13 WAYS TO FINANCE YOUR EMERGING WORKER COOPERATIVE …

A GUIDE FROM BRED

1. Out of pocket:
If your worker-owners have the savings, you can certainly use it to start a worker cooperative! But obviously this doesn't work for everyone.

2. Worker-owner capital account contributions:
Once you are operating, you can reserve a portion of worker-owner wages or distributions of surplus profit as a contribution to the worker's capital account—it doesn't help you open the doors, but it does give the ability to build reserves and make investments in the business.

3. Loans from friends and family:
This seems easy, but watch out—there are actually complicated Securities Law issues even when you borrow money from a close friend or family member.

4. Traditional business lending:
This is certainly an option: for instance SBA loans are a common source of startup capital for small business of all sorts. However traditional lenders may not be familiar with coops, and may require personal guarantees/collateral from individual worker-owners. This can be a problem when the worker-owners do not have sufficient financial assets to guarantee a loan, or when the loan is not secured (for instance, like a mortgage on a commercial property). And some lenders may want to get into the credit history of all your worker-owners. But despite all this, don't rule it out!

5. Credit Unions:
Due to federal regulations demanded by the big Wall St. banks, most normal credit unions can't do as much business lending as they might like. Community Development Credit Unions—which have a special designation because they have a mission of serving low-income communities, can.

6. Gift certificates/prepurchases:
This is a really easy way to raise money from your supporters that avoids all the regulatory complications involved with debt and securities. Get your folks to buy in bulk in advance of your launch, and deliver the goods afterwards, ideally over a long period of time.

7. Crowdfunding:
Just ask the internet for money! It's like magic. But don't underestimate the labor and costs of effective videos and producing/mailing enticing rewards for donation-based campaigns like Indiegogo/GoFundme. And don't forget—you are likely not a non-profit, so a "donation" is actually taxable income. Increasingly, debt and equity crowdfunding models for small business financing are also possible, where you promise people a financial reward or even a share of the business instead of a totebag. Calvert's ourstoown.org platform, which just started operating in Baltimore, may be an interesting option to consider. Kiva Zip (zip.kiva.org) may be another option to explore.

8. Philanthropic lending:
Community foundations (and other small place-based foundations) are increasingly getting into inclusive economic development—it might be possible to find a sympathetic board member or program officer and find a way to get a low-interest loan made from the foundation's endowment. And philanthropy can potentially be a source for grants for trainings, technical assistance, or trips to visit other coops, especially if there's a specific underserved community your coop is building economic power in that the funder wants to support.

9. Co-op friendly lenders

These are your new besties. Lenders who understand why co-ops are great, and why the template for standard business lending may not fit worker co-ops 100%, are few and far between but we have one that works locally, and several that work nationally, which you should definitely explore working with. In Baltimore, our coop lender is called BRED: Baltimore Roundtable for Economic Democracy (hey!). We make loans to cooperative businesses using a non-extractive model of financing pioneered by our partner, The Working World. We're part of a national network of locally-rooted coop loan funds called The Financial Cooperative. baltimoreroundtable.org / tww.org

Other coop-friendly lenders we like: Shared Capital Cooperative (formerly the Northcountry Cooperative Development Fund) is a cooperative of cooperatives funding cooperatives. They make relatively standard small business loans, but payments you make go towards building cooperative economic power across the country: sharedcapital.coop. Also check out the Latino Economic Development Center - they make low-interest loans with attractive options for building credit, and they're interested in supporting worker-owned businesses in Baltimore: ledcmetro.org.

10. Direct Public Offerings/ Sales of Preferred Stock

A Direct Public Offering (DPO) is kind of stock offering that allows you to sell stock directly to investors in your state—it's kind of like crowdfunding's older, more complicated, but possibly more effective sibling. A composting worker coop in Boston, for instance, recently raised $340K in capital through such an offering. Cutting Edge Capital are the masters of this stuff (cuttingedgecapital.com) Similarly, you can do smaller private sales of stocks to "accredited investors"—Equal Exchange raised $4 million this way in 2015. In both cases, you structure the stock so it's nonvoting and you target investors who want a mission-driven patient investment with a return from dividends, not speculative windfall. (On the latter, you can, like Equal Exchange, mandate that the shares can only be sold back to the company)

11. HUD 108 Loans/New Market Tax Credits

(and other complicated federal, state, and local community development funding sources)

The Federal Government puts a lot of money into community economic development. So do states and cities. With the right people helping you out, and a good deal of technical sophistication, you might be able to access these funds. One thing we should be doing as a movement is making these kind of funds more easily accessible to community-driven worker coop projects.

12. Owner financed conversion

If you are converting an existing business to worker-ownership, one easy way to raise the necessary capital to buy out the owner is to have the owner lend it to the new worker-owners—essentially, you are paying the costs of the buy out back over time, with some modest interest payments to make this worth it for the old owner.

13. Consumer/Worker Hybrid Cooperatives

For co-ops with a projected substantial base of regular repeat customers (like a bar or a grocery), hybrid models might make sense—where you split ownership between worker-owners and consumer-members. The advantage here is that you can sell small membership shares to a large number of customer-members to raise the capital you need. $100 from each of 12 worker owners is a small amount, but $100 from 1,000 consumer members is another thing entirely. Plus this gets the community directly invested in the success and direction of the project.

This is only a starting list.

Coops are often innovators when it comes to creative approaches to financing, so dream big!