RAISING CAPITAL FOR WORKER COOPERATIVES

by John W. Lawrence

At the National Conference of Democratic Workplaces, two workshops focused on the challenges of raising capital for worker cooperatives. The first workshop presented a series of case studies of innovative strategies for raising capital. In the second workshop “Building Community Wealth,” lenders and foundations with a track record of investing in worker cooperatives described their mission.

Saru Jayaraman, co-founder and executive director of the Restaurant Opportunities Center of New York (ROC-NY; www.rocny.org) described the odyssey of raising money to found the cooperative restaurant, COLORS (www.colors-nyc.com). COLORS was the dream of a group of employees of the former Windows on the World restaurant which had been at the top of the World Trade Center. At first, the workers hoped to get some of the money contributed by people all over the country that poured into lower Manhattan following the 9/11 incident. More than $2 billion dollars was sent by people to New York to help in the aftermath of the attacks, according to the Sept. 18, 2005 Pittsburgh Post Gazette. However, the Lower Manhattan Development Corporation did not come through. The workers resorted to aggressive activist tactics including protesting during a board meeting, yet none of the money was forthcoming.

ITALIAN CO-OP LOAN TO COLORS

Not to be deterred, over the next several years COLORS painstakingly pieced together $2.2 million from small lenders and foundations. A major breakthrough occurred when COLORS secured a groundbreaking $500,000 loan from a co-op in the Legaco-op network in the Emilia-Romagna region of Italy. Legacoop is a network of 8,000 consumer, farmer and worker cooperatives which produces everything from fashion to specialty cheeses. Each co-op returns 3% of profits to a national fund for cooperative development.

It takes several years for a new restaurant in NYC to start generating profits and COLORS’ fund raising is ongoing. Saru pointed out that co-ops with members who are primarily people of color face a double hurdle--overcoming capitalist financial institutions’ hesitancy to lend not only to co-ops but also to non-white people.

FINANCING A WORKER BUY-OUT

Vincent Purdy, executive chef at Rene Pujol Restaurant Cooperative (www.renepujol.com) in New York City, described how they also had to innovate to get financing to convert an existing
French restaurant in the theater district into a worker co-op. Initially, banks refused to lend to Rene Pujol unless each co-op member provided collateral to personally guarantee the loan. Many of the worker-owners could not afford to take such a risk. Consequently, Vincent secured a personal loan to lease the restaurant. He subleases the restaurant to the worker co-op. The deal made sense because they already had a successful business. In the worst case scenario in which the worker co-op failed, the lease would come back to Vincent. Because of the valuable location of the restaurant, it was possible to take this risk. This deal was contingent on the support of the former owner, Rene Pujol, who wanted to see the worker co-op succeed.

THE VALUE OF A GOOD STORY

The value of a "good story" as a fundraising tool was pointed out by Omar Freilla, founder and executive director of Green Worker Cooperatives (GWC), a new nonprofit organization that supports the creation of worker-owned, environmentally friendly manufacturing cooperatives in the South Bronx. GWC (www.greenworker.coop) became a nonprofit in order to raise capital. They have received donations from foundations, religious institutions and individuals. In raising money, Omar stressed the importance of communicating your passion and having a "good story," and to get out and tell it.

A used construction goods retail business is the first worker co-op GWC is developing. Whenever a building is torn down in NYC, the building materials are processed through a temporary transfer station in the Bronx. Much of the building materials are recyclable. GWC has done a feasibility study, and identified potential customers. They are now in the process of finding the capital to open the worker co-op. Their goal is to raise $700,000. GWC received a large donation after Omar described the project at a conference. A foundation director was in the audience and was moved to provide the group with funding. To date, GWC has raised almost half of their projected start-up costs.

TIME DOLLAR BANKING

Terry Daniels of Long Island Home Enterprise (LIHE) described how the co-op, which refurbishes below-market value houses in Long Island, NY, has created an internal time dollar banking system that allows LIHE to raise "sweat capital" in addition to monetary capital. LIHE members can invest money or time in the co-op at an hourly conversion rate of $20 per hour. For every hour a co-op member works on an LIHE project, or $20 they invest in LIHE, they earn credit. Members must leave their investment in LIHE for at least two years. Members can "withdraw" credit from the system through time bartering. For example, if a carpenter needs the help of a plumber on a home project, he can withdraw time from the LIHE bank and the plumber can log time. Profits from LIHE are distributed based on the number of hours logged into the "bank."

THE FIRST COMPANY-SPECIFIC CERTIFICATE OF DEPOSIT

Equal Exchange (www.equalexchange.coop), in
partnership with Wainwright Bank, a Massachusetts-based socially progressive bank (www.wainwrightbank.com), has introduced what may be the first company-specific CD issued in the United States. Investors can purchase a unique certificate of deposit at a competitive interest rate (currently 4.2%) through Wainwright Bank. The capital goes to creating a line of credit for Equal Exchange’s fair trade coffee and chocolate business. Equal Exchange has been growing quickly --100% since 2002, and 700% since 1995. This line of credit will enable the coffee-manufacturing co-op to continue to expand.

POTENTIAL LENDERS

Below are lenders available to help start-up and existing cooperatives:

• The Cooperative Fund of New England (www.cooperativefund.org) is a community development loan fund that is a bridge between socially responsible investors and cooperatives, community oriented non-profits, and worker-owned businesses in New England (and parts of New York). They have $5 million in capital and prioritize lending to enterprises that serve low-income communities. For more information, contact Mary Hoyer (mhoyer22@comcast.net).

• The Local Enterprise Assistance Fund (LEAF; www.leaffund.org) provides financing and development assistance to community-based and employee-owned businesses that create and save jobs. Socially conscious investors can invest with LEAF. The fund works closely with the ICA Group (www.ica-group.org) which provides business consulting and technical assistance services, education, and financing to clients working in or seeking to start worker-owned and community-based businesses. Contact: Jim Megson (jmegson@ica-group.org).

• Seedco Financial Services (SFS) is a community development financial institution (www.seedco.org/financialservices/), a subsidiary of Seedco that creates opportunities for low-wage workers and their families. Seedco works with community partners to develop and operate programs that help people join the workforce and achieve economic self-sufficiency, and that promote asset building for residents of economically distressed communities. SFS supplies technical assistance as well as financial assistance, usually in the form of below market rate loans to community organizations and businesses. Contact: Pedro Gomez, at info@seedco.org or call (212-204-1345)

• Northcountry Cooperative Development Fund (NCDF; www.ncdf.co-op) makes loans to consumer cooperatives, worker-owned cooperatives, and individuals looking for cooperative housing. Started by a successful food co-op, NCDF primarily lends to organizations in the Midwest and has about $11 million in assets.

• NCDF in co-operation with the US Federation of Worker Cooperatives (USFWC; www.usworker.coop) has started a new
Worker Ownership Fund with goal of providing capital to worker co-ops throughout the U.S. The fund already has $100,000 and has a goal of raising $1,000,000. Both institutions and individuals can invest in the fund. Besides providing capital to worker co-ops, the fund will also provide technical assistance. The fund has formed a technical support advisory board made up of people who have volunteered to serve as mentors for new worker co-ops. For more information contact Kerstin Larson (kerstin@ncdf.coop) or Margaret Lund (margaret@ncdf.coop).

• NCB (www.ncb.coop), formerly National Cooperative Bank, focuses on cooperative expansion and economic development." With $6.2 billion in assets, NCB's financial services have been directed towards niche markets such as housing cooperatives, Employee Stock Ownership Plans and the nonprofit sector.

GRANTS

NCB and several partner organizations recently initiated a new program, Food Co-op 500 (www.foodcoop500.coop). The goal of the program is to increase the number of grocery co-ops in the United States from 300 to 500 by 2015. Food Co-op 500 provides both grants and technical assistance. This year NCB is planning to start a similar program for worker co-ops. Perhaps they will partner with the Ownership Fund started by NCDF and USFWC described above. For more information, contact Richard Dines (rdines@ncb.coop).

The Catholic Campaign for Human Development (CCHD; www.nccbuscc.org/cchd/) is a domestic anti-poverty, social justice program. Its mission is to address the root causes of poverty in the U.S. through promotion and support of community-controlled, self-help organizations and through transformative education. CCHD offers community organizing grants as well as economic development grants to assist poor and low-income people to develop new businesses and create new jobs. CCHD seeks to promote greater ownership of assets and participation in decision-making by low income people. Economic development grants include planning grants up to $10,000 and implementation grants up to $50,000. Contact: Randy Keesler (rkeesler@usccb.org)

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