrance.
EU funding	None	EIF (EaSI)	None

87 Further information about the type of support provided by SOFISCOP id available at: Fonds de garantie SOFISCOP - les-aides.fr and Garantie de prêt bancaire | Outils Financiers.

	Company 1 Terra	Company 2 Neodyme	Company 3 You
Impact of the WBO (market changes, financial situation, number of workers, etc.)	• Steady growth continues. • In July 2017, the cooperative started with 38 employees and in 2023, it has 48 employees. • To date, Terra has an annual turnover of EUR 4 million. • For the financial year 2022, the company distributed EUR 4.7 of dividends per share (price value of EUR 20). • More sustainable business. • The minimum legal reserve helps to manage the cash flow efficiently. • Loans have been reimbursed. • The cooperative status is attractive for potential recruits. • No new commercial opportunities or market share.	• Positive/stable financial results. • Employees: 100 in France, 2-3 in Australia ,10 in New Caledonia. • Turnover as of June 2022 was EUR 7.7 million per year. • In 2023, Neodyme had dividends of EUR 427 for every EUR 1 000 invested. • SCOP status is not necessarily attractive for recruitment or clients. • No new commercial opportunities.	• Too soon to evaluate the impact. • To date, You has 34 employees. • The 2023 mid-year results suggest that You will increase its revenue from EUR 4.2 million (2021) to EUR 4.5 million. • SCOP status is not necessarily attractive for recruitment or clients. • More commercial opportunities because there are three heads of services doing prospecting instead of one CEO.
Lessons learned	• URSCOP's technical assistance was crucial (negotiation, business plan, identification of financial instruments, identification of future managing director). • Several financial instruments were used in a complementary way.	• The advisory support from URSCOP was crucial to mitigate risks and reduce difficulties. • Several financial instruments were used in a complementary way.	• The advice from URSCOP was crucial to know what financial support was available. • Several financial instruments were used in a complementary way.

Source: Author's own elaboration based on company interviews.

3.2 Spain

3.2.1 WBOs in Spain

There is no official record of the share of business transfers represented by WBOs in Spain. Recent studies on the subject of WBOs similarly fail to provide any clear indication as to how many exist in the country.

It is, however, possible to shed some light on the pace of creation of worker cooperatives or employee-owned businesses (EOBs) in Spain. These two forms of incorporation simultaneously represent the most common type of WBOs found in Spain. According to most recent data, for the year 2022, 1 185 worker cooperatives were established, involving upwards of 3 000 initial worker members. At the same time, around 211 EOBs with 593 members were registered. Though no conclusive data on the number of cooperatives or EOBs that originated from WBOs exists, the Spanish Confederation of Worker Cooperatives (Confederación Española de Cooperativas de Trabajo Asociado, COCETA[88]) estimates the number of newly founded cooperatives or EOBs through a WBO to be around 100 annually.

As a result, In Spain, the predominant mechanism for WBOs is often facilitated through cooperatives and EOBs. **The existing legal framework** is relatively well-developed and comprehensive in scope. Cooperative WBOs thus benefit from a regulatory framework spanning from the Spanish Constitution[89] up to Law on employee-owned business, and Participatory Companies[90]. Inherent in this framework are 18 distinct cooperative laws, including the Social Economy Law, which grants a multitude of incentives for social economy enterprises, to which cooperatives and WBOs belong. As mentioned previously, the large number of distinct cooperative laws is a by-product of the strong regionalism inherent in the Spanish legal framework, which grants each autonomous region the power to set legislation regarding WBOs. Though extensive, some see this regulatory differentiation as a hindrance to the further growth of WBOs which could potentially stand to benefit from a more unified set of national cooperative laws.

All cooperative laws, though diverse, exhibit a core set of principles to which each set of regulations adheres. Most often this includes a cap on the number of non-working member employees, a guideline which states that neither profit distribution nor governance are tied to capital contributions, a directive which enshrines the democratic principle of 'one member, one vote', and a rule outlining the operation of an obligatory reserve fund to which a certain percentage of the cooperative's profits must be diverted. Additionally, labour law dictates that worker members of Spanish cooperatives are not subject to labour law, which puts the burden of developing governing rules outlining working conditions on the cooperatives themselves.

On the other hand, **EOBs** coming out of a WBO can benefit from a unified set of laws that are uniform throughout Spain. The EOB is legally akin to a company limited by shares in which however, unlike a cooperative, at least 51% of equity must be held by employees with an employment contract. Even though EOBs give greater flexibility in the way profits are allocated, cooperatives are more numerous. One of the reasons for this is the fixed democratic governance model of cooperatives. EOBs are also far more likely to revert to regular companies within a few years through the outsized accumulation of shares by a small number of worker members.

88 COCETA, Home page. [Online]. Accessed on 18 December 2023, available at: https://www.coceta.coop/#.
89 Spanish Constitution of 29 December 1978. Accessed on 4 September 2023, available at: https://www.boe.es/buscar/act.php?id=BOE-A-1978-31229.
90 Law 44/2015 of 14 October 2015 on Labour and Investee Companies. Accessed on 4 October 2023, available at: https://www.boe.es/buscar/act.php?id=BOE-A-2015-11071.

Making distressed companies or those without a succession plan interested in the idea of WBO remains a key constraint. This is exemplified by the lack of awareness among bankruptcy administrators and judges regarding the numerous advantages that a WBO has to offer. Similarly, trade unions and business advisors/consultants often shy away from expressing interest in supporting WBOs due to ignorance about the subject matter.

From a workers' perspective, the need to **compete with private investors, who are endowed with sufficient liquidity,** poses a significant challenge. Workers interested in a WBO are competing with various private investment funds and investors with greater access to capital and the ability to mobilise it comparatively quickly, leaving workers little time to capitalise their unemployment benefits or apply for grant support.

Non-financial constraints are also important. They include the slowness of bankruptcy legal procedures, which are regularly mentioned as a key contributor to the absence of WBOs in the insolvency stage of companies. Moreover, undergoing a WBO requires a significant change in mindset by the workers who become members of the new cooperative, and demands greater responsibility and long-term commitment. Additionally, the lack of knowledge in properly assessing the risks of a WBO business venture leading to indecision and a lack of confidence, significantly hampering and prolonging the WBO procedures which, as a result, often leads to failure.

Nonetheless, there are a **wide array of entities offering financial and technical assistance** for aspiring cooperatives and EOBs coming into being through WBOs, in addition to the existing network of public subsidies and grants provided by regional governments. In the private sector this encompasses major private financial institutions that are heavily regionalised and tied to either the cooperative sector or ethical finance, such as Songar (Navarre's Mutual Guarantee Society). In addition, cooperative movement resources are provided by credit cooperatives such as Coop57 or Cajamar bank, which offer loans under favourable conditions and also regularly fund capital contributions by members of cooperatives and EOBs. Equity for WBOs is also inherently offered by the private cooperative moment. The Mondragon Foundation in the Basque Country and the Seira Foundation in Catalonia are counted amongst the most common equity providers. Technical assistance is likewise regionalised, and both the cooperative and EOB sector have their representative organisations that offer a variety of services including due diligence on the company undergoing transformation, analysis of future viability, business plan development and legal training, among others. The scope of services available does differ from region to region, and in some regions the availability of assistance may be under-par or partial.

Although Spain already benefits from the large aforementioned portfolio of financial and technical support for WBOs, suboptimal investment situations do exist:

- This is especially true for WBOs which would require servicing a debt of a certain threshold, ca. EUR 400 000. For WBOs requiring an amount in the range of EUR 500 000 – EUR 3 million of equity and/or debt, finances are often hard to come by and a recourse to more creative solutions such as purchasing the business without its assets must be made.
- From the interviews, it has also become evident that the likelihood of a successful WBO often depends on the size of the firm in question. Larger firms, particularly those with a positive outlook, are frequently targeted by investment funds, which, as mentioned earlier, benefit from quicker and greater access to capital. The chances of workers being successful against the latter are often very limited. Most interviewees also highlight the persistent difficulty of finding collateral to secure personal loans that workers are often forced to take out to finance their capital contributions in order to enter into a cooperative or EOB.
- Beyond access to finance, WBOs in the form of cooperatives suffer from a bad reputation in Spain, which goes back to the earliest business transformations in the early 1980s and 1990s during which many medium-sized industrial companies were cooperatised, only to subsequently fail. This memory still significantly sours the perception of cooperative companies throughout Spain due to the societal shockwaves these bankruptcies generated in the form of unemployment and generally harmful social effects.

3.2.2 Potential use of ESF+ and other EU-level funding: practical hints

The main demand stemming from the interviews conducted for this study is the need for a **public guarantee scheme** for WBOs and workers who wish to engage in such a business transformation. If considered, it should be broad enough to cover workers of all social strata and not isolated in support of only a small group of economically disadvantaged workers.

InvestEU SISW can play an important role in complementing the existing financial instruments in Spain. As seen from experience, the EaSI guarantee allows for the mobilisation of more financial resources with significant secondary benefits for cooperative enterprises. At the time of writing, the EaSI guarantee is being used for WBOs by two private cooperative organisations (Laboral Kutxa and Coop57), although neither tailors the tool specifically to WBOs. Adapting the guarantee scheme to also suit the needs of WBOs, and spreading awareness about the potential to follow up on the EaSI guarantee under InvestEU SISW are two things that would enhance the overall WBO landscape.

Specialised investment funds could give significant support to larger WBOs which struggle to find adequate capital in existing financial markets. Such funds, which could be based on cooperative training and promotion funds, would pool resources from both the public and cooperative sectors. As a centralised source of capital, they could strategically fund the acquisition of larger companies, accelerating the WBO process. The design could align with the CFI in Italy, supporting not only WBOs but also other cooperative activities, depending on demand.

Further, ESF+ resources could be used in favour of cooperative and EOB support organisations that offer **technical assistance** to workers wishing to implement a WBO. This would promote the development of due diligence, viability plans, legal plans and guidance in accessing finance with the end being more knowledge dissemination and higher WBO success rates.

Managing authorities could be better geared to support workers in companies with impending insolvencies by, for example, establishing an early warning system that would lead to the mobilisation of organisations offering technical assistance to workers and owners regarding the possibility of a WBO. This depends on the managing authorities having qualified and trained staff. Lack of knowledge should not be a barrier to WBOs being considered as an alternative. In this regard, ESF+ could finance **programmes to raise awareness of WBO** possibilities amongst the general business audience.

As most WBOs in Spain are funded through contributions to capital by the firms' members, exploring the **combining of financial instruments with grants** based on best practice in the Spanish regions and with preferential loans or public guarantees for WBO loans is recommended.

3.2.3 Company case studies

The three case studies have been selected based on their representativeness of the Spanish context. Similarly, it was decided to feature diverse companies to showcase the unique characteristics and potential of the WBO phenomenon in Spain.

Company 1 - Maier Ferroplast Scoop

Maier Ferroplast is a company supplying thermoplastic injection presses to the automotive industry. Founded in 1965 as a public limited company and operating in the steel manufacturing sector, the firm was bought by Maier Scoop (a cooperative within the Mondragon Cooperative Corporation) together with a French company. The company was later fully acquired by Maier Scoop, and at the behest of the 2008 Mondragon Corporation Congress, transformed into a 'cooperatised' subsidiary in 2012, following a four-year long transformation process.

Source: Author, based on an interview with a representative from Maier Ferroplast Scoop.

Company 2 - Mestres de la Creu Coop V

Mestres de la Creu is a school offering early childhood, primary, secondary and high school education services. It also offers vocational training in the La Creu neighbourhood of Mislata, near Valencia, where the school is located. Through its public-private partnership with the Valencian Regional Government, the school caters to the educational needs of around 600 students. The owner of the school triggered a succession crisis when he and his wife retired, as a result of which, there was a WBO by the school's full-time teachers in the summer of 2010, at the onset of the 2010/11 academic year.

Source: Author, based on an interview with a representative from Mestres de la Creu Coop V.

Company 3 - Mantenimiento y Servicios Vivaclean Coop V

The Mantenimiento y Servicios Vivaclean cooperative is an enterprise founded through a WBO in 2021 by five permanent employees and their long-term main supplier. The firm provides cleaning services to businesses and buildings. The previous company was a publicly traded company with most of the equity being held by a single shareholder. The firm's financial difficulties and mounting debt as a result of the Covid-19 pandemic prompted the owner's exit. Not wishing to see their jobs disappear, the permanent employees decided to acquire the company whilst servicing its debt.

Source: Author, based on an interview with a representative from Mantenimiento y Servicios Vivaclean Coop V.

Table 2 below gives an overview of the main characteristics of the case studies. It sets out the rationale, context and financial implications of the three WBOs.

Table 2: Spain company case studies' summary.

	Company 1 Maier Ferroplast Scoop	Company 2 Mestres de la Creu Coop V	Company 3 Mantenimiento y Servicios Vicaclean Coop V
Reasons for WBO – needs and preconditions	• Initiative by parent company to initiate WBOs in subsidiaries. • WBO seen as a solution to entrenched conflicts within the company.	• Retirement of the remaining partner and school owner and his wife who ran the school administration. • Daughter who stepped in for two years decided to step down, triggering a succession crisis. • Newly appointed management team, along with the former owner, initiated the WBO.	• Financial difficulties due to Covid-19 pandemic. • Missed payments to suppliers prompted the main supplier to suggest restructuring the company via a WBO. • Willingness of owner to go through with WBO if debts could be covered.
WBO description	• 4-year process which required monthly discussions between Maier Scoop and Ferroplast workers. • 148 workers became worker partners, while 40 remained employees. • Difficulties: - galician law had to be modified to accommodate the cooperative's governance model; - gaining the approval of workers for the WBO.	• School underwent WBO in the summer of 2010, with the first academic year as a cooperative corresponding to the 2010/2011 academic year. • It was decided to only include teachers as worker members, excluding the support staff. • 40 of the 41 teachers became owners in 2010. • As of 2023, the school had 28 worker owners and 36 employees as many of the owners have retired. • Difficulties: - renegotiating the eight rental contracts the school has with eight different landlords; - public debt crisis of 2011/2012 prompted a liquidity crisis for the new cooperative.	• WBO initiated in May 2021 after consultation with permanent workers who feared losing their jobs. • At the time, the firm had 5 full-time and 25 part-time employees. • Permanent employees and main supplier became members of the cooperative. • Difficulties: - high investment threshold of EUR 40 000 needed to stabilise company finances; - low incomes of permanent employees.
Financial implications of WBO	Mondragon Corporation acquired MGI Courter's stake in Ferroplast	Financing requirement of EUR 100 000	• Financing requirement of EUR 40 000. • Financing provided mainly via unemployment grants and personal contributions.
Debt and collateral requirements	• No credit or loans were required for the WBO. • Worker owners' capital could be contributed progressively through salary deductions.	• Worker members contributions financed through personal loans. • Cooperative offered collateral towards the loan of one of the worker members.	No credit or loans were required for the WBO

	Company 1 Maier Ferroplast Scoop	Company 2 Mestres de la Creu Coop V	Company 3 Mantenimiento y Servicios Vicaclean Coop V
Capital structure of the company / Liabilities	• Shareholders contributed EUR 1.5 million of personal equity funds. • Capital of Ferroplast was increased twice. • Total company capital: EUR 2 591 000.	• Shareholders contributed an initial EUR 3 000 per member, followed by an additional EUR 10 000 per new member soon after the WBO. • The company's total capital by the end of the WBO process in 2010: around EUR 500 000.	• Shareholders contributed EUR 41 000 to company capital: - each of the five permanent workers contributed EUR 1 000; - the main supplier converted the company liabilities owed to him into capital and provided the necessary additional financing until the EUR 36 000 in grants was obtained.
Transaction costs	No transaction costs	Low transaction costs in general, no specific data	No transaction costs
Other non-financial support	Business transfer support provided free of charge by Union of Galician Cooperatives (ESPAZO COOP)	Valencian Federation of Worker Cooperatives (FEVECTA) gave free legal and financial advice on transforming the school into a worker (teachers') cooperative	Technical assistance provided by FEVECTA
Role of additional funding	A grant of EUR 2 500 per worker from the Regional Government of Galicia	No additional funding	An unemployment grant of EUR 36 000 (4 workers) from the Regional Government of Valencia
Private funding	• Mondragon Foundation. • Maier Scoop.	No private funding	From the main supplier
Public (national) funding	Regional Government of Galicia	No public funding	Regional Government of Valencia
EU funding	No EU funding	No EU funding	No EU funding
Impact of the WBO (market changes, financial situation, number of workers, etc.)	• Steady growth continues. • In 2012, the cooperative started with 148 worker owners and just over 40 regular employees. By 2023 it had 160 worker owners and the same number of employees. • Turnover increased from around EUR 25 million in 2012 to an estimated EUR 35-37 million per year since 2020. • Internal company conflicts resolved through a cultural shift.	• Cooperative is now stable and does well financially. • Provision of the same education services as those at the time of the WBO, alongside an increase in social programmes. • Reduction in number of worker members due to retirements.	• To date, Mantenimiento y Servicios Vicaclean Coop V has seven members and several temporary employees on part-time contracts. • Grants were received and the main supplier's debt was repaid. • Turnover declined after the WBO as the workers wish to manage a smaller venture and some clients have been lost.
Lessons learned	• Public-private financial and advisory resources are key in advancing successful WBOs through matching public resources to private investments. • Workers' trust is crucial and difficult to earn, even in the absence of economic hardships.	Smooth WBO due to engagement and low cash compensation of the former owner, who wanted to see the school thrive after his exit	• WBOs involving workers with very modest incomes are difficult to finance. • Public support in the form of grants is crucial in providing finance that would not be provided by the private sector. • Advisory support required for a relatively long period of time.

Source: Author, based on company interviews.

3.3 Italy

3.3.1 WBOs in Italy

In a context infused by a strong and deeply rooted cooperative culture, the phenomenon of WBOs in Italy began to develop as early as 1985 with the introduction of a specific law, Law 49/1985 'Measures for credit to cooperatives and urgent measures to safeguard employment levels,' known as the **'Marcora Law'**. This law promoted and facilitated the acquisition of struggling companies by workers in cooperative form and represents, to this day, the regulatory framework of reference with its subsequent amendments and additions. More specifically, the Marcora Law, initially amended in 2001 and subsequently enhanced by additional legislative provisions, is part of a complex legal system that involves laws related to bankruptcy, industry and social security in addition to specific cooperative regulations and funding schemes. Specifically, the Marcora Law establishes two funds through the state budget:

- The Foncooper is a revolving fund which provides subsidised financing to cooperatives.
- The Special Fund[91] provides economic contributions to institutional investors, CFI and the Financial Company for Cooperation of Production and Social working cooperation (Società Finanza Cooperazione, SOFICOOP) to participate in the capital of worker-recovered companies. CFI incorporated SOFICOOP in 2019.

Since 1985, 342 WBO operations have been documented in Italy, involving more than 10 000 employees. The number of worker-recovered enterprise operations in Italy has generally remained relatively constant over the years, although macroeconomic recessions or market difficulties seem to have a significant influence on the emergence of WBOs. Approximately 38% of WBOs are still active today, employing around 4 000 workers.

In Italy WBOs take the form of cooperatives and most of them are established from companies in crisis through business conversions and restructuring mechanisms, while WBOs in enterprises without successors are less frequent. The governance structure follows the typical model of worker cooperatives, with a General Assembly (one person, one vote) that elects a Board comprising at least three members delegated to manage the business. Generally, sectors with low capital intensity and characterised by strong worker know-how represent the cases in which such conversions are more easily achievable. These sectors are primarily connected to the productive realm of the so-called 'Made in Italy' concept. These specific cooperatives are more concentrated in the northern and central regions, while the south, which has the highest level of unemployment, as well as the highest mortality rate of enterprises, has recorded few WBOs.

These companies are usually initially leased and then purchased by the most motivated group of employees who are likely to have few alternatives. They take over the bankrupt company or part of it in a worker cooperative legal form, of which they become members, by investing their unemployment benefit/severance pay as a lump sum to capitalise the cooperative. In this context, workers taking over a business have the option of receiving their **unemployment benefits in advance with associated tax deductions to be reinvested in the new capital company**. Additionally, they can receive their accrued severance pay tax-free for reinvestment in the capital of the new cooperative.

In addition to the resources invested by the workers, there are also **public resources (particularly from CFI and regional funds) and private resources (cooperative mutualistic funds, Banca Etica, and local cooperative banks)**, in addition to the possibility of accessing a **guarantee from the Guarantee Cooperative Consortia** to secure part of the debt. Specifically, CFI and cooperative mutualistic funds, which are the main active investors in these types of enterprises, operate both in partnership and individually by providing equity and quasi-equity instruments and/or debt capital. CFI's operations are financed by public resources with the 'Special Fund', created under the Marcora Law.

91 Special fund for interventions to safeguard employment levels (Fondo speciale per gli interventi a salvaguardia dei livelli di occupazione) – further information available at: XVII Legislatura - XVII Legislatura - Documenti - Temi dell'Attività parlamentare.

CFI offers both equity capital and debt capital, tailoring its approach based on the project's characteristics and the financial-economic profile of the cooperative. The maximum duration of capital participation is 10 years; 25% must be repaid within the first 5 years and the remaining 75% within the second 5 years. In addition to equity capital, CFI finances WBOs through various lines of debt capital interventions at favourable rates to support working capital, investment plans, and capitalisation of SMEs, workers and social cooperatives, including WBOs.

On the private side, mutual funds, mainly funded by 3% of the annual profits of all cooperatives affiliated with the three main cooperative associations, allocate these resources to projects for the development of Italian cooperatives. The WBOs are a significant asset in the activities of these funds, which operate predominantly by activating temporary participation in the capital of cooperatives or granting loans, either alone or in partnership with other entities – whether internal or external to the cooperative world. In addition to the tools managed by CFI, specific public funding sources for WBOs pass through regional agencies, which can implement and manage debt-financing instruments based on the resources allocated by the Marcora Law to the revolving fund, Foncooper. These resources are dedicated to financing the development and expansion plans of new or existing cooperatives through soft loans for investment plans. Specifically, each cooperative can obtain up to EUR 2 million to finance up to 70% of its investment plans. Interest rates are capped by law at 25% of the European base interest rate, and the debt capital must be repaid within 8 years for investments in machinery and equipment, or within 12 years when the investment also includes real estate. However, not all Italian regional administrations have yet implemented or initiated funding mechanisms for this purpose.

CFI and mutual funds carry out technical, economic and financial consulting and oversight activities to ensure the sustainability of investments in new cooperative projects. Promotion, information and training, strategic, management, organisational, legal, and corporate consulting services are provided mainly by the local structures of the Italian cooperative associations.

The financial support provided by both the cooperative and public sectors for WBO initiatives in Italy is well-structured but has limitations in its capacity to intervene and mobilise specific resources for certain types of businesses:

- The Marcora Law, originally designed to address corporate crises, is limited in its scope and hinders the development of WBOs in contexts such as generational turnover. Despite recent legislative efforts, the lack of implementing decrees from the Ministry of Finance impedes the implementation of new laws promoting WBOs related to business succession. This aspect could be crucial in a country where about 25% of leaders in family businesses (which represent around 70% of Italian SMEs) are over 70 years old. The absence of specific support for WBO operations involving large companies is an additional limitation.
- The lack of dedicated funding instruments for technical assistance and support to workers during this process hampers the spread of WBOs in Italy, especially for projects involving new markets or significant restructuring;
- Similarly, the case studies highlight that one of the main challenges for cooperatives born out of WBOs, especially in the initial phases, lies in the difficulty of obtaining financing outside the typical cooperative movement or WBO operational funding circuit.
- Furthermore, the low financial rating often associated with worker-recovered businesses increases the cost of credit in cases where it is granted. These aspects are particularly relevant because cooperatives arising from bankrupt companies often face significant investments during the start-up phase to renew productive assets. The credit system indeed appears to have little confidence in these forms of business recovery, especially considering that most of these entities emerge from previous failures and that the workers frequently lack managerial experience.

However, recent studies have shown that the average longevity of WBOs surpasses the average for Italian businesses and aligns with other cooperative enterprises.

3.3.2 Potential use of ESF+ and other EU-level funding: practical hints

In Italy, ESF+ and EU level financial instruments (such as the ones managed by the EIF) could effectively give a new impetus to the development of this form of active labour policy. This could integrate existing tools and provide additional resources to broaden the scope of the Marcora Law, for example, in large enterprises and cases of generational succession issues. In the interim, in 2019 CFI signed a 4-year contract with the EIF as one of the national intermediaries for the EaSI programme and the Campania region has established a revolving fund with ESF 2014-2020 resources. In the first case, the agreement reached by CFI allowed social cooperatives and worker-owned cooperatives, including WBOs, to benefit from a 0.5% reduction applied to the expected remuneration across all CFI intervention lines. The financial support from the programme ensures a percentage equivalent to 20% of the overall lending ceiling to cooperatives, estimated at EUR 28 million for the period 2020-2023, with a maximum limit of EUR 500 000 for each individual transaction. In the case of Campania, a fund of EUR 1 million has been established, providing soft loans specifically designed to promote enterprise creation and self-employment for employees working for struggling businesses. These loans, up to EUR 225 000 per operation, can finance up to 75% of eligible costs, have a 0% interest rate, must be repaid within 5 years, and have a grace period of 12 months. Through this fund, two WBOs have been financed from 2019 to date.

Although the use of European resources appears to be limited to isolated cases, the few tools implemented are already proving useful in mobilising additional resources, increasing the number of funded companies, and reducing credit costs.

ESF+ resources could help develop and integrate regional financing tools, which currently seem underutilised and could instead be an opportunity for development even in areas where this form of business recovery is less developed. Similarly, activating resources to support the training activities of the cooperative network of operators currently involved in promoting and accompanying WBO initiatives can be an important factor in dissemination.

Finally, the consideration of a combination of ESF+ instruments with grants is an option worth exploring, wherein grants could fund **technical assistance and non-financial services**, which has emerged as a critical point.

The EU level central instruments managed by the EIF – EaSI programme and InvestEU – can play an important role in complementing the existing financial instruments in Italy and the different financial support mechanisms foreseen in the Marcora Law. As seen in the CFI's experience, the 2014-2020 EaSI guarantee has allowed the mobilisation of more resources with significant benefits for the cooperatives supported. To follow up on the EaSI success, guarantee and counter guarantee instruments could be used under the Invest-EU's Social Investment and Skills policy window, such as:

- Guarantee instruments - in cooperation with the cooperative guarantee consortiums and mutual funds, which can manage the financial instruments and add their own resources.
- Counter-guarantee instruments to support cooperative guarantee consortia, so that they can guarantee more financial intermediaries and involve them in the provision of debt instruments to WBO cooperatives.

3.3.3 Company case studies

The three case studies have been chosen as representative of the Italian context. The companies selected are diverse and showcase the unique characteristics and potential of the WBO phenomenon in Italy.

Company 1 - Greslab

Greslab is a successful WBO which arose from the bankruptcy of Ceramica Magica SpA in Sassuolo's ceramics district. Greslab began with 31 members and 6 employees, growing to 54 members and a further 30 employees. It is a cooperative that specialises in tile production for third parties and serves commercial clients. Greslab's competitive edge stems from its production flexibility, quality and client-oriented approach. Being part of a historic industrial district further contributes to its growth. Currently, it generates around EUR 20 million per year in revenue, with turnover doubling over the last decade.

Source: Author, based on an interview with a representative from Greslab.

Company 2 - WBO Italcables

WBO Italcables is a cooperative established in 2015 from a WBO. The company employs 50 workers laid off by Italcables SpA, a company that was part of a Portuguese financial group. The new cooperative took over the plant's management and today holds assets worth EUR 3.5 million and generates an annual turnover of EUR 32 million. With 57 employees, of whom 51 are cooperative members, the company manufactures reinforced concrete cables, fulfilling orders from both the domestic market (75%) and other countries (25%). This case exemplifies the successful application of the WBO model, even in the heavy industry sector, characterised by substantial investments and prudent inventory and liquidity management.

Source: Author, based on an interview with a representative from WBO Italcables.

Company 3 - Birrificio Messina

The Birrificio Messina cooperative was established in 2014 by 15 of the 41 former employees of the historic brewery in the city of Messina. This project stands out as it emerged from the drive and support of the local community, facilitated by direct involvement from the Messina Community Foundation. The brewery produces craft beer under its own brand and offers contract brewing services. Launched in 2016 and currently expanding, the facility is equipped for the production of various beer types, ensuring high efficiency and reduced energy consumption. The cooperative capitalises on the extensive expertise and experience of its working members from prior roles, which serves as its strength. The production cycle spans beer manufacturing to bottling. Over recent based on an interview with a representative from Birrifico Messina.

Table 3 below gives an overview of the main characteristics of the case studies. It highlights the rationale, context and financial implications of the three WBOs selected.

Table 3: Italy company case studies' summary.

	Company 1 Greslab	Company 2 WBO Italcables	Company 3 Birrificio Messina
Reasons for WBO – needs and preconditions	• The previous ownership closed the firm for two reasons. The first was risky financial choices during the 2008 global crisis and an inability to reverse the situation. • The second aspect that led to the company's failure was the excessive fragmentation of production (+ costs). • The main financial challenge in the first years of Greslab was finding the resources to restart and modernise production activities.	• The crisis of the previous management stemmed from an oversized production structure and inaccurate assessments of purchasing price trends for raw materials (resulting in lower margins and excessive inventory). • Following the liquidation process by the former ownership, it took about three years for the acquisition by the new cooperative to go through, supported by CFI-Coopfond and Banca Etica. • The extended production interruption led to the expiration of necessary quality certifications for selling products in the Italian market. Consequently, initially, sales were focused solely on foreign markets.	• 'Birrificio Messina', which has always been a significant pillar of the local economy, producing beer in Messina (under the Birra Messina brand) since 1923. • The crisis arose when an earlier owner (Heineken) decided to transfer the production plant and sell the facilities. The new ownership that took over the complex could not revitalise the plant and initiated the dismissal of 40 workers.
WBO description	• Radical change: Greslab transitioned by focusing solely on producing ceramic tiles for third parties, with the support of private shareholders. • Industrial district: three private companies operating in the same industrial district became shareholders of the cooperative. Apart from providing social capital, these three private companies enabled activity to resume by becoming Greslab's main clients (contributing to 70%of its turnover).	• The workers' cooperative WBO ITALCABLES was established by 52 former employees of the company Italcables SpA. • Management discontinuity: the main goal was to mitigate the impact of raw material price fluctuations, considering the financial crisis of the previous management (reduced inventory turnover cycle). This approach allowed for adjustment of selling prices based on raw material purchase costs.	• The WBO involved 15 employees. • Local community: Fondazione Comunità di Messina launched a fundraising campaign to support the employees to establish the new cooperative. • Media: The initiative garnered media attention, attracting institutional actors, local entrepreneurs and major commercial entities to participate in the project (Heineken Group).

	Company 1 Greslab	Company 2 WBO Italcables	Company 3 Birrificio Messina
WBO description	• Difficulties: - involving workers and reaching a union agreement (salary reductions were expected in the first years); - access to credit; and - lack of commercial/marketing skills within the new governance.	• An industry sector (heavy industry) that requires significant liquidity for purchasing raw materials and careful management of inventory turnover. • Good reputation: the old company had employees with excellent know-how and a reputation for quality products. • Difficulties: - bureaucratic delays in receiving the advance on unemployment benefits; - a long and arduous acquisition process (3 years); and - access to credit.	• Expertise: In addition to strong know-how derived from extensive experience in the sector, the workers undertook versatile and multitasking training under the previous ownership (a large multinational). • The WBO involved the acquisition and fitting out of of a new facility. • Difficulties: Access to credit.
Financial implications of the WBO	Greslab maintained a low level of indebtedness in its early years (high indebtedness was a problem for the old ownership). This was made possible by the funding received as equity capital from CFI, Coopfond and the three private companies.	• Credit lines granted by Banca Etica and the Cooperative financial intermediary structure (CCFS) played a crucial role in supporting working capital at the start of activities. • A significant net worth of EUR 3.5 million, of which EUR 1.8 million was capital and EUR 0.6 million reserves, contributed to covering working capital together with consolidated liabilities (EUR 2.8 million) and obtaining necessary bank facilities in the form of invoice discounting lines.	• With the construction of a new plant, the WBO operation needed substantial initial investment. • Resources were gathered partially through equity capital (with the help of CFI, the local community and entrepreneurial networks) and partly through loans.
Debt and collateral requirements	• Invitalia SpA – National Agency for Investment Attraction and Business Development bond loan: EUR 750 000. • CFI loan: EUR 500 000 (subordinate loan) + EUR 500 000 (debt financing). • Coopfond loan: EUR 250 000 (debt financing). • Banca Etica – Unipol loan: EUR 2 million. • CCFS and Cooperfidi (guarantee).	• Invitalia SpA.: EUR 1.5 million (EUR 500 000 of non-repayable grant and EUR 1 million in subsidised financing). • Banca Etica: EUR 1 million (credit line for invoice advances). • CFI: EUR 350 000 (subordinate loan) + EUR 800 000 (debt financing) + EUR 1 million (subsidised financing). • Coopfond: EUR 1 075 000 (debt financing). • CCFS: EUR 250 000 (credit line for invoice advances).	• CFI: EUR 150 000 (loan) + EUR 140 000 (subsidised financing). • Coopfond: EUR 300 000. • Credito alla Cooperazione: EUR 500 000 (loan). • Banca Etica: EUR 200 000 (loan). • Unicredit: EUR 600 000 (loan). • BCC Antonello da Messina: EUR 150 000 (loan).

	Company 1 Greslab	Company 2 WBO Italcables	Company 3 Birrificio Messina
Capital structure of the company / Liabilities	• In the beginning, capital amounted to EUR 1.6 million, divided into 64 720 shares with a nominal value of EUR 25 euros. EUR 418 000 came from 31 worker members (arising from the advance payment of unemployment benefits due to the employees), EUR 300 000 from Coopfond, EUR 300 000 from CFI, and EUR 600 000 from the three private companies. • As of December 31, 2022, the subscribed share capital amounted to EUR 1.9 million, and was distributed as follows: - financial members: 3 members with a share capital of EUR 957 443; - worker members: 46 worker members with a share capital of EUR 1 million.	• In the beginning, capital amounted to EUR 1.8 million. EUR 1.2 million of this came from 50 working members (arising from the advance payment of their unemployment benefits), EUR 300 000 came from Coopfond, and EUR 300 000 from CFI. • As of December 31, 2022, the cooperative capital amounted to EUR 1 862 900 and was distributed as follows: - worker members: EUR 1.2 million; - financial members (CFI – COOPFOND): EUR 681 000.	• In the beginning, capital amounted to EUR 1.2 million. EUR 650 000 of this came from m15 working members (EUR 356 000 from unemployment benefits and EUR 300 000 from severance pay), EUR 150 000 came from CFI, and EUR 350 000 from other financiers (Fondazione Comunità di Messina and two local entrepreneurs). • As of December 31, 2022, the capital amounted to EUR 1.8 million, divided as follows: - EUR 320 250 held by working members; - EUR 1.5 million held by financial members. EUR 554 675 was held by working members. The rest was distributed among financial members, CFI, Fondazione Comunità di Messina, and Sefea Impact. Specifically, The majority of this was held by Sefea Impact (an ethical financial institution) with a share capital of EUR 750 000.
Transaction costs	• Initial costs: Machinery rental contract at a cost of EUR 50 000 per year and the rental of the facility for EUR 250 000 per year (then increased to EUR 350 000). • Later, the cooperative acquired the entire production branch for EUR 450 000 and the production facility (purchased through leasing) for EUR 2 250 000.	The acquisition of the business branch was finalised in 2015, through: the payment of a security deposit of EUR 250 000 at the time of the contract, the payment of an annual rent of EUR 150 000 for 3 years, and the completion of the purchase in 2018 for a total of EUR 3.8 million, net of rent paid and the security deposit.	The acquisition involved two industrial buildings, leased at an annual rate of EUR 40 000, with a purchase option at EUR 810 000. There were also maintenance costs amounting to EUR 115 000 and machinery investments of EUR 2 700 000.
Other non-financial support	Technical assistance: Legacoop/ Coopfond and CFI	Technical assistance: Legacoop/ Coopfond and CFI	Technical assistance: CFI and the local community

	Company 1 Greslab	Company 2 WBO Italcables	Company 3 Birrificio Messina
Role of additional funding	Coopfond has invested EUR 1.1 million as equity capital participation in the new cooperative and EUR 250 000 in loans. Coopfond played a key role in managing union negotiations and provided technical assistance during the design phase.	• Coopfond has invested EUR 500 000 as equity capital participation in the new cooperative and EUR 1 075 000 as a loan. • CCFS also guaranteed a credit line of EUR 250 000 for invoice advances since the cooperative's establishment.	• Coopfond provided EUR 300 000 of financing. • Ircac | Istituto Regionale per il Credito alla Cooperazione provided a loan of EUR 500 000. • Other financiers have also contributed to the cooperative's share capital with the following amounts: EUR 60 000 from Fondazione Comunità di Messina, EUR 275 000 from two local entrepreneurs, and EUR 750 000 from Sofea Impact.
Private funding	• Coopfond: EUR 250 000 (debt financing) and EUR 1.1 million (equity capital participation). • Banca Etica – Unipol loan: EUR 2 million. • CCFS and Cooperfidi (guarantee).	Initially, only Banca Etica intervened with a loan of EUR 500 000 and a credit line for invoice advances of EUR 1 million. Subsequently, local banks opened credit lines for invoice advances. Currently, the cooperative also engages with financial operators operating nationally.	• Banca Etica: - EUR 200 000 (loan). • Unicredit: - EUR 600 000 (loan). • BCC Antonello da Messina: - EUR 150 000 (loan).
Public (national) funding	• CFI EUR 300 000 of capital participation, EUR 500 000 of subordinate loan, and EUR 500 000 of loan EUR. • Invitalia SpA bond loan: EUR 750 000.	• CFI: EUR 300 000 of capital participation, EUR 350 000 of subordinate loan, and EUR 800 000 of debt financing and EUR 1 million of subsidised financing. • Invitalia SpA: EUR 1.5 million (EUR 500 000 in the form of a non-repayable grant and EUR 1 million in subsidised financing).	CFI: EUR 150 000 of capital participation, EUR 150 000 loan and EUR 140 000 of subsidised financing
EU funding	None	None	Birrificio Messina has been a partner in a Life-Restart project, 'Reuse of bEer SpenT grAin foR bioplasTics', co-funded by the EU

	Company 1 Greslab	Company 2 WBO Italcables	Company 3 Birrificio Messina
Impact of the WBO (market changes, financial situation, number of workers, etc.)	• The entrepreneurial strategy implemented by Greslab has focused on discontinuity with the old ownership, centralising production solely on 'third-party' manufacturing of specific tile formats, even in very small batches, for a clientele of companies mostly located in the industrial district. • In the last 10 years, the production volume and value added have more than doubled. • Total employment increased from 50 to 81 between 2012 and 2022. • In 2011, the share of capital held by financial members was approximately 70%, but by 2022, it had decreased to 47%.	• The new strategy focuses on mitigating the impact of raw material price fluctuations, in light of the financial crisis of the previous management (reduced inventory turnover cycle). This approach allowed selling prices to be adjusted based on raw material purchase costs. • Cumulative growth in production and added value has been consistent from the beginning, with production value doubling since 2016. • Despite a stable number of employees, there has been a continuous increase in personnel costs, indicating that positive outcomes are rewarding the efforts of the workers.	• The cooperative focused its production on craft beer, which was experiencing a strong demand trend, initially targeting the local market. • The cooperative has entered into a commercial agreement with the Heineken Group. The latter has guaranteed the cooperative the purchase of a significant quantity of beer produced under the Birra Messina brand and the distribution of the beer through its own channels. • Significant growth both in terms of production and added value over the years. • The workforce has increased from 15 employees in 2016 to 25.
Lessons learned	• Coopfond's technical assistance was crucial (negotiation, business plan, identification of financial instruments). • Several financial instruments used in a complementary way. • Being located within the historic ceramic industrial district was a key factor. • The lack of commercial/marketing. skills and experience within the new governance exposed the cooperative to significant risks. • Cooperatives that emerge from a previous failure soon face the need to renovate their production facilities. However, they encounter reluctance from banks. Cooperative guarantee and credit consortiums in the Italian cooperative system, along with financing provided by cooperative mutual funds, played a decisive role.	• This case has shown how WBOs can be successfully applied even in the heavy industry sector. • The delays in receiving the advance unemployment benefits nearly halted the submission of the purchase offer. • A slow acquisition process (nearly 3 years), with production at a standstill, can compromise the restart. • Difficulty in accessing credit outside the traditional cooperative channels.	• Community involvement can be a determining factor in the success of a WBO. • Media attention can encourage not only institutional actors but also major commercial entities to participate in the project. • Professional skills and expertise developed by the members during their years of work within a large commercial group like Heineken, which provided them with flexible and multitasking training, proved to be a decisive factor.

Source: Author, based on company interviews.

3.4 Slovenia

3.4.1 WBO in Slovenia

Slovenia has a **lack of institutional support** for WBOs compared to other countries, resulting in a scarcity of such initiatives. A discernible market gap in funding of employee buyouts exists, fuelled by the ownership succession challenge, where limited tools are available to address this issue. On the supply side, advocacy and institutional backing for WBOs in Slovenia is minimal, partly influenced by historical negative sentiments surrounding self-management. Presently only one law, centred on profit sharing, facilitates an ESPP for public corporations, with limited adoption (only one company is using the law as a tool for WBOs). In July 2024, the Slovenian government approved the draft of its anticipated ESOP legislation.

The ideal target companies for WBOs are SMEs with higher added value, but there are no real limitations. WBOs have been carried out by companies of varying sizes across different industries, and the legal form of the company is not considered relevant. While WBOs remain rare in Slovenia due to lack of advocacy and institutional support, the **most common reasons for their occurrence have been saving jobs, addressing the ownership succession challenge, protecting the company against a hostile takeover, and rewarding or motivating workers**. There have been several attempts to save failing businesses through WBOs, however, most have failed, for various reasons such as long processes, lack of institutional support, or financial difficulties.

Succession planning in SMEs presents the most significant opportunity to develop WBOs in Slovenia. The SME sector is crucial to the Slovenian economy, employing over 70% of all workers in the private markets and generating 65% of all revenue in the economy. Studies show that there are very few options available to retiring owners in Slovenia today, while the chambers of commerce and small business estimate that family succession is relevant in less than 10% of all succession cases. Based on the available studies and stakeholder interviews, 55% of business owners are retiring in the next 10 years with 75% of them not having a succession plan. In the SME sector, this makes the future uncertain for almost 5 000 closely held firms, which provide hundreds of thousands of jobs and are crucial for economic stability of local communities. At this point (prior to legislative support and systemic advocacy), 25% of business owners evaluate employee buyouts as an appropriate exit plan.

Upon an in-depth analysis of international WBO practices and extensive consultations with stakeholders, it is clear that WBOs present a highly effective and socially responsible mechanism for addressing succession challenges. However, it is imperative to establish and uphold specific institutional conditions to facilitate the realisation of this objective.

In recent years, the IED[92] (Institute for Economic Democracy) in Slovenia has taken a prominent role in systematically promoting WBOs to address the ownership succession challenge, aiming to preserve jobs, foster resilient businesses, anchor capital locally, and drive inclusive growth. The IED introduced the **European ESOP model**[93] to Europe and implemented the proof of concept in the Slovenian context. During 2022 and 2023, the IED facilitated the restructuring of three businesses to enable them to become ESOP-owned. The most notable case is Inea d.o.o., a company with 120 employees, which adopted ESOP to address the succession problem. IED actively participated in shaping Slovenian ESOP legislation, incorporating features such as tax incentives and regulatory measures to create a conducive environment for WBOs. This legislative framework aims to encourage the growth of WBOs, addressing both the demand and supply challenges in Slovenia.

92 More information available at: Institute for Economic Democracy | Homepage.

93 Ellerman, D., Gonza, T. & Berkopec, G. (2022), 'European Employee Stock Ownership Plan (ESOP): the main structural features and pilot implementation in Slovenia', Springer, Vol. 2, No 186. Accessed on 20 September, 2023, available at: https://link.springer.com/article/10.1007/s43546-022-00363-7.

The study identified non-financial and financial opportunities to facilitate demand for WBOs and close the market gap:

- Legislative support plays an important role in providing fiscal incentives (tax incentives for selling owners and for financing the WBO) and building regulatory stability (providing a clear definition and accompanying legislation as to what constitutes a WBO will be important, and there may be a role for tax clawback if the WBO is used to financially benefit one group of stakeholders).
- Technical services are an important element in facilitating WBOs. Conventional legal, financial, and organisational expertise is not familiar with the concept of WBOs, so they are never really considered to be relevant solutions to practical problems (e.g. the succession challenge). The collaboration between IED and Inea, and the support by IED in financing the WBO RBT Technologies by the Regional Bank of Slovenia exemplifies the role of technical expertise in facilitating the WBO process.
- Engaging in advocacy activities should encourage more widespread use of WBOs in Slovenia, since there is a low level of awareness among stakeholders. Establishing organisations to share knowledge and implement systematic advocacy strategies, especially in collaboration with banks and other supportive institutions, can positively influence attitudes towards WBOs.
- There are barely any dedicated instruments to facilitate WBOs. Commercial banks have strict guidelines and limited interest in financing WBOs due to previous unsuccessful managerial takeovers and regulatory constraints. The Slovenian Development Bank (SID Bank) explicitly prohibits financing leveraged buyouts, posing a barrier to WBO funding, although there is interest in establishing dedicated financial instruments for WBOs. However, advisory support from European Commission services, EIB Group, other IFIs and national financial regulators, such as the Bank of Slovenia, could be instrumental.
- Participants in the capital market generally require conditions for financing WBOs similar to other credit demands, involving factors such as loan-to-value ratios, collateral, and assessments of a company's ability to repay based on its past performance and future business plans. Commercial banks, integral to the capital market, often impose stringent limitations, making it difficult for businesses with high financial leverage to secure loans. Additionally, while there are few technical assistance firms in Slovenia that offer comprehensive support for company acquisitions, there is less expertise in corporate finance tailored to scenarios where employees seek to buy a stake in the company. Specific financial products and the expertise to comprehensively support WBOs have yet to be developed, suggesting there is potential for adjustment in response to the increased demand for WBO-related services.

In Slovenia, the absence of a supportive infrastructure has left the potential use and socio-economic benefits of WBOs largely hypothetical. Most stakeholders emphasise the view that the demand for WBOs could grow substantially if support structures were in place (both financial and non-financial support). The greatest opportunity would be in addressing the succession challenge, which could open up significant markets for WBOs. Although support for WBOs has been underdeveloped since de-nationalisation in the 1990s, the IED has played a vital role since 2018 in reviving the field, advocating for the practical and social use of WBOs, and providing technical assistance.

3.4.2 Potential use of ESF+ and other EU-level funding: practical hints

The use of ESF+ financial instruments in Slovenia is currently constrained by a lack of institutional expertise. ESF+ support has mainly been limited to tackling exclusions and obstacles in the Slovenian labour market, rather than supporting WBOs.

In terms of EU support, new financial instruments could be introduced as part of ESF+ in the form of credit lines and customised loans, and tailored to the specific needs of WBOs, These would ease financing constraints.

ESF+ could also establish risk mitigation measures such as loan guarantees or specialised funds to alleviate the concerns of private financial institutions when financing WBOs.

National managing authorities require assistance/technical assistance in developing WBO financing instruments under ESF+ due to their complexity, a lack of expertise, and perceived low demand. Policy dialogue and collaboration on WBOs between the Commission, EIB Group and the Slovenian government could substantially increase the know-how of the managing authorities.

Additionally, there is scope for WBOs to be included in the policy agenda as part of the Partnership Agreement for Cohesion Policy funding in the years 2021-2027, which includes EUR 769 million of ESF+ funding for social inclusion, employment, education, and training.

3.4.3 Company case studies

The four case studies have been selected as representative of the Slovenian context. Their diversity showcases the particularities and potentials of the WBO phenomenon in Slovenia.

Company 1 - Inea

Inea d.o.o., established in 1987, operates in industrial automation, process control, manufacturing intelligence, and industrial energy management, employing approximately 120 people. Over the past 8 years, it has evolved from a service-oriented company into a major manufacturer of automation equipment, exporting 90% of its services and products and consistently ranking among the 100 largest Slovenian exporters. In 2023, Inea initiated a WBO to address an ownership succession challenge. With the help of IED, Inea d.o.o. became a 100% employee-owned company through a Slovenian ESOP model. Inea was the first, and is currently the largest company to adopt this model in its pilot phase of implementation in Europe.

Source: Author, based on an interview with a representative from Inea.

Company 2 - RBT Technologies

Founded in 2011, RBT Technologies is a company based in Ljubljana, which employs 10 people. It focuses on the sale and distribution of automation equipment from leading global manufacturers such as Mitsubishi Electric, HMS Networks, and KEPWARE. In addition to offering a range of automation equipment and digitalisation software solutions, RBT Technologies provides technical support, conducts training sessions, and presents innovations in the field of automation. RBT Technologies is owned by employees directly (employee shareholding) but initiated a leveraged buyout through the Slovenian ESOP model in 2023, with an initial 10% share transferred to this model. The plan is to increase the ESOP share to 100%.

Source: Author, based on an interview with a representative from RBT Technologies.

Company 3 - Domel

The Domel Group, organised as a holding company for an electric motor manufacturer since a WBO process nearly 30 years ago, consists of Domel Holding d.d. and Domel d.o.o., the latter being the largest and most significant company within the holding in terms of production, turnover, and revenue. Domel d.o.o. handles all operational aspects, including production, development, technology, and quality assurance, while Domel Holding oversees services such as marketing, sales, procurement, accounting, HR, and IT. Domel d.o.o. is further organised into seven business units focusing on specific market niches. The holding also includes a welding company, two production companies in other countries (in Serbia and China), and Domel USA, a sales office in the USA. With just under 1 500 employees in Slovenia, Domel Holding is collectively owned by active, former, and retired employees, boasting approximately 620 owners, including 300 active employees and 320 former employees.

Source: Author, based on an interview with a representative from Domel.

Company 4 - Etiketa

Founded in 1960 as a ribbon factory, Etiketa tiskarna d.d. transitioned to printing on textiles and various materials over the years. With a focus on graphics, screen printing, and textile programmes, it adapted to market demands and introduced modern hardware to thrive in competitive markets. Today, Etiketa has around 200 employees. The company, adhering to ISO standards for quality, environmental protection, and health, exports to 26 countries and collaborates with global retail chains like Marks & Spencer, H&M, and sports giants such as Nike and Adidas. Facing challenges from globalisation and technological innovations, Etiketa has successfully navigated transitions by prioritising quality, quick responses to market trends, and efficient planning. Operating as a family business, the company, deeply rooted in the local community, initiated a WBO to maintain ownership locally. Etiketa created a direct shareholding model, which functioned for around 10 years, until a large part of the workforce retired. By 2023, more than half of the shares were held by shareholders external to the company, and less than half of the workers are shareholders. Etiketa is in the process of implementing the Slovenian ESOP model, which should help with the ongoing situation and ensure long-term sustainability of employee ownership.

Source: Author, based on an interview with Etiketa.

Table 4 gives an overview of the main characteristics of the case studies. It shows the rationale, context and financial implications of the four WBOs.

Table 4: Slovenia company case studies' summary.

	Company 1 INEA	Company 2 RBT TECHNOLOGIES	Company 3 DOMEL	Company 4 ETIKETA
Reasons for WBO – needs and preconditions	• The first generation of employee-owners was retiring – the WBO was addressing the succession challenge. • Half of the selling owners wanted a quick and market-comparable exit. In the absence of dedicated financial instruments to support WBO, this presented a huge liquidity constraint on the operating company. The other half of the selling owners agreed to a gradual buyout (seller's credit). • IED provided a feasibility study for WBO in 2020.	• RBT Technologies addressed the succession problem and established a motivational structure through the WBO. • IED provided a feasibility study for ESOP WBO in 2022. • The seller supported the idea of a leveraged WBO and agreed to a seller's credit option, so the main requirement has been a contractual financing agreement by RBT Technologies.	• Domel facilitated the WBO as a strategy against a hostile takeover attempt by a competitor. • The WBO was facilitated with the financial help of another Slovenian company named Kolektor. • Workers participated within their own capacities through personal loans and share purchases.	During privatisation in the 1990s, shares in Etiketa were put on the market. The management at the time was concerned that the company would be taken over by larger competitors, so they organised a WBO.
WBO description	• decided on the Slovenian ESOP model as the most appropriate and sustainable model for a WBO. Inea is currently the largest ESOP buyout in Europe and one of the first examples of the transfer of the ESOP model from the USA and UK. • Owners and employees A special legal entity has been established (a cooperative), through which a leveraged WBO was facilitated. The WBO is a fully leveraged buyout, where the profits of Inea are used to finance the acquisition debt. For the sellers that wanted to be paid out immediately, cash reserves were used.	• RBT Technologies facilitated two separate processes of a WBO – an ESPP and the ESOP WBO. • Within the ESPP model, 8 out of 10 employees purchased shares directly by investing their own savings. The ESPP shares constitute a majority share of total ownership, but there are plans to reduce the direct shareholding in favour of collective shareholding through the ESOP vehicle. • Within the ESOP model, all 10 employees became members of the ESOP cooperative, which purchased 10% of shares in the first round of the ESOP purchase.	• The WBO model was conducted through the ESPP scheme, which means that each worker individually purchased shares using their own assets (often by raising personal loans). • Some of the shares have been purchased by the company itself (Domel), which received debt capital from a private company Kolektor, which supported the idea of keeping Domel in the local community of Železniki. • Today, Domel faces a challenge to maintain employee ownership, because employee-shareholders are retiring – shares are leaving the company and are not distributed to new employees.	• During the privatisation era, the shares of Etiketa were owned by the state (50%) and by the workers through privatisation certificates. • There were pressures from investors to buy the shares from the state and employees, but the director wanted an internal employee buyout. Ultimately, shares have been purchased by workers individually. • Today, Etiketa faces succession challenges because employee-shareholders are retiring and keeping shares in retirement. Pressures are coming from external owners to purchase shares from retirees.

	Company 1 INEA	Company 2 RBT TECHNOLOGIES	Company 3 DOMEL	Company 4 ETIKETA
WBO description	• Because cash reserves needed to be used and there were no dedicated financial instruments to support WBO in Slovenia, Inea had challenges maintaining the operating capital for more than a year after a WBO. • In the WBO, all of the workers that have been with the company for more than one year become owners.	• The ESOP WBO process was initiated with a 10% share of the company, and it is intended to increase this to 100%. • Currently, 100% of shares are in the hands of the workers within both the ESOP and the ESPP scheme.	• Around 25% of all employees currently hold about 47% of shares in Domel. • Domel is looking into options to consolidate employee ownership through the ESOP model.	Etiketa's management decided to introduce the ESOP WBO to ensure its succession strategy and protect the company against an external and potentially hostile takeover.
Financial implications of WBO	• The market cap of Inea at the time of the WBO was an estimated EUR 10 million. Precise figures are confidential. • Financing through cash reserves and debt (leveraged buyout).	• The market cap of RBT Technologies at the time of the WBO was an estimated EUR 1 million. Recise figures are confidential. • Financing through personal investment of employees (ESPP WBO model) and through leverage of the company (ESOP WBO model).	• There is no data available on the value of the WBO. • Debt financed WBO – personal loans and a loan to the company.	There is no data available on the value of the WBO.
Debt and collateral requirements	Because the WBO has been financed internally (cash reserves + seller's credit), there were no collateral requirements other than the financing contract between Inea and the special purpose cooperative (ESOP), which acquired shares.	A small cooperative bank provided part of the debt capital as a loan to RBT Technologies. Because of regulatory limitations imposed by the Bank of Slovenia, the loan officially financed the operating capital.	Workers required to provide personal guarantees for their direct purchases, the company provided an asset guarantee for the collective loan.	• There is no data available on collateral requirements. • Most recent developments indicate commercial banks are averse to lending capital for the ESOP buyout, which requires collateral from the Slovenian developmental bank (SID).

	Company 1 INEA	Company 2 RBT TECHNOLOGIES	Company 3 DOMEL	Company 4 ETIKETA
Capital structure of the company / Liabilities	• The ESOP cooperative did not contribute any equity capital, the WBO was a fully leveraged workers' buyout. • Because part of the acquisition needed to be financed through cash reserves (hostile owners' sell-out), the operating capital was threatened. • The liability is in the form of acquisition debt to the second group of owners, which agreed to seller's credit.	• Within the ESPP WBO, workers invested their own personal assets to buy shares directly. • The ESOP WBO model is a fully leveraged WBO, where workers become members of the ESOP cooperative, which is gradually paying off the acquisition debt through an annual ESOP contribution from RBT Technologies through ESOP to the seller (paying off the acquisition debt). • The main liability is the acquisition debt by the ESOP to the seller.	No data available on the distribution of investment by employees and the company – the buyout was shared between employees buying shares directly and the company engaged in stock-buybacks	• No data available on the capital structure and liabilities. • Most of the WBO was financed directly by employees investing personal assets and financed by loans.
Transaction costs	• Transaction costs were related to technical assistance services (legal restructuring, training etc.) – EUR 20 000. • The transaction costs (or better, opportunity costs) were incurred because of the complexities involved and lack of regulatory certainty – the process was unnecessarily lengthy.	• Transaction costs were related to technical assistance services provided (legal restructuring, training etc.) – EUR 10 000. • Transaction costs were also incurred for the bank loan, since the bank could not provide debt for the WBO, only for financing operating capital (higher interest rate, more complex operation).	High transaction costs of the stock-buyback mechanism which was used to consolidate shares in the hands of the current employees – high taxation of stock buybacks	• High transaction costs of the stock-buyback mechanism which was used to consolidate shares in the hands of the current employees – high taxation of stock buybacks. • The ESOP model would reduce the transaction costs but require a significant initial investment (set-up costs) in the proximity of EUR 30 000 to EUR 50 000.
Other financial support	None	None	None	None
Other non-financial support	Technical assistance offered by the IED	Technical assistance offered by the IED	None	• None. • Technical assistance offered by the IED.

	Company 1 INEA	Company 2 RBT TECHNOLOGIES	Company 3 DOMEL	Company 4 ETIKETA
Role of additional funding	There was no additional funding	The commercial loan helped to decrease the required seller's credit, which would otherwise need to cover 100% of financing	The loan provided by a private company saved Domel from the hostile takeover by a competitor from the USA	There was no additional funding
Private funding	There was no additional private funding.	There was no additional private funding	A private company, Kolektor, provided a significant share of debt capital that aided the WBO through personal employee investments	There was no additional private funding
Public (national) funding	There was no public/ national funding	There was no public/ national funding	There was no public/ national funding	There was no public/ national funding
EU funding	There was no EU funding	There was no EU funding	There was no EU funding	There was no EU funding
Impact of the WBO (market changes, financial situation, number of workers, etc.)	• Inea continued on its growth path and employed 10% more workers one year after the WBO. • The tension in the workforce has been calmed after a long and complicated WBO process. Motivation is on the rise. • In the coming years, Inea will work to re-capitalise its operation (capital has been severely reduced because of cash-reserve WBO financing for the hostile group of exiting owners. • Inea has been featured in the media as a pioneer of the ESOP buyout model in Europe.	• In the coming years, a large share of profits will be retained to finance the acquisition debt, which will increase the capital value of the company. • Workers reported increased motivation and support for the company. • It is too soon to estimate the impact of the WBO.	• The WBO ensured the business continued to operate in the community of Železniki (a small municipality in the region), where it has become the largest and most stable employer. • Domel's priority is job stability, so in times of crisis, it practices wage flexibility, where the management is generally taking the highest wage reductions.	• Etiketa is embedded in a rural community and is one of the main employers in the region. • The WBO has led to stable employment in the region with secure incomes.

	Company 1 INEA	Company 2 RBT TECHNOLOGIES	Company 3 DOMEL	Company 4 ETIKETA
Lessons learned	• A regulatory basis is required for financial stakeholders to consider financing the WBO. • Dedicated financial instruments are crucial in an ESOP WBO to ensure continuity of operations for the underlying business. • Technical assistance proved essential in supporting stakeholders in the facilitation of the WBO. In addition to legal and financial support, it is very important to include broad-based training programmes for exiting owners, managers, and employees.	• A regulatory basis is required for financial stakeholders to consider financing the WBO. • Dedicated financial instruments are crucial in an ESOP WBO to ensure continuity of operations for the underlying business. • Technical assistance proved essential in supporting stakeholders in the facilitation of the WBO. In addition to legal and financial support, it is very important to include broad-based training programmes for exiting owners, managers, and employees.	• The Domel case shows how a WBO can be used to protect local jobs and the economic stability of communities from acquisitions by larger competitors. • In the case of Domel, financial support from a private company was instrumental in facilitating the WBO. Systemic solutions to debt financing of WBOs are needed to ensure that other companies could use this model in the same way. • The Domel experience shows the inherent instability of the direct shareholding WBO model, where workers are participating in buying shares directly rather than through an intermediary vehicle. The succession challenge is a major problem and can be resolved through the ESOP model. Domel's leadership says that regulatory certainty and a dedicated financial instrument would be instrumental in doing so.	• Etiketa faces great challenges because employee owners are retiring and taking shares outside of the company. The lesson from this example is that it is important to facilitate WBOs through sustainable structures, which often requires regulatory and expert guidance. • The current leadership is tackling the challenge by choosing the ESOP model. The main challenge for consolidation is ensuring financing that would distribute liquidity constraint on the company over a longer period (10-15 years).

Source: Author, based on company interviews.

04

Final conclusions and recommendations

The previous chapters of this study have introduced the framework in which WBOs take place in Europe. This emerging phenomenon is expected to experience continued growth in the future, primarily driven by occurrences such as bankruptcy and insolvency or business succession due to an owner's retirement. WBOs represent a key solution for job preservation in these circumstances. Against this backdrop, this study aimed to analyse the European situation and propose potential solutions through the use of ESF+ financial instruments or other EU funds to support WBOs.

This final chapter aims to present a detailed cross-country analysis of the featured country case studies, namely **France, Italy, Spain and Slovenia**. This transversal analysis allowed us to draw conclusions from which the recommendations are derived. The structure of this chapter aligns with the country case studies, starting with an examination of the needs and preconditions in all four countries. Secondly, there is a detailed analysis of the financial implications and structures of WBO transactions, involving different actors in each country and their roles. This section summarises the potential use of ESF+ financial instruments and other EU resources in the four countries and highlights the differences between them. Finally, the chapter concludes with a section presenting all the conclusions and recommendations for future steps.

4.1 Needs and pre-conditions

4.1.1 Quantifying WBOs

In all four countries, a common pattern is the lack of official statistical data on the number of WBOs per year, their motivation (bankruptcy, insolvency, succession planning), their origin (traditional businesses, non-profit associations), their size in terms of cash and equity investment or debt financing, etc. National statistical offices do not report on this, neither do the commercial registers in the four countries. In **Spain**, **Italy** and **France**, the only robust estimations come from the national associations of cooperatives that annually monitor the number of WBOs supported by the association through technical assistance and financial intermediaries (involving a financial instrument). The lack of data does not help to capture the trends and their evolution over the years.

The available estimations for **France**, **Spain** and **Italy** show that the market for WBOs is still relatively niche. In **France** and **Spain**, the national associations of cooperatives report an average of 100 WBOs per year benefiting from the support of a financial instrument. These are buyouts of a traditional business or a non-profit association. In **Italy**, the number is smaller, with 162 financing operations approved by CFI in 92 WBO deals from 2011 to 2022. In **Slovenia**, only three WBOs were reported.

However, these figures probably underestimate the phenomenon as they are based solely on the mapping work carried out by national associations of cooperatives. Particularly in **Italy**, this work relies on cooperative transactions that go through the institutional circuit (CFI-Foncooper) or cooperative financing channels (mutual funds, Banca Etica), and may not necessarily capture all transactions. Indeed, there may be an acquisition of a business by workers not in cooperative form, and therefore outside of these channels, and of which, therefore, we are not aware.

Secondly, the number of WBOs reported depends on existing structures and an enabling environment supportive to WBO, including the awareness of business owners and workers. In **Spain**, for instance, the number of WBOs reported is less in regions where technical assistance and financial support from the regional ecosystem is less developed. In all four countries, there is a lack of awareness of the use of WBOs as an alternative route for a business takeover. This includes those countries where national associations of cooperatives are active and provide both technical assistance and financial instruments for cooperatives.

Thirdly, stakeholders involved in WBO transactions expect an increasing number of WBOs in the next decade due to the ageing population of business owners in Europe who will have to plan their succession. For instance, in **Slovenia**, 25% of SME owners are expected to retire in the next five years. In **France**, in 2020, 25% of founders and managers were over 60 and 11% over 66. Furthermore, over the next 10 years an estimated 250 000 (according to the Ministry of the Economy, Finance and Industrial and Digital Sovereignty of France, Directorate of Economy) to 700 000 (according to the French Federation of Chambers of Commerce) businesses should be sold.

Table 5: Data on the number of WBOs benefiting from advisory services and/or a financial instrument.

FR	SI	ES	IT
• CGSCOP reports that approximately 100 WBOs per year benefit from support (advisory service and/or financial instruments) out of 15 000 companies sold to employees. There are an estimated 68 000 business transfers per year in total. • In 2020, 25% of founders and managers were over 60 and 11% over 66. • Survival rate: +/- 76% in the last 5 years vs 61% in a normal case (CGSCOP).	• In 2022, 3 WBOs were implemented through the Slovenian ESOP model (largest company 100 employees, smallest company 10 employees). • 25% of SME owners retiring in the next 5 years, very few have a succession plan. • Survival rate: Due to the lack of statistical research and evidence on WBOs in Slovenia, there is no data on survival rates. However, the existing EOBs are known for high-added value, job stability, and good working conditions.	• An estimated 500 WBOs in the last five years, i.e. 100 WBOs per year on average, and mostly in regions where technical assistance and financial support are available. • In 2022. 15% of SME owners were over 60 and 45% over 50. • Survival rate: Depending on region varies from 68% (Valencia) to over 90% (Navarre).	• From 2011 to December 2022, CFI approved 162 financing operations in 92 WBO deals, amounting to an investment of EUR 45.9 million. • According to a 2020 study, some 25% of leaders in family businesses (which represent around 70% of Italian SMEs) are over 70 years old. • Survival rate: 40% of the cooperatives involved in WBOs since the 1980s are still operating today. Survival time is between 15 and 18 years.

Source: Author.

4.1.2 Legal frameworks

Slovenia's WBO legal framework contrasts with that of **France**, **Italy** and **Spain**.

In the latter three countries, there is a well-developed regulatory framework that provides incentives for workers to buyout their company. The legal frameworks set a dedicated legal vehicle to facilitate the company buyout from workers: cooperatives in **France** or **Italy** (Marcora Law), cooperatives and EOBs in **Spain**. In **Italy**, the Marcora Law has established two specific funds for investment by cooperatives (including WBO) and institutional investors. These countries provide tax incentives for business owners transferring a company to its workers (e.g. lower capital gains tax in **France**) and the cooperatives resulting from a WBO (e.g. reduced corporation tax on the profit generated by the cooperative in **France**, **Spain**, or **Italy**). They also facilitate the WBO from the workers' perspective. In **France**, according to the Law on Social Economy, "Business owners are obliged to inform employees of their intention to sell no later than two months before the sale, to enable them to submit a purchase offer." In **France**, **Italy** and **Spain**, in the case of an insolvency or bankruptcy of the company, workers willing to invest into the cooperative can receive their unemployment benefits in advance, which can subsequently be converted into capital for cooperatives.

In **Slovenia**, there is no legislation supporting WBOs. All attempts at cooperative conversions have so far failed due to the lack of regulatory framework and institutional support. The ESPP is the most common approach to building employee ownership, but it has never resulted in a significant WBO where the majority of workers own the business and faces sustainability challenges related to direct employee shareholding. Since, 2022, the Slovenian ESOP model is being tested with the support of the IED. The Law on Employee Ownership Cooperative that is currently in the process of inter-ministerial coordination aims to bring the ESOP model to **Slovenia**. The proposal outlines the specific requirements for a cooperative to become an employee-owned cooperative, granting it favourable tax treatment for purchasing company stocks on behalf of employees who, in turn, become members and indirect owners through the cooperative. The model ensures shares remain with the current generation of employees, addressing the issue of succession, while also defining a mechanism to recover taxes if the cooperative sells shares outside its established structure.

The ESOP model establishes a systematic approach to managing employee turnover by gradually vesting ESOP shares to new employees while simultaneously purchasing ESOP shares from departing employees. It defines the criteria for entering the programme, the ownership and governance rights, and the exit procedures. Individual employee owners are prohibited from independently transferring, trading, or selling their ESOP shares, and the decision to exit can only be made collectively through a consensus.

Table 6: Legal framework characteristics per country.

FR	SI	ES	IT
• The legal framework is relatively well developed with tax incentives and labour regulations that offer flexibility for employees operating a WBO. • WBO happens mostly through: - Cooperatives (SARL, SA, SAS): SCOP and SCIC.	• Poorly developed with regards to cooperatives with a lack of incentives and enabling infrastructure. • WBO happens mostly through: - ESPP; - Slovenian ESOP-legislation not yet approved, but Slovenian Employee Stock Ownership under discussion.	• Legal framework is relatively well developed, but complex in terms of the cooperative regime (17 regional laws + 1 national law). • WBO happens mostly through: - EOB; - Cooperatives.	• The legal framework is relatively well developed. • WBO happens mostly through: - Cooperatives: (Marcora Law).

FR	SI	ES	IT
Incentives: *Labour law* • Employees interested in starting or taking over a business can temporarily leave their current job to focus on their new venture, either through dedicated leave or part-time work for business setup. • If the employee starts or takes over a business, they can also benefit from the non-enforceability of the exclusivity clause during the first year of activity. • Workers are permitted to receive their unemployment benefits in advance to be converted into a cooperative capital WBO through the creation of a cooperative under French law. • The cooperative will deduct from the taxable result of the company the share of the profit distributed to employees (25%), reducing the amount of corporation tax paid by the company. • Reduction or exoneration of tax on capital gains proportionate to the number of years the share capital of the business is held until it is transferred for the vendor. *Law on Social Economy:* • Right to be informed of the owner's intention to sell no later than two months before the sale, to enable employees to submit a purchase offer.	**Incentives:** Some incentives for public corporations within the ESPP framework - a corporation can share most 20% of the total profits in any financial year but not more than 10% of total labour costs paid during that year to employees, tax free, and where no individual employee can receive more than EUR 5 000 per year. The profits can be used to buy shares in publicly traded corporations.	**Incentives:** • Cooperative laws. *Some regions provide investment incentives:* • Valencia Region, Navarre, and Castilla León: incentives for productive investments in cooperatives and EOBs (covering up to 50% of the cost of the acquired assets). • The region of Murcia offers cooperatives and EOBs a grant amounting to 25% of each of their worker members' contributions to capital, up to a limit of EUR 4 000 per member and EUR 24 000 per cooperative or EOB in any given year. *National framework:* • Grants for cooperatives and EOBs covering up to 4% interest rates of credits destined to finance productive investment in social enterprises. *Insolvency law:* • In the case of a company being auctioned due to bankruptcy, the judge may preferentially award ownership to workers interested in a buyout of the company to set up a cooperative or an EOB, provided that their offer is no more than 15% lower than that of the highest bidder. *Law on Social Economy:* • Possibility for workers to receive unemployment benefits in advance, to be converted into cooperative capital in the case of bankruptcy.	**Incentives:** • WBO law: - possibility of workers receiving their unemployment benefits in advance to be converted into cooperative capital; - tax exemption on capitalised unemployment benefits; - possibility for workers to convert their accumulated severance pay into cooperative capital; - tax exemption on capitalised severance pay. • Cooperative laws: - mutual funds can provide debt capital at subsidised rates and participate in risk capital of existing or startup Italian cooperatives, including WBOs; - the share of profit distributed to worker cooperative members in the form of a rebate is entirely deductible; - the portions of profit allocated to undivided reserves do not contribute to the income of cooperatives.

Source: Author.

The way shares are divided among shareholders, the quotas related to shares and their impact on voting rights and on the company all depend on the legal form of businesses in a WBO. The structure of the businesses tends to be similar, whereby a group of employees with previous management roles chooses to work together and manage the business. However, there is no common rule across businesses or countries.

Figure 3: Cooperative governance and rights per country.

France	Slovenia	Spain	Italy
1	2	3	4
• Employees own at least 51% of the share capital and 65% of the voting rights. • One member, one vote. • Profit sharing scheme (25%). • Minimum legal reserve (15%). • Can have external investors (within the limit above). • Board of directors elected by a general assembly of members.	Slovenian ESOP: • Workers are members of a cooperative through which they receive profit, capital appreciation, and governance rights. • Individual capital accounts. • Workers democratically elect representatives at the cooperative level. • Representatives' vote proportionally to the cooperative's share of the company board. ESPPs: • Workers' ownership rights proportional to their individual direct shareholding. • Workers receive the right to profits, capital appreciation, and to participate on the general assembly as individual shareholders.	Cooperatives: • 70% of permanent workers must be members, max. 45% owned by a single member (Labour law not applicable to workers). • One member, one vote. • Variable capital. • 30% to 40% of annual profits to non-distributable reserves. • Profit distribution is not linked to share ownership. • External investors not limited to part of the capital. EBO: • Voting rights and profit distribution according to share ownership. • No minimum reserves. • External investors limited to 49% of capital.	• 'One member, one vote'. • Variable capital. • 30% to 40% of annual profits to non-distributable reserves. • Profit distribution is not linked to share ownership. • Part of the profit can be distributed to members as a rebate. • External investors not limited to part of the capital. • Board of directors elected by a general assembly of members.

Source: Author.

4.1.3 Motivation and rationale for WBOs

The country analysis highlights that, historically, WBOs are most often considered when businesses face a major economic crisis due to internal or external factors and are already in bankruptcy or close to insolvency. In these situations, WBOs are seen as a last resort for saving jobs. This was the main reason for the Marcora law in **Italy**, where the main motivation for a WBO remains an internal crisis, as shown in two of the three Italian company case studies. Furthermore, it can be observed that during the 2008 financial crisis, the number of WBOs increased in **Italy**.

In Spain and France, WBOs are more likely to happen when the business owner retires, i.e. in the context of a succession. In Italy, succession is a growing reason for WBOs but this still applies to only a small number of businesses. In Slovenia, in addition to succession and financial difficulties, protection against a hostile takeover and motivating and rewarding employees are also reasons why WBOs occur.

Figure 4: Motivations and rationales for WBO per country.

France

- WBOs in the form of cooperatives happen when a company has financial difficulties, is close to, or already bankrupt/ insolvent. In these cases, WBOs aim to save jobs.
- Increasingly, also when a company is in good shape to deal with a succession issue of an ageing business owner.

Spain

- Saving jobs – however this motivation is losing ground.
- Retirement/Succession planning is the main motivation – not necessary for SMEs above 50 employees and highly profitable businesses where there are more opportunities for owners to exit with a third investor.

Slovenia

- Succession planning of ageing business owner, legacy.
- Saving jobs when the company has financial difficulties or is insolvent.
- Protecting the company against a hostile takeover.
- Motivation and rewarding the employees.

Italy

- WBOs are mainly driven by a crisis / bankruptcy / insolvency.
- Most of the WBOs in Italy occurred after the 2008 financial crisis.
- WBOs driven by succession issues are still relatively new, but a growing concern.

Source: Author.

4.1.4 Ideal target for WBOs

Ideal target sector

When a WBO takes place as a result of a business crisis, the question of the ideal sector is irrelevant. In such cases, a WBO is considered a last-resort solution, and the cost of acquiring the company is typically very low due to its bankruptcy or insolvency.

When the WBO is driven by the need to secure the continuity of the business, following the transition from the owners or founders and particularly when dealing with a profitable enterprise, certain sectors prove to be more suitable. This distinction arises from the impact that the business's sale price represents in such cases. For example, in low capital-intensive sectors, where there is a limited need for tangible fixed assets, businesses are likely to be more affordable for workers compared to sectors with high capital intensity requiring tangible fixed assets such as buildings and machinery. In addition, it has been observed that WBOs are easier to conduct for businesses in knowledge-intensive sectors because employees tend to have higher salaries, meaning that it is easier to collect sufficient cash to invest in the new business (cooperative) and to raise bank debt.

Although there is no ideal target sector, we have observed that WBOs often take place in sectors such as industry (e.g. Inea), B2B services (e.g. Vicaclean), construction (e.g. YOU), and manufacturing (e.g. Greslab). In **Italy**, WBOs in the manufacturing sector are connected to Made in Italy production (e.g. Greslab). Furthermore, in the case of **Spain**, WBOs are common in the education sector (e.g. Mestres de la Creu).

Ideal target companies

The company case studies in **France**, **Slovenia**, **Spain** and **Italy** show that WBOs can take place in businesses with diverse sizes and characteristics. In **France**, the three businesses studied had between 33 and 115 employees before the WBO. Furthermore, the turnover of these businesses varied between EUR 4 million and EUR 8.2 million. In **Italy**, WBOs typically occur in SMEs with a turnover below EUR 100 million. In **Spain**, the companies involved in the case studies were businesses with from 30 to 188 employees and a turnover of between EUR 2.6 million and EUR 25 million. In **Slovenia**, the companies employed between 10 and 85 employees, with a revenue ranging from EUR 3.2 million to EUR 9.8 million respectively.

However, the size of the business does matter, and a WBO is more likely to happen in small and medium-sized enterprises (SMEs). Small businesses are more inclined to a WBO because decision making is easier among smaller groups of employees and the sale price is more affordable for the workers, although they are less likely to attract external investors as their size offers less rewards.

In addition, the connection of the business to the local economic fabric also has an influence. In **Italy**, when businesses are connected to the social fabric, located in local industrial districts, embedded into local business networks, the owners and workers are more committed and therefore more inclined to engage in a WBO. In **Spain**, WBOs are also observed amongst businesses with a connection to the cooperative sector.

Ideal target workers

In principle in WBOs, all workers are welcome and encouraged to invest into the cooperative and to become members of the cooperative.

However, our company case studies show it is easier for workers with higher salaries to invest in the capital of the cooperative. This group of workers is more inclined to engage in a WBO as there is less of a financial barrier. In most of the case studies, we observed that the group of workers leading the WBO process already have managerial positions and high salaries.

In addition, the managerial culture in the pre-existing business also matters. A culture of shared management between owners and managers, transparent and open decision-making processes, distribution of part of the profits to workers based on performance and the strong commitment of workers to the company's values and mission are enabling factors that foster the transition from a traditional business to a cooperative through a WBO transaction. This managerial culture is indeed aligned with the principle of the cooperative model. The participation of staff in the company's management also prepares workers to take and assume managerial responsibilities.

4.2 Financial implications of WBO

In **France**, **Spain** and **Italy**, WBOs are supported by many public and private stakeholders, which provide a relatively large portfolio of financial instruments and advisory services to workers to manage WBO transactions. By contrast, in **Slovenia**, the ecosystem is not as developed with only one actor offering technical support.

Financing a WBO raises specific issues and challenges. The business takeover results in a cooperative in which the governance model greatly influences the profitability of the company and the return on investment that an investor may expect, as profit distribution is regulated by law and to a large extent benefits the workers. In addition, the company's decision-making is more democratic, more open and transparent, and more complex. Finally, in a WBO process, the workers become managers of a company without necessarily having a managerial background or pre-existing management skills. All these factors increase the perception of the risk from a traditional investor perspective (banks, equity fund managers) with regards to the financing of WBOs, thereby making WBO a low-attraction investment for traditional investors.

This is one of the main reasons why in **France**, **Spain** and **Italy** the cooperative movement has developed its own ecosystem of financial instruments and advisory services to support the cooperative sector in general, including WBO, and to substitute (to a certain extent) traditional investors. However, differences between the three countries can be observed. In Italy, the main financial support comes from the public institutions and funds developed in the framework of the Marcora law, which is combined to a minimal extent with financial instruments operated by the cooperative movement. **France** and **Spain** are in a different situation, with the main financial instruments provided by the cooperative movement (private funding), which relies on membership fees paid annually by cooperatives. Public support mainly comes in the form of grants at the regional level. In all three countries, the banking sector (mainly credit unions) offers loans to workers or cooperatives. In **Slovenia**, financial support to WBOs in the form of financial instruments or grants is non-existent.

The type of financial support available in **France**, **Spain** and **Italy** tends to be similar and includes loans, grants in some regions, guarantees and equity. WBOs are financed in the same way as other operations, risk is measured by the type of business, its financial situation and performance. The available financial instruments enable actions on different levels, contributions to the company's capital, the raising of debt, and risk coverage. Moreover, the different financial instruments available tend to be complementary, which is key to covering WBO operations.

Table 7: Actors and financial instruments supporting WBOs per country.

	FR	SI	ES	IT
Debt	• Public. • Loans to cooperatives (Bpifrance). • Private. • Bank loans to cooperatives (Crédit Coopératif). • Equity loans to cooperatives (SOCODEN, France Active).	• Public. • No financial instruments. • Private. • No financial instruments.	• Public. • No financial instruments. • Private. • Bank loans to workers (credit unions). • Loans to cooperatives (Cooperative movement).	• Public. • Equity loans to cooperatives (CFI). • Loans to cooperatives (some regions). • Bond loans to cooperatives (Invitalia). • Private. • Loans (Cooperative banks).
Guarantees	• Public. • Guarantees for France Active's equity loans and commercial bank loans (Bpifrance). • Guarantees for the equity loan lenders such as France Active and SOCODEN (EIF, 2014-2020 EaSI guarantee). • Private. • Guarantees for commercial bank loans (SOFISCOP).	• Public. • No financial instruments. • Private. • No financial instruments.	• Public. • Guarantees for ethical finance and credit union loans, as well as cooperatives (some regions, mutual guarantee funds). • Guarantees for Coop57 (EIF, 2014-2020 EaSI guarantee). • Private. • Not available.	• Public. • Guarantees for the cooperative movement, CFI (EIF, 2014-2020 EaSI guarantee). • Private. • Guarantees to commercial bank loans (Cooperative guarantee consortiums).
Equity capital	• Public. • Grants to cooperatives (some regions). • Private. • Equity securities (SCOPINVEST) to cooperatives.	• Public. • No financial instruments. • Private. • No financial instruments.	• Public. • Grants to workers and cooperatives (differing by region). • Private. • Equity to cooperatives (Cooperative movement funds).	• Public. • No financial instruments • Private. • Equity to cooperatives (Cooperative associations, cooperative enterprises, foundations).
Technical assistance	CGSCOP and its regional branches; URSCOP	IED	Regional associations of cooperatives	• CFI. • Cooperative associations.

Source: Author.

4.2.1 Capital structure of the company

Businesses undergoing a WBO tend to face similar challenges, the main challenge being the difficulty for the workers of raising the capital to buy the company. In general, the capital structure is relatively similar in **Spain**, **Italy** and **France**, even if there are exemptions due to company models and rules. Indeed, there is strong support from regional government and the cooperative movement in the three countries. However, support varies by region.

In **Italy**, there are two important sources for raising the capital needed to acquire the company. The first source is unemployment benefits. In Italy, WBOs are often done to save jobs when a business is in crisis. In those circumstances, workers are allowed to use their temporary unemployment benefits to invest in the WBO by capitalising them. The second source is the financial instruments (equity loans) available to cooperatives through private institutions belonging to the cooperative movement (e.g. cooperative associations and foundations).

In **Spain**, workers raise capital through personal loans granted by the cooperative movement to individual workers. In addition, in one of the companies analysed (Maier Ferroplast Scoop), the workers had the opportunity to contribute to capital by investing part of their salary. The salary deductions allowed workers to contribute to capital without relying on external debt. The final source of capital is regional grants, which are available in some regions and are offered to workers as well as to cooperatives. The eligibility criteria for grants as well as the type of grants and amounts available differ across regions.

In **France**, in WBOs, workers are requested to invest their own savings into the cooperative. Occasionally, workers may take out a personal bank loan to cover this. On the top of individual cash investment, in a limited number of regions, cooperatives may benefit from regional grants that match the cash invested by each individual worker (EUR 1 for EUR 1). However, the number of regions offering grants is limited and has decreased. Finally, a third source of equity investment comes from the cooperative movement financial instrument (SCOPINVEST), which provides equity securities to cooperatives in the form of capital without voting rights. The cooperative can reimburse the equity security after seven years without any prescriptive delay of payment.

Slovenia represents an exception given that the assets of employees represent either 0% (ESOP) or 100% (ESPP) of the total price. In the case of the ESOP model the cooperative buys a certain number of shares, and either sellers agree to be paid gradually, or banks can issue a loan for a certain percentage.

4.2.2 Debt

The level of equity raised by workers in a WBO transaction is a key element to securing debt financing from banks and other types of investors. Debt takes the form of bank loans, equity loans, subordinated loans, and seller's credit. Loans are offered either by credit unions or commercial banks or cooperative movement actors. They benefit from guarantee schemes offered either by the cooperative movements or public actors (Bpifrance – the National Promotional Bank in France, or EIF under, for instance, the 2014-2020 EaSi programme and InvestEU). Guarantee schemes are an important element of WBO financing as they help mitigate the risk that credit unions and commercial banks perceive with regards to WBO financing, leveraging debt finance and reducing the collateral requirements.

More specifically, in **France**, debt is raised through loans and equity loans provided by private institutions including the cooperative movement, (SOCODEN), France Active, and credit unions (mainly Crédit Coopératif), as well as Bpifrance. Equity loans tend to represent 20% to 40% of the total selling price. In addition, France Active is supported by a guarantee from Bpifrance. Loans from credit unions (e.g. Crédit Coopératif) are generally guaranteed by Bpifrance or by SOFISCOP (a guarantee scheme provided by the cooperative movement). The equity loans provided by France Active and SOCODEN are also backed by the EIF under the 2014-2020 EaSI guarantee.

In **Spain**, debt is mainly financed by private actors such as credit unions (e.g. Caixa Popular), as well as the cooperative movement (e.g. Coop57) which provide personal loans to workers involved in WBOs. These loans are covered by guarantees from the Mutual Guarantee Funds, from the cooperative movement as well as from the EIF through the 2014-2020 EaSI guarantee.

In **Italy**, public actors also play a more important role than in other countries with regards to debt financing. Indeed, cooperatives can raise debt through private credit institutions, and cooperative associations, and also through CFI. Guarantees for these instruments are offered by: (i) a consortium for guarantees and loans within the Italian cooperative movement (Cooperfidi) and (ii) by the EIF (2014-2020 EaSI guarantee).

In **Slovenia**, there are no specific financial instruments regarding debt financing. Indeed, banks are reluctant to finance WBOs.

4.2.3 Collateral requirements

Debt financing for cooperatives is frequently offered without the need for collateral given that the loans provided to cooperatives are often backed by guarantees. In **Italy** and **France**, collateral is not needed for loans to workers. However, in France, as shown in one case study, we observed some exceptions. The Crédit Coopératif loan for Neodyme was secured by pledging the entire capital of the company as collateral for the loan amount. In the context of debt financing for workers in **Spain**, it is typical for personal assets to serve as collateral. The Spanish case studies show that securing collateral for personal loans to finance capital contributions to cooperatives or EOBs poses a challenge.

4.2.4 Technical assistance and transaction costs

Technical assistance is instrumental to the success of WBOs in all countries. It is essential for workers and founders, providing support in understanding the cooperative model, facilitating decision-making, guiding negotiations, assisting with business planning, mobilising finance, and fostering leadership transition which streamlines and facilitates the WBO process. In addition, it is also key for the financial intermediaries, as technical assistance is considered a positive factor when evaluating the potential risks associated with the business endeavour.

In **France**, **Spain** and **Italy**, these services are offered mainly by the cooperative movement. In **Italy**, as with financial instruments, technical assistance is provided both by private actors and by public actors such as CFI. **France** and **Spain** offer technical assistance services through the cooperative movement, which consists of private actors.

Advisory services help employees and vendors understan of the cooperative model, and once the decision to adopt this model is made, technical assistance providers offer guidance to the management team on various aspects. These include negotiating the selling price with the vendor, developing the cooperative's business plan, encompassing the financial plan for the WBO operations, know-how to mobilise financial instruments from the cooperative movement, exploring available public support schemes (from the regional authority etc.), and determining who will become managing director of the company.

In **France**, **Spain** and **Italy**, it can be observed that transaction costs mainly comprise the cost of advisory services. These tend to be negligable in the case of WBOs as they are often covered by the cooperative movement. However, this requires cooperative movements to have the means to cover such costs and continue offering those services. In **France** for example, securing financing for these services poses a challenge.

4.3 Potential to use ESF+ and other EU resources in support of WBOs

4.3.1 Potential use of ESF+ financial instruments

During the programming period 2014-2020, ESF resources were rarely used for financial instruments to support WBO in cooperatives.

In **Italy**, there are two known examples, with the WBO Revolving Fund (Fondo Rotativo WBO, EUR 1 million fund under ESF 2014-2020) in the Campania Region, and the Il Lavoro che cambia - LINEA 2 – WBO in the Veneto region (EUR 500 000 from the National Social and Cohesion Fund). In **France** and **Spain**, some regional ESF managing authorities have used ESF grant support to finance the dissemination and technical advisory services of the regional branches of the respective national association of cooperatives, but without a specific and explicit focus on WBO. In **France**, ESF has been used by six URSCOP to provide technical and advisory services, however, at national level CGSCOP did not benefit from ESF 2014-2020 funding to cover SCOP's promotion and support activities. In **Spain**, most of the resources used by representative organisations of the cooperatives and EOBs to provide technical assistance for WBOs come from ESF. However, due to the uncertainty of their funding, the teams employed to provide technical assistance for WBOs lack stability, sometimes compromising their ability to deliver comprehensive support. In **Slovenia**, no ESF support through grant or financial instrument has been reported.

The potential to use financial instruments with ESF+ 2021-2027 resources to support WBO differs across the four countries but is limited overall if specifically focused on WBO transactions.

In **Slovenia**, ESF+ could be relevant to establish specialised funds that provide loan guarantee schemes, syndicated lending or additional security to financial institutions financing WBOs. ESF+ would aim to reduce the risks associated with WBOs that traditional financial institutions perceive. However, the SID Bank (the national promotional bank in Slovenia) expressed concerns about developing WBO financial instruments using ESF+ because of the complexity of eligibilities and state aid rules, as well as a lack of institutional expertise on the subject. This does however highlight the growing demand for financing for WBOs in the country. The Slovene ESF+ managing authority has no concrete plans to implement ESF+ financial instruments under its 2021-2027 programmes but a market analysis will be undertaken to help decide if there is a need for this type of support.

In **France**, there is limited interest from national and regional ESF+ managing authorities and the financial institutions to use ESF+ resources for financial instruments in general, and for cooperatives in particular. The main reasons are a perception that it is complicated to set up financial instruments because of: a lack of know-how among financial intermediaries on how to combine national funding sources and ESF+ into the same instrument; a lack of critical mass of financial instruments at the regional level (as the demand from cooperatives and for WBO in particular, is low); the costs of the transaction and costs of management of the financial instruments; and unstable audit rules at the start of the programming period.

In **Spain**, the main demand from companies and financial institutions is the need to develop financial guarantee systems to incentivise traditional investors (e.g. commercial banks) to support WBO, but not specifically financed by ESF+. **Italy** is probably the country where the use of financial instruments with ESF+ resources could be of more interest to managing authorities and financial intermediaries – notably through the establishment of specific funds at national or regional level for debt or equity instruments to be managed by private financial intermediaries, which could leverage their resources. However, here as in other countries, a constraint could be the size of the existing market for WBO.

In all countries, there is a call from national associations of cooperatives, enterprise support organisations and financial institutions to allocate ESF+ grant resources to support organisations that promote the cooperative model and offer technical advisory services to cooperatives and WBO both for due diligence development, viability plans, and legal support, as well as guidance in finding financing.

4.3.2 Exploring possibilities to combine financial instruments with grants

There is no instance of combining financial instruments with grants under the same intervention in the four countries. However, **France** and **Spain** provide examples of the parallel and effective combination of both financial instruments (equity, quasi equity, debt) and grants from (a few) regions to cooperatives to strengthen the equity of the cooperative to support a same WBO transaction. In addition, **France** provides a good example of the combination of financial instruments and technical assistance support: CGSCOP (and its regional branches) combine in a single WBO transaction both the mobilisation of its financial instruments (SOCODEN and SCOPINVEST notably) with the technical assistance and advisory services provided by the regional branches to the workers.

Case studies and stakeholder interviews indicate the importance of using the potential in combining financial instruments, technical assistance and non-financial services. ESF+ could play an essential role in different phases of the process: to support the promotion and training activity of national and regional associations of cooperatives; to increase awareness among workers involved in corporate crises/in business succession processes with respect to the essential characteristics and opportunities offered by the WBO model; to support the entrepreneurial and managerial skills of workers and their role as partners; and to support strategic, market and organisational development.

4.3.3 Potential involvement of the EIB Group via EU level financial instruments

In the field of social impact and social entrepreneurship, in the 2020-2024 programming period the EaSI programme and the European Fund for Strategic Investments (EFSI) 2014-2020 allowed the EIF to scale up its support to the social impact investment market via both equity and guarantee instruments. With respect to the guarantees, the EaSI Guarantee has proven to be a vital resource for micro and social enterprises, including cooperatives. Through the EaSI-Guarantee Financial Instrument, the EIF has been able to deploy over EUR 411 million of EaSI guarantees across 31 countries, which is expected to make available more than EUR 4 billion of financing to the benefit of the EaSI target groups. More than 170 000 micro and social entrepreneurs have been supported to date under the EaSI Guarantee[94, 95]. In the cooperatives sector specifically, 2014-2020 EaSI has provided a guarantee to the loan portfolio of SOCODEN (EUR 25 million) and CFI (EUR 15 million) to cooperative enterprises in **France** and Italy respectively, and to Coop57 (EUR 50 million) in Spain. However, there was no specific emphasis on WBO transactions, and no monitoring system was in place to report on the number of WBOs supported through the EaSI guarantee. It is reported coincidently that one company study, Neodyme in **France**, has benefited from the 2014-2020 EaSI guarantee granted to SOCODEN.

94 EFSI, REPORT From the European Investment Bank to the European Parliament and the Council on 2022 EIB Group Financing and Investment Operations under EFSI. Accessed on 20 September, 2023, available at: https://www.eib.org/attachments/strategies/2022-efsi-report-to-the-ep-and-council.pdf.

95 EIF, EaSI-Guarantee Financial Instrument, Status of Implementation as of 30/06/2024, Presentation, available at: easi-implementation-status.pdf.

In the four countries studied, financial institutions and national associations of cooperatives suggest the EIB Group, principally EIF, should continue providing support in this area using existing financial products under the Social Investment and Skills Window of InvestEU. Building on the successful experiences with the use of the EaSI guarantee, two of the financial institutions mentioned above – SOCODEN in France and CFI in Italy – have continued their cooperation with the EIF under the InvestEU Social Entrepreneurship Portfolio Guarantee Product. The InvestEU guarantee allows them to provide financing to WBO cooperatives as part of their portfolios. In addition, interest was expressed to design specialised financial products targeting the cooperative sector, with an emphasis on WBO but also on the growth stage of cooperatives, specifically when productive investments such as technology up-take investments are needed to ensure better performance and to support the energy and climate transition of cooperatives' production processes.

4.3.4 Practical hints for managing authorities

Although on the agenda of the national associations of cooperatives and enterprise support organisations, WBO is not a phenomenon familiar to managing authorities and by consequence is not a specific focus or emphasis within the national or regional ESF+ operational programmes. Suggestions for the managing authorities include conducting awareness campaigns to disseminate information about WBO models to cooperative networks, policymakers, business owners, trade unions and workers and to highlight possibilities and key advantages of activating financial instruments with ESF+ resources. Establishing a policy dialogue with the EIB Group to understand what support it could provide in the design, set-up and implementation of financial instruments as well as in promoting awareness and knowledge exchange would also be relevant. At regional level, ESF+ managing authorities should investigate the possibility of using ESF+ as a resource for financial instruments to support cooperatives, with an emphasis on WBO, and as grant support to finance advisory services offered by associations of cooperatives to cooperatives, notably WBO.

4.4 Suggestions and next steps

In this section, we present our conclusions and recommendations based on the data obtained in this study.

Figure 5: Conclusions and recommendations.

Term	No.	Conclusion	Recommendation
Quick wins	1	WBO, as an alternative route of business take-over, is suffering from a general lack of knowledge and recognition in most of the Member States.	Raise awareness and knowledge sharing on WBO.
Quick wins	2	Beyond the access to finance for workers, the transactions require a number of pre-conditions (regulatory framework, tax incentives) that are not in place in most of the EU MS.	Building and strengthening enabling ecosystems supportive to WBO in Europe.
Quick wins	3	Banks and traditional investors are reluctant to support WBO transactions which are considered risky.	Follow up on the EaSI and use the InvestEU SISW guarantee / counter-guarantee to support social enterprises and cooperatives with an emphasis on WBO.
Medium-term	4	Cooperative support organisations, in the social economy sector are struggling to finance technical assistance services they provide to cooperatives and social entrepreneurs.	Encourage the use of ESF+ grant for providing technical and advisory services to cooperatives in particular, and to social entrepreneurs in general.
Medium-term	5	Opportunity to ease access to social impact investors to address market gaps or suboptimal situations in terms of equity and debt financing.	Promote WBO as a social impact investment within the Social Impact Investor Community.
Long-term	6	Experience of more advanced countries demonstrated the need of legal and tax incentives to support WBO and generate a pipeline of transactions.	Facilitate the development of an enabling regulatory framework to support WBO in the MS.

Source: Author.

Conclusion #1 – Lack of knowledge and recognition of WBO across the EU

WBO, as an alternative route of business take-over, suffers from a general lack of awareness and recognition in most EU Member States, including in those benefiting from a well-established WBO model (France, Italy and Spain). While there is an increasing recognition that WBOs contribute to saving jobs and can support a just transition and an economy more resilient to external shocks, in most EU countries WBO is not high on the social policy agenda. Yet, the number of businesses with owners close to retirement is increasing, which should drive the growth in the number of WBOs together with cultural changes in company management and attitudes to work from a new generation of workers (more transparency and democracy in management, search for a mission and social purpose of the company). Experience in the four countries has however shown that this potential will not be fully realised without raising awareness, recognition of WBOs, an appropriate legal environment and a supportive ecosystem.

Changing perceptions of worker buyouts, acknowledging that WBO may help to manage the transition of an ageing population of business owners while maintaining jobs and building sustainable businesses requires awareness raising activities at EU and Member State levels.

Recommendation #1 – Raise awareness and knowledge sharing on WBO

Awareness activities should focus on what WBO is; what are the different existing models of WBO in the EU; what are the benefits of WBO compared to other type of business transfer (third investor, family, LMBO, etc.); how WBO is aligned with social enterprise definition, etc. They should target a large audience, including policymakers and cohesion policy managing authorities, financial intermediaries and social impact investors, enterprise support organisations (e.g. CGSCOP), trade-unions, lawyers, accountants, and judges in commercial courts.

The EC and specifically, the Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) could support awareness raising activities such as:

the production of knowledge products on the WBO phenomenon in the 27 MS to help policymakers to quantify, characterise and understand trends in WBO: collection and production of national statistics on WBOs in MS; production of analytical trends reports on WBOs in MS.

The use of fi-compass to build the capacity of managing authorities (MAs) to set-up financial instruments supporting social enterprises and cooperatives, with an emphasis on WBOs.

The dissemination to MAs and financial investors of good practices of financial instruments supporting social enterprises and cooperatives with an emphasis on WBOs.

The establishment of a European Community of Practice on WBOs gathering professionals supporting WBOs or potentially involved in WBO transactions (association and confederation of cooperatives, financial intermediaries, commercial court judges, lawyers and accountants) to exchange knowledge and practices and build their capacity.

Conclusion #2 – The concept of WBO transactions is broad and includes variable parameters

WBO transactions are highly complex. Beyond the access to finance for workers, the transactions require pre-conditions (regulatory framework, tax incentives) that are not in place in most EU MS. They also involve multiple stakeholders, and notably business owners and workers with different interests that must be aligned. They involve workers that often lack the right skills and experience to take over management of the business. The transaction per se is complex combining legal issues (conversion from a traditional business into a new status), corporate governance challenges and financial aspects. These are the reasons why technical assistance and advisory services to support workers (and business owners) in managing WBO is so important. In most EU MS, except France, Spain and Italy, the WBO support ecosystem is at best nascent, and, at worst, non-existent.

Recommendation #2 – Building and strengthening enabling ecosystems supportive to WBO in Europe

This recommendation targets Member States, and managing authorities in particular. Building ecosystems that are supportive to WBO would imply that the MS:

- ✓ Strengthen the capacity of existing support organisations for social enterprises and cooperatives with an emphasis on WBOs (knowledge, training, finance, legal) and foster collaboration across the stakeholders (national and regional associations of cooperatives, lawyers, accountants, commercial courts, etc.).
- ✓ Engage with local and regional authorities to build regional ecosystems supportive of WBOs, including advisory services or direct grants or other forms of financing. Proximity is instrumental in providing advisory support to workers on a WBO transaction. In addition, while WBOs are increasingly perceived as an avenue to maintaining jobs, to prevent the delocalisation of jobs, local and regional authorities should increasingly pay attention to build an ecosystem facilitating WBOs.
- ✓ Promote organisations combining financial instruments with technical advisory services to workers – such as CGSCOP in France (financed by cooperatives membership) or CFI in Italy (publicly funded organisation).
- ✓ Make a greater use of ESF+ to support social enterprises and cooperatives with an emphasis on WBO, including through grant support to finance dissemination and awareness-raising activities and technical advisory services to workers for WBO transactions.

Conclusion #3 – Complexity of financial support for WBO

Financing WBOs is complex. The first difficulty for workers is in raising the minimum capital needed to buy out all or part of the shares of the company. In the three advanced countries (France, Spain and Italy), financial instruments or grant systems have been set up to address this problem. In France and Spain, the cooperative movement has developed dedicated financial instruments (personal loans to workers in Spain, equity securities matching the personal investment of workers in France) which are combined with subsidies from the regions, but not in all regions, which creates sub-optimal situations. In Italy, since most WBOs take place during a company's financial crisis, employees use the possibility of contributing their unemployment benefits to the company's capital. The second, and main difficulty, is the mobilisation of traditional investors for these transactions, and in particular bank debt financing to complete the financing of the transaction. Banks and traditional investors are reluctant to support WBO transactions, which are considered risky because the workers have no experience of company management, the participative governance of the company is more complex, and the use of profit is regulated (legal reserve), reducing the return on investment for investors.

Financial instruments supporting cooperatives do exist in France, Italy and Spain. They are, however, not fully dedicated to WBO transactions. Some of these instruments are already supported by the 2014-2020 EaSI guarantee. ESF+ could eventually support such instruments. However, the market for WBOs is still a niche with a limited critical mass in terms of number and size of transactions that would make the set-up of fully WBO dedicated national or regional ESF+ financial instruments irrelevant.

Recommendation #3 – Follow up on the 20214-2020 EaSI programme and use the InvestEU SISW guarantee / counter-guarantee to support social enterprises and cooperatives with an emphasis on WBO

Under the last programming period, the EIF managed the EaSI Guarantee Instrument, funded from the EaSI programme and specifically dedicated to microfinance and social entrepreneurship. One of its key objectives was to increase the availability of and access to finance for vulnerable groups wishing to launch their own enterprises, micro-enterprises and social enterprises, both in their start-up and development phases. The instrument has demonstrated its relevance and effectiveness in supporting the financing of cooperatives, with the support to SOCODEN in France (which provides equity loans to cooperatives benefiting from the guarantee of EIF), CFI in Italy and Coop57 in Spain. The main strengths of the instrument were its flexibility, as it provided a guarantee of the loan portfolio, focusing on social enterprises in a broad sense and was not targeting a specific sector or type of investment with a relatively large range of size of ticket. One of the companies included in the case studies in France (Neodyme) has benefited from the EaSI guarantee granted to SOCODEN.

Particularly in Member States that do not yet use ESF+ through financial instruments, the recommendation is to use the InvestEU SISW guarantee to support social enterprises and cooperatives with an emphasis on WBO transactions, as the instrument offers the same flexibility with a larger range of ticket size. It is considered a well-suited EU instrument for supporting both financial instrument set-up and managed by the cooperative movement in the EU countries as well as commercial banks and credit unions. Cooperatives resulting from a WBO are social enterprises as defined under InvestEU. Social enterprise: refers to an undertaking or a natural person that i) has the achievement of measurable, positive impact as its primary social objective; ii) uses its profits first and foremost to achieve its primary social objective, and iii) is managed in an entrepreneurial, participatory, accountable and transparent manner, in particular by involving workers, customers and stakeholders on whom its business activities have an impact96. It is also recommended that EIF should start monitoring the number of WBO transactions supported thanks to the guarantee to collect more data on the WBO market and trends.

In the countries where ESF+ is already used through financial instruments to support social enterprises, there could be an opportunity for DG EMPL and EIBGroup to engage in a dialogue with the managing authorities to support the cooperative sector with an emphasis on WBO, but not fully dedicated to WBO[97].

Conclusion #4 – Technical assistance and advisory support is seldomly used

In the four countries, ESF under the programming period 2014-2020 was rarely used by managing authorities to support technical assistance and advisory services to social enterprises in general, or cooperatives in particular. In France, it was used in 5 regions out of 17, and the national ESF operational programme did not provide any particular type of support. In Spain, only a limited number of regional managing authorities provided ESF grant support to regional associations of cooperatives or other enterprise support organisations.

However, cooperative support organisations, such as CGSCOP and its regional branches, and other enterprise support organisations in the social economy sector are struggling to finance technical assistance services they provide to cooperatives and social entrepreneurs.

Recommendation #4 – Encourage the use of ESF+ grants for providing technical and advisory services to cooperatives in particular, and to social entrepreneurs in general

It is necessary to make better use of ESF+ to address the needs of newly established cooperatives, whether brand new ventures or WBOs, for technical assistance and advisory services. DG EMPL could establish a dialogue with the ESF+ managing authorities and disseminate examples of good practice in using ESF+ to support technical assistance and advisory services to cooperatives in particular, and social entrepreneurs in general.

96 EIF, Target Final Recipients, Accessed on 20 September, 2023, available at: https://assets.foleon.com/eu-central-1/de-uploads-7e3kk3/22890/micro_and_social_guarantee_layout.ed5e8fca2c43.pdf.

97 Under the ESF+ Regulation (2021/1057), social enterprise means an undertaking, regardless of its legal form, including social economy enterprises, or a natural person which: (a) in accordance with its articles of association, statutes or with any other legal document that may result in liability under the rules of the Member State where a social enterprise is located, has the achievement of measurable, positive social impacts, which may include environmental impacts, as its primary social objective rather than the generation of profit for other purposes, and which provides services or goods that generate a social return or employs methods of production of goods or services that embody social objectives; (b) uses its profits first and foremost to achieve its primary social objective, and has predefined procedures and rules that ensure that the distribution of profits does not undermine the primary social objective; (c) is managed in an entrepreneurial, participatory, accountable and transparent manner, in particular by involving workers, customers and stakeholders on whom its business activities have an impact (Article 2 of the Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing ESF+ and repealing Regulation (EU) No 1296/2013) Accessed on 20 September, 2023, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1057.

Conclusion #5 – There is a lack of general understanding of the social impact investment phenomenon

Social impact investments are on the rise across Europe98. The European market for investments made directly into social purpose organisations and enterprises supporting social and environmental challenges represented EUR 80 billion last year, according to the European Venture Philanthropy Association (EVPA)99. The bulk of impact investment capital came from individual investors (26%), financial institutions (28%) and institutional investors (23%). Around a third of organisations active in European impact investing are venture capital or private equity impact funds.

While it is acknowledged that the social impact investment phenomenon goes well beyond the traditional boundaries of the so-called social economy, there is no common understanding of what a social impact investment is. The Global Impact Investing Network defines it as the use of money to generate both social and financial returns, offering a way to help social organisations access suitable financing and improve their ability to deliver impact. In other terms, social impact investment refers to "investments made into companies, organisations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return" [100].

In that regard, there is an opportunity for WBO transactions and cooperatives to be acknowledged as a social impact investment and ease access to social impact investors to address market gaps or suboptimal situations in terms of equity and debt financing.

Recommendation #5 – Promote WBO as a social impact investment within the social impact investor community

The recommendation to EIBG is to raise awareness in the social impact investor community about WBO benefits and values and to explore with that community the alignment of the WBO definition with the criteria of 'social impact investment'. Fi-compass could be the right platform to engage in a dialogue with the social impact investment community on cooperatives and WBO.

98 Maduro, M., Pasi, G. and Misuraca, G., (2018). Social Impact Investment in the EU. Financing strategies and outcome-oriented approaches for social policy innovation: narratives, experiences, and recommendations, EUR 29190 EN, Publications Office of the European Union, Luxembourg, ISBN 978-92-79-81783-0.

99 EVPA, Accelerating Impact, Main takeaways from the first harmonised European impact investment market sizing exercise. Accessed on 20 September, 2023, available at: https://www.evpa.ngo/sites/www.evpa.ngo/files/publications/EVPA_Accelerating_Impact_2022.pdf.

100 GIIN, Annual Impact Investor Survey. 2017, 7th Edition. New York.

Conclusion #6 – Regulation of WBO is generally less developed across the EU

Over the next 10 years, closely held European companies are facing a generational change in business ownership. WBOs can play an important part in addressing the challenge. With the exceptions of France, Italy and Spain, the regulatory environment for WBO is underdeveloped in most EU MS. In addition, the experience of more advanced countries demonstrates the need for legal and tax incentives to support WBO and generate a pipeline of transactions. While these three countries predominantly manage WBO through the cooperative model, the Slovenian experience, following international good practices from the USA, UK and Canada, is an interesting example of a fully leveraged and gradual model of WBO that is worth dissemination as an alternative route to supporting worker buyouts.

Recommendation #6 – Facilitate the development of an enabling regulatory framework to support WBOs in the Member States

Whatever the WBO model (cooperatives or leveraged and gradual), the objective of this recommendation is to encourage Member States to set-up pre-conditions for supporting WBO in Europe. At the EU level, DG EMPL could:

- ✓ Commission a study analysing the existing legal framework and obstacles to WBO in the EU-27 MSs (succession challenge, insolvency, taxation, commercial and labour regulations), UK, Canada and USA. This study would identify the 'good practices' of a regulatory framework, innovative approaches to help to disseminate good practice across MS, and would provide recommendations to Member States.
- ✓ Engage a policy dialogue with all Member States to advocate the introduction of an enabling regulatory framework in EU-27 (tax breaks, labour regulation, information rights of workers, unemployment benefits capitalisation or use of severance fees, etc.) and the design of a national strategy and plan for WBO.

List of Figures

List of Tables

Annex I – Country Reports

In this Annex, respective Country reports of France, Italy, Slovenia and Spain are presented in detail.

To access the country reports - please scan the QR codes:

Notes

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