

Financing Worker Cooperative Startups in Minnesota

Mary Browning

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Startup funding for worker cooperatives can come from myriad sources. The hitch is that there just aren't that many worker cooperatives existing here in Minnesota or elsewhere to define predictable, proven resources. According to the United States Federation of Worker Cooperatives, "Worker cooperatives are business entities that are owned and controlled by their members, the people who work in them". Though Minnesota is a leader in member/producer cooperatives, only about 1% off all cooperatives that exist nationwide are worker cooperatives. Thus, any group willing and interested in starting a worker cooperative will to a certain extent be pioneering in an area where it may take a tolerance for trial and error exploration of different funding prototypes to find the right mix of start-up funding. On the plus side, finding success in funding a fledgling worker cooperative could unleash significant potential for creating unique and revolutionary ways of making a living for the worker-owners of the enterprise.

This paper is meant to be a source for ideas and to get the creative juices flowing. It is not an exhaustive list of resources. Further, there is no guarantee that any one of these suggested sources will work for your group of potential worker-owners. They are possibilities based upon their funding criteria listed on their respective websites. Ultimately it will depend on a combination of the funder's criteria at the time you are seeking funding (this can and will change over time), and your success at articulating an attractive proposal to them. Some of the lenders listed specifically state on their website that they will fund worker cooperatives, some do not.

Further, because there aren't that many proven sources for funding worker cooperatives, some of the information below relating to recent cutting edge dynamics of social enterprise funding has been extrapolated for application to the worker cooperative arena. Please note that funding a social enterprise and funding a worker cooperative are not necessarily the same thing, but the emerging social enterprise model for finding creative funding sources and growing a business can inform the search for resources for cooperative start-ups, especially when there is a grass-roots, community development aspect to the worker cooperative. Thus some examples from social enterprise have been used here, but no assumption is being made that your cooperative will or should be a social enterprise. Some social enterprise funds specifically do not fund cooperatives, or only fund non-profits.

Several resources are listed on the following pages. You may be part of a group of potential work cooperators that, because of the type of enterprise and individual track records of success in your chosen field, you won't have much trouble getting loans. Regardless, likely you will at least need to spend some time educating potential lenders at the same time you are educating yourself about the cooperative structure and how it relates to your prospective business as well as their lending criteria. Most important, however, is to gather knowledge and inspiration from the many examples of people getting together, starting with nothing, and slowly growing a profitable, sustainable enterprise.

For instance, one such exciting example from the social enterprise arena comes from rural India, where three young entrepreneurs, using their own personal savings, started a small power plant that converted rice husks into electrical power; they have since developed the enterprise into 75 power plants throughout the region with many more scheduled for future construction. (Dichter, Sasha, Katz, Robert, Hoh, Harvey, Karamchandani, Ashish, "Closing the Pioneer Gap": Stanford Social Innovation Review).

Initial Reading

As mentioned above some of the websites listed below are intended for social enterprise development, but most of the information and resources appear to have the potential to apply to worker cooperatives as well. These resources show promise regardless of whether or not your business plan falls into the social enterprise realm. Before you start searching for funding or even start developing your business plan the following may be helpful to give an overall introduction to funding sources, as well as to assist in visioning how to begin a venture:

* Capital Sources For Social Enterprise: <http://www.socialenterprise.net/publications/emerging-topics-paper-series.html> A must read for starters. A succinct resource with substantive lists and strategies.

* Where to Get the Green: Sources of Funds for Green Entrepreneurs : (<http://greenforall.org/wordpress/wp-content/uploads/2012/06/Get-the-Green.pdf>). While this publication is geared toward green enterprises, many of the ideas for seed funding apply to other types of entrepreneurial endeavors and could be applied to cooperative start-ups. See also (<http://greenforall.org/programs/business-engagement-strategies/crowdfunding-101/>).

* Cutting Edge Capital: (<http://www.cuttingedgecapital.com/>). Cutting Edge Capital specifically mentions cooperatives as entities they can provide fundraising services for. The website is a mix of services and key information.

* Closing the Pioneer Gap: (http://www.ssireview.org/articles/entry/closing_the_pioneer_gap) Even if you don't have time to read the entire article, be sure to look at the charts for "Scaling a Business" and "The Four Ps of Enterprise Grantmaking."

SOURCES OF FUNDING

Funding can come from friends and relatives in the form of small loans or donations, or from large foundations or social enterprise funds that may partner with you on a higher level. It is also possible to be more creative: arrange to contract with a funder for a portion of revenue rights in exchange for payments to the start-up; create funding through a membership cooperative or a B Corp that has worker cooperative characteristics (assuming the B Corps will make it to Minnesota). There is much room for ingenuity.

There are also community or regional foundations which support economic development in Minnesota. In addition, some governmental groups may have the potential to provide seed money, depending on the intended locale and type of worker cooperative to be developed. Some of these groups specifically intend to assist cooperative development, but others may not have much experience providing such assistance. Again, you may need to expend effort playing the role of the pioneer in educating funders as to how their funding criteria will fit the proposed business plan. The resources listed below are a starting point for your search:

Short List of Potential Funders

- A. Local Economic Development Foundation Loans
- B. Small Business Administration (SBA) Lending Pilot Program/(SBA) 7A Loans
- C. USDA Rural Development Loans
 - i. Business and Guaranteed Loans
 - ii. Rural Energy for America Program Loan and Grant Program
- D. Business plan competitions

E. Social enterprise funding, including foundation funding and social enterprise investment funds

F. Various Crowdfunding sources

A. Minnesota Regional Development Foundations

* Central Minnesota Initiative Foundation Loan Funds will finance new venture risk with the goal of supporting the local economy through quality job creation. (http://www.ifound.org/business_index.php).

* The Northland Foundation Business Finance Program offers “flexible financing” to start new businesses that meet “certain financial and social guidelines.” (<http://www.northlandfdn.org/business-finance/>).

* The Northwest Minnesota Foundation sponsors both the Business Financing and the Entrepreneur Development Programs. Either can be used for seed money, although the Business Financing Loan is strictly for gap funding. (<http://www.nwmf.org/business-development.html>).

* The Southwest Initiative Foundation Business Finance and Loans Programs supports “regional business growth by providing gap financing for new and expanding businesses.” Their Microenterprise Loan Program also provides ongoing technical support throughout the life of the loan. (<http://www.swifoundation.org/loans.html>).

* The Southern Minnesota Initiative Foundation Entrepreneur Program provides early state start up investments, loans, technical assistance and mentoring. (<http://www.smifoundation.org/?q=entrepreneurs>).

* Northcountry Cooperative Development Fund (NCDF) NCDF in Minneapolis primarily lends to already established cooperative enterprises, but may in some cases be willing to fund start-ups. (<http://www.ncdf.coop/>).

B. Small Business Administration Intermediary Lending Pilot Program/(SBA) 7A Loans

Traditionally the SBA did not fund loans to worker cooperatives. Several years ago, however, after lobbying by cooperative groups, the SBA chose a New England Community Development Financial Institution, which lends to worker cooperatives, to disburse SBA funds through the SBA’s new Intermediary Lending Pilot Program. Another of the organizations to receive this pilot funding is the Central Minnesota Business Financing Corporation (CMDC).

It may be possible to receive some portion of start-up assistance through the SBA 7(a) loan program through the CMDC, since the SBA has clearly evidenced its recognition of the validity of supporting worker cooperative through its funding of the New England financial institution. It is worth a phone call.

* www.geo.coop/story/sba-recognizes-worker-cooperatives-small-businesses

* www.sba.gov/about-sba/sba_initiatives/intermediary_lending_pilot/intermediary_lending_pilot_program.

* www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/sba-loan-programs/7a-loan-program.

* www.cmdcbusinessloans.com/tools-resources/sba-504-sba-7-a-comparison.

C. USDA Rural Development Loans

Business and Industry Guaranteed Loans and Rural Energy for America Program Loan and Grant Program. Unlike the SBA, The United States Department of Agriculture has traditionally funded

cooperative development under their rural economic development program, but the cooperatives that have been funded have typically been agricultural producer cooperatives and membership cooperatives.

Margaret Bau has assisted in the formation of several worker cooperatives in Wisconsin and it may be worth contacting her if you are interested in accessing funds this way.

* www.rurdev.usda.gov/BCP_gar.html * www.rurdev.usda.gov/bcp_rcdg.html

*margaret.bau@wi.usda.gov

D. Business Plan Competitions

Competitions can provide mentoring and start-up services as well as funds (though note some are university sponsored and require student status). Few of these specifically mention worker cooperatives but there is no reason why worker cooperatives would be barred from competing like any other business in its conceptual phase. Check with the sponsor first before putting a lot of time and energy into meeting competition requirements, however. This may be another area where your business could be a pioneer. Competitions range from high stakes tech start-up partnerships to grass-roots community based businesses.

* BPC has a list of different business plan and entrepreneurship competitions, and includes some social enterprise competitions. (www.bizplancompetitions.com).

* The University of Minnesota's Acara Challenge process for social-environmental ventures (requires course registration). (acara.environment.umn.edu/wp-content/uploads/2013/10/Acara-Handbook-2013.pdf).

* Global Social Venture Competition is a "global competition to launch the next generation of social enterprise." (www.gsvc.org).

* The William James Foundation works to "educate and support entrepreneurs who are starting or expanding for-profit businesses that have built social and/or environmental values into how they make money." (www.williamjamesfoundation.org).

* The Buckminster Fuller Challenge supports "the development and implementation of a strategy that has significant potential to solve humanity's most pressing problems" (www.bfi.org/programs/challenge).

* The Intel Global Challenge at UC Berkley "is where the best engineers and scientists present how they plan to make the world a better place through their innovations and entrepreneurial skills." (www.entrepreneurshipchallenge.org).

E. Social Enterprise Funding Resources and History

There has been a lot of excitement generating about social enterprise funding. Social enterprise investment funds work to attract venture capital for enterprises that fulfill some kind of social good. Investors want to invest in social enterprises. These funders could provide needed capital, and depending upon the fund or organization there may be a fairly loose definition of what constitutes a social impact organization, which could be beneficial for some cooperatives. So far, however, many of these funds are not being accessed by social entrepreneurs and they are rarely structured to invest start-up or seed money; this is not always the case, so do not ignore this potential resource.

There are individuals and organizations that are currently working to iron out the kinks in the social enterprise funding schemes, but there is more work and development needed in this area. The issues

partly revolve around a requirement from lenders that the businesses in which they invest have an established record of a certain level of success. Further, venture capitalists, while desiring to invest in the social good, still harbor expectations of a quick turnaround of about a 15% return on investment. These expectations are considered unrealistic in the social enterprise realm. Traditional venture capital expectations are being applied in a realm where it just may not really be workable, short-circuiting the intent of the investors to invest in societal problem solutions. There are some groups such as Social Enterprise Associates that do not appear to be entirely constrained by this dynamic, so again, do not ignore this potential resource.

Again referring to the article about the three young entrepreneurs from India, (op cit pg 1) the following concepts gleaned from their story would apply to many worker cooperative start-ups:

Initial Efforts: In addition to the original owner/entrepreneurs investment of their own money, this business was initially funded through pulling together a creative mix of public and private partnerships, competitions, and donation funds to keep it going until profits from the power plants began to accumulate.

Slowly Building Scale: The article clearly defines the social impact market in terms of market dynamics, as well as giving a roadmap that could apply to anyone interested in cooperative start-up for a social enterprise venture, or any business venture for that matter. The rice husk/power plant is a great example of starting modestly and slowly growing the enterprise as new experience and success starts to open up new sources of capital. Some have likened social enterprise to the “slow food” movement. You will miss the benefits of full blown development if you hurry through the stages. The same argument can be made for worker cooperative development. This is a rapidly emerging field that is currently developing in terms of the mix of problem identification and creative answers, hence the term “pioneer gap”.

Alignment of purpose and identification of milestones: The authors define enterprise philanthropy as having “an aligned purpose; a focus on a profitable proposition; clear progression through operating milestones; and persistence through the many cycles of iteration of a new business model.” They note that failure can often be due to a lack of stakeholder alignment which can also hinder the gradual development of funding sources. This echoes an historic failure of a garment-making cooperative established during the Roosevelt years in rural New York State back in the 1930’s. Made up of experienced garment workers from New York City, and initially promising, a failure to establish comprehensive coordination of timing and intent between funders and those implementing the project doomed the cooperative from the beginning.

Strictly Social Enterprise Funds

* Social Enterprise Associates is a consulting firm “offering business acumen, managerial experience, financing opportunities, and practical research to business and community efforts seeking social change good.” www.socialenterprise.net/

For more go to: www.npenterprise.net/sites/default/files/List%20of%20Social%20Capital%20References.pdf

Funding Resources that Apply to Both Social Enterprises and Non-Social Entrepreneurial Enterprises

* Micro Ventures provides loans for “startups and existing businesses” of \$100,000 to \$500,000: Microventures does not mention cooperatives on their website, but it could be worth investigating as there

is no real reason why they shouldn't consider funding a cooperative:
www.microventures.com/business_funding.

* Draper Fisher Jurvetson funds “exceptional entrepreneurs with big ideas that disrupt existing categories at seed, early and growth stages. We're focused on companies specializing in consumer and enterprise IT, commerce, cloud, enterprise, big data, and bold new technologies.” www.dfj.com/about/index.php

* Kiva works as intermediary for micro lenders and entrepreneurs. Loans are given at 0% interest. There is a process involved where the entrepreneurship must be “endorsed” by a “trustee.” The trustee can be one of the small business centers. www.kiva.org

F. Crowd Funding

Embarking on a traditional “crowdfund” campaign is another way to get some donation funds. Donations obtained through crowdfunding are often, but not always, smaller amounts – up to about \$5000, but they can be much larger. Crowdfunding can have the advantage of being community sourced, so the community has a stake in the success of the business. Crowdfund platforms that provide loans are another way to go but that involves some legal aspects.

Traditional crowdfunding originally applied to the idea of getting many small donations from individuals in a community of friends, relatives or local “village.” More recently a newer type of crowdfunding has developed which involves selling equity stakes in private companies to wealthy investors under the Crowd Fund Act.

KickStarter and indiegogo are examples of the original crowdfunding. Often this also involved some sort of symbolic or token equity return for the donation, defined in the crowdfund campaign, such as a community art work created by an arts organization in exchange for the community's response to the arts organization's funding campaign.

Cutting Edge Capital, which engages in the equity-type crowdfunding scheme, breaks down the legal differences in crowdfunding schemes at www.cuttingedgecapital.com/crowdfunding/, and if you plan to attempt any crowdfunding, either through contributions or investments, you should review this. Obtaining funding under the Crowdfund Act, which could include debt, requires a registered intermediary for a Direct Public Offering. Using crowdfunding to sell equitable interests may or may not jive with the worker cooperative structure, but loans would be less problematic. There is room for creativity and adaptability.

Crowdfunding Resources - Donations

* Kickstarter is good for smaller fundraising campaigns but can also be used to gain higher amounts of capital in some situations. (www.kickstarter.com/projects/konda/what-makes-you-come-alive-bring-it-to-the-hub-0).

* Indiegogo is another crowdfunding/donation platform that appears to support larger campaigns amounts. (www.indiegogo.com).

* www.networkforgood.org.

* iyby stands for “in your back yard” (as opposed to “not in my back yard” or “nymbys”) and supports community environmental related projects through crowd-funded donations. (www.iyby.org).

* See also: www.inc.com/magazine/201306/eric-markowitz/how-to-choose-a-crowdfunder.html.

Crowdfunding Resources – Equity

* www.EquityNet.com * (www.cuttingedgecapital.com).

Funding for Established Worker Cooperatives

The following Funds/Foundations can provide funding to businesses with an established record of success:

* Sartori Capital (<http://www.satoricapital.com>).

* FB Heron Foundation (<http://www.fbheron.org/>).

* Good Capital (<http://www.goodcap.net/ourfund.php>).

* The Calvert Foundation (<http://www.calvertfoundation.org/lending/criteria>).

* Minnesota Cup (<http://www.breakthroughideas.org/awards-social-entrepreneur>).

* Northcountry Cooperative Development Fund (NCDF) (<http://www.ncdf.coop/>).