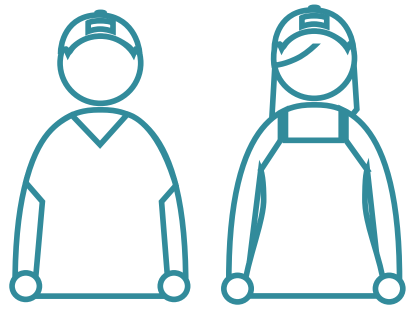
BUILDING *the* INCLUSIVE ECONOMY



FINANCING COOPERATIVES

Strategies for Financing the Inclusive Economy:

Financing cooperatives as a tool to create jobs and build community wealth

Marjorie Kelly, Violeta Duncan, and Steve Dubb *for The Democracy Collaborative*
With contributions by Oscar Perry Abello

This paper is an adapted excerpt from *Strategies for Financing the Inclusive Economy,* the third report in Citi Community Development's Building the Inclusive Economy series.

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Building the Inclusive Economy series: Through three groundbreaking reports funded by Citi Community Development, the *Building the Inclusive Economy* series sets out effective, cutting-edge economic development models for city leaders and community development practitioners interested in embedding equity, community wealth, and sustainability into their local economic growth plan. This series, authored by The Democracy Collaborative, the Democracy at Work Institute, and Project Equity, lays out key tools and building blocks for equitable local economic growth through which all residents are able to maximize opportunities, thereby expanding urban economies where all can meaningfully participate and benefit.

The Democracy Collaborative: This nonprofit, founded in 2000, is a leader in equitable, inclusive, and sustainable development. Its work in community wealth building encompasses a range of advisory, research, policy development, and field-building activities aimed at enhancing the economic prospects of low- and moderate-income individuals. Its mission is to help shift the prevailing paradigm of economic development—and of the economy as a whole—toward a new system that is place-based, inclusive, collaborative, and ecologically sustainable.

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Broad-based ownership models bring substantial benefits to communities and workers, particularly those of low and moderate income.

INTRODUCTION

And in an economy where wages have been stagnant for decades—and a disturbing 40 percent of jobs are now part-time, temporary, or contingent—broad-based ownership models offer a promising alternative.[1]

Given their impact, worker-owned companies, employee stock ownership plan (ESOP) companies, social enterprises, municipal enterprise and new hybrid models with broad-based ownership are increasingly viewed as highly valuable tools for stemming and reversing rising economic inequality. But how to hasten their growth and build an inclusive economy, in which quality jobs are bountiful and ownership opportunities are widespread? How to increase understanding and comfort levels in these businesses' financing— *financing* being a key contributor to enterprise growth?

This paper—adapted from the *Building the Inclusive Economy* series' third report, *Strategies for Financing the Inclusive Economy*—begins to answer this question. It focuses specifically on how financial service providers, impact investors, foundations, local government, community development leaders, and others can finance cooperatives to build community wealth. As cooperative models spread, the role of lenders and investors will grow in coming years. That makes it critical to increase the field's understanding of the role of finance in supporting these models, how that role differs from traditional finance, and how that role is evolving.

Cooperatives, in many cases, employ traditional financing. Yet because cooperatives have worker and community benefit as part of their core purpose, the industry has developed its own ecosystem of support to handle the complexities of finance and culture-building. Among the characteristics of financing cooperative models that build community wealth for low- and moderate-income residents are:

- **Investor returns on financing cooperative models vary across the spectrum from competitive to below-market returns.**
- **Philanthropic and government funding are important, particularly in early stages of cooperative development.**
- **Non-traditional, specialized, and innovative forms of finance are often involved.**
- **Ecosystems of support reduce risk and increase likelihood of success.**
- **Knowledgeable lenders are needed to transition entrepreneur- and family-owned firms to worker ownership.**

In the sections that follow, this report offers innovative financing strategies, case studies of cooperative financing, and additional resources to help scale cooperatives as a tool for creating jobs and building community wealth.

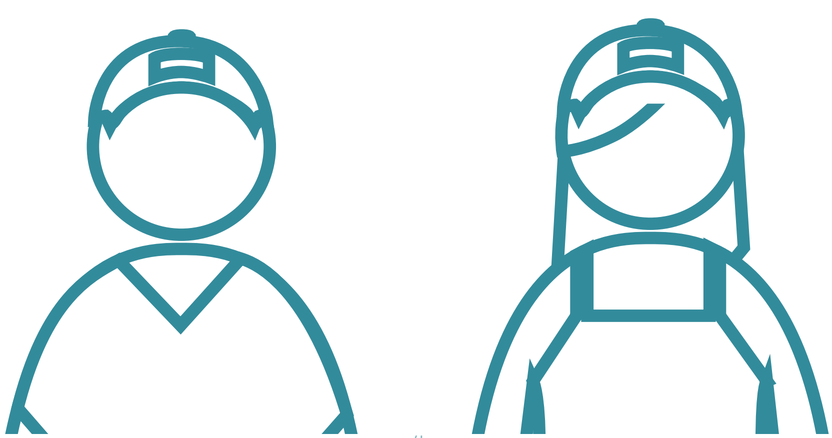
Cooperatives are member-owned businesses, based on the principle of one member, one share, one vote.

Depending on the business need and model, a cooperative can be owned by consumers, workers, producers (providing joint marketing for members, such as most farming co-ops), or purchasing members (providing purchasing services on behalf of business members, such as Ace Hardware).

The cooperative sector already has tremendous scale and financing capacity. Indeed, credit unions and farm credit institutions in the U.S. have over $1.5 trillion in assets.[2] Overall, co-op assets in the U.S. exceed $3 trillion, while total co-op revenues exceed $500 billion a year.[3] As the oldest form of broad-based ownership, the cooperative model in some sectors has highly developed financing systems. Rural cooperatives (farmer-owned and rural utility co-ops) have the federally backed Farm Credit System; one part of this national network is CoBank, a national co-op bank with $117 billion in assets, which in early 2016 paid out more than half its annual earnings as dividends to member-owners. It has been named one of the world's safest banks.[4]

Financing Cooperatives

Particularly promising for job creation are worker-owned and consumer-owned cooperatives. Cities like New York; Madison, Wisconsin; Austin, Texas; Richmond, California; and Rochester, New York have all taken recent steps toward systematically supporting the growth of worker-owned cooperatives.[5] Local governments are also partnering with community groups and nonprofits to create consumer food co-ops in food deserts as development tools in low-income communities and communities of color. Impact investors and lenders are also beginning to finance cooperative businesses.



Traditional Financing for Cooperatives

A key source of funds for member-owned institutions is, and has historically been, the members. Indeed, raising equity from members encourages the success of the cooperative. In *Worker Cooperatives: Pathways to Scale*, cooperative developer Hilary Abell notes that co-ops which are founded with member shares or loans from members have been demonstrated to be most likely to survive.[6]

Community development financial institutions (CDFIs), which are chartered to serve the disadvantaged, are another source of financing for cooperatives. While most CDFIs do not provide substantial financing for worker-owned cooperatives, those that do include Capital Impact Partners, Common Wealth Revolving Loan Fund (which is part of the Ohio Employee Ownership Center), the Cooperative Fund of New England, the Local Enterprise Assistance Fund, and Shared Capital Cooperative of Minneapolis. For example, in 2014, the Cooperative Fund of New England and Coastal Enterprises, Inc., of Maine joined forces to finance a $5.6 million worker buyout from retiring business owners of three rural Maine businesses, converting those businesses into the 45-member worker-owned Island Employee Cooperative.[7]

Some cooperative sectors are today well served by larger financial institutions—which can provide a vision of how financing for worker-owned co-ops might potentially grow over time, as this sector expands. The most highly developed cooperative lending network is found in the farm sector. Particularly notable is the federally backed Farm Credit System, a national network of lending associations chartered to support agriculture and the rural economy. One part of this system, for example, is CoBank, a national cooperative bank with $117 billion in assets, which serves not only agribusinesses but also rural power, water, and communications providers.[8] These rural enterprises both own and borrow from the bank. Because it is a cooperative, its purpose is to serve them.[9] The bank in 2015 provided to its active members a 19.76 percent return on investment. In March 2016, CoBank distributed a record $514 million in total "patronage refunds" (a form of dividend) to its members, which is more than half the bank's earnings for that year.[10] This highly successful bank has been named by *Global Finance Magazine* one of the "World's 50 Safest Banks."[11]

Another dedicated financing entity, aimed more broadly at all cooperatives, is the National Cooperative Bank, the commercial bank subsidiary of National Consumer Cooperative Bank, with assets of $2.1 billion.[12] In 2015, this lender committed $290 million to lending and investments that served low- and moderate-income communities, including support for housing cooperatives, renewable energy, and small business.[13]

Challenges, Solutions, Opportunities

Existing large-scale cooperative financing entities generally support mature sectors, such as agriculture, rural power, and water. Worker cooperatives are less developed, but provide an important form of economic empowerment for low- and moderate-income individuals, especially in urban communities. Financing worker co-ops today often remains a challenge, for a variety of reasons. Here we summarize key challenges, some of which were explored in the recent report, *The Lending Opportunity of a Generation*, by the Cooperative Fund of New England, Project Equity, and the Democracy at Work Institute:

- **Worker-owners can generally contribute only a small amount in member financing.**[14] This is particularly the case when workers come from low-wealth backgrounds. Solutions, explored below, include using philanthropic dollars to subsidize member contributions and raising capital from outside investors via preferred share offerings and direct public offerings.[15]
- **Personal guarantees, often requested by lenders, are a challenge for lenders to collect on in a worker co-op** because many people own small parts of the business. A key solution can be limited loan guarantees from top management, key stakeholders, or the selling owner (in the case of a company converting to worker ownership).[16]
- **Credit scores are harder to assess in a co-op with many owners.** Instead, lenders can consider the strength of leadership, commitment of worker-owners, and the skill and experience in governance.[17] In short, underwriting for worker co-ops involves asking different questions and applying different standards. The CDFIs that are lending to worker co-ops have developed appropriate underwriting standards, but this knowledge has yet to be disseminated broadly through the financial services sector.
- **Worker-owned co-ops that are starting or transitioning to worker ownership often cannot afford** the full cost of legal and tax services, feasibility studies, valuations, and worker training.[18] These costs may need to be covered by grants, donations, local economic development agencies, or donated services of a CDFI or worker ownership center.
- **Lenders may lack knowledge of and comfort with cooperative lending.**[19] One solution is for lenders to partner with other organizations, technical assistance providers, or specialty lenders that have developed expertise in underwriting and financing these deals. Organizations like the Ohio Employee Ownership Center, Project Equity, the University of Wisconsin Center for Cooperatives, The Working World, and others can vet deals and offer needed business support to cooperatives—particularly in cases of conversions—allowing other lenders and investors to participate with greater confidence. Investors and lenders can also can make direct loans to CDFIs with cooperative finance specialization, such as the Cooperative Fund of New England and the Local Enterprise Assistance Fund. Lending to cooperatives can then be done by those funds.[20]
- **While local investors often are the most likely prospects, local investing has long remained legally difficult due to securities restrictions**. Change is under way, thanks to the passage of the JOBS Act, which is designed to enable small businesses to more easily raise up to $1 million a year through crowdfunding. Final rules for implementation were released in October 2015 by the Securities and Exchange Commission.[21] Similar rules also exist in many states.[22]

- **While there certainly remain challenges, the chance to transition more companies into ownership by workers is highly significant.**[23] One financial advising firm, drawing on PriceWaterhouseCoopers survey data, has calculated that over the next 15 to 17 years, almost 500,000 businesses could be sold to firm employees.[24]
- **One place financing is already flowing is to cooperatives—including worker co-ops—in food manufacturing and retail.**[25] Worker cooperatives like First Alternative in Oregon are taking advantage of resources like the National Cooperative Grocers Development Cooperative (NCG-DC) Loan Fund, which provides financing to food cooperatives seeking to expand, consolidate debt, and make capital improvements.[26] They have also successfully used federal funds from the Healthy Food and Financing Initiative (HFFI), which aims to eliminate food deserts and promote healthy food.[27] Green City Growers Cooperative in Cleveland received almost $800,000; Mandela MarketPlace in San Francisco received a $400,000 grant.[28] With its $3 million HFFI grant, the Cooperative Fund of New England in Amherst, Massachusetts, was able to expand its cooperative lending program and help create 400 new jobs.[29]

Innovative Financing for Cooperatives

In addition to traditional financing, innovations in financing cooperatives are emerging. Some examples:

Subsidizing member capital contributions: The consumer cooperative Mariposa Food Co-op in West Philadelphia, which employs almost 50 people in a mixed-income community, raises donations to subsidize its $200 capital requirement for new members when they cannot afford the fee.[30] The cooperative aims to sponsor at least 10 percent of its members.[31] When Mariposa expanded in 2012, it succeeded in getting 60 percent of its members to increase their member equity (a refundable financial investment); the cooperative also received loans, from $1,000 to $25,000, from 10 percent of members, helping it meet its goal of raising $2.5 million for the new store.[32]

Matched savings programs: The worker-owned Mandela Foods Cooperative in Oakland, California, uses a matched savings program to build the wealth and purchasing power of potential members. The cooperative dedicates one-third of its profits to a matched savings account held by People's Federal Credit Union, a local credit union that is a division of Self-Help Federal Credit Union.[33]

Peer financing among cooperatives: Some cooperatives devote a portion of profits to funds for investment in co-op development. The Evergreen Cooperatives in Cleveland, a network of three worker-owned cooperatives employing 120 people, sets aside 10 percent of profits for a common fund to be used to finance growth and the startup of new cooperatives. In western Massachusetts, seven worker co-ops in the Valley Alliance of Worker Cooperatives each contribute 5 percent of profits to a development fund.[34] The fund, now totaling $14,000, can count these assets as added collateral for other lending activity.[35] Shared Capital Cooperative, a CDFI based in Minneapolis, has a $10 million revolving loan fund, where half the capital comes from members, of which there are more than 200 organizations and 250 individuals. Only members may borrow, and almost 90 percent of lending has been to organizations in low- or moderate-income communities.[36]

Sales of preferred shares: In addition to shares for primary members—which form the basis for cooperatives' democratic ownership and governance design—cooperatives can also sell shares with limited voting rights in the form of preferred shares. Unlike traditional common stock, preferred stock does not increase in value over time; it pays a dividend at the discretion of the board. Preferred stock has long been a mainstay of public corporations, but it assumes particular importance in co-ops, where it often is the primary available vehicle for co-ops to raise outside equity capital.

Direct public offering (DPO): In a direct public offering, cooperatives use certain securities rules to make an investment offering to the public—most particularly to their own local stakeholders, who can include both accredited and unaccredited investors. Such offerings can be structured to limit legal fees. In 2015, for example, the Massachusetts startup CERO Cooperative, a composting and recycling worker-owned cooperative, successfully completed a DPO that raised $340,000. More than 80 investors participated, each placing an investment ranging from $2,500 up to $25,000. CERO's DPO offered a 4 percent targeted divided over five years.[37]

Increased foundation funding: In recent times, foundations have been showing increased activity in support of cooperative development. For example, the Denver Foundation funded a 75 percent time position for an urban cooperative director at the Rocky Mountain Farmers Union.[38] This has contributed to the development of the new Westwood Food Cooperative, which will help low-income immigrant and refugee families with backyard gardens earn extra income by selling produce to the cooperative.[39] The San Francisco Foundation has regularly supported the nonprofit worker-cooperative incubator Prospera (formerly Women's Action to Gain Economic Security, or WAGES) which has launched five cooperatives in the green cleaning industry, creating 92 positions for Latina worker-owners; nearly all (95 percent) of these worker-owners are immigrants, and 90 percent live below the poverty line.[40] The W.K. Kellogg Foundation gave $200,000 to the National Center for Employee Ownership in 2015, to improve understanding of how employee ownership can contribute to asset development and economic mobility for working parents of young children.[41] Kellogg has also supported employee ownership in Detroit with a $225,000 grant in 2014 to the Center for Community Based Enterprise to "assist low-/moderate-income Detroit residents in generating jobs with worker equity."[42]

The worker-owners of Real Pickles in Massachusetts raised $500,000 through a direct public offering (DPO)—a fundraising vehicle similar to an initial public offering in that a business can advertise the offering openly and can accept non-wealthy investors. However, DPOs require substantially less in legal costs, are targeted at stakeholders such as customers and neighbors, and are able to raise up to $1 million.

Photo c/o Real Pickles

Case Studies in Financing Cooperatives

CASE STUDY

Click for info

REAL PICKLES DPO: HOW WORKERS RAISED HALF A MILLION DOLLARS TO BUY A BUSINESS

Real Pickles sold its first jar of organic dills in 2001, when founders Dan Rosenberg and his wife, Addie Rose Holland, decided to turn their pickle-making hobby into a business.[43] It has grown to more than $1 million in revenue in 2015, earning $125,000 in net income.[44] How workers bought this business from the founders, using the innovative model of a direct public offering, offers lessons in grassroots financing for worker ownership.

In 2012, the co-founders and staff members formed a new worker cooperative to purchase the business. The five worker-owners each purchased a $6,000 membership share, a price determined based on worker affordability. The workers then faced the hurdle of raising more than $500,000 to buy the business and have operating capital.[45]

Preferred stock was considered the most viable option. The aim is to pay investors a 4 to 5 percent annual dividend; this was deemed more workable than the 8 to 12 percent interest on a subordinated loan, or the 15 percent annual return needed for a royalty arrangement (in which royalties are a percent of profits). Real Pickles added the innovation of selling preferred shares through a direct public offering (DPO).[46]

A DPO is similar to an initial public offering (IPO), in that the business can advertise the offering openly and can accept non-wealthy investors; yet a DPO costs substantially less in legal fees, raises only up to $1 million, and is targeted at stakeholders, such as customers and neighbors.[47] Real Pickles was assisted by Cutting Edge Capital, which has helped more than 60 clients launch DPOs.

Real Pickles set the minimum investment at $2,500. This was a "key decision," Rosenberg has said. "It was a figure low enough to allow for relatively broad participation, while high enough to keep our investment pool a manageable size."[48] Shares are non-transferable except to the co-op, and they include a 4 percent dividend target when the board decides to distribute dividends. Shares must be held for at least five years to be sold back at the same price for which they were purchased.[49]

Real Pickles sold $500,000 in shares to 77 investors; some used their self-directed individual retirement accounts. Institutional investors included consumer co-ops that purchase from Real Pickles, other wholesale customers, one supplier, a foundation, and a CDFI. The company planned a six-month campaign, but the shares sold out in two months. Workers completed the purchase of the business in May 2013.[50]

Financing the Worker Buyout of Real Pickles[51]

Source	Amount	Notes
Cooperative Capital Fund	$69,000	5-year term, interest only
DPO: Preferred Shares	$500,000	From 77 investors
Worker-Owner Equity	$30,000	Member Fees, $6,000 each worker-owner
Bank Line of Credit	$150,000	Local bank
Total	**$749,000**	
Uses	Amount	
Purchase of business	$622,239	
Working capital	$126,761	
Total	**$749,000**	

Pioneering the sale of preferred shares to impact investors, the 120-member worker-cooperative Equal Exchange has been able to raise $16 million. Preferred shares are a form of equity with limited voting rights; the stock price does not rise over time and investors instead enjoy a stream of dividends.

Photo c/o Joe Driscoll, Creative Commons licensing

CASE STUDY

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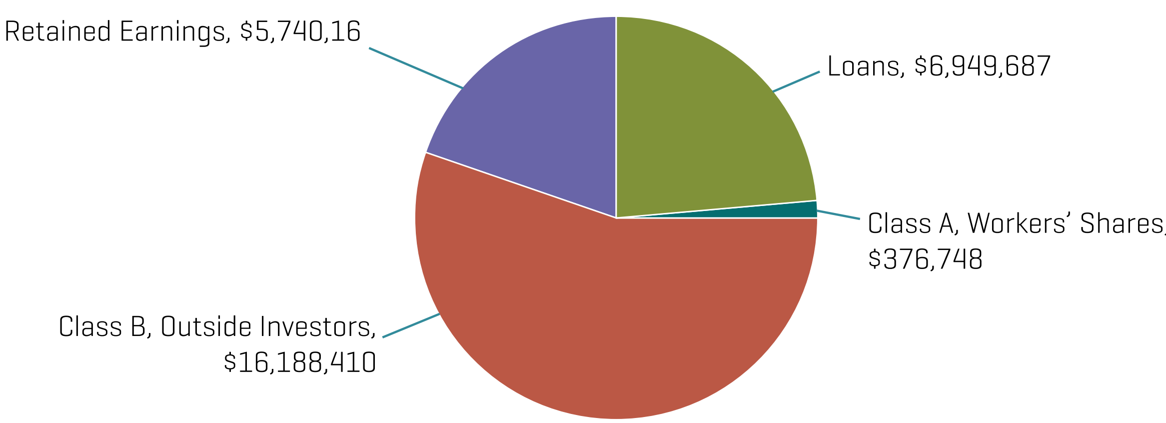
EQUAL EXCHANGE: INNOVATION IN USE OF PREFERRED STOCK

Massachusetts-based Equal Exchange is a $60 million importer and wholesaler of high quality, organic coffee, tea, olive oil, bananas, and other foods to customers across the U.S. All Equal Exchange products are intended to benefit its suppliers, who include more than 50 small farmer co-operatives in 40 countries around the world. This approach, known as fair trade, is one that Equal Exchange was a pioneer in creating.[52] It has pioneered in another area as well, using the sale of preferred shares to impact investors as a way to bring some $16 million in financing into a worker-owned cooperative.[53]

Preferred shares are a form of equity with limited voting rights, where the stock price does not rise over time and investors instead enjoy a stream of dividends. Equal Exchange's annual dividends have fairly consistently been 5 percent annually over fifteen years. This reliable—and today, relatively handsome—return on

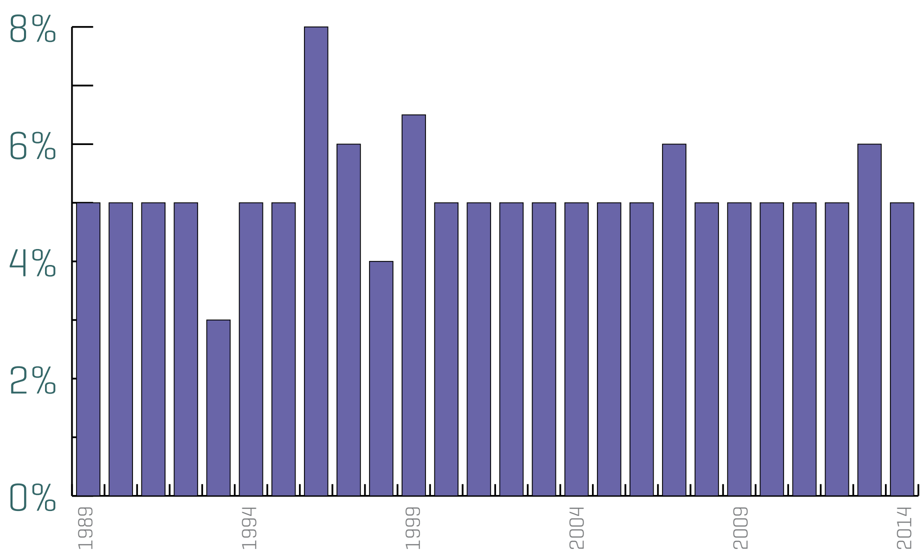
Equal Exchange Capital Mix 2015[54]



investment has enabled Equal Exchange to raise more than $16 million using this method. Most recently, in April 2015 the 120-member worker cooperative completed an offering of $4 million in preferred shares. This was the largest stock sale ever by a worker co-op in North America.[55]

As Daniel Fireside and Rodney North of Equal Exchange wrote recently, "This isn't high-stakes venture capital where backers expect the company to either sell out or go public. Instead it's slow financing from over 600 people and institutions that share the company's values, and who want to help it grow without ever putting those values at risk, or undermining the absolute control" of worker-owners. The model was introduced to Equal Exchange by Boston's ICA Group, which has been supporting worker-owned enterprises for 40 years.[56]

Equal Exchange Annual Dividend Payments 1989-2014[57]



Fireside and North report that as a result of the use of preferred stock, Equal Exchange now has twice as much equity capital as debt. That gives it its pick of possible lenders. The company borrows from mission-aligned entitles such as the Cooperative Fund of New England, National Cooperative Bank, the Calvert Foundation, and RSF Social Finance.[58]

CASE STUDY

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RENAISSANCE COMMUNITY COOPERATIVE: RAISING $2.48 MILLION FROM DIVERSE STAKEHOLDERS IN A FOOD DESERT

For residents of northeast Greensboro, North Carolina, the closing of a Winn-Dixie store in 1998 created a food desert.[59] By 2016, however, residents had joined together to create the Renaissance Community Co-op (RCC), expected to open by fall 2016.[60] RCC provides a powerful example of how community members, philanthropy, local government, and CDFIs can come together to build community wealth—creating jobs, making affordable food available to low-income families, and developing a community asset.

The estimated cost of financing is $2.48 million. The store is expected to employ 15 full-time and 13 part-time employees, and to generate over $3.6 million in sales in its first year.[61] By grocery standards, $2.48 million in capital is a relatively small number. Yet co-op member-owner equity was unlikely to raise this amount, and in fact contributed just $100,000. All told, the project raised $1.5 million in equity and $983,000 in debt financing. Sources are listed below:[62]

Financing the Renaissance Community Cooperative

Source	Amount	Notes
Shared Capital Cooperative & The Working World (CDFIs)	$733,000	Debt
Self-Help Ventures Fund (CDFI)	$590,000	Equity
Fund for Democratic Communities, Cone Health, Food Co-op Initiative, & Mt. Zion Baptist (Philanthropy)	$376,400	Equity
City of Greensboro	$250,000	Grant & Equity
Owner loans	$200,000	Debt
The Working World (CDFI)	$150,000	Equity
Member shares	$100,000	Equity, shares purchased @ $100 each
Community Foundation of Greater Greensboro (Philanthropy)	$50,000	Debt
Grassroots fundraising	$33,177	Equity
Total	**$2,482,577**	

One key partner is the Self-Help Ventures Fund, part of Durham-based Self-Help Credit Union, the nation's largest community development credit union. In January 2015, Self Help purchased the former Winn-Dixie site from the city for $490,000, with the intent to lease to RCC.[63]

The city government contributed financing of $250,000.[64] Community-based financing (owner equity, owner loans, and crowdsourcing) raised an additional $333,177. Philanthropy and churches provided $376,400 in grants and another $50,000 in low-interest loans. Community development financial institutions were the largest funding source: Self-Help Ventures provided $590,000 in cash (equity) for build-out, while other CDFIs provided loans totaling $733,000.[65]

One unique funding stream was from Regenerative Finance, a group of young impact investors who committed $253,000 to the project for terms of 11 to 15 years. These investments were placed via a co-op loan fund with The Working World, which is providing capital to RCC. Rather than use conventional debt, The Working World relies on royalty payments tied to profitability, so that payments are not made to investors until the business is profitable, making this financing more like equity.[66]

The Working World also provided $150,000 in pure equity through the purchase of preferred shares.

A $1 million loan from The Working World helped workers at New Era Windows convert a failing factory into a thriving worker-owned business. The Working World, which has made more than 1,000 non-extractive investments in worker-owned companies, is repaid from profits generated by a business, much like an equity investment, though without taking ownership from the workers. This "royalty" financing allows the business to expand without excessive debt burdens.

Photo c/o The Working World

CASE STUDY

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THE WORKING WORLD: FINANCING STARTUPS AND CONVERSIONS TO COOPERATIVES

Since its founding in 2005, The Working World has helped to demonstrate that capital can be subordinate to labor in a thriving cooperative economy. During the past eleven years, this organization has made more than 1,000 non-extractive investments in hundreds of worker-owned companies. More than 98 percent of the projects have succeeded, generating enough income for The Working World fund that it has never had a losing year. The Working World currently has assets of $5 million, built mostly on investments leveraged on an initial cushion of philanthropic funding. It has investment offices in Nicaragua and Argentina as well as the U.S. Its next aim is to build a $20 million fund and become self-sustaining within five years as investment income becomes sufficient to cover operating costs.[67]

The Working World's first cooperative project in the U.S. was New Era Windows in Chicago, where a $1 million investment helped convert to worker ownership a window business that had imploded amid financial scandals and labor abuses by its former owners.[68] In the New York City area, The Working World has helped three cooperatives get started. It is currently in the process of starting five more NYC worker-owned cooperatives—helping them either start from scratch or convert from existing enterprises.[69]

In addition to financing, The Working World provides technical assistance to cooperatives in formation, and to businesses converting into cooperatives. Financing from The Working World is repaid only from profits generated by the business, much like an equity investment, though without taking ownership from the workers. This leaves the workers with zero debt until the business is profitable and can begin to pay back the financing. Even after cooperative formation, The Working World will stay on board to assist with further financing. For example, the fund has extended New Era Windows three lines of credit, for a total of $500,000, to help with growth, including a line of credit in March 2015 needed to cope with landing a large municipal contract.[70]

As of April 2016, The Working World was in the midst of applying for federal certification as a CDFI.[71]

CASE STUDY

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CAPITAL IMPACT PARTNERS: CONVENING A WORKING GROUP OF CO-OP LENDERS

One of the leading CDFIs financing cooperatives is Capital Impact Partners, originally created in 1981 as the high-risk development arm of the National Consumer Cooperative Bank (NCCB).[72] Over the course of its history, Capital Impact Partners has deployed $278 million in capital to 208 cooperatives, both consumer and worker/producer types.[73] While its current loan portfolio of around $200 million includes significant lending for a variety of purposes—including charter schools and affordable housing—lending to cooperatives remains a strategic imperative, and it promises to become more important in coming years.[74]

In 2014, Capital Impact Partners helped organize a working group of co-op lenders that continues to meet regularly via phone calls and at various conferences—and to explore together how they can more effectively finance cooperatives. The group includes the Local Enterprise Assistance Fund (also associated with ICA Group), the Cooperative Fund of New England, Shared Capital Cooperative (formerly Northcountry Cooperative Development Fund), National Cooperative Bank, The Working World, and the Ohio Center for Employee Ownership. Topics the group has discussed include technical assistance to others to support the growth of lending to cooperatives, building the co-op lending pipeline, cooperative conversions in low-income communities, and broad field-building challenges and opportunities.[75]

Many of these CDFIs fund worker ownership conversions. In one example, in 2014, the Cooperative Fund of New England and Coastal Enterprises, Inc., joined forces to finance a $5.6 million worker buyout from retiring business owners of three rural Maine businesses and converted those businesses into the 62-member worker-owned Island Employee Cooperative.[76]

Most recently, in 2015, Capital Impact Partners established the National Cooperative Grocers Development Cooperative (NCG-DC) Loan Fund, a partnership with the National Cooperative Grocers, which provides financing to food cooperatives seeking to expand, consolidate debt, and make capital improvements. Member cooperatives invest in the NCG-DC Loan Fund, which lends money to other members. The fund has made one investment so far.[77]

Capital Impact Partners also launched a grant program in 2015, the Co-op Innovation Award, a small pool of money for national organizations working to increase coops in low-income communities, specifically focused on scale and replication. The first two recipients were the U.S. Federation of Worker Cooperatives and the Democracy at Work Institute.[78]

Finance has a vital role to play in advancing cooperatives as a tool for job creation and reducing wealth inequality.

CONCLUSION

This survey shows key areas poised for growth and social impact, indicating where finance can play a vital role.

In financing worker-owned cooperatives, CDFIs have a potentially powerful role to play. These financing organizations can be particularly effective in entering new territory when they form working groups—like the group of co-op lenders formed in 2014 by Capital Impact Partners—exploring together how to more effectively finance cooperatives.

Impact investors have a potentially vital role to play in financing transitions to worker ownership. There has been surprisingly little attention to worker ownership among impact investors, who tend disproportionately to focus on publicly traded firms. The baby boom entrepreneur transition offers a large opportunity to learn to invest in ways that more directly benefit workers. An illustration of this approach is the Regenerative Finance group of millennial impact investors, who supported the startup of the Renaissance Community Co-op in Greensboro, North Carolina. Similarly, a group called the Southern Grassroots Economy Project is piloting the development of a Southern Reparations Loan Fund to jump-start worker cooperative development in marginalized southern communities.[79]

Local governments are poised to advance worker ownership as an engine for job creation. A small but growing number of state and local governments are developing strategies to offer financial support to these businesses and are creating employee ownership technical assistance centers.

It is clear that community wealth building approaches centered in broad-based ownership of business are poised to grow and can be important tools for addressing the economic inequality challenges that we face. Finance cannot do it alone. Yet it is an essential partner, and potentially a powerful force in leading this work. The cooperative models highlighted here shine light on diverse ways to build the partnerships between development and finance. And, by forging these connections, finance and community development can work together effectively to build community wealth and a truly inclusive economy.

ADDITIONAL RESOURCES

- ***Case Studies: Business Conversions to Worker Cooperatives,*** Project Equity, April 2015, http://www.project-equity.org/case-studies-business-conversions/download/
- ***The Lending Opportunity of a Generation: FAQs and Case Studies for Investing in Businesses Converting to Worker Ownership***, by the Cooperative Fund of New England, Project Equity and the Democracy at Work Institute, 2016, http://www.project-equity.org/wp-content/uploads/2016/02/LendingOpportunityOfAGeneration_WorkerCoopConversionsFAQ_CaseStudies.pdf
- ***Worker Cooperatives: Pathways to Scale***, by Hilary Abell, The Democracy Collaborative, June 2014, http://democracycollaborative.org/content/worker-cooperatives-pathways-scale
- **Direct public offerings**, see Cutting Edge Capital, http://www.cuttingedgecapital.com/financing-strategies/
- **Cooperation Works!**, a national network of cooperative developers, http://www.cooperationworks.coop/
- **Free feasibility consultation**, contact the Democracy at Work Institute, conversions@institute.usworker.coop; http://institute.coop
- **Service Provider Directory,** Democracy at Work Institute, http://institute.coop/service-provider-directory

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