

## **Economic Justice for All – Cooperatives Lead the Way, CDFIs Fund the Vision**

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### **Abstract**

This article explores the vital role of cooperative enterprises (co-ops) in fostering economic justice, particularly for historically underserved communities, and how Community Development Financial Institutions (CDFIs) like the Cooperative Fund of the Northeast (CFNE) support this movement. Co-ops, with their resilient and community-centered approach, offer solutions to systemic economic inequalities, providing more control over housing, food systems, and workplaces. However, challenges in accessing capital and expertise have hindered their widespread adoption. CFNE, a CDFI specializing in co-op finance, bridges this gap by offering tailored financial products and technical assistance, enabling the growth and success of co-ops. Through case studies such as Tortilleria Semilla Co-op and Tootie’s Tempeh, the article illustrates how CFNE’s support has helped co-ops thrive, creating opportunities for wealth-building and entrepreneurship in marginalized communities. Furthermore, CFNE’s partnerships (like with the Northeast Transition Initiative) and programs (like CFNE’s Co-op Navigator’s Fellowship) amplify their impact by promoting co-op ownership in diverse and marginalized communities. Ultimately, the article argues that the co-op model, coupled with CDFI support, is a powerful tool for advancing economic justice and fostering sustainable community development.



*Alt text: Tortilleria Semilla co-op owners demonstrate preparing corn for their tortillas*

Cooperative enterprises (or “co-ops” for short) have been around for hundreds of years. Some people may be more familiar with its more specific sectors like worker-owned co-op, food co-op, housing co-op, etc. The first known cooperative in the United States was founded by Benjamin Franklin in 1752 – The Philadelphia Contributionship, the longest-tenured insurance company in the country that is still around today. That example is just one of many that illustrate the resilience and localized solution-making nature that distinguishes co-ops from other business models. Other well-known examples of modern co-ops include Ocean Spray (founded in 1930) and credit unions, which tend to have lower interest rates and fees than traditional for-profit banks. Cooperatives make living easier for everyday people and are often at the forefront of doing so. However, capital access barriers and culturally relevant co-op development expertise are two major hurdles to communities using co-ops to meet their shared needs.

### **Standing in the Gap**

The Cooperative Fund of the Northeast is a certified community development financial institution (CDFI), and we are among the less than 1% of certified CDFIs that focus primarily on cooperative enterprises. Why does this matter? With their resilient and solution-making nature, you would think these co-ops are or should be readily capitalized businesses, but that is not the case. The wide variety of co-op ownership models (some having 1,000s of owners) makes financing them a challenge for traditional banks and investors. CFNE (and other lenders like us) help to fill a gap for co-ops in need of capital to form and grow. We provide not only capital in the form of loans but also free to low-cost technical assistance in the form of coaching and learning programs. Both our lending and learning programs were developed specifically for co-ops. Starting with supporting food co-ops in 1975 and now supporting many co-op models, we have been lending and learning for 50 years.

What is a CDFI, how is it different from traditional banks, and what does it have to do with co-ops? CDFIs are regulated financial institutions that focus on expanding economic opportunity in low-income communities. This core mission is what makes them different from traditional banks, and it materializes in different ways in different CDFIs but often includes lower interest rates, financial and business education, and flexible lending terms. CFNE uses the flexibility extended to CDFIs to craft financial products that serve co-ops, which includes not requiring personal guarantees nor relying on credit scores for our underwriting that pose major barriers for co-ops trying to access capital, given the broad base of owners. These hurdles are exacerbated in communities that have historically lacked access to wealth (e.g., Black, Latine, Indigenous, immigrant, and rural low-income communities). Without capital access, the benefits of cooperatives remain inaccessible to those who need them most.

### **Co-op Friendly Financing and Support**

By designing and deploying co-op-appropriate financing, we're able to unlock co-op development, which, in turn, creates wealth-building and entrepreneurship opportunities that were previously limited to people with access to wealth or ease of financing. This results in more community control of the food system, tenant control of their housing, and worker control of

their workplace, leading to decisions that center the needs of the users of the co-op rather than centering the needs of one sole proprietor or a group of outside investors.

Finally, while the federal government provides resources to rural co-ops through USDA funding, there are no federal programs supporting urban co-op business development. Given that in our region, rural areas are overwhelmingly white communities, and urban communities have significant racial and ethnic diversity, having co-op development only rooted in rural white communities results in a dearth of diverse, experienced co-op developers. In 2019, CFNE began creating its Learning Team, which provides a range of coaching and development services to both co-op development projects and communities aspiring to support co-op development. These are largely long-term ecosystem investments that are creating not only a more diverse community of co-ops but also a more diverse ecosystem of co-op developers.

### **The Impact of Co-ops**

Over the past several years, we have been seeing major growth in financing requests for transforming a traditional business into a cooperative. These transformations are known as “co-op conversions” (or simply “conversions”) and happen when workers band together to buy their place of employment and run it cooperatively. Often, the business owner is motivated by wanting to exit in a couple of years while wanting to preserve their legacy and honor the contributions of the workers. Following the recent significant growth of conversions, we are now seeing many of those co-ops coming back to CFNE for financing to purchase real estate. This is exciting. By placing more productive assets in the ownership of low- and moderate-income workers, CFNE is helping build wealth in under-resourced communities.

In addition to the increasing number of conversions, we’re also seeing:

- More excitement around co-ops in general (more than there was 5-10 years ago);
- Food co-ops are growing and expanding, and
- More support is needed for residents to cooperatively preserve their affordable mobile home parks, forming resident-owned communities or ROCs in the face of private equity acquisitions.

On an individual level, this creates more economic stability – whether that’s through accessing more affordable and stable housing through housing co-ops or increasing their wages and job stability through worker-owned co-ops.

#### Case Study 1: Tortilleria Semilla Co-op

Rescuing traditions while addressing climate change through a local, sustainable process, Tortilleria Semilla emerged from the pandemic as a leader where tradition, health, and flavor intersect. With funding and technical assistance from CFNE’s Co-op Launch Loan Program, the founders were able to transform their commitment, passion, and cooperation into a business that is now selling their traditionally crafted tortillas at local stores and farmers’ markets. Their

tortillas are sold in compostable bags and made fresh daily, and they are working towards sourcing their corn locally to promote greater food security and reduce environmental impact.

### Case Study 2: Tootie's Tempeh

Tootie's Tempeh is a worker-owned cooperative in Biddeford, ME, that makes organic tempeh from local ingredients. Founded in 2019 and launched in 2022, the co-op has grown quickly and now supplies over 200 restaurants and grocery stores in New England. An important loan from CFNE in 2020 helped Tootie's buy equipment that helped to get rid of plastic bags in their fermentation process, already saving over 60,000 bags from landfills.

### **Growing the Co-op Movement**

We can attribute CFNE's durability and growth to two key factors: 1) sound financial management and funding sources and 2) working with experienced and culturally relevant co-op development partners. Unlike many other CDFIs, a majority of CFNE's loan capital comes from individual investors, some of whom have been investing with us for decades. In addition to individual investors, we also receive loan capital from institutional investors (both regional and national), as well as federal loan programs like the CDFI Fund. Our technical assistance programs are funded by grants, donations, and strategic allocations of our net assets. As a smaller CDFI with a balance sheet of just over \$50M (and one that is ecosystem-minded), working with experienced partners has been very important to our recent growth and will continue to be paramount. Working together with other players in the co-op and broader business ecosystem (versus seeing each other as competition) creates the opportunity for complementary services, so everyone can operate to their strengths and we all rise together.

One example of "rising together" is our Co-op Navigator's Fellowship. Through this program, we partner with economic development organizations across the northeast to help make cooperative ownership more accessible to Black, Indigenous, and immigrant communities who have faced a steeper path to co-op development.

Another example of partnerships in motion is our work with the Northeast Transition Initiative (NETI). Cooperative (employee) ownership is a powerful tool for building economic prosperity across the Northeast. As older business owners retire, particularly in rural communities, their locally owned businesses often disappear or are bought by private equity. Through NETI, we and eight other organizations are helping to spread awareness of the co-op model and make a transition to employee ownership accessible and viable for these at-risk businesses.

Economic justice for all is our vision, and we believe we can deliver it by supporting the development of thriving cooperative enterprises. To learn more about CFNE, CDFIs, and co-ops in general, check out these organizations:

- Cooperative Fund of the Northeast (CFNE) - <https://cooperativefund.org/>
- National Cooperative Business Association (NCBA) - <https://ncbaclusa.coop/>
- U.S. Federation of Worker Cooperatives (USFWC) - <https://www.usworker.coop/en/>

- Democracy at Work Institute (DAWI) - <http://institute.coop/>
- Consumer Cooperative Management Association (CCMA) - <https://ccma.coop/>
- Network for Developing Conscious Communities (NDCC) - <https://ndccnetwork.org/>
- ROC USA - <https://rocusa.org/>