POWER IN PURPOSE

POLICY STRATEGIES TO BUILD A MORE INCLUSIVE ECONOMY WITH COOPERATIVES

BRETT THEODOS,
LEIHA EDMONDS, AND
CORIANNE PAYTON SCALLY

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On the cover:

Cooperators discuss strategies to build an enabling environment at the 2019 Cooperative IMPACT Conference just outside Washington, DC.

Photo: NCBA CLUSA

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EXECUTIVE SUMMARY

In this report, we provide an overview of the role cooperatives can play in building healthy, equitable, and sustainable communities, and explain how to advance that work through federal, state, and local policy. The policy objectives we present are intended not to simply grow the field of cooperatives, but to enhance the work of cooperatives that address economic and racial disparities in the United States.

Major 20th-century federal policy initiatives enabled U.S. communities historically excluded from resources and services to use cooperatives to band together and create new opportunities. From bringing electricity to rural America to accessing financing and credit services for people with low incomes, cooperatives have addressed significant market failures and offer an inclusive model of employment and business ownership. For more people to have the ability to improve their health and wellness, they need good jobs, stable housing, and access to critical resources. Equally important is an empowering environment that provides community members opportunities to develop and exercise leadership skills to influence policies that impact their lives, families and neighborhood. Today, cooperatives with engaged memberships

Photo: Sam Levitan

A policy discussion at the 2019 Cooperative IMPACT Conference.

that aspire to **cooperative principles** offer solutions to some of the country's biggest issues. For example, cooperatives help renters purchase homes, help people set up checking accounts or take out loans, help families access affordable child care, help older adults find reliable home care, and help people access fresh food.

Moreover, crises like the COVID-19 pandemic and the ongoing violence of racism harm communities of color, which are experiencing higher rates of death due to the coronavirus, higher mortality rates during police encounters, and higher unemployment rates. As policymakers consider how to help their communities recover from these crises, new initiatives are critically important. Cooperatives offer a business model informed by the needs of workers and their communities, and they are striving to mitigate layoffs, protect the health of workers and clients, and support the struggle for racial justice.

Cooperatives are part of the solution to such problems, but federal, state, and local government policies are needed to help cooperatives operate at their full potential. In this report, we describe four broad policy goals and six specific policy objectives that policymakers can use to improve how cooperatives serve their communities. The four near-term policy goals are as follows:

- **LEVEL THE PLAYING FIELD.** Cooperative sectors can be disadvantaged by federal, state, and local policy.
- **HELP GROW THE NUMBER OF COOPERATIVES IN UNDERSERVED MARKETS.** Policy can do this by helping new cooperative businesses start up, converting existing businesses into cooperatives, preventing cooperatives from demutualizing by selling the cooperative to investors, and preventing cooperatives from failing.
- **HELP GROW THE SIZE AND MARKET SHARE OF EXISTING COOPERATIVES.** Cooperatives benefit from increased employment (or membership) and higher revenues or profitability.
- **SUPPORT AND INCENTIVIZE COOPERATIVES TO REACH UNDERSERVED PEOPLE AND COMMUNITIES.** Policy supports should target cooperatives that provide resources to people and communities who are underserved by mainstream institutions and businesses.

Moreover, the six specific areas where policy can help cooperatives build an inclusive economy are as follows:

- **POLICIES DIRECTLY AFFECTING COMMUNITIES OR CUSTOMERS.** Policymakers can improve policies for communities and customers, thereby supporting cooperatives' inclusive-growth work. Such policies can involve consumer finance, child care, food access, and affordable housing.
- **ENABLING LEGISLATION.** States can adopt general incorporation statutes to provide a more inclusive framework enabling cooperatives of all types to form and operate effectively in their state of origin.
- **ELIGIBILITY AND REGULATION.** Agencies can expand programs (such as the Community Development Block Grant) or adjust regulations (such as the Workforce Innovation and Opportunity Act) to better include cooperatives.
- **FINANCIAL SUPPORT.** Cooperatives can advocate for dedicated local and state government funding as well as tax credits and other subsidies to support employee ownership and the conversion of businesses to worker cooperatives.
- **TECHNICAL ASSISTANCE AND TRAINING.** Congress can enhance funding for technical assistance and training via the U.S. Department of Agriculture's Rural Cooperative Development Grants (RCDGs) and Small Business Development Centers.
- **PREFERENCES IN CONTRACTING AND PROCUREMENT.** Policymakers can encourage preferential procurement and contracting processes for cooperatives with clear social mandates.

POLICY STRATEGIES TO BUILD A MORE INCLUSIVE ECONOMY WITH COOPERATIVES

The impact of COVID-19 threatens the resilience of workers, businesses, and communities with staggering job losses and untold local-business failures. As the pandemic ripples through the economy, people of color, workers with low incomes, and business owners are being disproportionately affected. To address these problems, federal, state, and local policymakers working to make their communities healthier and more inclusive and resilient are turning to the cooperative business model. By providing business supports and adequate financing and eliminating barriers to existing programs, policymakers can encourage cooperative businesses that preserve the benefits of local business ownership, save jobs, and build and sustain communities.

The policy environment—from city economic development initiatives to state enabling statutes to federal tax law—influences how cooperative businesses start up, grow, and thrive in their communities. Cooperatives operate in a policy environment designed primarily to address the needs of investor-owned corporations and individual proprietors. Though most cooperatives are corporations, the cooperative ownership model means that policies and regulations, if not well crafted, can unintentionally create barriers that exclude cooperatives or make eligibility and compliance complicated and costly.

In this report, we present ideas for how federal, state, and local policy can help cooperative businesses seeking to build inclusive economies develop. We begin by defining the cooperative sector and ways cooperatives positively affect people and communities. We then describe internal and external challenges that cooperatives face. Next, we present four intermediate goals to guide thinking around policy design and implementation, and we describe six specific areas of policy need. We conclude by discussing steps for advocacy and action that will advance these goals.

Photo: Seward Community Co-op

Minneapolis-based Seward Community Co-op worked with local artists to create murals honoring Black lives after the brutal killing of George Floyd.

This report is for audiences inside and outside the cooperative sector. For members of cooperatives and stakeholders in community development, economic development, and public policy, we hope to provide a better understanding of how cooperatives can build healthy, equitable, and sustainable communities—and how to advance that work.

We drew the themes and topics from a review of the literature on cooperative policy, 20 interviews with leaders in different cooperative sectors, and insights from roundtables hosted by NCBA CLUSA International and the Cooperative Development Foundation in nine regions across the U.S.

THE COOPERATIVE APPROACH

Cooperatives are democratically controlled member-owned business enterprises. They are formed to help small enterprises gain parity with large investor-owned competitors, to address market failures where neither the private sector nor the government provide a needed service, or to give consumers the choice of an enterprise and business model that better meets their common needs and aspirations.

In this report, we focus on three primary types of cooperatives as well as hybrid models. The three primary types are consumer cooperatives, marketing and purchasing cooperatives, and worker cooperatives. Hybrid models include elements of two types and have evolving work arrangements. As drawn from **"The ABCs of Cooperative Impact" (Theodos, Scally, and Edmonds 2018)**, cooperatives can be categorized into the following types:

- **CONSUMER COOPERATIVES:** Membership comprises people who want to buy goods or services from the cooperative. Consumer cooperatives operate in various sectors, including grocery stores, utility services, housing, insurance, and consumer finance (credit unions). Membership is most often made up of residents living in close proximity to the cooperative business. An example is the **Seward Community Co-op**, a cooperative grocery in Minneapolis located five blocks from where George Floyd was killed by police. Over 60 percent of worker-owners are people of color and 50 percent of worker-owners live within one mile of the store.[1] Responding to community needs, the cooperative participates in federal and state food assistance programs, provides discounts to shoppers participating in the Supplemental Nutrition Assistance Program and the Special Supplemental Nutrition Program for Women, Infants, and Children, sells bulk items and pantry staples at break-even pricing, and offers discounted memberships that can be paid off over time from patronage (i.e., the cooperative sends profits back to member-owners). In addition, it pays a minimum of $15 an hour to its workers, more than 50 percent of whom are people of color living within a mile of the store.[2]

COOPERATIVES ARE DEMOCRATICALLY CONTROLLED MEMBER-OWNED BUSINESSES FORMED TO MEET MEMBER NEEDS.

- **PURCHASING AND MARKETING COOPERATIVES:** These cooperatives serve members' marketing, processing, and purchasing needs. They are typically formed by independent businesses in service sectors such as retail, hospitality, and agricultural business (which includes farming, fishing, and forestry). For example, member-owners of the purchasing cooperative **CCA Global Partners** include small independent lighting and flooring businesses.[3] The joint purchasing and marketing cooperative helps business owners compete with big-box stores. Another example is **Cabot Creamery**, a marketing cooperative that provides its dairy farmer owners access to regional, national, and international markets that would not otherwise be available to independent producers.

- **WORKER COOPERATIVES:** These are businesses owned by some or all of their employees. In a typical worker cooperative, all workers receive a salary. At the end of each year the cooperative's net earnings are distributed among member-owners based on a membership-approved formula. Most worker cooperatives are small. An example of a larger worker cooperative is **Isthmus Engineering and Manufacturing**, a designer and manufacturer of custom automated equipment that grew from eight worker-owners in 1982 to 75 in 2020.

- **HYBRID AND PLATFORM COOPERATIVES:** These include two emerging models: consumer-worker cooperatives and cooperatives focused on workers in the freelance economy, which is often online and app based. Consumer-worker cooperatives are owned and managed by employee members and consumer members. This model is used by grocery and retail-based cooperatives, among other types. An example of a hybrid consumer-worker cooperative is the **Black Star Co-op** in Austin, Texas. Black Star is cooperatively owned by 3,500 people and organizations and is democratically managed by its workers through a worker's assembly. An example of a platform cooperative is the **Up & Go app**. Cooperatively owned by a group of housekeeping professionals, the app allows consumers to schedule house cleaning directly with housekeepers. The app returns 95 percent of the amount paid for the service to workers; comparable noncooperative apps return only 50 to 80 percent. To lower costs of insurance or work materials, platform cooperatives can also adopt aspects of the purchasing-cooperative model.

COOPERATIVES OPERATE IN A POLICY ENVIRONMENT DESIGNED PRIMARILY TO ADDRESS THE NEEDS OF INVESTOR-OWNED CORPORATIONS.

Cooperatives of these types are found in every U.S. state and vary in size and concentration.[4] Many are small businesses, such as **Dill Pickle Food Co-op** in Chicago, which has a market and deli location and 2,350 members. Others, such as **Land O'Lakes**, **Ace Hardware**, and **Navy Federal Credit Union,** are large and widely known.

In 2018, Urban identified seven ways that cooperatives can positively impact people and communities. These guide the premise of this policy report—that is, that policy can support cooperatives insofar as they work toward these broader societal goals. Cooperatives can make a difference in increasing **access** to affordable quality products, services, suppliers, and markets, lowering costs and serving markets and communities historically seen as "higher risk" or underserved. They can improve **business sustainability** and promote **community commitment**. By design, they encourage **democratic governance and empowerment** and can be leaders in creating **equity, diversity and inclusion**. They can generate **financial security and advancement** for workers and support local and regional economic **growth**.

These benefits look different across sectors and cooperative types. Food cooperatives provide healthy foods and support and sustain local agriculture. Worker cooperatives provide workers with low wages, a say over how their work is done and an opportunity for business ownership. Community development credit unions (CDCUs) provide financial products and services tailored to the needs of consumers with low incomes. Electric utilities deliver a mix of services in rural communities, including broadband in regions where private-sector providers will not offer it and innovative on-bill financing for energy efficiency upgrades.[5] Purchasing cooperatives keep small independent businesses sustainable by offering lower prices for supplies and quality marketing services and materials. Agricultural cooperatives allow producers to share in value-added processing and marketing.

Cooperatives also offer business solutions that prioritize stability for workers and communities during economically volatile periods. Small businesses are being sold or closed as baby boomer owners retire in unprecedented numbers.[6] Coupled with the wave of closures resulting from the current economic disruption, this will result in the shuttering of many main-street businesses. Alternatives like worker- and consumer-owned cooperatives offer succession solutions and opportunities for workers or consumers to save otherwise healthy businesses by purchasing them collectively. Although data on cooperative survival rates in the U.S. are limited, research in Canada suggests that cooperatives survived at higher rates over a five-year period than noncooperative businesses (these rates were 66 versus 43 percent in British Columbia and 64 versus 39 percent in Quebec) (Murray 2011).

CHALLENGES TO LAUNCHING, SUSTAINING, AND EXPANDING COOPERATIVES

Though cooperative business models could greatly improve health, equity, and resilience in U.S. communities, there are obstacles to their adoption and expansion. Cooperatives face challenges in accessing federal, state, and local programs that provide funding and technical assistance to start-ups. In addition, lending to a collectively owned entity can pose difficulties for some financial institutions. Furthermore, many cooperatives serve communities that investors do not consider profitable, such as communities with small populations and low average incomes. Although such cooperatives deliver much-needed services (e.g., electricity, broadband, housing) and jobs, net earnings in such communities are lower than in more populated and affluent ones. Moreover, operating in more affluent communities can also be challenging: for example, the cost to acquire and develop housing units in expensive housing markets is high, making it difficult for limited-equity housing cooperatives to finance expansions there (Temkin, Theodos, and Price 2013).

Cooperatives also face challenges operating in sectors that have thin profit margins or that face considerable risk, challenges that are not unique to cooperative businesses. New noncooperative small businesses fail at high rates—roughly 50 percent do not survive five years (SBA 2012), and failure is appreciably higher in some sectors. The picture, however, is better for some cooperative sectors. For example, 66 percent of food cooperatives that have opened since 2006 are still operating. International research suggests that cooperatives are more stable and stay in business longer than noncooperative businesses when able to access appropriate financing and technical support (Novkovic and Nembhard 2017). High-quality technical assistance during start-up is one thing that may improve long-term success.

Being built and governed by members presents unique internal challenges for cooperatives, in addition to the general risks inherent in starting a small business (Kramper 2012). These challenges can pertain to membership capacity and the cooperative structure (Fulton and Hueth 2009). Access to capital can be another problem: members are often the primary source of equity for cooperatives starting up or expanding, a problem exacerbated by barriers to U.S. Small Business Administration (SBA) guaranteed loans. A cooperative with too few members or whose members are not in a financial position to invest will not have the financial assets to maintain operations, which can lead to long-

BOX 1

THE NEXUS BETWEEN COOPERATIVES AND HEALTH EQUITY

For more people to have the ability to improve their health and wellness, they need good jobs, stable housing and safe communities. Equally important is an empowering environment that provides community members opportunities to develop and exercise leadership skills to influence policies that impact their lives, families and neighborhood. Cooperatives can help them do this.

Major 20th-century federal policy initiatives enabled U.S. communities historically excluded from resources and services to use cooperatives to band together and create new opportunities. From bringing electricity to rural America to accessing financing and credit services for people with low incomes, cooperatives have addressed market failures and offer an inclusive model of employment and business ownership.

Today, cooperatives offer solutions to some of the country's biggest issues. For example, cooperatives help renters purchase homes, help people set up checking accounts or take out loans, help families access affordable childcare, help older adults find reliable home care, and help people access fresh food.

The cooperative model can put power in the hands of the people most affected by structural inequity. Through cooperatives, communities can develop, sustain, and grow an organized base of people who act together through democratic structures to set agendas, affect public discourse, influence decisionmaking, and participate in leadership with the goal of improving social and economic conditions and systems – work that will ultimately improve health equity.

term challenges such as underpaying staff or a lack of adequate reserves. In addition, undercapitalization can lead cooperatives to over rely on member labor for tasks that may require external expertise (such as building maintenance or bookkeeping) or to limit the goods and services produced and sold owing to cost, making them less competitive with better capitalized businesses.

THE POLICY ENVIRONMENT INFLUENCES HOW COOPERATIVE BUSINESSES START UP, GROW AND THRIVE IN THEIR COMMUNITIES.

There can be competing interests in running a cooperative. For example, cooperative businesses' long-term financial health can be at odds with member-owners' short-term financial needs. This tension may emerge, for example, when determining whether to reinvest net earnings in the cooperative or disburse more cash in patronage dividends. Interests may differ between members of different generations: for example, owners nearing retirement may wish to cash out their investments. Moreover, members may disagree about how to price the goods and services they buy from or sell to the cooperative; members may hope to pay less or be paid more than the cooperative can sustain in the long term (Fulton and Hueth 2009). In addition to all this, cooperatives are democratic organizations whose members mandate transparency and equitable decisionmaking to address competing interests—a benefit that can also pose coordination challenges.

Another challenge is that cooperatives that are forming require sufficient time to recruit enough owners to be viable. For example, grocery cooperatives expect to spend longer than two years recruiting owners and raising capital before they begin operations.[7] A cooperative that attempts to begin operations without sufficient membership is more likely to fail.

Public sector leaders looking to advance goals related to community wealth building, equity, and inclusion play a critical role in overcoming many of these challenges. In the next two sections, we articulate key goals for cooperative policy and provide an overview of six cross-sector policy objectives.

COOPERATIVE POLICY GOALS

It is useful to articulate some "North Star" goals to guide specific policy objectives and determine what these policies are intended to accomplish. Desired long-term outcomes include equitable growth, wealth creation, and stable and healthy communities. The policy goals we articulate are not meant to simply grow the field of cooperatives—they are particularly intended to enhance the work of cooperatives that promote equity and community power among people of color and people with low incomes. Such cooperatives uphold the values and principles established in 1995 by the International Co-operative Alliance. These include self-help, self-responsibility, democracy, equality, equity and solidarity, honesty, openness, social responsibility, and caring for others. With these long-terms goals and cooperative values in mind, we identify the following four important near-term goals that policies should target:

- **SUPPORT AND INCENTIVIZE COOPERATIVES TO REACH UNDERSERVED PEOPLE AND COMMUNITIES** Policy supports should be targeted to cooperatives that provide resources to people and communities underserved by mainstream institutions and businesses. Such cooperatives often accept lower margins and provide expanded services to meet their members' needs.
- **LEVEL THE PLAYING FIELD.** Cooperative sectors are at a disadvantage when it comes to federal, state, and local policy.
- **HELP INCREASE THE NUMBER OF COOPERATIVES.** In many places and for many sectors, the number of cooperatives is small relative to the number of other enterprises. Policy can address this by helping new cooperative businesses start up, converting existing businesses into cooperatives, preventing cooperatives from demutualizing or converting to investor-owned businesses, and preventing cooperatives from failing.
- **HELP GROW THE SIZE AND MARKET SHARE OF EXISTING COOPERATIVES.** Many cooperatives benefit from increased employment (or membership) and higher revenues or profitability. Making cooperatives larger can result in greater market penetration.

COOPERATIVE POLICY OBJECTIVES

Policy is one of the most critical factors influencing cooperatives' business viability. Some policy supports are germane to all business sectors, whereas others are sector specific. We detail cross-sector policy objectives and highlight some sector-specific examples, though we do not comprehensively cover policy objectives for each sector.

Some cooperative policy objectives involve making relatively straightforward adjustments and do not require much (or sometimes any) new spending. Other policy supports are more involved or require sizable investments. Some are relevant for one level of government (for example, incorporation and chartering is a state function). A surprising number can be enacted at the local, state, and federal levels (for example, funding the provision of technical assistance).

Through roundtables, interviews, and a literature review, we identified the following six key types of policies that affect cooperatives and that cooperatives and their supporters should focus their advocacy efforts on during an economic crisis and recovery:

- policies that directly affect members, communities, or customers
- enabling legislation
- eligibility and regulation
- financial support
- technical assistance and training
- preferences in contracting and procurement

Photo: Kai Brown/ChiFresh Kitchen

ChiFresh Kitchen is harnessing the cooperative business model to address food insecurity, prepare healthy meals and build economic security for its returning citizen members.

POLICIES THAT DIRECTLY AFFECT MEMBERS, COMMUNITIES, AND CUSTOMERS

Cooperatives can better address the needs of people who are working, underserved, or have low incomes when policies that affect their members, communities, and customers at least allow (if not encourage) cooperative business models. For example, policies that help renters purchase homes, help people set up bank accounts, help families access affordable child care, help older adults find reliable home care, or help residents access fresh foods can all include cooperatives. We present a few business sectors as examples below.

BANKING

Cooperatives are well positioned to decrease the number of unbanked households—people not presently served by banks or similar financial institutions. According to a 2017 Federal Deposit Insurance Corporation survey, 25 percent of U.S. households are unbanked or underbanked, and more than half of unbanked households cited lacking enough money to keep in an account.[8] Research shows that community development credit unions enable members to save money and build assets by charging lower rates for their products and providing higher interest and dividends when possible, compared with other financial institutions. They are also responsive to the needs of members and offer financial education as well as lending options that compete with check cashing and payday lenders (Nembhard 2013). For these reasons, community development credit unions are allowed to raise capital from sources beyond that provided by their members (CUNA 2010). Policies that underwrite account setup and maintenance costs for unbanked consumers would benefit community development credit unions.

CHILD CARE

Accessing affordable high-quality child care is crucial for working families and can be especially challenging for people who do not work traditional 9-to-5 jobs. In 2012, the average cost of placing an infant in center-based care was higher than a year's tuition and fees at four-year public colleges in 31 states. This staggering cost is leading some states to consider new policies to expand affordable care (PolicyLink 2016). Legislation that helps underwrite child care costs could benefit cooperative businesses, especially if it explicitly includes them in its language, as is the case in a Minnesota pilot effort.[9]

FOOD SECURITY

Even before the COVID-19 pandemic, an estimated 40 million Americans—including 12.5 million children—struggled with food insecurity.[10] These rates have worsened as unemployment due to the pandemic (and responses to it) has soared. To address food insecurity, state and local governments have addressed transportation barriers in rural communities and partnered with food access organizations to provide fresh food in urban food deserts,[11] efforts that can support cooperatives. For example, with funding from the Self-Help Credit Union via the Healthy Food Financing Initiative, the Hendersonville Community Co-op in Hendersonville, North Carolina, expanded its services to better serve nearby food deserts. It partnered with a local nonprofit to create community gardens and partnered with a local hospital to offer 50 vouchers a month for patients to purchase healthy foods.[12]

HOME CARE

Unprecedented growth in the nation's elderly population, paired with a cultural shift toward aging at home, is driving historic growth in the home care sector. Growing demand for home care and low barriers to entry have yielded new providers. Some providers do not provide employees enough client hours to sustain a livable income and fail to offer benefits, adequate training, and on-the-job supports. Moreover, subpar employment contributes to high industry turnover.

Home care cooperatives provide employees the opportunity for shared ownership and offer better jobs, resulting in better care for clients. In 2018, home care cooperatives that employed caregivers were able to pay $0.54 more an hour than their noncooperative competitors. Turnover among home care cooperative caregivers was 38 percent, compared with 82 percent in the industry as a whole (ICA Group 2020). Though the nation's 13 home care cooperatives constitute a small segment of the industry, home care cooperatives are expanding.

HOUSING

In affordable housing, the right of first refusal can contractually allow tenants, tenant associations, and nonprofit organizations to make an offer to purchase a home or building being sold by the owner before anyone else. This can promote homeownership for long-term renters and help residents in lower-income communities remain in their homes in high-demand real estate markets.[13] As of 2017, 19 states had a policy requiring owners of manufactured housing communities to allow residents to purchase the land that their homes sit on (Prosperity Now 2017). This can enable residents to form manufactured home cooperative communities and make a competing offer to buy the community from the owner.

The U.S. Department of Housing and Urban Development's below-market interest rate loan programs in the 1960s and 1970s are another example of the role cooperatives can play in affordable housing (Sazama 1996). This program made cooperatives (as well as nonprofits and private developers) eligible for loans at a three-percent interest rate, restricted to producing housing for moderate- and then low-income families. This model is cited as having made cooperatives more economically efficient and better maintained than other federally assisted rental housing because cooperative members directly experience and control the economic consequences of their individual and joint housing activities. From 1961 to 1973, the below-market interest rate loan programs produced 5,804 low-income housing developments, 642 of which were limited-equity cooperatives (Sazama 1996). This model can be reinitiated to support affordable housing.

Accomplishing a cooperative-specific policy objective is often not enough to significantly affect people's lives and livelihoods. For example, a pilot program intended to provide technical assistance to worker-owners of child care cooperatives would have a limited impact if commercial rents were too high for the cooperatives to succeed; the right of first refusal is a limited help to people who cannot access affordable, ready financing; and the societal benefits of worker ownership of home care cooperatives are lost if Medicare reimbursement levels are too low to sustain cooperative businesses. Ultimately, policies that promote cooperatives must exist in an ecosystem that supports larger societal objectives.

COOPERATIVES OFFER BUSINESS SOLUTIONS THAT PRIORITIZE STABILITY FOR WORKERS AND COMMUNITIES DURING ECONOMICALLY VOLATILE PERIODS.

ENABLING LEGISLATION, IMPROVING INCORPORATION, AND CHARTERING

State law dictates how entities are incorporated, and states have historically allowed for cooperatives by adding sector-specific incorporation statutes. For example, a state might write a statute addressing the needs of cooperatives that process agricultural products; such a statute would allow a new processing cooperative to form, but not a new consumer food cooperative. However, some states are taking a new approach. Eighteen states have passed general incorporation statutes that are more inclusive, enabling cooperatives of all types to form and operate effectively.[14]

Advocates working to pass general incorporation language in the remaining states can use resources such as the **U.S. Department of Agriculture's online library** of state cooperative statutes.[15] That library allows users to compare statutes and could help standardize incorporation statutes across states (Cowan 2016), which could help states that have struggle to pass laws enabling cooperatives (*box 2, next page*).

New or updated legislation may be needed to enable freelance, gig, and contract workers (as well as consumers) to form cooperatives that would give them control over or capture value generated by their labor. In addition, legislation should enable workers to establish platform cooperatives, which allow the people who connect and do business online (e.g., gig workers, social media users) to co-own the platforms they rely on for their work and to receive a greater share of the income that that work generates. Relatedly, policymakers can advantage workers and consumers in the platform economy by enabling them to form cooperatives to bargain with platform and technology companies. For example, in 2018 the California Supreme Court reclassified gig workers as employees.[16] After this decision, cooperative and labor leaders began advocating for a bill requiring app-based companies to treat contract workers as employees. Under the bill, platform companies operating in California would have the option to contract with labor contractors rather than directly employing workers. The labor contractors use cooperative principles and are licensed and overseen by the labor commissioner to ensure they center workers' needs.[17] This policy could be applied more broadly to support such efforts to empower workers and consumers in the platform economy.

ELIGIBILITY AND REGULATION

Eligibility requirements and other regulatory and program-administration decisions affect cooperatives in myriad ways. To advance the "North Star" policy objectives, cooperatives need reasonable and accommodating regulatory environments. Many regulatory policies are sector specific; for example, field-of-membership restrictions limit who credit unions can serve. However, cooperatives across sectors need access to public programs and resources that states could amend to explicitly include cooperatives.

An example at the federal level is the Workforce Innovation and Opportunity Act (WIOA), which is intended to expand access to high-quality jobs and help employers hire and retain skilled workers.[18] It asks states to develop plans that address employment and business needs in their communities. This includes detailing rapid-response activities for business closures and mass layoffs, business owner education, funding for small business feasibility studies, and incumbent worker training.[19] These program components, among others, are relevant for cooperative conversions, whereby rather than closing, businesses that go bankrupt or whose owners retire are offered up

BOX 2

REFORMING COOPERATIVE-ENABLING STATUTES IN THE SOUTH

Attempts to enact general cooperative-enabling statutes in southern states have not succeeded. Though most southern states have statutes enabling rural electric and agriculture cooperatives, groups wishing to form consumer, purchasing, or worker cooperatives must incorporate in another state and operate as a foreign entity, incorporate as a limited liability company, or incorporate as a nonprofit.

The lack of general cooperative-enabling statutes has negative impacts on cooperative development, limits business operations, can impede access to financing, and impedes wealth building for members. Moreover, without the protection of democratic control afforded by strong cooperative statutes, cooperatives' long-term viability is also at risk.

The Mississippi Association of Cooperatives and the Federation of Southern Cooperatives are working in Mississippi to enact a general incorporation statute. They have experienced challenges educating lawmakers about the benefits of cooperative businesses and counteracting misconceptions about the ownership model. To address these challenges, the association created a coalition of nonprofits and others to talk with policymakers about their experience with cooperatives. Although Mississippi has yet to adopt a general incorporation statute, members of cooperatives in the state hope this effort will eventually provide an example of how to do so in the South.

Source: 2020 regional virtual cooperative roundtables in the Southeast.

to the workers to own. The act's mandates align with the financing and technical assistance needs of businesses that undergo such conversions. However, many stakeholders who engage with WIOA do not understand that its programs can be used to create cooperatives. The U.S. Department of Labor could clarify that WIOA allows cooperative businesses to participate, and the federal government could encourage states to make cooperatives eligible for its programs.

Similarly, the U.S. Department of Housing and Urban Development (HUD) administers the Community Development Block Grant (CDBG) to states and municipalities. This program is designed to invest in community development through workforce development and job creation, affordable housing, and essential services. Cooperatives should be involved more in activities funded by the program—for example, worker cooperatives should be established to address shortages in essential services like child care and home care, limited-equity housing cooperatives should be established to address the affordable housing crisis, and consumer food cooperatives should be created to expand access to healthy foods and improve food security.

At the state and local levels, some municipalities have amended legislation to ensure cooperatives can access the same benefits as noncooperative businesses. For example, New Hampshire amended its property law in the early 1980s so that homes within resident-owned manufactured home cooperative communities are titled as real rather than personal property, enabling residents in manufactured home cooperatives to access mortgage products with the same opportunity for wealth creation as owners of site-built homes.[20] Other states could replicate this policy, along with other sector-specific eligibility requirements or regulatory inclusions.

FINANCIAL SUPPORT

Although many cooperatives do not need government assistance to form or operate, public subsidy is warranted in settings where markets fail to provide public goods or other beneficial products and services. For example, a market-rate housing cooperative would not need public assistance, but a limited-equity housing cooperative that provides affordable units to households with low and moderate incomes likely would.

Public sector financial support can take many forms, including full or matching grants; loan guarantees, loss reserves, or other forms of credit enhancement; and tax credits, deductions, deferrals, or other tax reductions. Financial support for cooperatives can require small subsidies or even be subsidy neutral (as is the case for many loan guarantee programs), and it can also be more robust.

THE COOPERATIVE MODEL CAN PUT POWER IN THE HANDS OF PEOPLE MOST AFFECTED BY STRUCTURAL INEQUALITY.

GRANTS

Cooperatives providing essential services have grounds to seek robust public sector funding. The federal government plays an important role in supporting cooperatives, and state and local efforts are expanding. Models of city funding for employee ownership exist in Santa Clara and Berkeley, California; Madison, Wisconsin; Austin, Texas; and Baltimore, Maryland. These cities fund worker cooperatives and the conversion of a businesses to shared ownership.[21] For example, the City of Santa Clara allocated $100,000 to support worker-cooperative conversions in 2019. That support includes a worker-cooperative resource page on the city's website, funding for technical assistance to support retiring business owners' ability to sell their businesses to workers, and funding for training for members of new worker cooperatives.[22] Cooperatives can advocate that local and state governments support employee ownership and business conversion to worker cooperatives by expanding existing entrepreneurship programs or creating new efforts.

LOANS AND LOAN GUARANTEES

The federal government has been a significant direct lender to cooperatives. For example, before the Rural Electrification Act of 1936, only 10 percent of rural

U.S. households had access to electricity. The law allowed the federal government to make low-cost loans to farming communities that banded together to create nonprofit cooperatives to bring electricity to rural America. Because these communities embraced a federal policy framework that empowered rural Americans to invest in themselves and create member-owned utility companies, within a generation 90 percent of rural Americans had access to electricity.[23] Cooperatives can build on this legacy by expanding broadband to communities where internet providers are unwilling to invest.[24]

Public policymakers have sought to expand capital access for firms unable to access conventional debt or equity financing The U.S. Small Business Administration has historically been the main source of federal loan guarantees for small businesses, though the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, and the U.S. Economic Development Administration also have longstanding loan guarantee programs. However, these programs have not always included cooperatives, a problem the Main Street Employee Ownership Act of 2018 helped to address. That act updated SBA's lending practices to serve employee-owned businesses better, created a program within small business development centers for employee ownership and cooperative development, directed SBA to make loan programs more accessible to cooperatives, and empowered SBA to help small business owners convert their companies to employee ownership.[25] Although it was an important development, the law needs to be refined, particularly to limit personal-guarantee requirements for cooperatives. SBA requires a personal guarantee on SBA products as collateral, in the event that the owner(s) of a business cannot repay the loan. The shared ownership structure of a cooperative business makes this requirement nearly impossible to fulfill. A model for this modification is the Coronavirus Aid, Relief, and Economic Security Act, which waives the personal-

BOX 3

INDIVISIBLE RESERVES: A EUROPEAN SOLUTION TO PERMANENT CAPITAL

Indivisible reserves are a cooperative's retained earnings that belong to all of its members (past, present, and future). Such reserves are unique to cooperatives. In some places, including France, Italy, Quebec, and Spain, cooperatives are required to set aside a portion of net earnings for all members. In addition to individual member payments, members of cooperatives that use indivisible reserves make an allocation every year to collective reserves, which are not taxed because they support societal objectives. They are called "indivisible" reserves because they cannot be distributed to individual members; funds are for the long-term collective benefit of all members, including future members. If a cooperative with indivisible reserves dissolves, indivisible reserves are required to go to another cooperative.

Indivisible reserves have several advantages, and cooperatives are more concentrated, better developed, and more sustainable in places where indivisible reserves are required by law (Reynolds 2013). First, because indivisible reserves are not taxed and grow over time, they are a key source of capital for growth and development, enabling cooperatives to prosper even in capital-intensive industries and in places where members do not have much wealth. Second, they enhance sustainability and longevity by reducing risks, preserving and enhancing financial options, and helping cooperatives weather difficult financial circumstances. Third, because they cannot be monetized, they deter predatory forces and demutualization for speculative gain. Lastly, they promote solidarity across generations; assets that build over time are preserved so they can benefit future members.

guarantee requirement.[26] Another example is in Berkeley, California, which revised its revolving loan fund to make it accessible to cooperatives. Among other adjustments, the revision clarifies and limits the personal-guarantee requirement for cooperatives. Worker cooperatives in Berkeley can select an ownership panel to provide the personal guarantee and credit report required to access revolving loan funds, rather than requiring every single member to provide such a guarantee.[27]

The federal government has also provided direct support to mission lenders who take on expanded risk in lending to cooperatives.[28] For example, the Farm Credit Act of 1933 created new lending institutions to provide credit for agricultural cooperatives. Presently, other cooperative sectors could benefit from long-term real estate loans and from short- and intermediate-term credit. The National Cooperative Bank and community development financial institutions are important lenders to cooperatives and could play a larger role. Pilots like the Intermediary Lending Pilot Program, a three-year program through which SBA made loans of up to $1 million available at an interest rate of 1 percent to 20 community development financial institutions that re-lent the money to cooperatives, could be reinitiated and funded. In Colorado, an investment club uses a legal structure to allow 100 nonaccredited investors to invest in local cooperative businesses. In other countries, more expansive models for investing in cooperatives, such as the indivisible reserve model (box 3), can inspire long-term thinking about cooperative funding and survival in the U.S.

TAXES

Lastly, financial support for cooperatives can occur through the tax code. Though the mechanics differ from those of direct grants, cooperatives may experience similar financial support from both. As with grants, tax credits or other subsidies can fund cooperative start-ups, conversions, and cooperative programming. This could include capital gains tax exemptions for people selling a business, apartment building, or similar asset to produce a worker-owned, consumer, or limited-equity housing cooperative (among other types). A model for this tax exemption given to noncooperative businesses with Employee Stock Ownership Plans (ESOP) already exists.[29] Tax expenditures can come from federal, state, and local government.

Many tax subsidies differ across cooperative sectors. For example, government could support worker cooperatives with a tax credit for worker-owners to buy or increase their initial shares in their business. In some cases, eligibility for existing policy must be protected rather than created. The Tax Cuts and Jobs Act of 2017 overturned previous policy, making government grants (such as for broadband or from the Federal Emergency Management Agency) to utility cooperatives taxable income. However, Congress passed the RURAL Act in 2019, preserving electric cooperatives' tax-exempt status by recategorizing grants as contributions to capital rather than as income.

MAJOR 20TH CENTURY FEDERAL POLICY INITIATIVES ENABLED U.S. COMMUNITIES TO USE CO-OPS TO BAND TOGETHER AND CREATE NEW OPPORTUNITIES.

TECHNICAL ASSISTANCE AND TRAINING

Federal, state, and local government can all support technical assistance and training for cooperatives. Such technical assistance is sometimes provided directly by government employees and sometimes is contracted to universities and other nonprofit organizations. Technical assistance and training can cover various tasks, skills, and content, including financial education, developing business plans, establishing bylaws, and accessing capital. It can also help a cooperative recruit and organize members to understand its shared values and vision.[30]

Much of the funding for technical assistance is financed through the U.S. Department of Agriculture's Rural Cooperative Development Grant (RCDG) program, a competitive program that funds cooperative development centers. Established under the Federal Agriculture Improvement and Reform Act of 1996, RCDG helps people and businesses start, expand, and improve rural cooperatives and other mutually owned businesses (Cowan 2016). However, money appropriated for this program has remained stagnant. Adjusted for inflation, RCDG funding has lost roughly 25 percent of its purchasing power in the past 10 years, and more resources are needed to meet demand.

POLICIES THAT PROMOTE COOPERATIVES MUST EXIST IN AN ECOSYSTEM THAT SUPPORTS LARGER SOCIETAL OBJECTIVES.

Because RCDG resources are restricted to communities with 50,000 or fewer residents, urban communities lack access to any federal funding targeting technical assistance to cooperatives. The Main Street Employee Ownership Act of 2018 enabled SBA's Small Business Development Centers (SBDCs) to offer services specific to employee ownership transitions, including conversions to worker cooperatives.[31] However, Congress has not approved additional funding for this expanded service. Additional funding is required to enable these centers to provide employee ownership training and develop outreach materials.[32]

There are various state and local models for providing technical assistance to cooperatives, such as the University of Wisconsin Center for Cooperatives. Furthermore, several states fund public universities to provide technical assistance specifically tailored to worker ownership, like Ohio's Employee Ownership Center at Kent State University. However, a lack of funding limits the capacity of most technical assistance entities to provide training and coaching to cooperatives, and many cities and counties struggle to pay for technical assistance to develop cooperatives that meet their needs. Expanding state and local funding for technical assistance is critical to cooperative success.

In addition to technical assistance for cooperative businesses, a need exists for expanded training for experts in law and finance. Although some communities are well served by people in these professions who understand cooperatives' unique structures, others are not. Deepening and expanding the bench of experts in cooperative services is needed for effective growth. Universities can help train the next generation of lawyers, MBAs, and accountants to understand the intricacies of cooperatives—and the public sector can support that work. To achieve this goal, expanded partnerships between cooperative developers and universities are needed. For example, the University of Minnesota Law School offers a course on cooperatives that teaches public policy considerations; formation, governance, operations, and distributions; business model practices, and the concept of a double bottom line that measures social and financial performance. In addition, expanded technical assistance services could provide greater funding for partnerships with experts in law and finance.

PREFERENCES IN CONTRACTING AND PROCUREMENT

Governments have frequently created preferences or set-asides in contracting and procurement for small businesses and for firms owned by women, racial and ethnic minorities, and veterans to ensure they have a reasonable chance to compete for the significant sums spent by the public sector. These efforts are varyingly effective: some are significant and binding, whereas others exist more on paper than in reality (Martin, Berner, and Bluestein 2007).

While not seeking preferences for cooperatives simply based on their democratic structure, it would be appropriate for policymakers to encourage preferential procurement and contracting processes for cooperatives with a clear social mandate and mission, including those operating in underserved markets. Rather than undermining markets, cooperatives can diversify them, such as by encouraging a broader mix of providers serving local needs, as in the provision of food in schools and hospitals.

CONCLUSION

The policy supports we recommend in this report are ambitious, but they are necessary if cooperative businesses are to reach their potential for making local communities and economies healthier and more inclusive. Cooperatives are gaining attention as a way to remedy the growing inequality and financial instability that many U.S. households face. By building on the momentum of the bipartisan Main Street Employee Ownership Act of 2018 and responding to the economic uncertainty resulting from the COVID-19 pandemic, cooperatives can take concerted steps to raise their visibility, educate policymakers, and expand policies that promote an inclusive economy. However, much remains to be done. In box 4 below, we suggest five key steps that can broaden this work.

BOX 4

STEPS FOR ACTION

Cooperatives within and across sectors can take several steps to advance policy goals.

STEP 1: EDUCATE AND CONNECT. Policymaking is as much about relationships as information and campaigns. Cooperative businesses and their associations can build relationships with legislators and administrators before approaching them with requests. Increased contact through advocacy, coalition work, and relationship building presents opportunities to ensure policymakers understand cooperatives and what makes them distinct from other businesses.

STEP 2: MAKE GOOD USE OF MEMBERS AND IMPACT DATA. As membership organizations, cooperatives have the advantage of people power, and they can show policymakers that their constituents are civically engaged cooperative members. Furthermore, cooperatives should track and use data to reflect their contribution to a healthy and inclusive economy and demonstrate social benefits across a range of dimensions and geographies (Theodos, Scally, and Edmonds 2018).

STEP 3: TELL A NEW POLICY STORY. Cooperatives have a long and impressive history of policy engagement and support (Pitman 2018). That history is relevant and will resonate with policymakers. But cooperatives also need new stories that contextualize them within modern political and institutional infrastructures. Key messaging can emphasize the bipartisan appeal of cooperatives that provide opportunities in rural and urban economies and allow communities to invest in themselves.

STEP 4: COLLABORATE WITH OTHER COOPERATIVES AND WITH NONCOOPERATIVES. Cooperatives can prioritize a unified policy agenda across sectors. Moreover, policy victories are possible through coalition support and partnerships with noncooperative organizations as well on issue-aligned areas.

STEP 5: BE FOCUSED AND STRATEGIC. Given the work involved in running their businesses, cooperatives need to be judicious in what causes they take up. When making policy requests, cooperatives should look for win-wins: policies that are good for them and the broader community. They should also remember to share credit with elected officials for accomplishments and continue to raise visibility.

Whether achieved by specific cooperative sectors or by broader coalitions, policy victories can take forms other than rules changes to new legislation. Ongoing engagement can produce small victories that allow cooperative advocates to refine policy and build on wins rather than solely focus on major legislation. In addition, in many cases, cooperatives can replicate templates provided in preexisting state and local cooperative policies. By customizing existing policies to the needs of specific localities, cooperatives can use model language or common approaches to passing legislation that make success easier.

DEEPENING AND EXPANDING THE BENCH OF EXPERTS IN COOPERATIVE SERVICES IS NEEDED FOR EFFECTIVE GROWTH.

The effects of the COVID-19 pandemic and structural racism bring into stark relief the need for policy action that accounts for the health and economic vitality of communities in distress. In addition to stresses put on business resilience and community support by the public health crisis, larger economic and societal changes are presenting new challenges. Cooperatives are an important part of the solution. Many cooperatives have benefited from federal policy enacted during previous crises. Responding to economic depression and social strife in the 20th century, cooperatives offered a model that empowered people to solve pressing challenges in their communities, including by providing access to electricity, financial institutions, and employment (O'Brien 2018). Cooperatives still face policy challenges that limit their ability to start up, survive, and grow. In this report, we have highlighted key measures that will help cooperatives build a more inclusive, healthy, and sustainable economy.

Photo: Organic Valley

Cooperatives in the U.S. range from small businesses and startups to well-known brands like Organic Valley.

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The Cooperative Development Foundation is a 501(c)(3) non-profit foundation headquartered in Washington, DC that promotes and develops cooperatives to improve economic opportunities for all. CDF is a thought leader in the use of cooperatives to create resilient communities, including the housing and care needs of seniors. Through its funds, fiscal sponsorships and fundraising, CDF provides grants and loans that foster cooperative development domestically and abroad. CDF facilitates the Cooperative Hall of Fame induction ceremony, recognizing the accomplishments of outstanding cooperative leaders at the National Press Club in Washington DC each year.

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7 COOPERATIVE PRINCIPLES

VOLUNTARY AND OPEN MEMBERSHIP

Anyone can join a co-op—they don't discriminate based on gender, social, racial, political or religious factors.

DEMOCRATIC MEMBER CONTROL

Members control their business by deciding how it's run and who leads it.

MEMBERS' ECONOMIC PARTICIPATION

All co-op members invest in their cooperative. This means people, not shareholders, benefit from a co-op's profits.

AUTONOMY AND INDEPENDENCE

When making business deals or raising money, co-ops never compromise their autonomy or democratic member control.

EDUCATION, TRAINING AND INFORMATION

Co-ops provide education, training and information so their members can contribute effectively to the success of their co-op.

COOPERATION AMONG COOPERATIVES

Co-ops believe working together is the best strategy to empower their members and build a stronger co-op economy.

CONCERN FOR COMMUNITY

Co-ops are community-minded. They contribute to the sustainable development of their communities by sourcing and investing locally.

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