



Immigrant Worker Owned Cooperatives: A User's Manual

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Immigrant Worker-Owned Cooperatives: A Users' Manual

This booklet is meant to be a “users’ manual” for workers (especially immigrant workers) and their advocates in the field who may be thinking of organizing a worker owned cooperative as a worker empowerment strategy.

The elevating vision behind worker owned cooperatives is that workers can come together and pool their resources in a co-owned enterprise which allows workers a dignified and democratically controlled workplace. Worker cooperatives advance values of worker dignity, democratic control of the workplace, educational and financial growth of worker owners, and concern for the broader social health of their community. Today, the global workers’ cooperative movement is bigger than ever, with famous cooperative networks like Spain’s Mondragon controlling a substantial portion of the national economy. In America, there are hundreds of worker-owned cooperatives. Interest in this economic model is rapidly growing, especially in the wake of the 2008 financial crisis, which saw cooperative models like community credit unions and the Cooperative Fund of New England remaining solvent and healthy, even as the largest traditional banks and financial institutions went bankrupt.¹

“Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.”

- UN Secretary-General Ban Ki-moon, on the International Year of Cooperatives 2012

Many people argue that worker owned cooperatives are good models of economic empowerment for America’s immigrant workers, who are a marginalized workforce, typically poorly paid and exploited in the traditional workplace. Instead of seeking work from traditional workplaces, and remaining always vulnerable to employers’ decisions and control, many advocates urge immigrant workers to take matters into their own hands, by forming their own worker cooperatives, such as housecleaning networks, construction or landscaping cooperatives, restaurants, or child-care services.

One of the biggest obstacles for immigrants forming cooperatives is a lack of technical knowledge. Most immigrant workers know little about how a cooperative can be founded, funded, managed and grown. This manual seeks to address that problem. It provides information on the history and extent of worker-owned cooperatives in America. It discusses the challenges of organizing, funding, and managing cooperatives. It examines the legal landscape governing the structure and financial arrangements of cooperatives. It provides case studies of successful cooperatives in America and overseas. In an effort to be inviting to a broad audience, including workers who may be thinking about forming a cooperative for their first time, this manual is not written as an advanced guide for experts. Rather, the basics about cooperatives are presented in simple and accessible ways, and in a lively, visual style that hopefully enhances the accessibility of the booklet’s material.

Immigrant workers need tools in their growing efforts to create their own democratic workspaces. We hope this manual can be one of those tools.



Why Should Immigrants Think About Forming a Workers' Coop?

A workers' cooperative is very hard work. It requires commitment on the part of workers, and a lot of education and training. Cooperatives can fail like any other business, and many times traditional banks won't lend money to ideas like an immigrant worker cooperative. But, regardless of all these obstacles, worker cooperatives are growing rapidly across the world, and they are pointing the way to a new economic model.

What is a workers' cooperative? According to the U.S. Federation of Worker Cooperatives, "*Worker cooperatives are business entities that are owned and controlled by their members, the people who work in them. The two central characteristics of worker cooperatives are: (1) workers invest in and own the business and (2) decision-making is democratic, generally adhering to the principle of one worker-one vote.*"² In other words, worker-owned cooperatives are a unique kind of economic institution which is democratic, community-oriented and empowering to workers.

Workers' cooperatives in general are growing across America, and *immigrant* worker-owned cooperatives in specific are beginning to make their mark on this sector. Although the scale of most immigrant worker cooperatives is still relatively small in comparison to other established cooperatives, immigrant worker cooperatives will continue to grow with time, playing a critical role in expanding the cooperative movement in the United States. The 2012 National Worker Cooperative Conference in Boston, for example, is featuring a series of presentations by worker-owners from various immigrant led cooperatives across the U.S.



Immigrant Workers in Denver Forming a House-Cleaning Co-

- There are hundreds of worker owned coops in America, and official support for these efforts is growing.⁴
- Workers in coops have a vote and a voice in determining the kind of work they will do, and the income they earn for it.
- Immigrants who are in cooperatives have twice the annual income as immigrants working for other people.
- There is financial assistance and other help available to help people form cooperatives.
- Workers' cooperatives come together around core principles meant to improve the health of their local communities.



Coops Help Workers Create their Own Jobs, Rather than Waiting on Employers

The recent growth of immigrant worker owned cooperatives is driven by the deteriorating economic condition

in which immigrants find themselves. Following the economic crisis of 2008, many immigrant workers were among the first to lose their jobs, with the result that many desperate immigrant workers considered coop creation as a possible solution to their deteriorating economic situation. For instance, the number of immigrant workers finding traditional employment at El Centro Humanitario, a Denver immigrant day laborer organization that provides job referral services, rapidly decreased by almost 40% in 2009 and 2010. As a result of this crisis, many workers faced a long period of unemployment, housing foreclosure, lack of food for their families, homelessness and emotional breakdown. The formation of the El Centro's *Green Cleaning for Life* cooperative in 2010 was a direct result of worker realization that they were not able to wait any longer for employers to give them a job—so they decided to create their own economic opportunities (see “*Green Cleaning for Life, A Startup Story*” on next pages).



Coops Offer Their Worker-Owners Improved Working Conditions

Many immigrants work in the informal economic sector, where jobs are irregular, poorly paid, and susceptible

to exploitation. Undocumented immigrant workers, in particular, are vulnerable to exploitation such as wage theft, dangerous working conditions and extremely low wages due to their precarious legal status and position in the informal economy. Immigrant workers in general, and especially undocumented workers, are new to their surroundings, tend to live paycheck-to-paycheck (even day-to-day) off their spot labor, and have little access to resources such as banking loans, unions, or legal representation. Two of the most common job opportunities for immigrant workers are day labor (such as construction or landscaping) and domestic work (such as housecleaning or child-care). Workers in both fields face regular workplace exploitation as they seek daily work under disorganized conditions.

As the Day Labor Research Institute has documented concerning day laborers: “*negotiation of wages is impossible in a situation where day laborers are forced to run at employers’ cars and trucks and to employers who almost always chose the first to get there or the first to get in. Some employers consciously use this method to choose workers—one employer proudly reported ‘I want to see who runs fastest to see who’s hungriest.’ And day laborers are unable to negotiate fair wages as employers quickly turn to a day laborer willing to go for less.*”⁵ A number of recent studies have also documented the troubling conditions facing domestic workers, such as New York’s *Home is Where*

the Work Is (by Domestic Workers United) and California's *Behind Closed Doors* (by Mujeres Unidas y Activas and the San Francisco Day Labor Program Women's Collective). In Denver, a 2010 Report by El Centro Humanitario (*On the Job With Domestic Workers*) found that 56% of immigrant domestic workers are paid less than minimum wage, 54% are regularly not paid for all hours worked, 25% work more than 50 hours a week without overtime pay, and 59% regularly experience verbal or physical abuse on the job.⁶

Worker owned cooperatives offer immigrant workers a positive alternative to this harsh reality. Worker coops allow workers to stand together as business owners, and help them to improve their economic situation while also building a sense of “cooperation, dignity, equity, self-determination and democracy.”⁷ By building a sense of community among contingent workers, and giving them control over their workplace, cooperative efforts redefine vulnerable and contingent workers as fully dignified “owners” of their own businesses. In their call for expanding worker cooperatives, the U.S. Federation of Worker Cooperatives puts it this way: *“In addition to providing meaningful jobs and asset-building opportunities for workers of all income levels, worker cooperatives can play an important role in building movements for economic justice and social change: as institutions where real democracy is practiced on a day to day basis, they are a model for the empowerment we will need to create the change we envision.”*⁸

Immigrant Worker-Owned Cooperatives: Various Benefits



Immigrant worker coops typically speak up for immigrant rights and foster the civic engagement of worker-owners. Worker coops provide a political space in which workers build a collective identity and are provided with education and leadership training. Many coops operate with a social mission—seeking to enhance their community through sustainable environmental practices, and working towards social reform to improve the life of the most marginalized elements of society.



Coops can help improve the precarious situation of undocumented immigrants, who are exceptionally vulnerable when they stand alone as day laborers or domestic workers seeking work at the individual level. Coops unite these workers as part of a protective network of immigrants working hand-in-hand with each other. Some coop models even allow undocumented workers to be legal owners and earn group health benefits, such as the LLC cooperative.



Coops help immigrants build a better workplace environment and improve their economic situation. In the normal workforce, many immigrants are vulnerable to exploitation, but as workers build their own cooperative, they tend to create more dignified and respectful working conditions. Fair wages and benefits are typically offered and as the coop succeeds, worker-owners also enjoy all the profits earned by the cooperative throughout the year.



Workers' Coops are Built Around Seven "Cooperative Principles"

Coops are open to all persons willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

Coops are self-help organizations, democratically controlled by members.

Members contribute to the capital of their coop, and decide how to use that capital to support the coop.

Coops provide education and training for members, so they can contribute to the their coops' development.

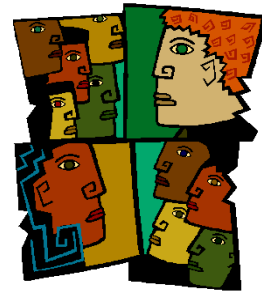
Coops strengthen their movement by collaborating locally, nationally, and globally.

Coops work towards sustainable development of their communities and support the health of other community members.⁹

Voluntary and Open Membership



Democratic Member Control



Members Economic Participation



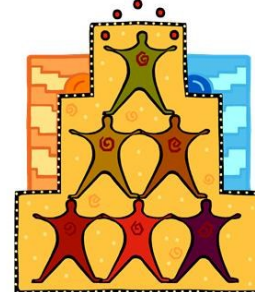
Autonomy and Independence



Education, Training, Information



Cooperation among Cooperatives



Concern for Community



With these Values, We Build a World Where We all Support Each other.





**Case
Study**

The Rise and Fall of a Denver Workers' Cooperative: Green Cleaning for Life, LLC

Denver's *Green Cleaning for Life* worker-owned cooperative was born from a year of organizing among immigrant workers who were increasingly frustrated by their lack of economic opportunities as domestic workers seeking individual employment from area companies or individual homeowners. Especially following the economic downturn of 2008, an increasing number of workers found themselves unable to secure daily employment and without means to sustain themselves and their families.

In desperation, domestic worker members at Denver's El Centro Humanitario (a local immigrant rights center) initiated a series of meetings in 2009 to explore ideas to improve their economic situation. Many of the women brought up the idea of starting a workers' coop. Over the years, many of El Centro's worker members had already engaged in informal collective business efforts, including a small catering collective, a piñata-making group, and a jewelry-making circle—but these small projects had never reached a scale beyond informal earnings in small increments. Workers were now hoping to “scale up” and develop a larger and more formalized a worker owned coop to facilitate their long-term ability to build income and assets, and to create an enterprise in

Immigrants Launch Denver Coop Cleaning Business

From: The Denver Post, May 6, 2010, by Yesenia Robles

Ten immigrant women in Denver are learning the power of owning a business while they learn to clean houses using natural products. The difference is we work as a team. It's hard work, but in another place we work and work, and who benefits? Only the owner,” said Janneth Arroyo, one of the members of the women-owned cooperative Green Cleaning for Life LLC. “This way, we still work hard but we all benefit.”

El Centro Humanitario of Denver, an organization that promotes workers' rights, has coordinated the launch of the co-op. In the co-op model, each of the 10 workers, who hail from multiple countries, has an equal share in the company. They all earn \$12 per hour, and at the end of the year, net profits after covering expenses are divided among the worker/owners. According to 2008 data from the Bureau of Labor Statistics, maids and housekeepers in Colorado earn an average of \$9.15 per hour while janitors and other cleaners earn an average of \$10.36 an hour.

Arroyo and her co-workers are cleaning homes only for now, but co-op members said they hope to get commercial contracts in the future. El Centro spent more than six months teaching the 10 women everything about running a business, which included learning English. They also spent

which low wage workers “controlled their own economic and social institutions that are rooted in their own self-sustaining capacity.”¹⁰

Workers were supported in these organizing efforts by El Centro staff. These staff had learned about the coop-incubation strategy of organizations like California’s Women’s Action to Gain Economic Security (WAGES), which in 1996 had incubated the nation’s first green cleaning coop for low income women, and which subsequently developed several successful coops in different California cities. The immigrant workers of Denver’s El Centro hoped to replicate the success of such “green clean” businesses by marketing environmentally friendly methods of cleaning homes and businesses. As an established non-profit, El Centro agreed to become the coop incubator, serving as the fiscal agent and providing the start-up coop with technical assistance. El Centro reached out to the City of Denver and to local foundations, and raised enough start-up capital to fund cleaning supplies, training, initial marketing and a year’s salary for coop manager. These external funders were presented with the idea that a cooperative business effort could increase the income levels of impoverished immigrant workers, anchor jobs in the local community, and increase workers’ entrepreneurial and leadership skills—all while offering an environmentally-conscious, non-toxic housecleaning model.

After winning seed money from external funders, El Centro’s staff helped recruit and select the initial owners of the coop by establishing a process of formal applications and

time learning their specialty in green cleaning, which they say is better for the environment, their health and the health of pets. The products the women use are made from natural items such as water, vinegar and natural oils. They avoid such chemicals as bleach and ammonia. “We make the products, and they leave the houses smelling so good,” said Laura Lomeli, a co-op member.

Heather Clifton, one of the first clients, agrees. She has had her home cleaned twice by Green Cleaning for Life. “I was very pleased with both their process and the idea of the co-op. It’s admirable,” Clifton said. “Perhaps people sometimes don’t have the resources or confidence to start a business, but in a supportive environment they are more successful,” she said.

The women came to El Centro more than a year ago looking to improve their job skills or self-esteem, or simply for a reason to go out. After various classes, the women said they have changed and are excited about overcoming future obstacles.

Co-op member Maria Lopez joked that she was starting to “go mute” from being isolated in her house when she didn’t know anyone before joining El Centro. Now she is confident about making her co-op a successful business.

“Our intention is not just to make money; it’s to make money so we can help other women who are in the position we were before,” she said.

interviews. Selected worker-owners paid a \$400 investment fee and subsequently made decisions on all coop affairs through regular meetings. These worker-owners were required to go through fifty hours of training on the principles, governance and financial management of a worker owned coop, and on green cleaning techniques. Subsequent co-op members were chosen by the existing worker-owners. The green cleaning coop was set up as a limited liability corporation (LLC) with general liability insurance for the company, and provisions for worker protection, as members were shielded from personal legal responsibility for business actions and debts. The daily business of the coop was coordinated by a salaried coop manager.

During the co-op incubation period, 90% of all coop business income was returned to worker owners in the form of hourly income, with El Centro subsidizing the cooperative by paying for its business manager and other business expenses. The goal was that by early 2012, 50% of business income would be distributed to members as weekly income, and 50% of business income would be dedicated to business expenses, making the coop self-sustaining. At the end of the year, any remaining surplus income was to be distributed to members as business profits. The long-term plans for the cooperative including growing enough to set up a permanent capital account for the business, reserving approximately 5% of business income to support the growth of other worker cooperatives in the area.

Green Cleaning for Life, LLC opened with great local fanfare and media attention in the spring of 2010. Within the first six months, worker-owners increased their income by 40%, compared to their income in 2009, and optimism was high. However, by the end of 2011, Green Cleaning for Life, LLC had become disorganized and unprofitable and formally closed its doors. The story of Green Cleaning for Life is filled with the optimism of immigrant workers hoping to control their own economic destiny, but in the end these hopes were not realized. Some of the most important reasons for the failure of Green Cleaning for Life related to the lack of adequate education, training, and experience among worker-owners about the details of starting and building a worker-owned cooperative. When El Centro Humanitario faced its own organizational difficulties due to the loss of its executive director and founder during this period, the incubation assistance provided to Green Cleaning for Life foundered, and worker-owners were not able to independently see their cooperative through to survival.

In light of the failed experiment of Green Cleaning for Life, and so many other immigrant worker cooperatives that struggle to realize their dream, it is the goal of this manual to provide additional resources and insights to potential worker-owners and their allies in the nation-wide cooperative movement.



Here is the First Marketing Flier for Denver's "Green Cleaning for Life, LLC"

"Worker-owned cooperatives are an important strategy to improve job quality, help transitional workers and limited-English-proficient speakers to enter the workforce, and help build community assets."

— American Worker Cooperative¹¹

"For undocumented workers in particular, enterprise promotion can be a particularly productive activity. For one, the legislation and regulation around ownership of enterprises is significantly different than around the documentation required for the employment relationship. Secondly, it gives immigrants a position of control over their own workplace conditions, and makes them less vulnerable to employer discrimination.... [Worker Coops also adopt] responsible business practices that provide fair wages and benefits for its workers while turning a profit."

— Center for Justice, Tolerance and Community¹²



Are you ready to go green?

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To RSVP your special Discount, or to seek information, contact Sandra at

smedina@centrohumanitario.org or

720-628-2821

2260 California St.

Denver, CO 80205

centrohumanitario.org

Green Cleaning for Life, LLC

Who Are We?

Green Cleaning for Life, LLC is Denver's unique worker owned green cleaning cooperative that is run and owned by workers in the underserved community. In collaboration with a nationally recognized green cleaning cooperative in California, Green Cleaning for Life worker owners aim to provide highest quality cleaning services, while building a higher quality of life for their families.

Green & Clean Do Go Together Advantages of Going Green

- ✓ **Improved indoor air quality.** A healthier indoor environment will lead to the increased well-being of household occupants.
- ✓ **Safety.** Using green products and practices, such as use of less hazardous cleaning chemicals, proper chemical storage, use and disposal, lessens the likelihood of accidents, fires, spills and explosions.
- ✓ **Financial benefits.** Green cleaning focuses on keeping the dirt and soil out, and preventive maintenance. This leads to lower cleaning and maintenance costs.
- ✓ **Happier family members.** Implementing a green cleaning program in the home allows your family to work together for a common cause in helping to preserve the planet.
- ✓ **Increased property and resale value.** By implementing green features such as energy-efficient lighting and non-toxic cleaners, you can increase your home's value.



Workers Cooperatives are Growing Across the United States

There is good evidence that worker coops are an increasingly important part of local economies. In October of 2011, leaders of the cooperative movement from around the world met in Quebec City to sign a declaration announcing the formation of a North American regional body of CICOPA, the international organization of worker cooperatives. Similar worker cooperative federations have emerged around the world, helping sustain and grow the coop movement. The UN has declared 2012 the International Year of Cooperatives.

“A mere one percent at the top now owns roughly half of the nation’s investment capital—more wealth than the entire bottom half of society taken together. This is literally a medieval pattern of ownership.

“Worker co-ops are one way to offer a practical alternative to this pattern...All in one way or another give practical meaning to the simple idea that wealth and ownership ought rightly to be lodged in institutions that serve the community or broader social purposes. ...All are inherently anchored in, and supportive of, the local economy. Unlike private corporations, worker-owned companies of all descriptions rarely move to another city. The fate of those who own the company is intimately tied to the fate and health of the locality in which they both live and work.”

— Gar Alperovitz, *America Beyond Capitalism*¹³

In Spain, the success of the mammoth cooperative is well known. What is less well known is that the USA Worker owned businesses: 11,000 coop movement in Spain is responsible for creating more jobs in recent years than the for-profit, private sector. CICOPA, an international federal of worker cooperatives, offers the following facts concerning how coops have proved more resilient than mainstream businesses, after the 2008 crisis: “Whereas the unemployment figures in Spain are reaching record numbers and exceed 5 million unemployed persons during the last quarter, ... employment in cooperatives as a whole, has grown by 7.2% [19,000 new jobs in the last quarter]... This growth is particularly evident in worker cooperatives and in one of their principle sectors of services, with an increase of 7.5% and 12.890 newly created jobs, during the last quarter.”¹⁴

USA Worker Owners: 13 million⁶

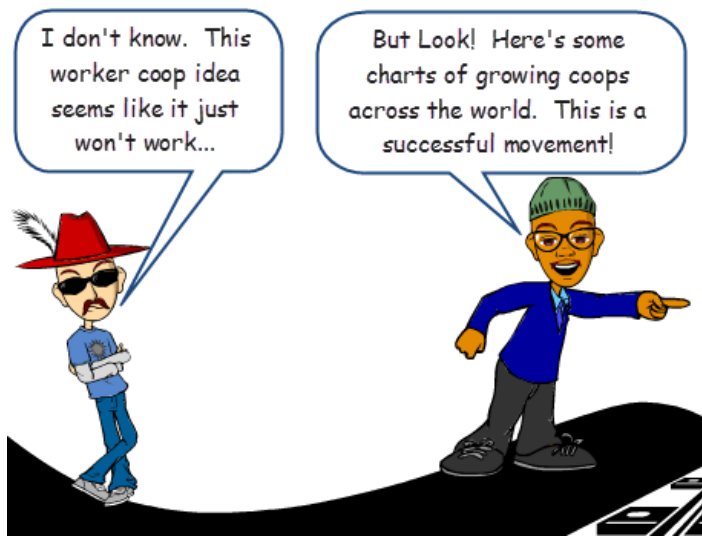
“When dozens, hundreds and thousands of these enterprises pool resources and cooperate with each other based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity, a fundamental transformation of culture and society occurs. This has taken place most notably and enduringly in Mondragon, Spain, where worker co-ops drive the economy and fund and control social services, health care, retirement and education.”

— Rebecca Kimble, President, Board of Directors, US Fed. Of Worker Coops.¹⁵

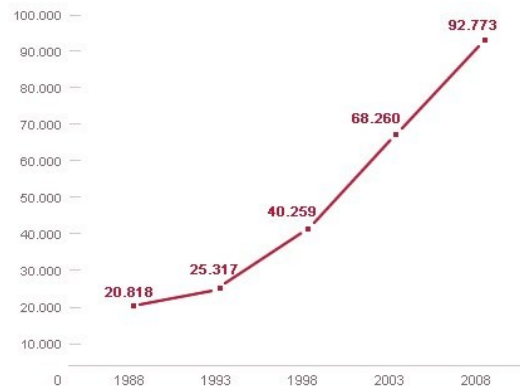
More and more workers' cooperatives are springing up across North America—and immigrant worker cooperatives are an especially rapidly growing sector of the economy. In Canada, the Canadian Worker Cooperative Federation has recently decided to prioritize worker coop development in immigrant communities, “because the need among immigrant communities for economic and socio-economic improvement is great, and the potential of worker ownership to meet these needs as well as to help empower the worker-owners is also significant.”¹⁶ In New York City as well, a cooperative network has recently emerged with a goal to especially expand coops within immigrant communities.¹⁷ Similar networks exist in the Bay Area and in Cleveland, where city, university and business leaders have united behind an innovative plan to grow a network of constantly expanding cooperatives across the city.¹⁸

Gary Carter, New York Cooperative Network Leader, Explains the Network's Value

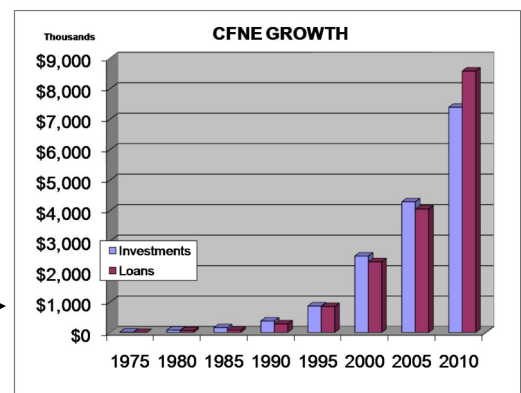
“On the one hand there is the value of democracy. This is something we all want to promote, especially at this time. On the other hand, there is the intensely pragmatic need for people 1) to have access to good jobs and 2) to become the drivers in their economic lives. The worker cooperative model brings both of these together. A strong network can spread this opportunity to other impoverished and immigrant communities in New York City where people are locked out of meaningful access to work opportunities. And, the network can be a resource to anyone who is interested in learning how to start, implement and incubate a worker-owned business.”¹⁹



Cooperative Fund of New England
Community Development Loan Fund Growth (1975-2010)
Source: www.cooperativefund.org/about_us



Mondragon Coop Network, Employment Growth²⁰





Who Organizes Immigrant Worker Coops?

Founding Equal Exchange, America's Largest Fair-Trade Coffee Coop

"Rink Dickenson first gained a passion for organic foods when working at the New England Food Co-ops in the early 1980's. There he met Michael Rozyne and Jonathan Rosenthal, with whom he co-founded Equal Exchange in 1986."

"Their goal was to create an unprecedented, progressive organization that balanced the interests of farmers, customers, shareholders and workers. They had no models to follow, but did decide to forego the privileges that normally accrue to entrepreneurs. Instead they structured Equal Exchange as a worker-owned coop, where every employee would also be an equal owner, each with one vote and each eligible to serve on the company's board."

— From *Executive Bios*,
www.equalexchange.coop

The majority of immigrant worker-owned coops are created by community organizations that have a mission to empower workers through economic development and/or social advocacy campaigns. Although some successful immigrant worker coops start through the efforts of committed individuals and social entrepreneurs (e.g., *Team-Works*, a cleaning cooperative in California, *Opportunity Threads*, a sewing cooperative in North Carolina, or *Apple Eco-Friendly Cleaning* in New York), the recent burst of immigrant worker-owned coops has been catalyzed largely by community organizations.

In the end, there are not many immigrant worker owned cooperatives that are begun by immigrant worker themselves, without organizational support. Many immigrants lack financial means, lack traditional access to business loans, and lack the expertise training necessary to build a successful cooperative. Other challenges for immigrants relate to language and culture barriers. Moreover, many immigrants work long hours in the low wage industrial or informal sector, and can face a host of acute challenges meeting their family's daily needs, which can prevent these workers from dedicating the time and resources necessary to build a worker's cooperative on their own. Thus, most immigrant worker cooperatives only get started with the support of a visionary individual benefactor, or with the support of a community organization.

"Nothing differentiates people as much as their respective attitudes to the circumstances in which they live. Those who opt to make history and change the course of events themselves have an advantage over those who decide to wait passively for the results of the change."

— José M. Arizmendiarieta,
Driving force behind Spain's Mondragon Cooperative²¹

Different Paths to an Immigrant Worker Cooperative

Immigrant Workers Themselves Organize the Coop. Although immigrant workers typically face many obstacles in seeking to organize their own coop (such as inadequate capital, lack of social networks, and minimal experience and knowledge concerning business management and cooperative practices), there are a few excellent examples of immigrant workers starting their own coop. For example, *Vida Verde* was started by Boston house cleaning workers themselves with a mission to minimize the environmental hazards of toxic cleaning materials by setting up an environmentally friendly cooperative. New York's *Apple Eco-Friendly Cleaning* cooperative was established in 2011 through the desires of day laborers to seek “a better job, better treatment and eventually a better quality of life” based on principles of “social responsibility, environmental justice, and collective ownership.”

The dedication of workers themselves—including the efforts of key worker leaders—played a critical role in starting both coops. For example, *Vida Verde* had a strong worker leader, Monica Chianelli who was a critical catalyst in organizing her peers. Although eventually Chianelli went back to her home country after forming the cooperative, *Vida Verde* has since continued to increase its capacity with support from community organizations and university partners who have provided technical support since the coop's founding. For its part, *Apple Eco-Friendly Cleaning* cooperative is a five member cooperative that was organized by workers themselves on the street corner. *Apple Eco-Friendly Cleaning* has built a strong connection with other social justice oriented community organizations, but the critical founding efforts of the coop were completed by workers themselves.

Visionary Individuals Develop New Coops. Some successful worker cooperatives have been born out of the leadership and vision of committed individual entrepreneurs, who have built coops as an alternative model more attuned to social justice principles. Examples of visionary founders include *TeamWorks*' founder, David Smathers Moore, *Opportunity Threads*' founders Molly Hemstreet, Miriam Domingo and Carlos Gaspar and *Equal Exchange* founders Rink Dickerson, Michael Rozyne and Jonathon Rosenthal. *Mondragon* itself, the biggest worker owned cooperative in the world, was begun by a visionary priest, Jose Arizmendiarieta, who started the polytechnic school in 1943 with a belief that socialization of knowledge was the key to humanizing and democratizing work.

The strength of cooperatives founded by such visionary leaders lies in the dedication and charisma of visionary founders who are willing to take any risks and confront any obstacles in order to advance their vision. The weakness of such individual-led coops may be that the coop development is heavily dependent upon its founders, so much so that the coop may face a deep crisis if the coop founders leave. Furthermore, it is unrealistic in most cases for immigrant workers to hope for or plan around the efforts of a transformational and visionary leader to see their cooperative through to success.

“Incubator” Organizations Support Coop Startups

The majority of new immigrant worker owned cooperatives in the U.S. are born with support from community nonprofit organizations (e.g., coop incubators, worker centers, day laborer centers). These community organizations tend to share goals of social justice advocacy and economic uplift of low-income workers, and they see coop formation as a way to organize and empower workers in accordance with their broader social mission. Such community organizations play a critical role in creating coops through startup funding, networking and technical support, funding of key staff such as a coop manager, and provision of leadership training and business education to workers.

Intensive Coop Incubation: Concept to Launch

Some organizations provide intensive support services for new coop ventures, helping work-owners move through every step from concept to launch of their cooperative, and even helping provide the new coop with start-up capital and professional management assistance. These intensive coop incubators include the *Arizmendi Association of Cooperatives* (targeting bakery coops in California), and New York City’s *Green Worker Cooperative* network (which offers 16 week “boot camps” of intensive mentoring to help new coops get off the ground).

One of the most successful Coop incubator organizations is *Women’s Action to Gain Economic Empowerment*, based in the SF Bay Area. Begun in 1994 with a vision to promote “the economic and social well-being of low-income women through cooperative business ownership,” WAGES has created six green cleaning cooperatives, earning millions of dollars each. By focusing on a single industry (residential cleaning) and relying on professional management for all its incubated coops, WAGES has found success in expanding its coop network and reducing the time required for launching new green-cleaning cooperatives. WAGES provides intensive coop incubation services, helps a fledging cooperative from initial concept to coop launch, and supports the coop for several years after launch. WAGES uses its funding networks to provide about 80% of start-up funding for each new coop. From the moment of launch, moreover, the startup coop is provided with a professional manager, and worker owners are only chosen after extensive training and interviews.

Though the strategy of requiring any WAGES-supported coop to hire a professional manager adds professionalism to the new coop, a challenge with this model is the possibility of tension between worker-owners and the management team. Some worker-owners may feel that they are not true coop owners, but are simply employees of a typical business, as their work is coordinated by a manager. It can be expected that these kinds of tensions might emerge in any coop model relying on a professional manager who is not a worker-owner. Nevertheless, the WAGES model shows that professionally run worker coops can be successful and can improve the life of immigrant workers.

Coop Technical Support Organizations

There are numerous organizations providing technical support to coop development, even if services are not as in depth as some of the efforts of the intensive incubation organizations discussed earlier. Some of these technical support organizations provide series to workers who may just be starting to think of forming a cooperative, such as the *Northeast Center for Cooperative Business' Cooperative Development Institute* (which offers a wide range of on-line self-training materials, networking opportunities and actual workshops and educational sessions to those considering a coop). Others, like the *California Center for Cooperative Development*, mostly provide technical support to *existing* cooperatives and help train existing worker-owners in best business practices.

These coop technical support organizations provide “bottom-up” support in building the technical skills and educational levels of potential coop-owners, and in helping individuals to decide what type of cooperative they might form, and what kind of business plan, management style and operating rules they want to follow. Some good examples of these technical support organizations (with each provide on-line resource guides and links to training curriculums are):

- *Northeast Center for Cooperative Business: Cooperative Development Institute:* www.cdi.coop/educationandtraining.html
- *Northcountry Cooperative Foundation Library and Cooperative Toolboxes:* www.northcountryfoundation.org/?s=library
- *Cooperation Texas:* <http://cooperationtexas.coop/>
- American Worker Cooperative's Listing of Start-Up Guides: american.coop/node/119

Even though these cooperative development workshops and other trainings can be very useful, in the end, it is always up to the individual workers to actually carry out the actual implementation plans regarding raising capital, business planning, and actual launch of cooperative. Understanding the challenges of actually moving towards coop launch, some technical support organizations move beyond providing educational support and also work to connect trainees with different community organizations and funding networks to help launch and grow the coop. For instance, *Cooperation Texas* partners with other community organizations and connects individuals who complete educational workshops with community banks interested in coop funding. Recently, *Cooperation Texas* has partnered with *Workers Defense Project*, an Austin immigrant rights network, to help immigrant women launch a green cleaning cooperative.

Community Organizations Supporting Coop Startups

Many human service community based organizations have a broad goals of lifting up marginalized populations. Among a broad variety of social service programs (e.g., employment programs, mental health, immigration assistance, legal clinics, women’s projects, etc.) coop creation is a growing innovation adopted by many community service organizations. For instance, Center for Family Life (in Brooklyn, NY) has operated since 1978. Its website describes the organization as “*a force for positive change in Sunset Park and a pioneer of effective services for children and families. Each year, our comprehensive programs in counseling, employment, education, arts and recreation engage more than 13,000 people.*” In 2006, Center for Family Life expanded its services to include worker coop support, and the organization has since launched a housecleaning coop (Si Se Puede!), a childcare coop (CFL: Beyond Care!) and a non-medical eldercare coop (Golden Steps). Though there is growing interest among human service community organizations in supporting worker coops, the reality is that these community organizations tend to lack the necessary technical skills and educational levels themselves to support a successful business launch, and these organizations also have a wide range of other programs to which to attend, giving many organizations limited capacity to see the coop through to a successful launch and long-term survival.

As a subset of human service organizations, workers’ centers (immigrant day laborer organizations) provide day laborers and domestic workers with gathering places to seek employment and empowerment through direct organizing, leadership development and policy advocacy. Some immigrant day laborer organizations have recently delved into the worker owned cooperative movement, seeing a worker’s coop not only as a tool for economic development for day laborers/domestic workers, but also as a vehicle for worker unity and leadership development. Southern California’s IDEPSCA, Long Island’s Workplace Project, Denver’s El Centro Humanitario and the San Francisco Day Laborer Program Women’s Collective of La Raza Centro Legal have all launched worker cleaning cooperatives. As part of their broader social mission of worker empowerment and community uplift, these organizations each seek to raise the income levels of workers, but also to build social interaction among workers, enhance the educational levels and leadership skills of workers, and improve the local community.

Although many of the coops emerging from worker centers might initially lack professionalism and adequate funding, the organic process of organizing a coop can become an important vehicle for workers to build unity, acquire work skills and develop leadership. Coop formation efforts can enhance the organic leadership of workers and help connect workers to related service and organizing projects at sponsoring organizations. For instance, El Centro Humanitario’s efforts to launch the *Green Cleaning for Life* coop expanded the civic engagement of low income domestic workers who were struggling to build the coop. Many of these women became involved with El Centro’s domestic workers’ rights project to increase awareness of the plight of domestic workers across the region. Women’s coop members also became active in El Centro’s political activities and community events to increase awareness among public officials of challenges facing domestic workers, and to push for a Colorado law to increase protection for domestic workers. Similarly, New York’s Workplace Project women members have promoted the rights of domestic workers in NY through rallies and political lobbying.



**Case
Study**

A SF Bay Area Coop Incubator Success Story: The Arizmendi Association of Cooperatives

“The Arizmendi Association of Cooperatives Development Model”

By Joe Marraffino²²

The Arizmendi Association of Cooperatives' development effort began in the 1990s and has since helped launch five new bakery cooperatives in California, creating around 100 new democratic jobs. The businesses have generally been successful financially after a short startup period and two of them are now over ten years old, with very low worker turnover, high quality reputation, and close community connections. The development method emphasizes attaining a baseline of business success as a foundation from which other social goals may be pursued. Inspiration for the Arizmendi model came from two sources: the Mondragon cooperatives, which gained financial security from their networked business development and continued technical assistance, and the American franchise system, which benefits from a wide market presence and shared administrative support. Because the workers in the stores govern the central administration, the analogy of an "upside-down franchise" has sometimes been used.

The organization's **broad mission** includes two overarching goals:

- Develop as many dignified, decently paid (living "wage" or better) work opportunities as possible through the development of new cooperatives;
- Provide continuing technical, educational and organizational support and services to member cooperatives.

The Arizmendi development model can be characterized with four structural aspects:

A replication strategy. The Association creates new businesses based on a successful cooperative in a nearby market, and benefits from an existing market reputation. Each replication amplifies this shared market presence, but is independently owned by workers, decentralizing decision-making and innovation, to smaller groups.

Self-financing. New cooperatives are financed by debt and by the other member cooperatives, who contribute a percentage of their net income toward replication and toward organizational support. The Association has not used philanthropic money to support its effort.

Ongoing technical assistance. Member cooperatives receive intense technical assistance during their startup but also continue to receive technical support (financial, educational and legal services) for their duration of their membership in the Association.

Decentralized governance. Member cooperatives elect the board of directors that governs the use of their contributed fees. The board makes policy that would affect their shared reputation or interests, but does not interfere in everyday policies of the bakeries, allowing each to develop with the local desires and knowledge of the workers at that store.



What are Some of the Different Models of Worker Coops?

Workers' cooperatives are owned and managed by workers themselves. Though there are many different models for exactly how to organize such cooperatives, all these different models advance the core values of democratic worker ownership and empowerment. In 2005, CICOPA (the International Organization of Industrial, Artisanal and Service Producers' Cooperatives) and the International Cooperative Alliance came together in describing these core principles of workers cooperatives. Three of the most important principles include:

- Workers' cooperatives seek to create dignified jobs, generate wealth for workers and improve the quality of life of their worker-members, while promoting the health of their local community.
- Most of the cooperative's work should be carried out by the members themselves, not by paid staff.
- Workers' cooperatives are democratically governed, by the worker-owners themselves. Worker-owners manage the cooperative's resources and collectively decide the conditions of their work.²³

Within these broad principles of a democratically governed enterprise, there are different ways of organizing a coop. Cooperatives can be informal and mutually supportive efforts among a small group of friends,

or they can be formally organized, professional businesses, involving dozens of worker-owners. Coops may be entirely democratically managed through consensus processes involving all workers, or there may be decision-making teams of managers selected by the workers.

“Maybe we’ll become millionaires by making products and not cleaning! Look, dreaming doesn’t cost anything. This is America.”

— Arias, Worker Owner of Si Se Puede Workers' Cooperative (NY)²⁴

“**Third Root** is a [New York] worker cooperative that was created to provide affordable healthcare and enable health professionals to earn a livable wage at the same time. ..As a worker cooperative, we:

- are jointly owned and democratically governed
- value openness and commit to social and environmental responsibility
- provide education and training for our workers

Last but not least, as a group of individuals working together, we agree to participate in a collective effort to serve the community and create an atmosphere of collaboration, not competition.”

—*Third Root Community Health Center Coop*²⁵

Whatever the particular organizational model adopted, the empowerment of workers remains a goal of all worker coops.

In the following pages, different models of workers coops are presented, from informal gatherings of workers to support each other in small business ventures, to large, professional operations like New York's Si Se Puede, which employs dozens of workers and grosses over a million dollars a year. These models will be categorized by the different legal structures that govern each. Four different models will be presented.

"I was able to grow my ambition. Before, I'd say 'I can't study,' but now I say, 'I would like to go to school.' Now, I think of things like that."

— Teresa, Worker Owner of Si Se Puede Workers' Cooperative (NY)²⁶

- **The Informal Cooperative.** Many times, small groups of immigrant work-

ers come together to share resources, support each other in finding work and even collectively manage some of their business income. These workers advance the values of cooperative business practices, but without formally registering as owners of a formal, cooperative business venture. This kind of informal enterprise (for example, a casual circle of workers running an informal child-care business,) is not legally "collectively owned," and faces limitations in the degree to which it may present itself to the outside world as a business.

- **The Workers' Cooperative.** Under some state laws, workers can specifically register as a worker owned cooperative, with equal ownership and voting rights, regardless of the initial equity that any individual worker might have invested.
- **The Limited Liability Company (LLC).** It often makes sense for workers to register their cooperative under the law as a business categorized just like any other mainstream, non-cooperative business in the state. Workers can define their commitment to cooperative principles in their operating agreement with each other, but register as a traditional business operation under the laws of the state.
- **The LLC, Taxed as a C Corporation.** Some worker cooperatives have chosen to register as a LLC, but have filed to be taxed as a C Corporation. Though there can be disadvantages to this tax category, this model allows the cooperative to grow a long-term permanent capital account (profits that are not distributed to worker-owners, but held by the business itself), in order to fund future business expansion.

The following pages will provide examples of each of these models of organizing a coop.

Informal Worker Cooperatives

Informal worker cooperatives are increasingly emerging among community organizations and workers' centers (day laborer organizations), and some of these informal cooperatives are even growing into large, professional operations, ultimately registering with the government as a formal worker cooperative or other business enterprise. But even without such formal registration, many workers are coming together informally to create business ventures and support each other's work efforts, all while advancing the cooperative principles of democratic decision-making, shared effort, and commitment to the broader health of the community. Such efforts are alternatively termed as either *informal cooperatives* or *informal collectives*. These informal collectives are part of a vast range of organic, informal cooperative efforts in the immigrant worker community—efforts that demonstrate that workers do not always need to wait on formal legal recognition of their efforts before they can benefit from collective efforts.



Denver house cleaners meet as part of El Centro's informal "Women's Project."

Informal worker cooperatives typically emerge gradually, slowly attracting members from the community to be part of the enterprise. A typical cooperative begins with potential members coming together around the idea of starting their own business, or supporting each other in finding work through mutual referrals, taking care of each others' children while someone is working, etc. For example, at Denver's El Centro Humanitario, a group of immigrant workers came together informally several years ago to form a jewelry making cooperative. The workers jointly purchased supplies, spent hours together at El Centro making jewelry and strategizing how to sell it, and then collectively managed their time in selling their wares at local community events and festivals. Revenues were distributed among all women, based on the time they put in. This kind of collective action built social networks among the women, operated according to cooperative principles, and earned the women money. But this informal jewelry making circle was never registered with the state as a business.

Such informal worker cooperatives are common and they are frequently supported by local community groups that already work with these immigrant workers. For example, San Francisco’s La Raza Centro Legal supports a women’s collective (“The Colectiva”) which formed in 2001 when an energetic group of immigrant domestic workers came together with a mission (according to their website) “to help each other find jobs, receive training, identify community resources, and learn about legal developments in immigration and labor rights.” Supported by the staff and resources of La Raza Centro Legal, this women’s collective has met regularly to determine the minimum wage women want to charge, to develop strategies for securing more work, and to plan and participate in a range of community events.

It is often the case that informal cooperatives first emerge as a result of informal organizing among workers themselves, not as a result of the formal efforts of an already established organization. But as workers’ collective efforts begin to build a strong social network among workers, and as workers develop their skills, they often begin to look to professional organizations to assist them in taking the next step towards formally registering themselves as a legal cooperative business.



A member of El Centro Humanitario’s informal women’s collective—Diverse Women In Action—meeting to plan their next business venture.

The decision to move forward and to regularize/professionalize these informal cooperatives by transitioning collective efforts into a formal, professionalized business is difficult, as it typically involves a significant investment of organizational resources, and consumes the time and energy of workers as well. Such a decision also entails a loss of the initial flexibility and informality of a cooperative’s early days, as the group seeks to become more professionally managed and struggles to adhere to state laws.

If the decision is made to move forward with formal registration as an officially recognized business, workers must consider the proper legal category under which to register their business—a *Workers Cooperative*, a *Limited Liability Company (LLC)*, or an *LLC that is treated by the IRS as a C Corporation*. Following a case study of El Centro Humanitario’s informal women’s collective in Denver, the next pages discuss the nature of each of these other possible cooperative models.

**Case
Study**

El Centro Humanitario and the Women's Project: An Informal Women's Collective in Denver

The El Centro Humanitario Women's project was established in 2004, when a group of Latina immigrants came together at El Centro with a mission to improve their job prospects and develop their life skills. At that time, El Centro Humanitario was constituted as a day laborer advocacy center, with a focus on the challenges facing male day laborers on the street. Feeling that their particular situation wasn't well served by El Centro's existing programs, low-income immigrant Latinas began to meet on their own, using the meeting space at El Centro to plan mutual business ideas. A collective piñata-making group soon emerged, and women began to market their piñata skills around the region. Finding some success, the women soon began to plan a collective food catering business. Local community organizations began to rely on this informal circle of women to cater local events. As the catering business grew, El Centro began to dedicate more staff and resources to supporting these incipient organizing efforts.

As they met more regularly, women also began to develop broader goals for their "Women's Project." A three part mission statement was developed, establishing the women's project's goals as: 1) to provide Spanish-speaking immigrant women with a safe place to promote a sense of community; 2) to promote economic self-sufficiency through development of microenterprise programs and job readiness training; and 3) to develop leadership of women and promote the rights of low wage women through collective action.

The women's project soon selected officers, designed educational programs (such as ESL and computer classes), set the behavioral expectations of people in the program, and brainstormed work projects to earn income. A variety of different informal cooperatives were tried over the years, each with limited success: a piñata making project, a food catering business, a sewing coop, and a jewelry making coop. Ultimately, the women leaders of this project worked with El Centro staff to design an eight week educational class, focusing on job skills training, civic engagement lessons, leadership development, and principles of cooperative action. This class was required of any new women wishing to join the Women's Project.

After several years of these informal efforts, in the winter of 2009, the El Centro Women's Project was ready to try something more permanent. Women leaders decided to launch a formal, worker owned co-op (Green Cleaning for Life, LLC) where women would be the official, state-registered owners of a cooperative business. After a year

of preparation, education and fundraising (including winning grant support from local Foundations), ten women workers were selected as the first owners of the business, and Green Cleaning for Life, LLC was launched in May of 2010. The coop adopted a mission of raising the income level of owner families, creating a democratic workplace controlled by workers and reducing environmental hazards by using environmentally friendly cleaning products.

In this way, the organic and informal collaborative efforts of immigrant women at El Centro Humanitario grew into a well-capitalized, legally registered cooperative of women leaders in inner-city Denver.



Early Members of El Centro’s Women’s Project: Gathering to Plan the Mission of this Informal Circle of Women Leaders



The Women’s Catering Group Prepares a Meal for a Community Event



A Group of Women Receiving their Certificates upon Completing an Eight Week “Women’s Project” Educational Course



Growing out of Earlier, Informal Women’s Organizing Efforts, the Official, State-Registered, Green Clean For Life (LLC) Opens for Business.

Worker Cooperative Corporations

As the previous section discussed, there are many *informal* ways to engage in cooperative business activity, whereby workers come together to share resources, develop a business, and democratically govern their activities. These informal business collectives often operate without registering as a business under the law. But there are strict regulations governing the *legal registration* of a formal workers' cooperative as a *corporation*—distinct from a standard business.

A *registered* workers' cooperative is legally defined as a *corporation*, with its own “corporate” identity, distinct from the individual members who make it up. But there are no national, uniform guidelines regulating how cooperatives register as corporations. Incorporation happens at the state level, and every state has its own guidelines. Some states, mostly in the Northeast, have codes designed specifically for worker cooperatives, but most states require worker cooperatives to register under the state's general business corporation codes, or under general coop codes that also apply to such things as consumer cooperatives. The complicated nature of these state-level incorporation codes is one reason that many worker coops choose not to organize as a *corporation*, but instead simply register as a *limited liability company* (see next section for more information on limited liability companies). Still, there are good reasons for pursuing the route of an *incorporated* worker cooperative.

If a worker cooperative is to seek formal incorporation as a coop, there are number of key points to keep in mind. Where they exist, worker coop incorporation laws require businesses to adhere to certain rules:

- 1) Only actual workers can own the business, and they typically buy-in with some minimum amount of money when they begin working;
- 2) Regardless of each worker's initial investment, each worker owner is allowed an equal voting power in all governance matters, regardless of the equity/money that the worker might have invested in the business;
- 3) No person who is not a worker-owner is allowed a vote on governance matters;
- 4) The word “cooperative” or “coop” must be included in the legal name;
- 5) Business surplus dividends (i.e., profits) are paid to owners on the basis of actual hours worked by that worker, not based on the worker's financial invest-

ment in the company. In addition to those business surplus dividends at the end of the year, worker-owners are usually paid wages as employees throughout the year. The cooperative may also choose to reserve some un-distributed corporate earnings and place them in workers' internal capital accounts. That allows the cooperative to raise money for new business expenses (e.g., new equipment or business expansion) by borrowing from the internal capital accounts of workers, instead of taking out a high-interest business loan from a bank. These internal accounts must be paid out to workers within a few years.

This model has some advantages in that it clearly reflects the democratic values of the cooperative movement, even in the legal regulations that govern it. Furthermore, in most states, only businesses incorporated under these laws are allowed to use the word "cooperative" in their legal name—so achieving this right is a way to signal to the broader community the cooperative values of a given business. Another advantage of the *incorporated* cooperative, is that the federal tax code (Subchapter T) allows certain tax benefits to such groups. Whereas most corporations must pay corporate income tax before distributing dividends to shareholders—who then must pay their own personal taxes on these dividends (a situation known as "double taxation"), workers cooperatives can *exempt* the dividends they pay to worker-owners from corporate income tax under certain conditions—a substantial tax advantage to the cooperative model.

Additional advantages are available to a unique kind of cooperative—the *non-profit marketing and referral worker coop*, as described below.

Non-Profit Marketing & Referral Worker Co-ops

Workers involved in service industries, such as cleaning, childcare, or other maintenance or domestic work, may form nonprofit marketing and referral cooperatives to support their work. In this kind of arrangement, the cooperative functions as a means for members to pool their resources for marketing the services that each member provides individually. The cooperative can also provide support and training to members. Since such cooperatives are not designed to earn and distribute profits, they may form as *non-profit* corporations under a state's general cooperative corporation laws.

Marketing and referral cooperatives are taxed as corporations. While ineligible for tax exemption under Section 501(c)(3) of the Internal Revenue Code (since their activities are not exclusively charitable and educational), they might qualify under Sections 501(c)(4) or 501(c)(6), which protect co-op income from federal income tax, but do not allow donors to the cooperative to claim tax deductions for their contributions.

From: Edward W. de Barbieri and Brian Glick, "Legal Entity Options for Worker Cooperatives." Grassroots Economic Organizing. Available on the web at: <http://www.geo.coop/node/628>.



**Case
Study**

New York's Si Se Puede: A Workers' Cooperative Corporation

New York City's Si Se Puede is a good example of how a large and successful workers' cooperative corporation can grow out of small circle of committed workers, with the support of an established community organization. Launched in 2006, with only 19 worker-owners and no proven track record, the Si Se Puede house cleaning coop grew to 42 worker-owners by 2011. With more than 1,500 customers on its house-cleaning client list and a group income of approximately \$600,000 a year, the coop has not only provided members with a better income (members earned \$23 an hour as of 2011) but has also built a sense of community among members. None of these successes would have been achieved without the help of a nonprofit organization, Center for Family Life (CFL), located in the New York's Bronx.²⁷

Founded in 1976, CFL is a community non-profit with a long record of serving low-income community members, through programs such as job skills workshops and immigrant education and advocacy. In 2006, CFL began to consider an innovative additional approach to their work. *"Five or so years ago, CFL was running a traditional employment center, helping people prepare resumes and go on job interviews,"* says Vanessa Bransburg, CFL's Coop Coordinator. *"As the economy began to tank, staff noticed that it was getting harder and harder for people with language barriers or undocumented status to find work. One CFL worker began investigating coops and started chatting about them in an ESL class. Most of the women in the class were already attuned to the idea of cooperative work; they knew about the artisan coops that exist throughout Latin America and liked the idea of working together to build a business. It was clear that most of them wanted to work, rather than rely on their husbands or partners for money. And most of them already had experience cleaning houses and offices."*²⁸

The idea of a women's cleaning cooperative was born. *"A lot of these people really had the entrepreneurial spirit, but a lot of them don't really have up to high school education, so they weren't able to get a traditional job,"* said Bransburg. *"Instead of following somebody else's rules, they wanted to be the bosses."*²⁹ To reach out to this population, CFL staff developed a 10 week educational program to prepare workers for their new business, including training in customer service, marketing, cleaning skills/products, and the challenges of democratic business governance. Another supportive community group, The Urban Justice Center helped the cooperative draft by-



Worker-Owners of Si Se Puede! travel to Washington D.C.

laws and incorporate as a non-profit marketing and referral cooperative (see previous section for details on this kind of cooperative).

One of the key principles of Si Se Puede! is the fact that Worker-Owners receive 100% pay for their work—there are no job placement fees and no organizational middleman. Workers go to work for individual employers, with assistance from the CFL employment coordinator, and receive 100% of their pay directly from them. There is no requirement for the workers to pay a fee to

CFL, other than workers paying membership fees to the day laborer organizations who make up CFL. Today, Si Se Puede workers receive more than \$20 an hour for their work, and monthly income for the total cooperative reached between \$50,000 and \$60,000 a month in 2011. Worker-owners work very hard for this decent pay. Like all coops, membership in Si Se Puede! requires active participation by all workers in the day-to-day management and marketing of the business. For example, members must attend regular organizational meetings, and must spend three hours a month marketing the coop. This might mean staffing a table at a street fair, marketing the coop at neighborhood meetings, or handing out Si Se Puede! literature door-to-door.³⁰

“The majority of members work regularly, sometimes every day, but they can call in and say, ‘I want to work every day this week, but only one day next week.’” Bransburg reports. *“This means the women feel less pressured than they did before they became coop members.”*³¹

Si Se Puede! has grown from a simple idea among a circle of women immigrant workers to become a well-organized, professional corporation, allowing its worker-owners to earn a dignified wage, shape the conditions under which they work, democratically decide the future of their business, and enjoy the empowerment that comes with owning a business and being one’s own boss. Their model offers inspiration to workers everywhere, imagining what could be achieved in their own communities.

The Limited Liability Company (LLC)

Only a few states specifically allow for workers to incorporate as a “workers’ cooperative corporation.” Though there are signs of legal change, in that influential states like California have begun to consider new legislation allowing for “workers’ cooperative corporations” (i.e., California Senate Bill 1161, in 2011), the current reality is that under most states’ laws, workers’ cooperatives will have to legally organize not as “cooperatives,” nor as corporations, but as Limited Liability Companies (LLCs).

There are negative consequences to that fact (i.e., under LLC laws, a workers cooperative typically cannot use the word “cooperative” in its legal name), but there are also many benefits to the LLC model.

- **LLCs are easy to form, with minimal state registration requirements, compared to the rigorous process of forming a traditional corporation.** To form an LLC, a group of workers begins simply by creating an "Operating Agreement," which determines the co-op's membership, governance and financial policies. This Operating Agreement is a contract among the worker-owners of the LLC, and the agreement can also allow for investors or partnering groups (such as a community organization) to be part of the co-op. With a signed Operating Agreement in place, the LLC can file Articles of Organization with their state government, and become recognized as a legal business entity.
- **LLCs establish a legal and clearly structured ownership and governance structure for the business, as opposed to the typically less predictable and ad hoc management style and operating procedures of an informal collective of individual workers.** Officially organizing a business under the law can provide needed structure and predictability to workers’ collective efforts. Furthermore, LLC rules allow substantial flexibility in how workers choose to organize. Business governance can be set up any way the members want. Members can select a board of directors, hire an outside manager, or decide to make all decisions collectively, and self-manage the LLC. LLCs do not require all investors to be worker-members, nor do they require voting power to be tied to a member’s level of investment (as incorporation rules require). Therefore, a workers’ cooperative LLC can raise capital from outside investors, even while reserving all governing power to the worker-owners themselves. LLCs also allow for a partnering organization (such as an established non-profit that is sponsoring the new coop) to have a voice in the LLC governance (i.e., through a board seat) which can help insure that the coop makes wise decisions and stays true to its original mission.

- **The LLC model provides the protections of limited liability for all its worker owners.** If the business incurs financial obligations or encounters legal troubles, each members' personal liability to pay for those troubles is limited to the amount of personal money that that individual member invested in the coop.
- **An LLC allows for much more flexibility regarding the nature of membership in the business, as compared to the legal requirements when incorporating as a “workers’ cooperative corporation.”** When organizing as a cooperative corporation, workers coops can not allow for outside investors, and all worker members are required to be active members in terms of governing and managing the daily activities of the corporation. LLCs allow for a greater range of member involvement (there can be passive members and outside investors) and also allows the worker-owners to decide to hire a non-owner manager to direct business affairs.
- **Immigrant workers who are not citizens or permanent residents of the U.S. are allowed to form LLCs.** The legal status of the immigrant worker-owner is irrelevant to the legal validity of an incorporated LLC. Incorporating as an LLC, therefore, allows the business to provide such things as health benefits and short term disability insurance to its immigrant worker-owners. By forming an LLC, furthermore, immigrants can acquire business general liability insurance which may provide more credibility to potential/existing employers, thus attracting more business. Though immigrant workers can benefit from an LLC in these ways, there remain complications for undocumented immigrant owners. For example, if LLCs pay immigrant workers, they must provide a valid SSI number. Also, every year an LLC must file IRS form 1065 (partnership tax return) and send each of its members an IRS form K-1, both of which require the reporting of legal SSI numbers.

Income Taxes and the LLC

There are different ways that worker-owners can receive income through an LLC. The LLC can be organized to pay workers a regular wage, and to distribute profits to workers at the end of the year. Alternatively, the LLC can choose to have no employees at all (only owners) and can distribute all its income as profits to its worker-owners, rather than as wages. There are different tax consequences to these choices, which those forming an LLC should learn about and make the right choice for their own situation. It is important to note that the LLC does NOT pay income taxes for its workers, nor does it match employees' Social Security or Medicare taxes. *All income earned by the LLC must be passed through to worker owners or investors in the form of wages or profits, and these individuals are responsible themselves for paying taxes on these wages or profits.*



**Case
Study**

California's WAGES: A Worker-Owner LLC

Women's Action to Gain Economic Security (WAGES) was founded in 1995, as an Oakland-based non-profit dedicated to promoting the economic and social well being of low-income women through cooperative business ownership. Since its founding, WAGES has incubated numerous green-cleaning cooperatives that generate millions of dollars annually and that have helped hundreds of women improve their lives.

The worker-owners of WAGES cooperatives earn above-market incomes (50-100% more than most workers have earned in previous jobs), resulting in substantial increases in family income. Workers also receive numerous benefits, including: access to financial services (such as individual development accounts and no-interest loans), medical and disability insurance, paid time off, and opportunities to build vocational, business, leadership, and civic skills. Moreover, the success of WAGES' cooperatives has inspired many other immigrant women and their community partners to launch their own cleaning cooperatives in communities across the nation, part of a growing cooperative trend in America.³²

As WAGES has incubated its cooperatives—which have almost all been eco-friendly, green-cleaning coops—they have chosen an LLC model. Choosing an LLC model has provided many benefits to the WAGES' cooperatives. Most importantly, it allows for hiring professional management assistance and for building a governing board that includes more than just the voices of workers themselves, thus improving the professionalism of the cooperative. Some of these benefits are detailed below.

Professional Management of the Coop. After several years of struggling to build self-managed cooperatives, managed wholly by workers themselves, WAGES realized that hiring a professional manager was vital to achieving coop success. In Rebecca Bauen's report on the history of WAGES, she writes that *"Self-management of the cooperatives solely through a committee structure is ineffective when working with women who have limited English skills, formal education and minimal business backgrounds. Co-ops need to hire a professional manager at least during the first 2-3 years of operations. The professional manager position is a critical one for business success offering both entrepreneurship and administrative oversight."*³³

Without a professional manager, the coops struggled. But hiring a manager allowed for dividing roles and responsibilities between workers and the manager. This change

freed worker owners from trying to balance multiple tasks, such as their housecleaning work, their home responsibilities, and their need to manage the cooperative. Before the manager was hired, WAGES found that many worker-owners were not able to make coop governance meetings after long hours of work during the day, and many key decisions and other necessary tasks to grow the cooperative were delayed. Hiring a professional manager mitigated such problems.

Hybrid Board Governance. The LLC model allows for a governance structure that includes community voices. Taking advantage of this fact, WAGES' cooperatives have developed a hybrid model of board governance, uniting worker-owners with community allies on the board. Considering the inexperience of many worker-owners in regards to limited fundraising, publicity/marketing and community relations skills, WAGES' cooperatives have a hybrid model which includes notable community board members and the executive director of WAGES. This hybrid model insures that the resources of the executive director of WAGES are woven into the cooperative, even after coop launch, which can help with management, fundraising, and other challenges until the coop reaches full capacity . Once the cooperative is strong, then a WAGES cooperative can consider whether to change its board composition to only worker-owners.

Individual Internal Accounts. The LLC model allows owners to establish “individual internal accounts.” By setting up an individual internal account in an owner's name, LLC owners can establish a personal saving account, as they are given the right to withdraw money from this account upon their leaving the coop, or after 3 years of leaving their funds in the account. During this three year period, the coop can access the funds for business expenses (borrowing the funds at low-interest, and repaying later). Such a structure can provide a coop with critical access to capital, without having to go through a traditional bank, while also helping workers to save money.

Community Partnerships and Professionalism Embedded in the Coop. WAGES coop members receive extensive training and education before becoming owners, and before the coop launch. The standard training requirement for WAGES to support a coop is that all owners have to complete 250 hours of training over a one year period. Training covers such topics as how to create a business plan, marketing/outreach, finance and budgeting, and team-work skills. During this pre-launch training period, the professional manager is also hired, at least six months before coop launch, to ensure that the coop manager has time to develop marketing and publicity efforts, and to complete other business tasks, to bring the business up to speed on day one. Even after the coop launch, WAGES stays very involved, and the Coop is required to pay WAGES for ongoing management assistance through its beginning months.

The LLC, Taxed as a C Corporation

A Limited Liability Company (LLC) is not a corporation, which traditionally has meant that all income earned from the LLC must be directly passed through to the LLC owners (no income can be retained for a business capital account), and individual owners must pay all taxes on their income or profits as individuals—as there is no corporate structure to tax. These rules may have tax disadvantages in some circumstances for worker-owners, but more importantly (when considering the health of the cooperative), these rules make it difficult the plan for the long-term growth of the cooperative through the use of a permanent capital account (that is, an account that stays with the business and that can finance unusual business expenses and expansion opportunities). In 1997, the IRS changed the tax codes to address these problems by allowing LLC's to choose to be taxed as a “C” or “S” corporation, and to thereby be allowed some features of these corporations, such as the ability to create a permanent capital account for their business. Making this choice can open up new opportunities to some cooperatives.

Under current IRS rules, LLC partners (owners) can elect for the IRS to tax the LLC as a *sole proprietorship*, a *partnership*, a *C corporation* or an *S corporation*. The previous section of this manual examined the LLC as a business partnership among co-owners; this section will address the next most likely choice of worker-owners—to treat their LLC as a C Corporation. The LLC treated as a C corporation has advantages and disadvantages.

One of largest potential disadvantages is the effect of this classification on taxation. Under a traditional LLC structure, all profits made by the business are immediately passed through to owners (who pay income taxes on this income), so the LLC itself does not pay any corporate taxes. This pass-through of profits avoids the double-taxation problem of a business paying corporate taxes on profits, and then individuals paying income or dividend taxes when these profits are passed through to them. Taxing an LLC as a C corporation cannot avoid this double taxation problem. In this case, the cooperative would face corporate income tax on its income prior to any dividends or distributions to members, and then members would also face taxation on the dividends or distributions once they were received as personal income.

Still, there are benefits to taxing a cooperative LLC as a C Corporation. Under certain conditions, if a cooperative employed a great many workers and perhaps had generous benefit packages, there are benefits to being taxed as a corporation. But a more

important and more likely benefit is that treating the LLC as a C corporation allows the coop to set aside a *permanent capital account* that stays with the cooperative for the long term and which can grow over time. This permanent capital account can be used to cover unusual and unpredicted business expenses (thus making a business more resilient) and can help the business take advantage of unpredicted expansion opportunities. Realizing the weakness of the LLC structure under which cooperatives have to distribute all dividends to members one way or another (they can put aside some business capital for the short term, but not permanently, as such funds have to be passed through to members in a relatively brief period), some cooperatives have opted for C-corporation taxation, with the goal to grow their permanent business capital.

For example, TeamWorks (a California green cleaning cooperative) and the StartZone microenterprise development program at Highline Community College in Des Moines, WA (which incubates various worker owned cooperatives,) have both utilized the LLC treated as a C corporation strategy to build their permanent capital accounts. Although setting up a permanent capital account may not make a large difference in the short run, as the percentage of permanent capital set aside is relatively low--ranging between 1% and 5% of business income—such efforts to create a more sustainable cooperative model, with long-term financing capacity, deserves recognition and further exploration.

The LLC Taxed as a C Corp: Pros

The LLC can set up a divided income strategy, whereby some profits stay with the coop to help it grow, and other revenues are passed through to worker-owners

Allows for capital to be permanently set aside to finance future business needs such as growth opportunities and major unforeseen expenses

The LLC Taxed as a C Corp: Cons

Double Taxation: The Coop pays income tax as a corporation, and when that income is distributed to owners as dividends, they must also pay personal income tax on it.

Accounting and tax compliance might be more complicated. Thus the coop will need professional assistance (i.e., a CPA) for financial management and tax preparation.



**Case
Study**

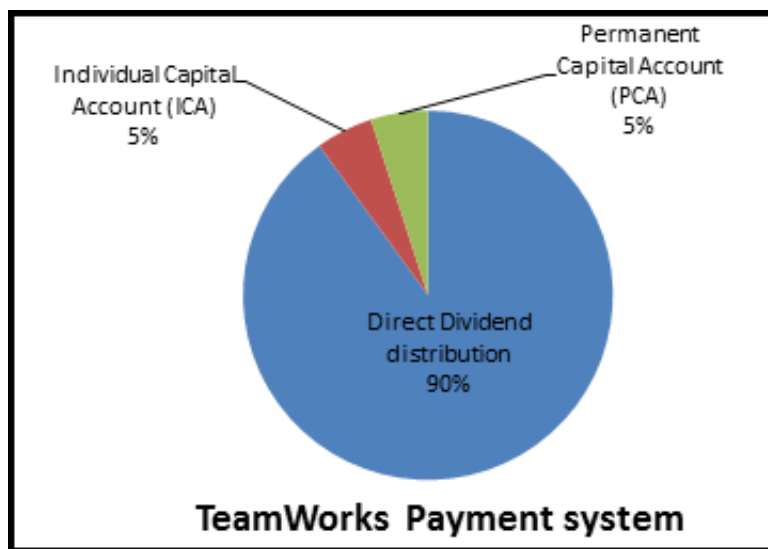
LLC, Taxed As a C Corporation: California's TeamWorks

TeamWorks Cooperative Network (TeamWorks) is one of the most innovative immigrant worker owned cooperatives, in terms of offering a long term vision for constantly growing the “social business” cooperative sector of the economy. In 2011, the TeamWorks coop had 17 owners (12 owners of a cleaning coop, and 5 owners of a landscaping coop) and it has recently launched a new landscaping cooperative with five additional immigrant men. But the TeamWorks vision is to grow their work much larger than this current success.

The TeamWorks' vision is to move beyond small, poorly funded workers cooperatives and into a world of flourishing and growing cooperatives, where an ever-growing number of people control their economic and social institutions. To achieve this vision, TeamWorks believes the LLC taxed as a C Corporation model is the best route, as it allows for ever growing permanent capital in the cooperative sector. As the TeamWorks founder, David Smathers Moore, expresses it: *“But in order to gain traction, go to scale and make a more significant contribution to society, cooperatives need to engage in **long-term shared capital formation**. This requires that they develop some assets that are not constantly being paid back out to members. Traditional corporations would never have developed scale and sophistication without having **permanent equity** that does not have to be monetized and paid out to investors.”*³⁴

How can this long-term, shared capital formation be achieved? David Moore believes that the Mondragon cooperative model in Spain provides the answer. The Mondragon model is to reserve a substantial percentage (about 50%) of the cooperative's income as permanent capital for the coop itself, and never to distribute this capital to members. Reserving this much capital has allowed Mondragon to constantly improve its equipment and training processes, to expand business operations and to take advantage of new business opportunities. Today, Mondragon is the largest business operation in its region (the Basque area, an area of substantial poverty, unemployment, and social marginalization). It features more than 30,000 worker-owners (and nearly 100,000 total employees), has \$15 billion in annual sales, and another \$14 billion of assets that it manages.³⁵ There have been no mass Mondragon layoffs since the organization's founding in 1956, and Mondragon's cooperatives have been able to establish their own social security system, working training processes, research labs, and university.³⁶

In California, the TeamWorks workers' coop network has built itself along Mondragon's model, following a strategy of permanent capital accumulation that will allow the cooperative movement to constantly grow. To achieve that goal, the TeamWorks coop followed an "LLC taxed as C-corporation" strategy, which allows the coop to set aside business income as permanent capital that stays with the company and that can never be withdrawn by any individual member. Whereas a traditional LLC is required to distribute all income back to individual members, a C-corporation is allowed to set aside capital in order to save for future purposes or to invest in the coop's growth. This saved capital is the permanent capital account.



Although Mondragon's success has been driven by substantial accumulation of permanent capital (50% of all Mondragon income is set aside into the permanent account), TeamWorks has thus far established a much smaller set-aside goal. Currently TeamWorks diverts 5% of business income into a permanent capital account, and 5% into individual capital accounts that are distributed to individual workers after two years of their activity with the cooperative. In other words, 90%

of TeamWorks earnings (after expenses) are distributed directly to worker-owners, 5% of earnings are distributed to individual capital accounts which can provide short-term financing for business needs but are ultimately distributed to workers (within two years), and 5% is distributed to the coop's permanent capital account and is never distributed to workers.

This permanent account provides the funding for innovative ventures like the TeamWorks Capital Fund, which has partnered with other community development funds to offer low-interest loans to new TeamWorks cooperative ventures. As the new cooperatives succeed and pay back their loans, the fund is recapitalized to fund a new round of cooperative startups. In this way, TeamWorks intends its permanent account to constantly grow over time, and to finance business expansion and innovation, thus providing the stable source of capital formation that will allow cooperatives like TeamWorks to reach a large enough scale to influence the economic trajectory of their community.



How does a Coop Arrange its Ownership Structure?

A fundamental aspect of a worker owned coop is workers' ownership over their business as a collective body. Instead of having "bosses," all members of the coop become the owners of the business, creating a democratic workplace. However, the exact nature of the ownership structure varies, depending on different cooperative models. This section will examine how different ownership structures involve different cooperative processes and outcomes. Once the coop becomes established, with a successful business history, the ownership structure for new owners is easier, as new owners follow the track of existing owners. The question of how to create the original ownership structure is challenging, however, when workers are about to start a coop from scratch. One of the most important questions is the issue of who the founders of the cooperative will be, and what will be their role.

"The really important thing for me is clarifying the role of founders... When I look at Equal Exchange today, so much of what they have, whether it's the personnel policy, the exchange time they do, the worker curriculum, sending workers to visit farmers [were based on the founders ideas]. We had such an imprint on the company."

— Michael Rozyne,
Co-Founder, Equal Exchange

"We had an organization that was completely founder dominated ... The founders' stage was extremely stimulating, challenging. It was lovely to really go through such a difficult time and share it three ways, and in a collective or co-operative management most of the time."

— Jonathon Rosenthal,
Co-Founder, Equal Exchange³⁷

Founding Members ARE the Foundation

Founding members of a new startup cooperative are very important in that they set the tone for the vision of the cooperative, and the coop's failure or success in these early stages is dependent upon how founding members define and advance the mission of the cooperative. The founding members of a cooperative typically take the most risk, in terms of investing their time and resources in an unproved enterprise, and they are likely to be among the most innovative and committed of a coop's members simply because they had the vision and commitment to give birth to the coop in the first place.



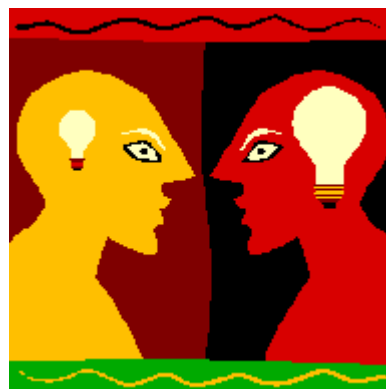
Many founding members who build a coop have a tendency to stay with the coop for a long time, because they are the ones who infused the coop with their vision. However, this is not the case for all worker owned coops. Many immigrant coops have been born out of partnerships between worker-owner founders and community organizations

who incubate the cooperative. In such a case, sometimes the original worker-owner founders are not necessarily the driving force behind the coop's founding, which traces its roots to the efforts of the non-profit incubator as much as to the independent vision of a group of worker-founders. But whether a coop venture emerges from the visionary work of founding owners who remain committed to the venture over time, or whether the coop is instigated and incubated by professional staff at a community non-profit, the original values and strategic choices of a coop's founding personalities are sure to influence the success or failure of the coop, long down the road.

In general, there are two different ways that founding members come together to form a coop: either a small circle of visionary founders unite to create their own cooperative, or an established community organization works to instigate and incubate the establishment of a co-op, playing an active role in choosing the original founding members.

Self-Selected Founding Members

If workers themselves gather to plan a cooperative business together, they are truly the founders for their new business. We can expect such a founding core to bring their own values to the workers' cooperative, and to want to remain involved in the cooperative for a long period of time. Some notable visionary founders include *TeamWorks*' founder (David Smathers Moore), *Equal Exchange*'s three founders (Rink Dickinson, Jonathan Rosenthal, Michael Rozyne), and *Opportunity Threads*' coop founder (Molly Hemstreet). All these founders are living examples of how dedicated



founders can lay a visionary foundation for their coop development, influencing the values and work habits of the cooperative long into the future. Though these founders faced difficulties in coming up with capital and getting their fledgling businesses off the ground, the founders' personal dedication to worker justice and their passion for their ventures infused each cooperative with the energetic vision of their founders.

For example, TeamWorks founder David Smathers Moore founded California's TeamWorks to advance his concept of workplace democracy. Not only did Moore invest his own capital to start the venture, but also he endured years' of personal work cleaning houses to grow the business (as did the other early owners of the coop). Moore has a vision of replicating the success of Mondragon's cooperatives in growing a significant "social business" sector in Spain. He believes that American coops should develop long

-term ways to expand the scale of the cooperative sector, so that we can “move beyond philanthropy and charity and imagine ordinary people genuinely controlling their own economic and social institutions that are rooted in their own self-sustaining capacity.”³⁸

Moore’s founding values are reflected in TeamWorks’ choice to register as an LLC (but taxed as a C Corporation) so that the cooperative could divert some its income into an expanding permanent capital account fund, helping finance long-term growth (see previous section on cooperative models). Beyond this choice of legal structure, which reflects the founders’ values, Moore believes that there are many important “founding lessons” to be learned from a study of the formational period of cooperatives like

**TeamWorks Founder, David Smathers Moore:
Reflections on a Coop’s “Formative Period.”**

David Smathers Moore believes that it is important to examine the critical start-up period of successful cooperatives like Mondragon, so that coop organizers can learn how to replicate Mondragon’s success in their own communities. “We cannot copy Mondragon,” Moore admits, “but the future calls us to be serious students of the underlying principles and factors that contributed to its development. The power of principles is that they are transcendent and can be applied in different ways in different contexts.” In his 2010 paper, “Listening to Mondragon,” Moore highlights core lessons from Mondragon’s “formative period.”

- **The need for motivated, energetic founders.** “These guys were motivated,” Moore writes. “They had professional ambitions and social values that were stifled by the existing structures. They were young and energetic. They took big risks to create a new path forward.”
- **The need for concentrated, professional capacity.** At Mondragon, the founders were a mix between formally educated professionals and workers. “This is not to discount the commitment and contributions of workers who started on this journey with less education,” Moore concludes. “But I believe that a critical mass of professional leadership was needed in the very early days to make sense of a highly ambiguous situation and invent the basic organizational ‘operating system’ upon which all the Mondragon cooperatives were later built.”
- **The need for active, transformational education.** Building a workers’ cooperative should not just be about expanding jobs and giving workers technical skills to fit into the existing social order. Founders should build transformational educational processes into coop training to help members discover how to transform political, economic and social conditions.

From: David Smathers Moore, “Listening to Mondragon: Lessons from the Formative Period,” 2010. Available at: http://teamworks.coop/pdf/listening-modragon-paper_2010.pdf

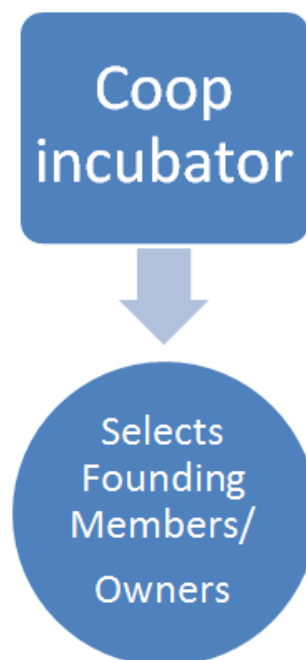
Mondragon, as seen in his reflections below.



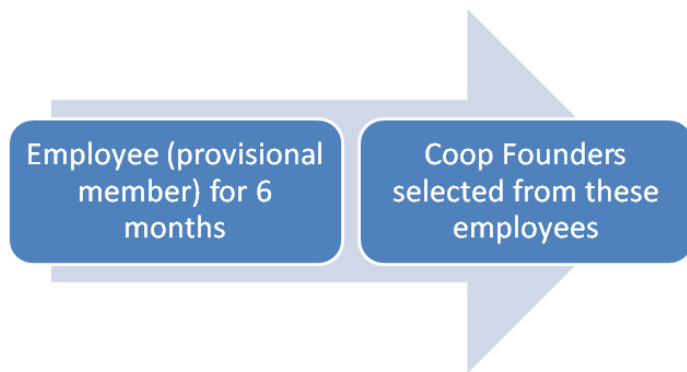
Founding Members recruited/selected by an “incubator” community organization

Though a visionary founder or small group of founders can play a vital role in starting a coop, the reality is that many coops emerge more from the strategic incubation efforts of established non-profits, rather than from the visionary personal efforts of a worker-owner. For instance, Women’s Action to Gain Economic Security (WAGES) fosters new immigrant green cleaning cooperatives in California. Green Worker Cooperatives in New York provides education and other incubation assistance to community members to help create green cooperatives in the South Bronx. Third Coast Workers for Cooperation (out of Texas), also provides extensive training on coop formation for immigrants in their community. Other coop incubator organizations include: the Center for Family Life in New York, and day laborer organizations such as San Francisco’s La Raza Centro Legal, Instituto de Educacion Popular Del Sur California (IDEPSCA), The Workplace Project (New York) and El Centro Humanitario (Denver).

When established organizations play the key role in incubating new cooperatives, they will typically be deeply involved with identifying, recruiting and selecting the coop’s founding members. For example, one of the more successful Coop incubator organizations has been California’s WAGES, and organization which is very involved with identifying and training groups of women interested in forming a worker coop. As WAGES staff identify potential worker-owners, they provide these recruits with extensive training, and help them to write their organizational bylaws. As these potential recruits are selected as founding members of the cooperative, they are expected to invest \$400 of their own money in the coop. Like members that join later, these founders receive bi-weekly payments as an early distribution of the coop’s annual income, and they receive the rest of the distribution at the end of the fiscal year. These founders do not receive workers’ compensation since they are *owners* of their business, but they are eligible for disability insurance and other health benefits.



In a variation on this model, incubator organizations will sometimes choose to have po-



tential founders of the cooperative work as *employees* of the startup business for a period of time before they are eligible to become founding owners. As provisional employees of the cooperative, these people receive workers’ compensation and wages. Once the provisional training and employment period has passed, employees who are evaluated favorably are recruited as the coop’s initial

owners, thus becoming the official founders of a new cooperative. For instance, a new landscaping cooperative that TeamWorks (a coop incubating organization) has recently launched has followed this process. A few key worker leaders approached the organization with interest in creating an environmentally sustainable landscaping cooperative. Subsequently, these workers were trained in cooperative business practices, and were then hired as six month provisional members (employees) of the incipient cooperative. Once they passed the provisional period, these employees became the first founding

In Their Own Words:

WAGES Describes its Ongoing Support to Coops at All Stages of Development

“When founding a co-op, WAGES provides the organizing framework for each cooperative, although the businesses are owned completely by their workers from the start. We work intensively with the members during a 3-4 year incubation period, helping the members develop skills and the cooperative grow its client base. During incubation, we offer a range of personal and professional development opportunities for co-op members including business basics, eco-friendly cleaning, financial literacy, quality control, marketing, customer service, and vocational ESL. Our group activities foster positive communication and democratic decision-making, cornerstones of successful cooperative businesses.

“After co-ops graduate from our incubation program and operate without subsidies from WAGES, we continue to provide technical assistance and training for these mature businesses. We help them maintain a healthy work culture, sharpen core business functions, and develop the leadership skills of co-op members.

“Members of mature co-ops are invited to participate in continuing education opportunities offered by WAGES designed to promote eco-friendly cleaning and co-operative business development.

“Another support that WAGES provides for co-ops is the *Eco-Friendly Cleaning Co-op Network*. The Co-op Network develops shared business strategies that are more easily achieved with economies of scale (such as joint purchasing and marketing).”

From: WAGES, “Co-op Creation,” <http://wagescooperatives.org/node/197>.



Whatever system is used to select the founding members of the coop, there are a few key principles to keep in mind...

- **The vision and commitment of the founders will infuse the cooperative.** It is important that founding members emerge who are energetic, motivated, and believe deeply in the mission of the cooperative.

- **There is a role for professional skills.** The TeamWorks coops in California believe a founding group should have a mix of traditional workers, who tend to be less formally educated, and people with professional skills and education, who may have more experience with such things as computers, PR, and business management.³⁹
- **The difference between provisional and permanent members has to be clearly defined.** If there is a provisional period between working for the coop and becoming a full owner, this process needs to be clearly conveyed to workers. In the case of El Centro's Green Cleaning coop in Denver, there was persistent confusion over whether provisional employees of Green Cleaning were also worker-owners. Though they were not yet owners, during their provisional period, many of these workers began to think of themselves as owners of the business, and present themselves as owners before there were selected as such. When it came time for El Centro's staff and board to review the work record of these provisional members and to select workers to be elevated to owners, there was confusion and bitterness among some workers who thought they were already owners, and that professional staff should not be able to change that. To avoid such problems, the responsibilities and rights of provisional members versus permanent owners should be clearly conveyed to members. The differences between the categories can also be put in recruitment documents and repeated during the interview processes to minimize confusion that may arise.
- **Plan on how to cover expenses for unemployment insurance as employees have to be sorted out.** If a coop chooses a system of selecting founders only after a period of provisional employment, it is important to have enough funding to provide these provisional employees with unemployment and workers compensation insurance.
- **Plan for a small number of founders, from the beginning.** When an organization launches a coop, it has a tendency to include as many people as possible as members. But it is important in the early stages that a group of founders comes together who are truly united around their coop mission, who can work harmoniously over long hours, and who can hold each other accountable for their efforts. These challenges mean that a small group of founders is generally preferable to a larger group.



How does the Membership Structure of a Workers' Cooperative Work?

This section will examine two important questions to consider when starting a workers' coop: 1) how the chosen business model affects the membership structure, and 2) the difference between "provisional," "permanent," and "second class" members.



How does the Business Model that is Chosen Affect the Membership Structure?

One Worker, One Vote

No matter what membership structure is chosen, worker cooperatives generally adhere to the principles of democratic governance, whereby any worker member of the coop has an equal vote.

Though LLC rules allow for partners' votes to be commensurate to their investment level in a company, and allow outside investors to vote, the principles of cooperative management repudiate these options. Formally incorporating as a workers' cooperative under the law *requires* the "one worker, one vote" principle, but workers adopting the informal model or the LLC model *are free to adopt* this same principle.

The membership structure of a workers' coop varies depending on which coop model is chosen. While informally organized cooperatives have a very flexible membership structure, formally incorporated cooperatives and Limited Liability Companies (LLC) have more

Informal Coop/Collective	Incorporated Workers Coop	Limited Liability Company
<p>Who Can Be Members?</p> <ul style="list-style-type: none"> ▶ Anyone who wishes to be part of the informal organizing efforts, and who is accepted by other members. 	<p>Who Can be Members?</p> <ul style="list-style-type: none"> ▶ Only workers can be voting members ▶ "Preferred Shares" of the coop may be bought by non-workers, but these shares do not allow for voting rights 	<p>Who Can Be Members?</p> <ul style="list-style-type: none"> ▶ The partner-members of the LLC can include anyone who invests in the LLC, including workers, non-worker investors, or the incubating non-profit
<p>Governance</p> <ul style="list-style-type: none"> ▶ Informal cooperatives are not formally registered with the state, so may use whatever governance system they choose 	<p>Governance</p> <ul style="list-style-type: none"> ▶ Each worker owns one share in the company; Each worker receives one vote ▶ Workers may elect a board of directors ▶ No Non-workers may vote 	<p>Governance</p> <ul style="list-style-type: none"> ▶ Flexible operating agreement may allow only workers to vote, or can also allow investors or incubating non-profits to vote. LLC rules could allow votes in proportion to investment level.



What is the Difference Between "Provisional,"
"Permanent" and "Second Class" Members?

Actively participating workers who are voting members of a workers' cooperative are considering "*permanent*" members. They contribute their work and ideas to the coop. they have full voting rights on cooperative decisions, they vote for the Board of Directors (if one exists), and they receive a share of coop earnings as distributed profits (over and above pay for their own work with the coop). Some cooperatives also define some workers as "*provisional*" members. Provisional members learn about the cooperative while they work as coop employees, and are also evaluated (during the provisional period) by existing members and the Board of Directors as to their suitability for full, permanent membership. Provisional members have no voting rights. Some cooperatives such as Equal Exchange, also define a category of "*second class owners.*" These are people who are allowed to buy stock in the coop (thus earning the coop capital), and to receive a rate of return, but who are not workers in the coop and therefore don't have voting rights in any coop decision. WAGES has offered a second class ownership model, allowing a small percentage of ownership (i.e., 2%) to coop managers and administrative staff, but no outsiders are allowed to be investors/owners in the coop.



Provisional Members

- ▶ Hired as employees of the cooperative, with a potential to become a full member. No voting rights while provisional.
- ▶ After a provisional employment period, existing coop members (and/or the Board) votes on whether to invite full membership.



Permanent Members

- ▶ Full worker-owners of the cooperative.
- ▶ Each worker-owner invests an equity share in the cooperative and works collaboratively with other workers to manage the coop and participate in major decisions. Every worker-owner gets one vote.



Second-Class Members

- ▶ Non-worker owners who are allowed to buy "preferred stock" in the coop and receive a rate of return on their investment.
- ▶ This member helps the coop with needed capital, but is not allowed any voting rights.



How is the Board of Directors Structured?

The Board of Directors is the governing body that makes decisions on a coop's important affairs, and can legally represent the cooperative in all matters. The composition of the board of directors is different from coop to coop. Some cooperatives choose a board composition of 100% worker-owners (insuring the cooperative is fully governed only by workers themselves). Other cooperatives choose a hybrid model in which worker board members and outsiders from the community serve together on the Board of Directors. In either case, the Board of Directors is always chosen through a vote of all full members of the cooperative, helping insure that the Board reflects the values and priorities of the worker-owners themselves.

Not only does the Board of Directors legally represent the coop, but it also makes critical decisions regarding funding priorities, budgeting and financial reporting, personnel issues, and the future direction of the coop. Typically, board members make decisions on broad issues such as the mission of the coop, finances (i.e., where to invest business resources), new directions to take the business, and governance related issues. On the other hand, general assembly meetings that include all worker-owners often decide on day-to-day internal matters (i.e., internal conflict resolution, daily work related issues). The entire membership base also votes for the Board of Directors.

Board of Directors: DO's

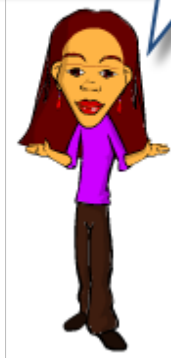
- ▶ Insure coop activities are aligned with mission of coop.
- ▶ Establish Finance & Governance Policies.
- ▶ Supervision, hiring, firing of coop employees.
- ▶ Strategic planning, fundraising, PR.

Board of Directors: DON'Ts

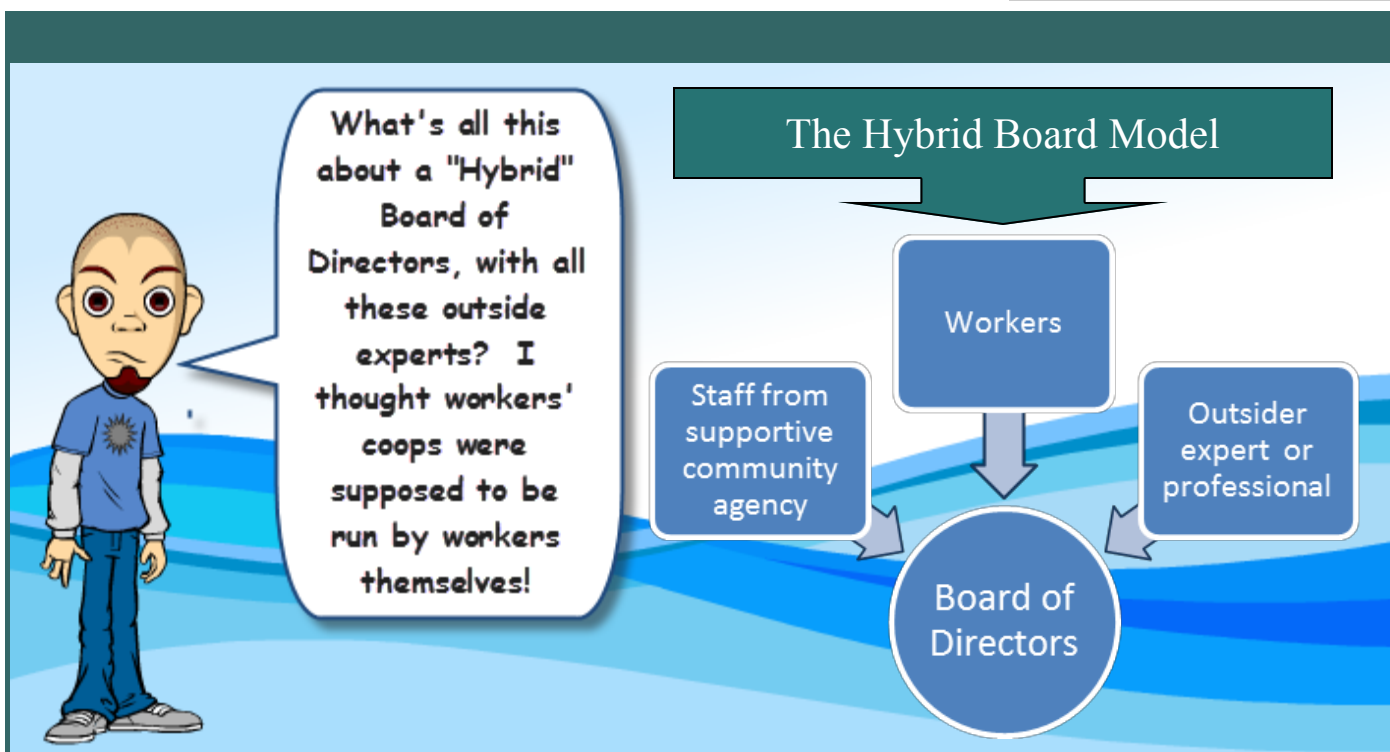
- ▶ Become involved in day-to-day Operations.
- ▶ Hire or supervise staff, other than Executive Staff.
- ▶ Micro-manage coop Activities.

There are Two Broad Models of Board Membership: Homogenous Boards and Hybrid Boards

Homogenous Boards are made up entirely of worker-owners themselves, who are voted by their peer workers to serve on the board. Vida Verde (Brazilian Women's cooperative), and Team-Works' Green Cleaning cooperatives work this way.



Hybrid Boards include a mix of workers and outside professionals or other community voices on the Board. This Board might include spots for staff from supportive organizations, skilled professionals, or community allies.



A common goal announced by workers coops is to build a Board of Directors that includes only workers themselves. Worker coops are meant to be democratically governed by workers, so how can a Board of Directors that includes a number of “outsiders,” including people with more professional training and formal education than workers themselves, be expected to reflect this democratic spirit? For such reasons, when California’s WAGES set up their first cooperatives, they were established under the theory that workers had the full capacity to manage their own affairs—managers were selected from among the workers themselves, and the Board had no positions for outside members. But today, ALL of the cooperatives sponsored by WAGES include “outside” professional members on the Board, and all managers are trained professionals, hired from outside of the body of workers.⁴⁰ Why did WAGES adopt this “hybrid” model?

- ▶ Too many of the WAGES-sponsored coops that didn’t include professional assistance failed. Running a business is a hard and complicated task. Most workers starting coops do not have extensive business skills, and many have limited English proficiency, limited time to put into business management, and limited professional “networking” connections in the broader community. Outside professional help can address these issues.
- ▶ The outsiders brought onto the board all shared the values and mission of the cooperative itself—they were not true “outsiders.” It is common to reserve places on the Board for a representative of the incubating non-profit organization, for example.
- ▶ In any case, all Board Members must be elected by a vote of the workers—thus insuring the values of workers are reflected in the Board members who are selected.



What is the Role of the Coop Manager?

MYTH: “Worker Cooperatives Do Not Have Managers and Other Experts.”

Fact: “Worker co-ops enlist various kinds of expertise while also encouraging worker-owners to develop their skills to advance in the company. Effective worker co-ops employ an array of professionals, including experienced managers, accountants, engineers, attorneys, marketers, and so forth, along with workers who are close to the basic products or services. Worker-owners have opportunities for advancement and leadership, and they also benefit from the company’s commitment to them.”

From: Jim Andersen and George Cheney, “7 Myths About Worker Cooperatives.”⁴²

In a review of the most important lessons learned by WAGES as it incubated several California coops between 1995 and 2000, high-quality, professional managers were found to be among the most important factors for a cooperative’s success.⁴¹ Though a vision of workers managing their own affairs and selecting a manager from among their own ranks may seem like a perfect reflection of a coop’s democratic mission, the historical record shows that hiring a professional manager with business experience is a better route for long-term success.

The duties of the coop manager are wide-ranging, including: daily management of the coop, development of worker-owners’ skills, coop publicity and marketing, financial management, staff supervision, managing clientele and identifying future business opportunities. This wide range of responsibilities typically demands an experienced and skilled manager.

Responsibilities of Coop Manager

Financial	Personnel	Business Growth
▶ Develop and Manage Budget	▶ Train and Manage Coop Employees	▶ Represent Coop to Public and Manage Clients
▶ Oversee Accounting and Financial Reporting	▶ Organize Efforts of Worker-Owners	▶ Identify new Business Opportunities
▶ Manage Billing and Purchasing	▶ Build Teamwork Among Worker-Owners	▶ Manage all Initiatives Delegated by Board

Possible Coop Management Structures

Centralized, Professional Management

- Many worker coops hire outside professional managers to organize the business. Large coop networks like Mondragon need professional staff to manage thousands of worker-owners. Even small coops can find better business success through the organizational, budgeting, personnel and other skills of a professional manager.
- California's *WAGES* coop network reports on their experience: "Self-Management of the cooperatives solely through a committee structure is ineffective when working with women who have limited English skills, formal education and minimal business backgrounds. Coops need to hire a professional manager at least during the first 2-3 years of operations. The professional manager position is a critical one for business success, offering both entrepreneurship and administrative oversight."⁴³

Elected Executive Committees

- Some worker coops choose to elect management committees from among the workers themselves. Different executive committees can be established with authority over different business aspects (such as marketing or personnel issues), or a single worker-led executive committee can manage all the coop's business.
- Minnesota's *Builders Commonwealth* coop reports on their reliance on elected executive committees: "At Builder's Commonwealth, every member-owner is a Board Member. The Board elects a four-member Executive Committee whose responsibilities include setting policies and approving capital purchases. A Management Committee is made up of department managers and they are responsible for the day to day mechanics of operating the business."⁴⁴

Decentralized Operations, without Management

- Worker coops may also choose to avoid professional management altogether, relying instead on frequent meetings of the worker-owners themselves to manage all the work of the collective.
- A worker-owner of California's *Rainbow Grocery* reports on the coop's decentralized management structure: "Rainbow is also a collective, which means that there is no decision that is made by one person. Each department functions semi-autonomously, they do their own hiring, scheduling, discipline, evaluations, and firing... Rainbow is an ongoing experiment in self-management. I was a cashier...but since it's a cooperative, with no bosses, it was possible for me to become involved in many of the decision making structures. I've really enjoyed being a part of building an alternative to the corporate, hierarchical structure."⁴⁵

Governance Versus Management. Though many coops choose to hire professional managers, or elect worker-management teams, all coops are democratically governed. What is the difference between governance and management? **Governance** is the process by which the vision and broad policies of a coop become established; **Management** is about making decisions and organizing daily work into order to realize the broad vision and implement worker-chosen policies. All worker coops are democratically **governed**, as each worker gets a single vote on fundamental business issues. However, many coops choose to bring on skilled **management** as a way to most efficiently and professionally implement the policies voted on by workers themselves.



Potential Sources of Tension between the Coop Manager and Worker-Owners.

Though there is good evidence that hiring a professional, outside manager is a good idea for a workers' cooperative, there are inherent tensions that may emerge between worker-owners and a professional manager. Tensions may particularly arise around the following kinds of issues:

What About Tensions Between Managers and Workers?

through their elected board of directors, but managers have to make daily decisions about business operations, and help strategically guide the growth of the coop. Inevitable gray-areas emerge and it's not always perfectly clear who should be making what decision.

► **Decision-making:** Worker-owners are the source of all fundamental coop decisions, either through general meetings or through their elected board of directors, but managers have to make daily decisions about business operations, and help strategically guide the growth of the coop. Inevitable gray-areas emerge and it's not always perfectly clear who should be making what decision.

► **Exercising Management Authority over Worker-Owners.** Predictable tensions can emerge between workers and managers when disagreements arise regarding work schedules, quality of worker performance, etc. Many times, worker-owners may say to a manager something like "*we are the owners and you can't direct us like you are the owner!*" This situation can undermine the authority and effectiveness of the coop manager, or (alternatively) can undermine the coop's mission of worker empowerment, if the manager is excessively authoritarian.

► **Wage Differentials.** It may be the case that a professional manager earns more income than the worker-owners, especially during a coop's start-up period, introducing another natural source of tension between workers and their hired manager.

What can be Done to Reduce These Tensions?

Worker-Management tensions are inherent in any cooperative, and may not be able to be wholly eliminated. Still, the tensions can be reduced, and workers and managers can best come to a mutually supportive relationship, with two key strategies.

► **Constant Worker Education.** Part of the reason for hiring an outside manager, is because of their assumed skills in marketing, public relations, finances, personnel management, and other business strategies. A commitment to constant worker training on these

same issues will help workers to better understand the challenges facing management, and will help build a future in which workers are increasingly involved in relevant management issues, thus reducing the gap and tensions between workers and management.

► **A Commitment to Participatory Management.** Workers as a whole certainly can't be involved in every business decision—for example, housecleaning workers can't have a collective debate about which particular worker should go to whatever cleaning job comes in that day. But a commitment to participatory management means that the coop can plan for constant and thorough involvement of workers in the broad planning and operations of the organization. Coops can achieve inclusive planning through regular and meaningful meetings of all workers, by creating programs to help worker-owners build their skills and express their vision (leadership development programs, educational workshops), by creating a “workers committee” to liaison with management, and other such strategies. Creating a culture of participatory management will insure that workers assume more management tasks as they desire to and are capable of it, and will help workers better to understand (and share in) the challenges of their paid managers.

Mondragon's Commitment to Participatory Management

From: The Mondragon Cooperative Experience, by José María Ormaechea, 2000⁴⁶

“The Mondragon Cooperative Experience believes that the democratic character of the Cooperative is not limited to membership aspects, but that it also implies the progressive development of self-management and consequently of the participation of members in the sphere of business management which, in turn, requires:

- a) The development of suitable mechanisms and channels for participation.*
- b) Freedom of information concerning the development of the basic management variables of the Cooperative.*
- c) The practice of methods of consultation and negotiation with worker-members and their social representatives in economic, organizational and labour decisions which concern or affect them.*
- d) The systematic application of social and professional training plans for members.*
- e) The establishment of internal promotion as the basic means of covering posts with greater professional responsibility.”*



How can you Find Adequate Funding to Startup your Cooperative?

Raising capital for a workers' cooperative startup is difficult, as many traditional financing strategies simply don't work well for worker cooperatives, especially immigrant worker coops. For most traditional small business startups, the major financing strategies are:

- 1) A business owner can draw on his or her own capital, including borrowing against personal home equity and using credit cards.
- 2) A business owner can borrow from a bank, often at high interest and with challenging cash drain impacts when the loan has to be repaid.
- 3) Some small businesses obtain venture capital from outside investors.
- 4) A small business innovator can sell equity securities (sell public stock in the company on the open market).

Financing Challenges

"Debt financing can be problematic because investors think worker cooperatives have high risk, perhaps due to a general lack of familiarity with the structure of worker coops. They may not know how to evaluate the risk and profitability of worker cooperatives. Obtaining external equity financing may also be difficult [as] statutes prohibit non-member investment in cooperatives and limit the amount of return on equity..."

Given a lack of external financing, worker coops are forced to rely on internal funds to finance growth. However, it may be difficult to raise funding through member loans in a worker cooperative. Members may not possess substantial amounts of savings."

—From "Are Worker Coops a Viable Option?"⁴⁷

Immigrant workers face special obstacles in utilizing such traditional funding strategies. Immigrant workers rarely have substantial personal capital to invest in a business, so the level of equity that worker owners themselves can provide to their cooperative is usually small in comparison to the amount of capital needed for their coop startup. Immigrants, therefore, must usually seek external support for their cooperative startup.

The ability of immigrant worker-owners to contribute financing out of their own funds is limited. External financing sources typically weigh more heavily in financing a cooperative.



Immigrant workers face difficulties in securing financing from external sources as well. Traditional banks are not familiar with funding worker-owned cooperatives and many immigrants cannot secure a loan due to their lack of credit history and collateral, or due to their precarious legal status that puts them in a harder position in applying for bank loans. Finally, immigrant workers are rarely connected to outside investors who could provide venture capital, and selling coop stock on the open securities market is costly, complicated and challenging, considering immigrants' marginalized social position.



So...Where is the funding to come from for an immigrant worker cooperative startup?

In recent years, immigrant workers' centers, supportive

community organizations, philanthropic foundations and even governmental economic development/social service agencies have become critical in stepping up to provide capital for immigrant worker owned cooperatives. In fact, the majority of immigrant worker owned cooperatives in the U.S. have been dependent on financial support from foundations, government agencies and community organizations like workers centers and supportive non-profits. Banks and outside investors or donors sometimes provide additional sources of capital. However, the level of external financial support for the growing immigrant cooperative movement has never been adequate to the demand, and there is always fierce competition among community organizations for the limited financial support of foundations and government agencies. Moreover, relying on foundation and community organization support can be volatile, as this external funding can change dramatically based on economic conditions. Immediately following the 2008 economic downturn, for example, foundation giving fell 13%.⁴⁸ The bottom line is that worker cooperatives face deep challenges in finding reliable startup capital and have to think of innovative strategies to access adequate capital to ensure sustainability.



So...What Can Immigrants and Supportive Community Organizations Do to Raise Capital?

Limited support from banks, foundations and government agencies

have been obstacles facing the cooperative movement for decades; there is nothing new about it. As a matter of fact, unless financial institutions change their regulations to make it easier for immigrants to seek funding through traditional lending, it will continue to be very difficult for immigrant cooperatives to attain capital from them. As a consequence, immigrants and supportive community organizations have to think of innova-

Details on Innovative Funding Strategies on Next Pages!

tive strategies to secure capital from *private individuals and the public*, without relying on traditional banks. Some unique strategies to raise both private and public capital for worker owned cooperatives are:

- **Pre-selling the Product of the Cooperative (PRIVATE FINANCING):** Coops can “pre-sell” their projected product or services (for example, in the form of gift certificates) before the launch of the cooperative, to raise startup capital. For example, the Awaken Café coop pre-sold “café-creator” cards that allowed worker-owners to fund the café startup and entitled buyers to purchase café products when the store opened– thus raising over \$14,000 in start-up capital.⁴⁹
- **Private Offering to Friends and Relatives (PRIVATE FINANCING):** A small circle of up to 35 investors can be mobilized to fund the coop startup through a “private offering.” Contributors receive their investment back, plus a dividend, if the cooperative becomes successful.
- **Innovative Financial Institutions (PRIVATE FINANCING):** Community credit unions, such as a worker cooperative credit union, often support worker-owned coops. Such credit unions look to expand in the future; for example, there is an incipient “Worker Cooperative Federal Credit Union,” which is currently unchartered and not yet federally insured, but is working towards a charter. Also, a partnership with a progressive bank can be pursued, such as with “Eastern Bank,” New England’s largest mutually owned/cooperative bank. Such a bank can offer investors targeted products such as a branded Certificate of Deposit supporting a worker owned cooperative. The Equal Exchange Coffee Cooperative was supported by an Eastern Bank targeted CD investment.
- **Direct Public Offering (PUBLIC FINANCING):** Small businesses can offer their stock directly to the public at large, avoiding normal requirements of paying for a brokerage firm to offer their stock, if they are small enough and go through the proper legal processes.
- **CrowdFunding (PUBLIC FINANCING):** A coop can raise capital in multiple small donations, small investments or peer-to-peer loans, targeting customers, friends, family and supporters in the broader community who each directly contribute a small bit of capital for the business. The 2012 JOBS Act made it legal (and streamlined the process) for small companies to solicit money from small investors without having to go through the process of filing complicated registration documents with the Securities and Exchange Commission.

- **Preferred Stock Sales to Outside Investors (PUBLIC FINANCING):** A coop can fix its own stock price, set minimum stock holding periods (so as to reduce destabilizing trading in their stock), allow non-voting rights to non-worker investors, and define dividend returns (such as a maximum return of 5%) and then offer these stocks to supportive investors seeking a social investment and a modest return.



So What's the Bottom Line?

The bottom line is that raising capital is a challenge for worker coops, yet, it is im-

portant to push the envelope to engage normal people and progressive funders in chipping in to support the business. Despite the fact that financing is perhaps the most difficult and demanding process of establishing a coop, it is very important not to be afraid to ask people to contribute money and dedicate investments to support the cooperative cause. Unless immigrants embrace funding challenges with energy and creativity, inadequate money will be raised.

Raising adequate capital is a task that all cooperative members have to embrace from the beginning to develop a sense of collective ownership, rather than depending on outside entities to raise capital for them. To build fundraising skills, fundraising skills should be included in all coop trainings on a regular basis. Raising capital for their coop will help workers boost their sense of empowerment and also help build a network of local investors and other supporters interested in the success of the coop. This result will help secure the future of the cooperative while helping grow the local economy.



Though it is difficult for worker coops to secure loans from conventional banks, some traditional banks are finding ways to support the coop movement. One innovative bank, Eastern Bank (previously Wainwright Bank), has issued a three-year term Certificate of Deposit (CD) since 2006 to support Equal Exchange, the largest fair trade coffee worker owned cooperative in the U.S. The bank allows Equal Exchange to access 90% of the fund as a line of credit at below market rates. Private investors in the CD can renew or cancel at the end of three year term. By 2011, the CD-supported fund reached \$1 million dollars.

(From: Daniel Fireside, "Equal Exchange's Radical Approach to Corporate Social Responsibility," Green Money Journal, Winter 2011. Available at: <http://www.greenmoneyjournal.com/>)



Immigrant workers face language and cultural barriers in dealing with traditional banks, and are often socially and economically marginalized, making it difficult to secure traditional bank loans. Furthermore, many banks are unfamiliar with a worker owned coop business model, and banks typically request collateral that many immigrants don't have. Thus, gaining access to conventional banks for startup capital for an immigrant worker coop is difficult unless an "angel investor" or organization steps up to secure a loan on the workers' behalf. Nevertheless, there are innovative lending institutions emerging which can be useful to worker coops.

Credit Unions

Credit unions are financial cooperatives. The owners of credit unions are individual members and credit unions exist for the benefit of their member-owners. Not only do credit unions provide loans at favorable interest rates to members, but they are also often committed to providing financial services to low income residents. In fact, almost one hundred years ago, the very first U.S. credit union, St. Mary's Bank, opened with a mission of creating a bank for low income French-Canadian immigrants in Manchester, New Hampshire. In 2011, there were about 7,400 credit unions in the United States, with over 92 million members nationwide.⁵⁰ These credit unions typically are committed to improving the local economy, investing in local businesses, and supporting innovative social ventures like cooperatives. Workers who are members of a credit union, therefore, may be well positioned to get a loan from that institution.

CDCUs (Community Development Credit Union)

CDCUs are federally chartered and insured non-profits. CDCUs are also eligible to raise deposits from non-members when they demonstrate a commitment to serve the needs of low income people. CDCU's trace their roots to churches or nonprofits that serve the less privileged in their communities, such as South Shore Bank in Chicago which started in the 1970s. Today, approximately 200 CDCUs in the U.S. play an important role in lending money to the poor. The biggest CDCU is Self-Help Credit Union in North Carolina, with \$452 million in assets. The Latino Community Credit Union has been one of America's fastest-growing start-up credit unions, with more than \$5 million in assets and serving more than 45,000 members with five branches across the state.⁵¹

Worker's Cooperative Federal Credit Union

Mike Leung has spearheaded the recent effort to create a federally chartered workers' cooperative credit union. This credit union has a mission to fund start-up worker owned cooperatives while also providing extensive technical support for those start-up

cooperatives to grow. The Workers Cooperative Federal Credit Union seeks to replicate Spain's Caja Laboral Popular de Coop Credito, a similar worker cooperative credit union which was a critical early funder of the Mondragon coop movement, decades ago. Caja Laboral Popular de Coop Credito has grown to be the second largest credit union in Spain, with assets of \$21.6 billion dollars as of 2009.⁵² Hoping to replicate this success in America, founder Mike Leung says that the Worker's Cooperative Federal Credit Union will "help put worker cooperative assets back into the community and provide financing to help worker cooperatives grow."⁵³ Even though it is not yet federally chartered, the possible opening of this workers federal credit union in the near future provides hopes for many immigrant worker owned cooperatives.

Community Development Loan Fund (CDLF) for Worker Owned Cooperatives

CDLFs are non-profit, unregulated, and *uninsured* entities that provide loans and technical assistance to various community development projects, which often don't have easy access to bank loans. There are approximately 300 CDLFs in the U.S. , and some of them are worker owned cooperative CDLFs, targeting their loans to worker owned coops.⁵⁴

Examples of Community Development Loan Funds for Worker Owned Coops⁵⁵

Worker Ownership Fund

- Managed by Northcountry Cooperative Development Fund on behalf of the Federation of Worker Owned Cooperatives

NorthCountry Cooperative Development Fund

- Regional fund Provides startup loans ranging from \$100,000 to \$300,000. Loans of up to \$480,000 to existing cooperatives for business expansion are available.

NorthCountry Federal Credit Union (NFCU)

- With assets of \$5.5 million, this credit union cooperative home loans, coop home equity loans, and notary services to coop housing members.

Cooperative Fund of New England

- Offers loans only in New England and Eastern New York. With assets of \$6.4 million, the fund provides 7% of its funding (\$23. 5 million) to worker's cooperatives.

Cooperative Capital Fund

- A socially responsible investment fund with assets of \$500,000. Invests in cooperative businesses in the form of "patient capital" (long-term loans) or equity-like financing.

Local Enterprise Assistance Fund (LEAF)

- Although LEAF provides funding for startup cooperatives, LEAF is increasingly targeting its loans to existing cooperatives for expansion.

Vermont Employee Ownership Loan Fund

- This fund offers loans between \$2,000 and \$50,000 for Employee Stock Ownership Plans or cooperatives in Vermont.



Direct Public Offering

A Direct Public Offering (DPO) is to sell shares in a company directly to anyone in the public. Each public investor gains an ownership interest in the company, in accordance with how many shares he or she purchases, and can earn dividends from the company if it is successful. DPOs can be complicated, as companies must meet the requirements of securities laws, and must complete securities filings. But if a company is seeking to raise less than \$1 million dollars with its offering, it can use the *Small Company Offering Registration (SCOR)* process, and appeal to the public directly through a relatively easy application process, and without the assistance of professional investment banking firms or broker-dealers. Still, any coop following this path would likely need professional legal and accounting assistance to fully prepare for a successful public offering. Because of the cost and complication of this process, and the mostly untested record in terms of very few cooperative successes using this strategy, very few worker coops pursue DPOs. Nevertheless, some have taken this route, and it is worthwhile for prospective coop owners to consider the advantages and disadvantages of this strategy of raising business capital.

Direct Public Offering

Advantages

Unlimited numbers of people may purchase shares in the cooperative, from across the country

The coop doesn't have to rely on financiers (i.e., brokers, lenders) for fundraising.

There is growing potential to attract investors through the internet and social media

A DPO allows a company to freely market and advertise in multiple venues to sell stock

Disadvantages

It takes a long time to receive approval from the government to make the public offering.

DPOs require a minimum fundraising goal. If this level is not met in a year, the DPO fails; investor funds are returned.

Coops must provide a reviewed financial statement or an audited report to the public.

There can be significant costs for legal, accounting and other professional advice.

The Small Company Offering Registration Process

What is Small Company Offering Registration (SCOR)?

- SCOR allows small companies to offer stock to the public in a streamlined process, with fewer legal documents to file.
- A company can sell stock directly to the public or use an underwriter
- No limits on the number of purchasers or conditions on who the purchasers are

Who Can Use SCOR?

- Program designed to allow small companies to raise up to \$1 million in capital, without cost of a large public offering
- Each state provides detailed information on which companies can use SCOR

What do you need to file with the SCOR system?

- Agreement to sell stock at a minimum price of \$ 1 per share.
- Prospectus of offering (about 20 pages)
- File Form U7 (State application)
- Fees: \$1,950 for an offering of up to \$500,000
- Reviewed/audited Financial statements and an Attorney.

What Happens After a Successful SCOR Registration?

- Sell stock to the public within a year
- Individuals who bought coop stock can sell it after nine months to any interested party.

CASE STUDY: NEW YORK “WORKERS DINER” COOP PREPARES TO GO PUBLIC

As of this writing, Workers Diner (a worker owned cooperative in NY) is pursuing a direct public offering as an innovative strategy to raise capital without relying on foundation grants or loans from banks. Workers Diner hopes to earn at least \$450,000 to build the restaurant, purchase equipment, train new worker-owners, and obtain city and state permits. To retain the coop’s founding principles, Workers Diner will only sell "preferred shares" through their DPO. Preferred shares do not deliver voting rights to investors, so this arrangement guarantees that profit and voting control remain in the hands of worker-owners. At the same time, outside investors can expect a return on their investment. Workers Diner will build an internet trading platform to help potential investors buy and sell stock in the cooperative. By fully financing their business start-up costs, with stock shares sold in their own region, Workers Diner intends to offer a replicable model to other coops. As described on their website: “Workers Diner’s founders intend on establishing a replicable model for the financing of worker-controlled businesses: with startup costs raised *from* local communities, profits and proceeds can remain *in* local communities” (for more, see www.workersdiner.org).



Crowd-Funding

Crowdfunding (sometimes called *crowdsourcing*) builds on the potential of social media networking to connect donors, investors and lenders with social purpose businesses opportunities. Crowdfunding facilitates multiple small donations to a small-business, by advertising that business across the internet, or through

other advertising platforms. Instead of having to convince a banker of the worth of a coop's business plan, or trying to execute a public offering under complicated securities law, social purpose cooperatives can advertise their business model to friends, community members, and across the internet, and thereby raise capital through many small donations. This "person-to-person" financing system reduces the costs for raising capital by cutting out middle men (professional investment managers) and mobilizes broad-based donations based on social purpose criteria.

There are many crowdfunding internet platforms/services, such as Kickstarter and IndieGoGo, that help startups to advertise and connect to potential donors. Similar to crowdfunding, some companies, like KIVA, Prosper and LendingClub, facilitate "peer-to-peer" microfinance lending, connecting individual small lenders (people willing to lend perhaps as low as \$25) to small borrowers, without going through a traditional bank.

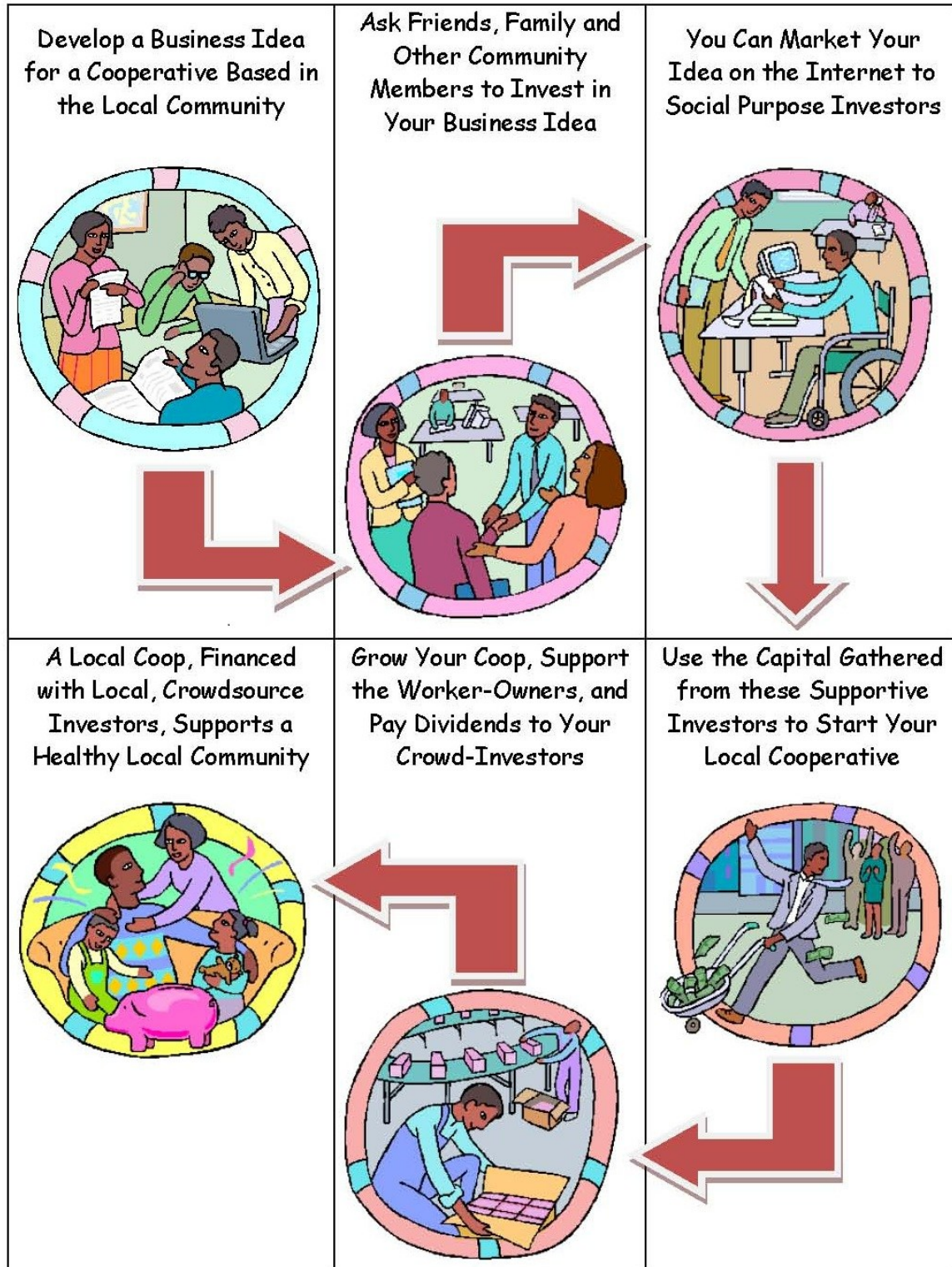
Before 2012, under U.S. securities law, businesses could not solicit individual *equity investments* through crowdfunding, but could only pursue *donations* or *loans*, unless the business registered with the SEC and complied with complicated securities law. Past crowdfunding rules did not allow a coop to suggest a return on investments based on the coop's profits, which limited the ability to attract capital through crowdfunding. In 2012, however, the Jumpstart Our Business Startups Act (JOBS) changed the law by allowing companies to seek small investments from the public without having to file registration documents with the SEC. "It will make it easier for small businesses to attract investors, to gain access to capital, to become the next big thing," said Tom Quaadman, a VP of the U.S. Chamber of Commerce.⁵⁶

Crowd Funding and the Law

The 2012 JOBS Act allows companies to raise up to \$1 million a year from individual investors. The law protects small investors by limiting how much they can invest. For example, people who have an annual income under \$100,000 can invest no more than \$2,000 in a crowdfunded company.

Under the law, investors and companies must connect through a middleman, either a broker or a website. The brokers and websites have to register with the SEC, though businesses seeking funding do not. Companies seeking funding must provide financial records and business plans to help potential investors decide whether they want to invest.

Crowdfunding: From Conception to Execution





Though traditional banks have been reticent to lend to small, untested coops, there is a growing revolution in “social lending” that directly connects small borrowers to small lenders, without need of the banker middleman. The rise of internet social networking, combined with increasing interest in “microfinance” (lending small amounts of money to entrepreneurs), have combined to foster the growth of “peer-to-peer” lending (with both lenders and borrowers often being local members of the same community).

Peer-to-peer lending is a process wherein a small business advertises its business model and borrowing needs directly to individual lenders, and across internet social networking platforms. Individual lenders, often other individuals in a borrower’s own community, review the borrowing requests and then can choose to lend money directly to the business, without going through a bank. Typically, small loans from a variety of individual lenders will be packaged together to form one larger loan to meet the business’ needs.

LendingClub and Prosper. LendingClub and Prosper are leading peer-to-peer internet sites that have loaned over \$480 million and \$300 million respectively, and at much lower interest rates than would be charged if borrowers were to simply use their credit cards to access needed capital.⁵⁷ The sites work by allowing small lenders to set up an account that they can fund with small amounts of their own money—even as small as just \$50. Borrowers then post their business plans, capital needs, and credit histories on the site. Lenders can review the postings, and decide which businesses to lend their money to. Small loans of multiple lenders are pooled in order to deliver the needed capital to the borrower. As the business borrower repays the loan, with interest, the accounts of each lender are credited. Peer-to-Peer lending can be a win-win situation as borrowers can obtain loans at lower interest rates than conventional banks charge, and lenders are able to earn higher interest rates than simply putting their money into savings. Lenders can also benefit by directing their money into “social purpose” businesses, or by making sure the money they lend goes into businesses in the local community.

The Local Investment Opportunity Network (LION). LION provides a unique opportunity for local investors to connect with local business owners who need capital. Anyone who is interested in investing in local businesses can join this network, if they commit to follow basic “local lending” guidelines. Businesses who need capital submit a business plan so that any interested local investor can connect with local business owners directly. This network allows flexibility and individual arrangements to be made between investors and local entrepreneurs. Beyond committing to local lending only, there is no collective decisions or rules binding investors in the network—investors determine on

their own what kinds of local businesses they wish to support. Using the LION network, a food coop in Townsend raised \$490,000 from local residents who became small lenders financing the relocation of their own local food coop. Today, the LION network has grown to about twenty different local networks.⁵⁸

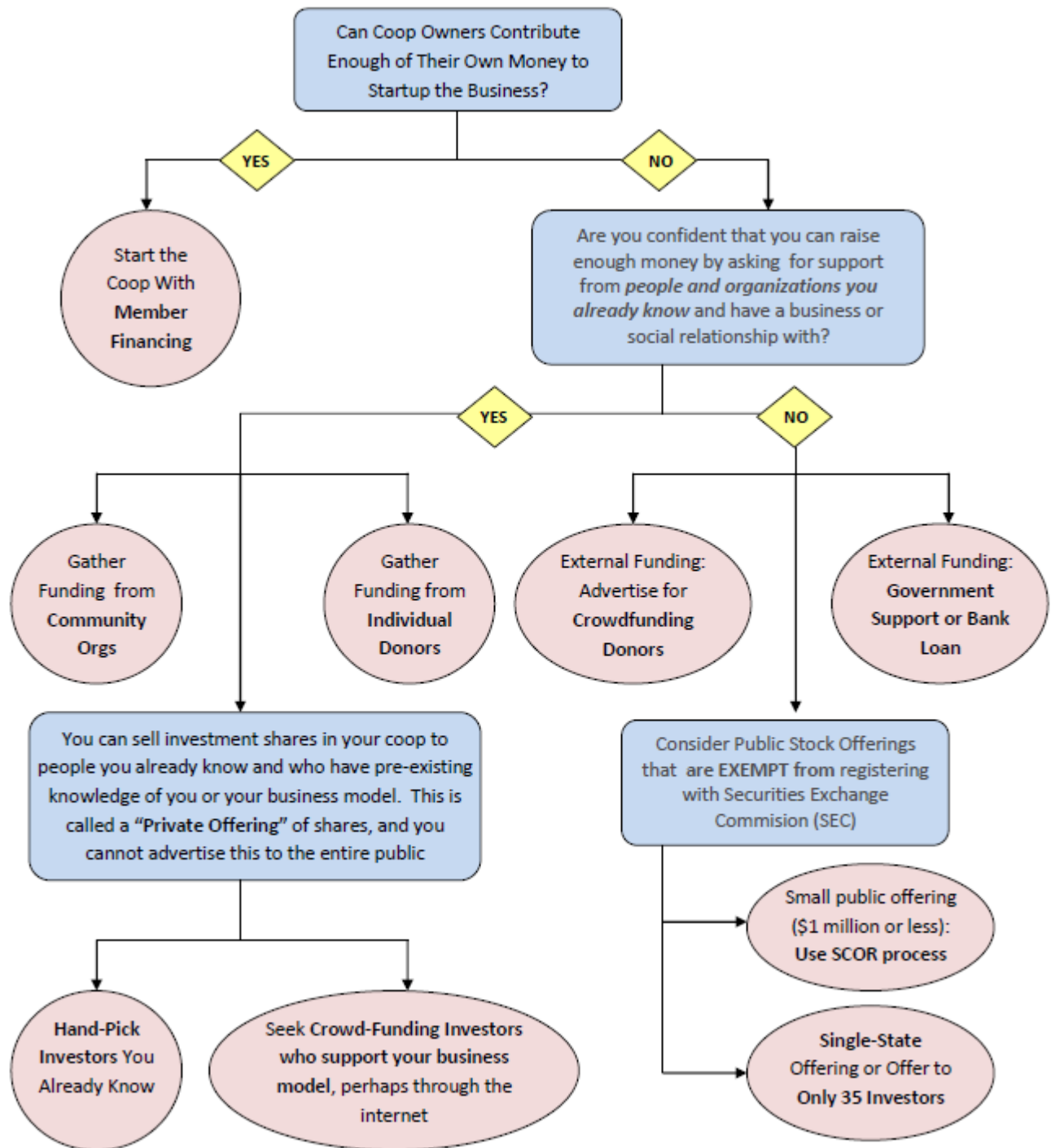
The Slow Money Movement. Founded by Woody Tasch, the “Slow Money” movement advances many of the same social purpose values as peer lending. The movement aims to grow the local economy by connecting local investors with local businesses, in order “bring money back down to earth.” Specifically, the Slow Money movement seeks to improve food security, enhance food safety and access, improve nutrition and health, and support cultural, ecological and economic diversity. Slow Money chapters nationwide work to achieve these goals by connecting investors with local farms, food processors and distributors, and supportive organizations. Slow Money seeks to circulate local money through the local community, connecting investors to the place where they live, and developing new sources of capital for local small food enterprises. A long term vision is to accelerate the transition from an economy based on extraction and consumption to an economy based on preservation and restoration. There are about 12 slow money chapters in the U.S., and the movement is expanding.⁵⁹

Slow Money Maine: The “No Small Potatoes” Investment Club

The author of *Slow Money: Investing as if Food, Farms and Fertility Mattered*, Woody Tasch, asks: “*What would the world be like if we invested 50 percent of our assets within 50 miles of where we live?*”

The vision of people investing their money in their local community is coming to fruition as community-conscious local investors are increasingly coming together to lend money to local business, including cooperatives, at a low interest rate. For example, in Portland, Maine, ten local investors have created the “*No Small Potatoes*” investment club to provide loans at just 3 percent interest to local agricultural groups, with a goal to create a sustainable food system. *No Small Potatoes* investors each commit at least \$5,000 to the investment circle, and then investors make collective decisions as to which agricultural groups will get loans. The ability of a food group to receive a low interest loan is not tied primarily to the group’s business savvy nor their financial statement. Rather investors review the group’s reputation as growers in the community. Investors make collective decisions after conducting site visits to connect with local businesses and to ensure that their money is being responsibly invested in local groups. By relying on evaluations of community reputation rather than on conventional collateral and credit requirements, *No Small Potatoes* investors are creating a different kind of capital funding system to build a new sustainable food system in Maine--redirecting “capital from the stock market into sustainable, local food ventures.”⁶⁰

Financing A Coop Startup: A Decision Tree



Financing Worker Cooperatives: Case Studies

Co-op Restaurant Funded by Existing Co-op Network. The cooperative restaurant, *COLORS*, was the dream of employees of the former Windows on the World restaurant, which had been at the top of the World Trade Center. No mainstream business funding could be secured. For several years, therefore, workers pieced together over \$2 million in funding from small lenders and foundations. The watershed moment came when the Italian Legacoop network offered a \$500,000 loan. Legacoop is a network of 8,000 cooperatives. Each co-op returns 3% of its profits to a fund for coop development, which allowed Legacoop to fund New York's *COLORS* restaurant.⁶¹

An "Angel Investor" Finances a Worker Buy-Out. Vincent Purdy, executive chef at a New York City restaurant, worked with the former owner, Rene Pujol, to secure a personal loan to lease the restaurant as a worker-owned cooperative. Banks had refused to lend to the worker co-op unless each worker-owner provided personal collateral for the loan. Because many workers could not afford such collateral, the deal was only secured when Vincent Purdy acted as an "angel investor" and secured a personal loan to lease the *Rene Pujol Cooperative Restaurant* in his own name (using his own collateral), and then sublease it to worker-owners of the restaurant coop.⁶²

Time Dollar Banking. The *Long Island Home Enterprise* (LIHE) co-op renovates houses. It has raised "sweat capital" through time dollar banking. As described by John Lawrence, "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 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.'"⁶³

Grocery Co-op Expands Through Loans from Customers. San Francisco's Rainbow Grocery coop specializes in a locally grown "People's Food System," as an alternative to industrial agribusiness. With growing sales, the coop grocery sought to expand in 1983, but was unable to secure a traditional bank loan. As a solution, the coop raised \$250,000 in "peer-to-peer" loans from their customers, financing expansion. Today, the store is one of the Bay Area's largest health food operations, with more than 200 worker owners, and \$30 million in annual revenue.⁶⁴

Canadian Co-op Expands with Stock Offering. Canada's La Siembra coop offers a range of sugar and cocoa products, and grew from annual sales of \$47,000 in 2000 to \$2.2 million in 2005. To finance expansion, La Siembra needed about \$300,000 in 2001. When mainstream financial institutions turned down financing requests, La Siembra focused on loans from alternative lending institutions (such as the Canadian Alternative Investment Cooperative). La Siembra also launched a campaign to sell co-op shares to preferred investors (a small circle of hand-picked, socially minded investors), which allowed them to raise capital without the rigor of a full public offering of stock. In less than a year, La Siembra had raised about \$100,000 with this private offering. This success led La Siembra to subsequently organize a full public offering of stock, raising approximately \$500 thousand from nationwide investors between 2002 and 2005.⁶⁵



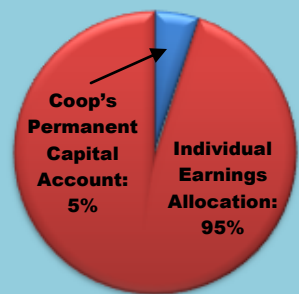
How Should the Finances Be Structured? What to Do with the Coop's Profits?

The ongoing financing of a cooperative's activities requires careful thought and planning. Worker-owners are, of course, very concerned with how their wages will be paid week-to-week from the coop. All workers need to make a living and to support their families. Worker-owners are also very hopeful that future business profits will finance the distribution of profits to coop owners in the form of bonuses or dividends at the end of the year.

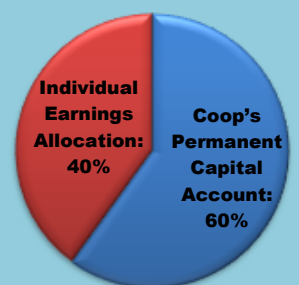
Here's how various worker coops allocate their business profits.⁶⁶



MONDRAGON



TEAMWORKS



EQUAL EXCHANGE

While worker-owners understandably wish to take the maximum individual income *out* of their business enterprise (in the form of regular wages and yearly dividends), there is also a need to insure that adequate capital remains *within* the cooperative itself so that it can survive long-term. In other words, there is a need to provide ongoing equity (income) to both individual worker-owners, and to the operation of the cooperative business itself. *How can a financial structure be established to maximize both these goals?*

It is not enough for the cooperative to rely on initial startup funding, as most of this capital will be depleted quickly in getting the coop off the ground. Additionally, there is always need for new funding for such things as buying new equipment, paying for unexpected costs and business losses, and taking advantage of new business opportunities. To provide for this kind of funding, a successful cooperative needs to plan for ongoing, *permanent* growth in its business capital accounts (the funding available for business expenses and opportunities). Growing this account over the long run should also result in ongoing growth in the individual income that worker-owners can take out of their business.

This healthy cycle of business growth cannot occur if coop members constantly take the maximum income possible out of their coop every year. A successful coop must have a strategy to *retain some of the profits earned every year in a business account*, in order to finance better equipment, allow for business expansion, provide for unex-

pected losses in the future, etc. In fact, the world-famous Mondragon coop in Spain attributes much of its business growth and success to the fact that the cooperative has a policy of retaining 50% of all business profits in a permanent fund to be used by the business itself, and never to be distributed to individual members.⁶⁷ If a workers' coop does not adopt some kind of similar financing strategy to retain profits in business capital accounts, it will probably be doomed to remaining small and fragile for its entire existence, barely able to pay members' wages each year, unable to find the capital for business growth and vulnerable to unexpected business downturns.



What kinds of Financial Tools can Build the Long-Term Capital of a Coop?

A cooperative can only build its long-term capital if it generates net income. If a

cooperative business brings in more revenue each year than it spends on expenses, then the cooperative has “surplus revenue” at the end of the year, otherwise known as “net income” or business profits. If there is net income left at the end of the year (after paying normal wages to workers, and accounting for all other expenses), cooperatives can choose to pay this net income (or profit) entirely to members as immediate cash bonuses, dividends or “patronage.” But this strategy would leave no surplus at all for building the long term equity of the business itself, leaving the coop vulnerable to ultimate failure, and not allowing the cooperative to grow.

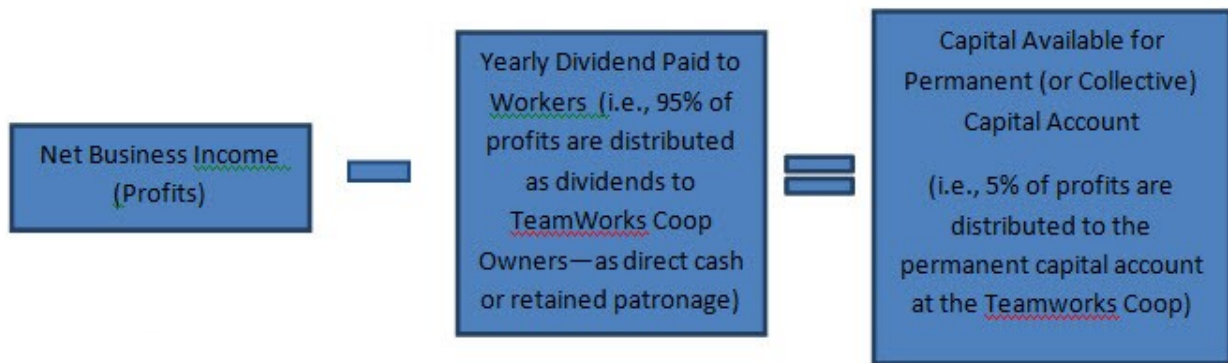
So instead of distributing all the surplus income to individual members as immediate cash, a more healthy business strategy is to structure the coop so as to *retain* some of this surplus for ongoing business equity needs.

The “NET INCOME” or Profit of a cooperative is determined after accounting for all business expenses during a year, including paying workers their normal wages for the labor they provide to the coop. Any net income left over after paying for all expenses is available for distribution to worker-owners as an immediate cash payout or as a distribution to the cooperative’s permanent or individual capital accounts.

Two important financial tools are available to help workers retain net income in their cooperative’s capital accounts: **permanent capital accounts** and **individual capital accounts**. While a permanent capital account builds permanent business capital that will never be paid out to individual members, individual capital accounts allow worker owners to dedicate some of the business profits owed to them personally to their cooperative’s short-term capital accounts. These dedicated funds are then paid out to the workers at a later date.

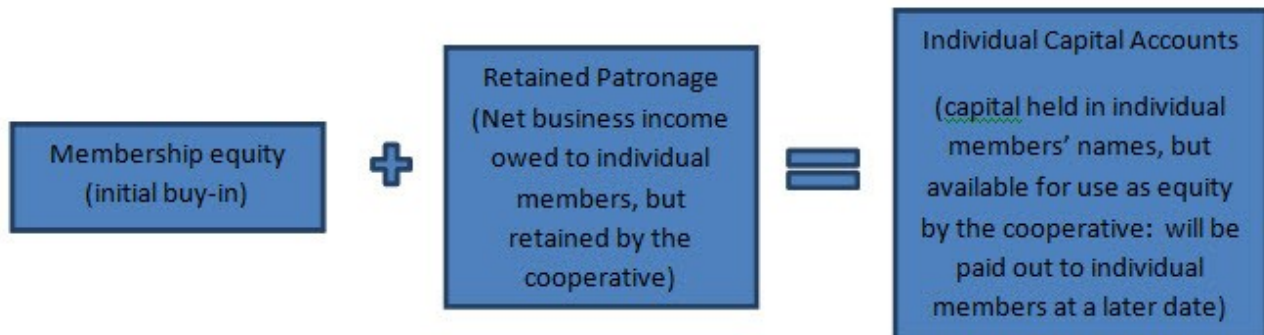
Permanent Capital Account (or Collective Capital Account)

A permanent capital account is “owned” by the cooperative itself, and meant to help finance long-term business needs while insuring against unexpected business losses. The equity in this account will never be paid to individual cooperative members, but will only be used for business needs. Cooperatives structure the size of these permanent capital accounts differently. The Mondragon workers’ cooperative in Spain is structured so that 50% of business profits every year are dedicated to a permanent capital account. America’s TeamWorks cooperative (which provides landscaping and housecleaning services) dedicates 5% of net income every year to a permanent capital account.



Individual Capital Accounts (or Retained Patronage Accounts)

These accounts are initially funded with the equity members provide with their buy-in into the coop. The accounts grow when individual coop members defer income that might otherwise be paid to them by the coop as an end of the year dividend, and instead allow the coop itself to retain this “net income” as business equity. The income that is retained (called “retained patronage”) is held by the coop in the individual member’s name, and at a later date (such as when the member leaves the coop), this income is paid in full to the member. In other words, individual capital accounts serve as *both* a personal savings account for each member (who will take personal income out of these accounts at a later date) and as a source of equity financing for the cooperative itself.





What are Some Obstacles to Building these Capital Accounts?

► **Coop owners need money right NOW rather than later.** Many worker coops have low-income members who struggle to make ends meet. Due to the

economic reality that the majority of coop members face, they often prefer to have money NOW rather than later. Even if the coop begins to make enough money to pay basic wages to members, and generates a bit of profits over these wages, setting up a permanent capital account and deferring income into an individual capital account, is never an easy task as members can have a tendency to focus on maximizing income now, rather than insuring the long run future of the coop.

► **A startup cooperative faces more difficulties in setting up these capital accounts.**

The majority of startup cooperatives do not produce profits at the end of the first year and it takes a while for most cooperatives to earn more than is required to pay wages and other business expenses. Until profits are generated, the majority of coops have to tighten their belts to function in a way that all owners have to experience a certain level of sacrifice and even endure a first year's loss. In this situation, channeling additional business revenue into capital accounts is impossible.

► **There can be challenges in legally establishing these capital accounts.** Many coops are established as Limited Liability Companies (LLCs), but most LLCs are required by law to distribute all end of year earnings to individual members—there is no provision for establishing a permanent capital account that can receive a portion of profits. Other technical legal requirements include a rule that at least 20% of all individual patronage earnings must be paid out in cash, and owners must receive qualified written notices of allocation concerning the remainder of the earnings that are diverted into individual capital accounts.

► ***There are answers to these challenges.*** *Though worker-owners need to maximize their income right now, it must be remembered that coop capital accounts are funded with a portion of profits that are earned only AFTER paying normal weekly wages to workers. Workers do not lose any normal wages to fund these capital accounts, they only lose (or defer) some of their year-end bonuses. Even if capital accounts cannot be funded in the first years of the coop, such accounts can be a clear goal spelled out in the coop's founding documents and pursued through training of all members. Finally, other coops have overcome legal challenges, finding ways even for LLCs to establish a kind of permanent capital account (see, i.e., TeamWorks' discussion of their coop financing technique at: <http://teamworks.coop/pdf/legal-financial.pdf>).*



Though the obstacles are real, healthy capital accounts are a secret to success.

Without a Permanent Capital Account, Worker-Owners Can Take Higher Levels of Immediate Income for Themselves.

BUT...

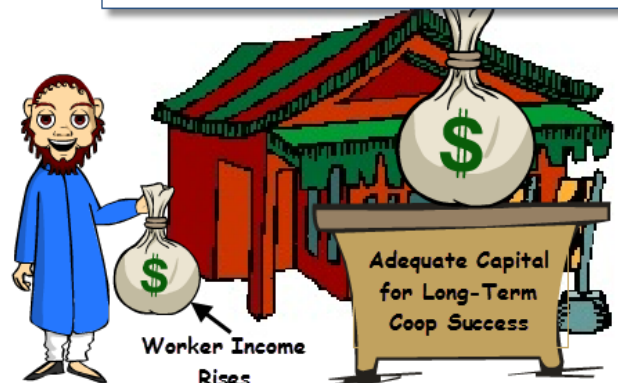
Higher Immediate Income for Owners Means Less Operating Capital for the Business, Leading to a Risk of Ultimate Failure for the Cooperative



Establishing a Permanent Capital Account Means Lower Income Levels for Worker-Owners Today, While Leaving More Capital in the Business

AND...

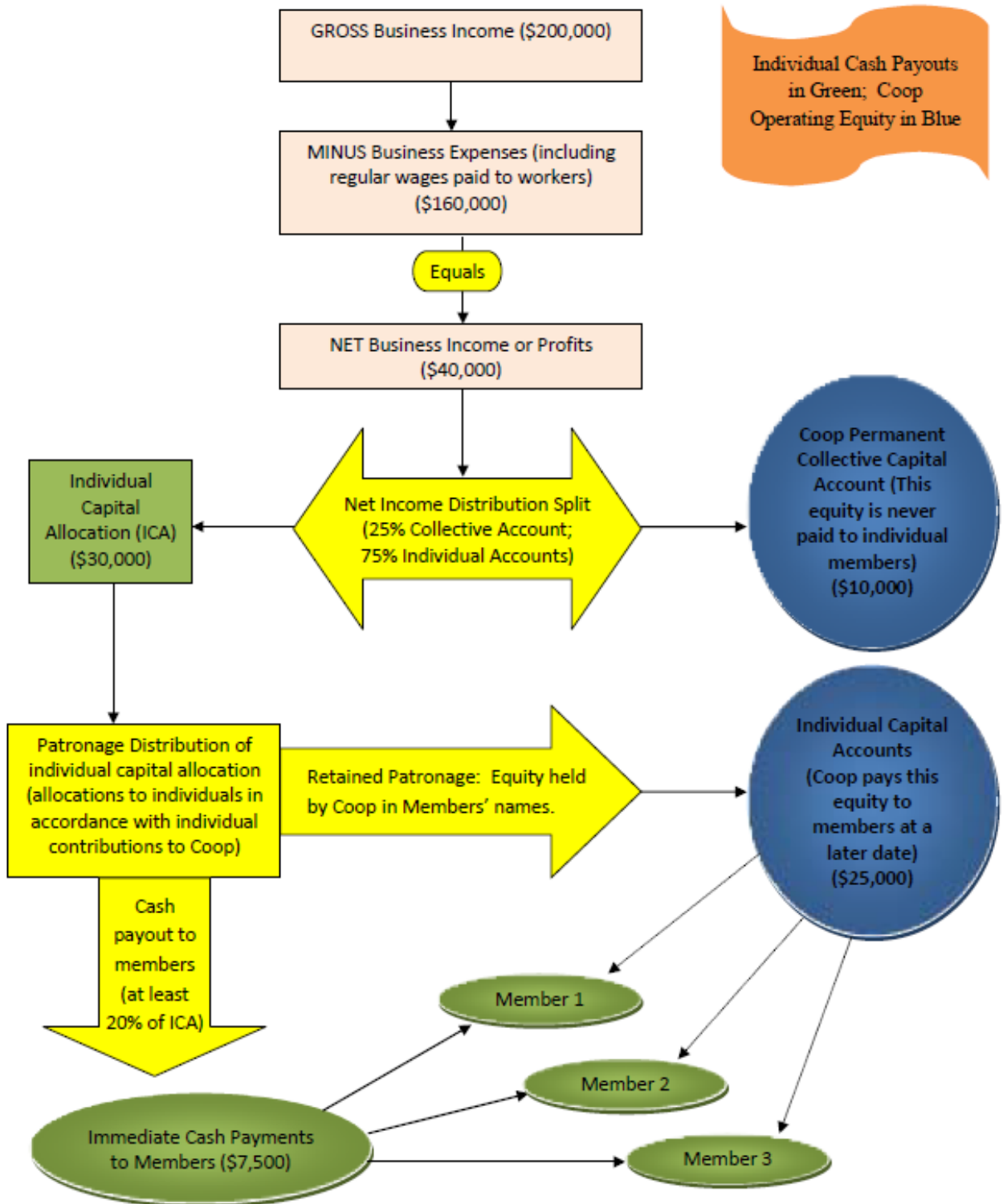
Leaving More Capital in the Cooperative for Ongoing Operations Promotes Long-Term Business Success, Allowing Workers to Take More Income in the Future



For further information, see

- David Smathers Moore, "A Layperson's Guide to the Teamworks Cooperative Network's Financial and Legal Structures," at: <http://teamworks.coop/pdf/legal-financial.pdf>
- Manfred Davidmann, "Mondragon Cooperatives" at: www.solhaam.org/articles/mondra.html
- Cooperative Fund of New England and International Cooperative Alliance presentation to the Vermont Employee Ownership Center, "Flowcharts of Retained Patronage and Internal Capital Accounts," at: <http://american.coop/node/213>

Building Capital Accounts for Your Cooperative is Critical. Here's How it Works.





**Case
Study**

Mondragon's "Internal Capital Account" System

How did Spain's Mondragon Cooperative grow from a twelve-person stove manufacturing company into a vast worker-owned conglomerate employing more than 100,000 people? And how is this conglomerate consistently able to expand its own operations, finance new cooperative start-ups and invest in the improvements in community education, health care, affordable housing and other social services? One key to Mondragon's success is the way the company grows and utilizes "individual capital accounts" of its worker-owners, as part of its internal capital account system.

Though its system of individual capital accounts, Mondragon borrows venture capital from worker-owners themselves, to self-capitalize and grow new and existing cooperatives. Here's how it works. Each worker-member has one "individual capital account" in his or her cooperative. The first deposit into that account is the worker's membership investment, which is currently about \$11,000 (this money can be borrowed from Mondragon and paid back over time, out of the worker's future wages). After that, deposits into the worker's individual internal capital account consist of the worker-owner's share of annual profits.

At the end of each fiscal year, the co-op divides its profits into three categories: (1) Collective Reserves (45% of profits), (2) Distribution to Worker-Members (45%), and, (3) Community Projects like health care clinics, education and affordable housing (10%). Collective reserves are used by Mondragon for company needs (i.e., new equipment, research, business expansion) and individual workers will never access any of those funds. Profit distributions that accumulate in workers' individual capital accounts can be used as short-term capital for the cooperative, but they are ultimately funds that are owed to the worker. These worker-member capital accounts help finance worker savings/retirement as they are recoverable by the worker upon leaving Mondragon. Furthermore, though workers cannot withdraw money from their internal capital account while at Mondragon, the account does earn 6% interest and is adjusted for inflation. Worker-owners also gain a vote in all elections, a lifetime job with a share of annual profits, health care, and a pension and garden plot upon retirement.

Even though each worker has a right to the funds in his or her individual capital account upon leaving Mondragon, the company can borrow funds from the internal capital accounts of individual workers to finance the needs of new and existing coops. In this way, workers' internal capital accounts become the bank upon which Mondragon relies to finance cooperative start-up and expansion—even as these same internal accounts provide future benefits to workers as well.⁶⁸

Immigrant Worker-Owned Cooperatives: Concluding Thoughts

“Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility,” noted UN Secretary-General Ban Ki-moon upon announcing 2012 as the International Year of Cooperatives. In America, immigrant worker cooperatives ranging from the Bay Area’s network of “WAGES” cooperatives, to New York’s Si Se Puede!, to North Carolina’s Opportunity Threads, are expanding opportunities for their worker-owners and remaking the face of their home communities. Immigrant cooperatives can build the income and professional skills of their worker-owners, they operate with a socially responsible business model, and they invest their business income in the local community. Starting and growing a workers’ cooperative is difficult, and it can be challenging to find the start-up capital and necessary technical expertise to make it work. Across the nation, however, workers are showing that these coops can, in fact, work—and they’re worth the effort. Workers cooperatives build a better world.

“The United Nations General Assembly has declared 2012 as the International Year of Cooperatives, highlighting the contribution of cooperatives to socio-economic development, particularly their impact on poverty reduction, employment generation and social integration.

“With the theme of ‘*Cooperative Enterprises Build a Better World*,’ the Year seeks to encourage the growth and establishment of cooperatives all over the world. It also encourages individuals, communities and governments to recognize the agency of cooperatives in helping to achieve internationally agreed upon development goals, such as the Millennium Development Goals

The United Nations General Assembly Resolution A/RES/64/136 encourages all member States, the United Nations and all relevant stakeholders to take advantage of the IYC to promote cooperatives and raise awareness of their contribution to social and economic development and promote the formation and growth of cooperatives.”

— United Nations, “*International Year of Cooperatives 2012: About the International Year of Cooperatives*,” available at: <http://social.un.org/coopsyear/about-iy.html>.

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7 Cooperative Principles

*Voluntary and Open Membership • Democratic Member Control •
Members' Economic Participation • Autonomy and Independence •
Education, Training, Information • Cooperation Among Cooperatives •
Concern for Community*

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Cover Art: Section of mural on El Centro Humanitario's Denver Building; Painted by students of **Escuela Tlatelolco**, guided by Art Instructor Brenda Cleary.

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