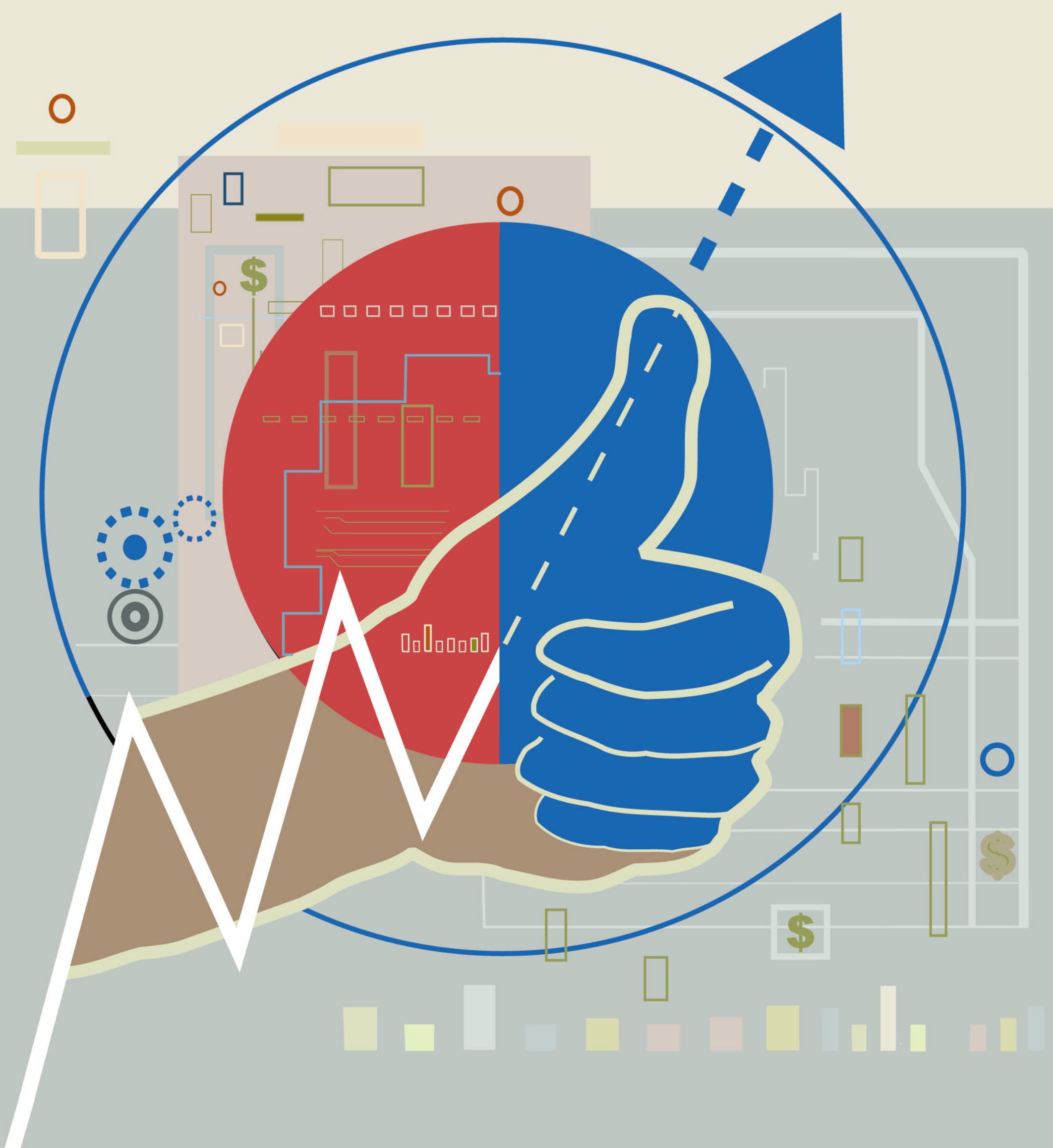
ASSET FUNDERS NETWORK

Grantmakers Advancing Economic Equity

EMPLOYEE OWNERSHIP

A PATHWAY TO ECONOMIC RESILIENCE



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Radical generosity.

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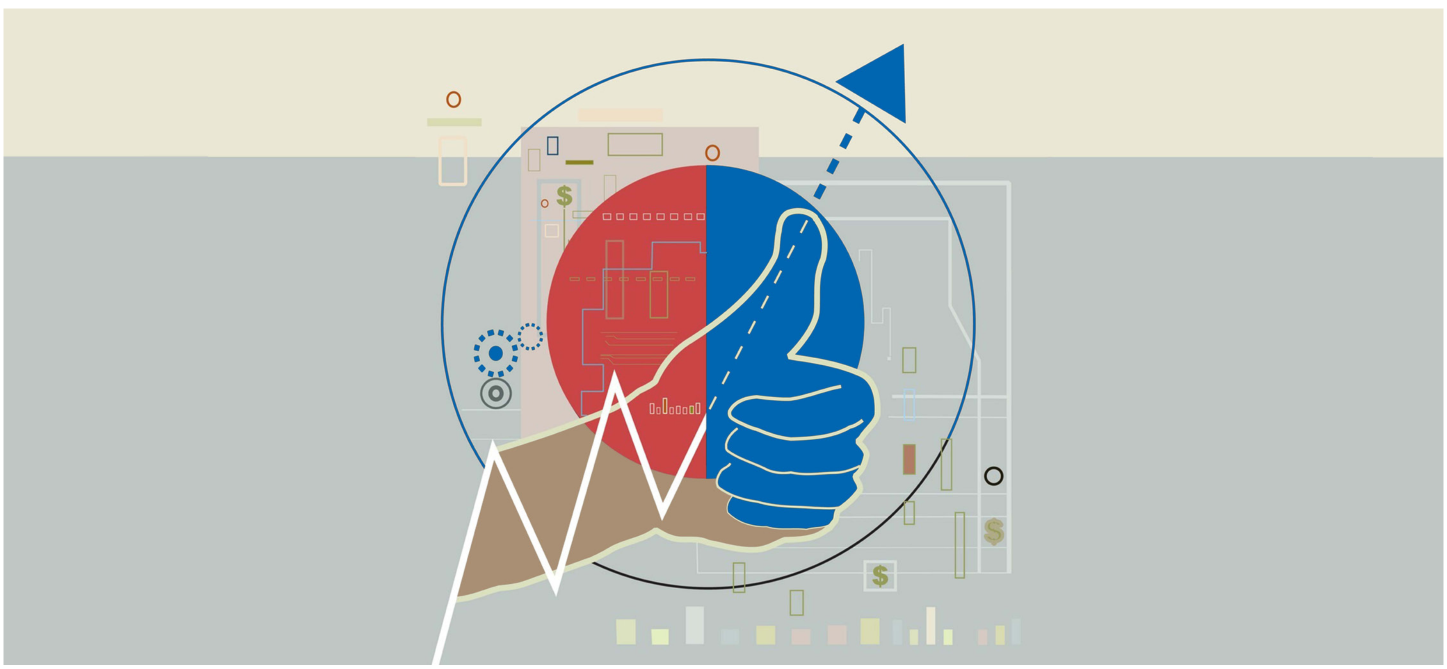
EXECUTIVE SUMMARY

Employee ownership can be a strategy for worker, business, and community resilience in the face of growing economic and social pressures. Worker cooperatives and Employee Stock Ownership Plans (ESOPs) mark the endpoints of a spectrum of shared business forms owned by the people who work in them, with relationships to other alternative enterprise models that emphasize stewardship and multiple stakeholders. A maturing employee-ownership field is coalescing, built in large part by the businesses themselves, their membership and apex organizations, and service providers. The field is primed for investment in infrastructure and capacity that will support its growth as a tool for equitable development and community resilience.



Funding in the space could yield important benefits at several levels: access to economic stability for low-wage workers and workers of color; better quality jobs and wealth-building opportunities for workers in scale-oriented projects; contribution to an ecosystem of support for more equitable economic development generally. Most broadly, employee ownership contributes to a larger conversation—materially evident in public policy and capital investment—about who should benefit from business ownership. Opportunities for philanthropy abound.

Philanthropy can make space for institutionalization of a racial equity lens, and provide strategic connections with capital. Place-based and sector-based strategies present key opportunities for scaling, particularly in low-wage sectors and with workforces of color. Finally, support is needed to develop basic field infrastructure like data, communications, and policy work, which has been remarkably successful to date. The terrain is complex and funders should be thoughtful in aligning their point of entry with the impact they seek.

WHY EMPLOYEE OWNERSHIP AND WHY NOW?

The COVID-19 pandemic has exposed the fragility of an economy designed to maximize shareholder return above all else. Still-shuttered Main Street businesses and chronic understaffing in critical industries constitute an ongoing economic Long Covid. The United States may now be headed into a "K-shaped recovery"—a period in which some sectors (technology, software, large retail) thrive while others (healthcare, restaurants, travel, hospitality) continue to struggle or decline.[1] Those struggling sectors are overwhelmingly reliant on workforces of color and excluded workers; many also comprise "toehold" businesses owned by families and and necessity entrepreneurs,[2] especially immigrant entrepreneurs.

As we rebuild the economy under increasing stressors from climate change and globalization, we face a choice: stay the current precarious path marked by narrowing ownership—corporate consolidation, underinvestment in small businesses, and exchange of living wages for higher quarterly earnings—or take a more resilient approach that expands ownership, prioritizing local economic development that builds shared wealth and enables all workers to thrive.

As we rebuild the economy, we face a choice: stay the current precarious path marked by narrowing ownership, or take a more resilient approach that expands ownership.

Broad-based business ownership is a powerful tool for economic resilience.[3] Employee-owned businesses have the potential to increase economic opportunity and address racial and gender wealth inequality. At a basic level, employee ownership generates practical outcomes, like access to work, better benefits, and greater financial stability. With deeper investment, particularly capital investment, it can produce deeper impacts, like increased job quality and opportunities for wealth-building and worker agency. With ecosystem supports and relationships, it can create systems-level changes, such as community wealth-building, greater racial equity, and a broader narrative shift about who the economy should serve.[4]

Shared business ownership strategies have been quietly growing for several decades, thanks to an expanding community of organizations using business as a force for equity. The employee-ownership field is innovating, organizing, and making active investments in infrastructure and strategy for the long term. The federal government has long recognized the power of employee ownership through the tax code, recently including employee-owned firms in key pieces of recovery legislation. State and local governments have begun supporting employee ownership for its potential to create and save locally rooted businesses and jobs. Finally, a growing number of impact investment funds are investing in employee ownership as a means to keep companies local and build better jobs.

Funders now have real opportunities to invest in employee ownership as a lever to increase equity and opportunity.

Funders now have real opportunities to invest in employee ownership as a lever to increase equity and opportunity. Philanthropic investment to date has largely been confined to the pilot stage; it has catalyzed important growth but has been only minimally coordinated or sustained. Barriers in the field fall in precisely the areas that might matter to funders, where funding can make a real difference. Some examples include:

- The need for culturally competent, business-focused materials and service providers with skill at the enterprise level ***and*** in ecosystem relationship-building can be addressed by developing new educational materials and recruiting and training a new generation.
- Uneven access to appropriate capital (particularly post-2008)[5] can be addressed by strategically pairing philanthropic funding and capital with (a) private sources to manage risk and deploy funds and (b) public sources to build pipeline and provide wraparound services.
- Low awareness of employee ownership, particularly as an equity strategy, can be addressed with strategic research, impact data, and communications.
- Occupational segregation and market forces that undervalue and underpay service and care work, where many newer businesses are concentrated,[6] can be addressed by building policy partnerships and advocacy with allied fields.

What might it take to fund wisely and effectively in this space? This brief tackles that question, with a clear-eyed perspective about the entry points to and growing edges of an emerging field.

WHAT IS ANIMATING RECENT INVESTMENT?

Private Funders

A sample of some recent funding initiatives reveals a variety of funder motivations.

- The Kendeda Fund in 2019 committed $24 million over five years to groups supporting employee ownership, aiming to redefine business success and "dramatically expand alternative models for wealth-building in America" with particular attention to reducing the racial wealth gap.
- The W.K. Kellogg Foundation's sustained commitment to employee ownership centers on its potential to increase economic security for families and children.
- The eBay Foundation's interest in employee ownership aligns with its commitment to breaking down systemic barriers that limit entrepreneurial opportunities for historically excluded communities, advancing equal economic opportunity for all.
- The Open Society Foundation's foray into employee ownership connected the health of a democratic society to the reduction of inequality—and support for worker voices—that can be achieved by employee-owned companies.
- Many asset-building funders, from Citi Community Development to JP Morgan Chase, have prioritized ecosystem-building that envisions employee ownership as one among many tools for inclusive economic development.
- Local and regional community foundations across the country have generally envisioned worker cooperatives as a pathway to shared prosperity and stronger communities.

Public Sector

The thread binding these approaches is a commitment to shared business ownership as a force for equity—for workers, companies, communities, and local economies.

In addition to federal support for employee ownership as a means of job creation and business retention at the U.S. Department of Agriculture, the Small Business Administration, and the Treasury Department, cities and states have begun significantly supporting employee ownership. They are using it as a local economic development tool to address critical economic pressures:

Excluded workers:
A growing workforce of excluded workers provides essential services but operates at the margins of the economy with few protections and no benefits, increasing the fragility of communities. One solution is LLC cooperatives. Excluded workers are often "necessity entrepreneurs,"[59] for whom business ownership may be the best option for accessing work or saving their jobs. They face familiar barriers—access to capital, business supports, and training—that employee ownership can help reduce, enabling them to do together what no single person can do alone. In this way, worker cooperatives can act as a countervailing force to atomization and inequality: they aggregate workers and wealth, and more fairly distribute ownership and surplus.

Business closures:
A generation of successful small- and middle-market businesses are in danger of closing as their owners reach retirement age and fail to find buyers. The "Silver Tsunami" may wash away the kinds of local businesses that are essential for thriving neighborhoods and the good jobs that are growing more scarce.[60] One solution is transition to employee ownership via an ESOP, worker cooperative, or employee-owned trust. Employees may be the best and, in some cases, only buyers for these businesses. With owners who are overwhelmingly White and male, and workforces that generally are not, simply transferring ownership of existing business assets offers a very real opportunity for generational racial wealth transfer .[61]

WHAT IS EMPLOYEE OWNERSHIP?

Employee ownership is an umbrella term for shared ownership of a business by the people who work in it. Various versions of employee ownership have existed in the American economy since the creation of the country.[7] The two major forms of employee-ownership worker cooperatives and ESOPs—have different origin stories, political frameworks, ecosystem relationships, and even size and scale, but they are complementary, creating between them a full-spectrum approach. Increasingly, they work together.

[ESOPs and worker cooperatives] have different origin stories, political frameworks, ecosystem relationships, and even size and scale, but they are complementary, creating between them a full-spectrum approach.

Before diving into the distinctions between forms explored below, it may be helpful to begin by sketching out the commonalities among forms of employee-ownership.

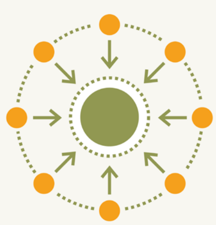
They are businesses operating in the market, producing goods or services for customers and generating surplus from those activities.

They are designed to benefit their employees, and as such they have multiple stakeholders and multiple bottom lines, with specialized legal structures to support this purpose.

They are perpetual forms intended to exist beyond their founding generation and tend to operate on a longer time horizon and with a greater focus on stewardship than other business forms.

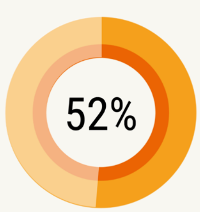
They face technical barriers unique to employee ownership, such as difficulty accessing MWBE or procurement programs, securing credit, or finding informed business advisors.

WORKER COOPERATIVES

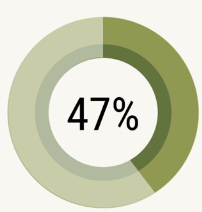


600-1000 firms
2x growth in number of firms since 2010
80% startups, **20%** transitions
Median size: 6 worker-members
Concentrations: direct care, personal services, food and beverage
$4-7 million distributed to members (2021)

6000+ MEMBERS



FEMALE

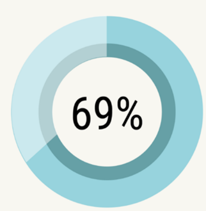


PEOPLE OF COLOR

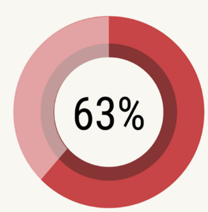
ESOPs

6200+ firms
Steady number of firms since 2010
100% transitions
Median size: Wide range with slight majority small plans (~25-100 participants)
Concentrations: prof/sci/tech services, manufacturing, construction
$149 billion paid to participants (2020)

10.2 MILLION ACTIVE PARTICIPANTS



WHITE



MALE

WORKER COOPERATIVES

Worker cooperatives are businesses that are owned and controlled by the people who work in them. Workers are members who make an initial investment and share the financial benefits of business success (in a cooperative, profit-sharing is called patronage distribution; profit shares may be distributed part in cash and part into a member account inside the business for future payout). Cooperative members make governance decisions democratically on a one-member, one-vote basis. These businesses tend to be smaller in size and number; the 800 or so worker cooperatives in the United States[8] average less than 10 workers, though thriving larger worker cooperatives do exist. They are concentrated in the service and retail sectors, with a small presence in manufacturing. They can be created as start-ups, or by transitioning an existing businessto cooperative ownership.

The primary benefits of worker cooperatives can be characterized as **creating access** to better jobs and business ownership, **building economic stability**, and giving form to a set of **shared values.** Mission-driven entrepreneurs have long been drawn to start or convert to worker cooperatives because of their codified principles, emphasis on democratic member control, and the power of the "co-op" brand to serve as a trust mark that aligns with worker- and community-centered values. A generation of 1960s and 1970s worker cooperatives started as mission-driven businesses in emerging industries like natural foods; a handful are now quite large.[9] The next generation of cooperative businesses, developed in the 1980s, in some cases out of labor struggles or other political organizing, aimed to change how business was done in a given industry using the cooperative form.[10]

WORKER COOPERATIVES ARE A GOOD FIT FOR:

- Values-based and mission-driven entrepreneurs who seek a form aligned with their values, including groups that want to operate a business democratically
- Companies aiming to influence or raise their industry's standards
- Employees buying their workplace from its previous owner to keep it running and save their jobs
- People locked out of good jobs by immigration status, incarceration history, and occupational segregation

Today, reflecting the proliferation of bad jobs and exclusion of entire communities from opportunity, formation of worker cooperatives is driven by (1) people locked out of good jobs starting worker cooperatives to gain access to better work, sometimes to any work, and (2) business owners selling their businesses to employees who then co-own and co-operate the business. In both cases, the cooperative is often assisted by a nonprofit or cooperative organization, acting in the role of cooperative developer, that provides technical assistance, financing, or other support.

Worker cooperatives are part of a much larger cooperative community. Cooperative corporations, such as agricultural producer cooperatives, consumer grocery cooperatives, rural electric cooperatives, credit unions, housing cooperatives, and mutual insurance cooperatives, have existed in the United States for more than 200 years.

They have an apex organization, the National Cooperative Business Association, and a section (Subchapter T) of the federal internal revenue code that recognizes their unique member benefits. Just over half of states offer a cooperative incorporation statute; only a handful have a worker cooperative–specific form.[11] Beginning in the 1990s, an increasing number of worker cooperatives began to use the limited liability company (LLC) form.

In 2004, after several decades of incremental growth, the worker cooperative community organized a national 510(c)(6) member association, the U.S. Federation of Worker Cooperatives (USFWC), which drove additional growth in the field. In 2013, the USFWC created an affiliated research center and think-and-do tank to expand the field, the Democracy at Work Institute (DAWI), and in 2021 began work to activate a 501(c)(4) advocacy organization.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS)

ESOPs are federally recognized and regulated employee benefit plans that enable employees to own part, or all, of the company they work for, via a trust fund the company sets up on behalf of its employees. The company contributes new shares of its own stock that employees access when they retire, usually taking out a loan to finance this transition. Many ESOP companies supplement the long-term ESOP retirement benefit with 401(k) plans and competitive wages, as part of their nearer-term commitment to their workforces. Recent research shows that the average retirement savings (ESOP and 401(k) account values) of workers in ESOP companies are several times the amounts held by workers in conventional companies.[12]

The ESOP was created by the Employee Retirement Income Security Act (ERISA) of 1974, and the current incarnation came about with its inception in the federal tax code in 1984. In the almost 40 years since those beginnings, the ESOP field has engaged in a period of institution-building to sustain and expand the growth that was catalyzed by federal initiatives.

ESOPs' primary benefits lie in their power to **build long-term wealth** for employees and open a door for **employee engagement**. According to leading providers in the field, "ESOPs operate successfully in a broad range of companies—large and small, public and private."[13] They tend to be larger in size and number, and they are concentrated in manufacturing, construction, and professional services. ESOPs are always created within an existing business (they are not a startup tool), and they are often used to support the exit of a single owner from a business.

In part due to the complexity of the form and the amount of regulatory attention they have received, ESOPs have a robust community of service providers, from trustees to attorneys and accountants to business valuation professionals. ESOPs have adopted rigorously bipartisan and market-focused messaging and strategy that highlights the alignment of incentives between a company and its employees. An ESOP can be created as a percentage of ownership, up to 100%; public companies can implement ESOPs, although the vast majority of ESOPs are in privately held companies.

The ESOP form is tax-advantaged, and this advantage is the primary driver of ESOP formation. ESOPs emphasize business value and shared ownership mechanisms. They may or may not have a participatory culture, although employee engagement is considered a best practice and value-add for ESOPs. Few ESOPs have employee participation in governance, although it is possible.

Relatively recent initiatives in the ESOP community aim to expand the form to benefit low-wage workers and workers of color historically underrepresented in business ownership, using innovative structures and capital approaches and forming new partnerships.

The ESOP community created a membership organization, The ESOP Association, in 1978, followed by a national nonprofit research and education organization, the National Center for Employee Ownership in 1981, and a foundation, The Employee Ownership Foundation, in 1991. These institutions are funded largely through member fees and dues as well as the field's service providers; in recent years, philanthropy has made targeted grants for research, innovation. and capacity-building to support greater diversity, equity, and inclusion in the field.

RELATED FORMS

In addition to the major forms of worker ownership described here, there are many other, related forms of shared business ownership. These forms make use of some but not all elements of the two major approaches, including creation of membership/ownership classes, use of a trust structure, or equity ownership. Generally speaking, alternative enterprise models tend to support multiple stakeholders or steward ownership or both, establishing a company's purpose more broadly than simply delivering shareholder value. Key forms include multi-stakeholder cooperatives with multiple member classes, secondary or platform cooperatives whose member-owners are businesses (or independent contractors), and Employee Ownership Trusts (EOTs) and perpetual purpose trusts that use a trust model. Finally, although it is not a form of employee ownership designed to persist for perpetuity, employee equity compensation is a benefit that gives employees an ownership stake in the company once they meet internal vesting requirements.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS) ARE A GOOD FIT FOR:

- Business owners selling their company who lack a strategic buyer
- Companies motivated by long-term "legacy" or mission goals, who want to take care of their employees and offer a profound employee benefit
- Companies interested in engaging employees and building ownership culture
- Companies with at least 20–25 workers, stable cash flow, and a history of increasing sales and profits that can afford the cost of transition and ongoing administration

The universe of broad-based ownership and equity compensation plays a role in building awareness, shifting narrative, piloting innovative ownership-oriented solutions, and ensuring that ownership reaches more workers across firms of different sizes, industries, and circumstances. It also introduces complications and challenges. Many of the field's newer experiments with scale and mainstreaming sit along these contested edges—From the "worker-owned cooperative conglomerate corporation" Obran, to SEIU's AlliedUp healthcare staffing cooperative incubated by the union, to the private equity–led Ownership Works initiative, which makes employees equity shareholders who receive a substantial one-time benefit from the inevitable sale of their employer.

EMPLOYEE OWNERSHIP IN THE UNIVERSE OF ALTERNATIVE ENTERPRISE MODELS

	WORKER COOPERATIVES	ESOPs	BROAD-BASED OWNERSHIP MODELS (secondary & multi-stakeholder coops)	STEWARD-OWNERSHIP MODELS (Employee Ownership Trusts1, Perpetual Purpose Trusts)	ALTERNATIVE & VALUES-DRIVEN ENTERPRISE MODELS (Benefit Corps)
PURPOSE	Counter profit maximization for outside shareholders				
	Perpetuity (little[1] or no acquisition pressure)				
	Distribute ownership across multiple stakeholders				
	Worker as primary stakeholder/owner				
	Worker control				
UNIQUE CHARACTERISTIC	• Member ownership form with explicit democratic and community value and principles.	• Tax-advantaged trust form using retirement account; highly regulated	• Aggregates business entities stakeholders for shared interests • If cooperative, member ownership form with explicit values	• Third party Trust holds the company for a stated purpose, which is sole goal of company; often profit sharing with core stakeholders; often stakeholder voice	• Conventional business structures with explicit values and principles
IMPACT/ BENEFITS	• Business retention and creation • Access to work and ownership • Job quality increase • Worker voice	• Business retention • Access to ownership • Asset-building • Job quality increase • Productivity increase • Long/sustainability horizon	• Business growth and scale • Competitive access to markets and suppliers	• Broad-based benefit across multiple stakeholders • Permanently securing a company's mission and independence	• Removing pressure to maximize shareholder returns • Narrative shift: mainstreams alternatives to shareholder primacy
FINANCING EASE/ CAPITAL NEEDS	• Difficult due to lack of traditional equity	• Relatively available	• Varies; capital generally available within dedicated cooperative community	• Difficult due to lack of traditional equity	• Conventional financing widely available
PHILANTHROPIC CAPITAL ENTRY POINT	• De-risk startup Capital • Financing and TA to conversions	• Help finance 100% owner buyout • Join capital stack for racial equity-driven approaches	• First mover capital	• Catalytic capital for conversions	• No specific need for philanthropic
	Funding for wraparound services, ecosystem-building, messaging, impact measurement				
RETURN PROFILE	• Impact, some return	• Blended impact and return		• To be determined; relatively new form	• Closer to market rate return
SIZE	• Small (can be large)	• Small to medium (>25 EEs)	• Medium to large	• Any size: broad range	• Any size, generally large

NOTES

1. In an EOT, employees are the primary stakeholder. EOTs could easily have their own column, but because they are relatively new and small, for simplicity we are highlighting the major EO forms and grouping EOTs with other Trust forms.

2. ESOP Trustees do have a fiduciary duty to consider offers

HOW: PATHWAYS TO FORMATION AND SYSTEMS OF SUPPORT

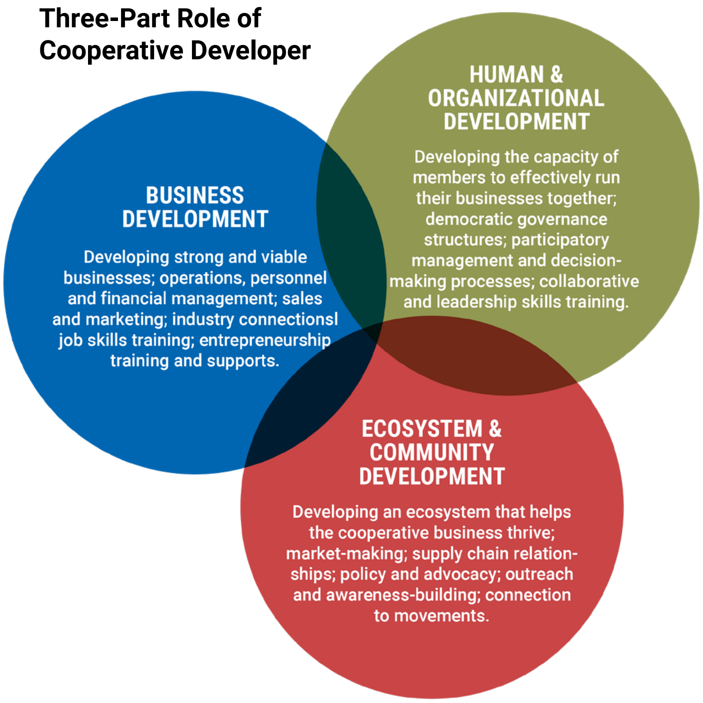
WORKER COOPERATIVES

While many worker cooperatives are formed with minimal outside support, many more, particularly those aiming to benefit low-wage and excluded workers, are created by cooperative developers. Cooperative developers are third-party organizations, generally philanthropically or publicly funded nonprofits, that provide technical assistance targeted to cooperatives' unique needs [see graphic].

A cooperative developer can be an organization dedicated primarily or exclusively to creating cooperative businesses; a program inside a larger social service or advocacy organization, designed to develop cooperative businesses as part of programs to serve constituents; or a standalone technical assistance provider or training organization that provides targeted legal or accounting services, organizational training, and tools. Finally, some larger worker cooperatives actually take on cooperative development activities within their existing business activities, as a way to grow their brand, footprint, market, or workforce.

Dozens of worker cooperative developers operate across the country, with a range of sizes, ages, and services, serving both local and national organizations. The box on the following pages explores cooperative development in greater detail. Funding to worker cooperative developers has increased as much as fivefold since 2010. As of early 2023, DAWI estimates at least $16 million in private grant funding and $10 million in government funding flows to worker cooperative development activities each year.[14]

Three-Part Role of Cooperative Developer



In 2016, about a dozen organizations formed the Workers to Owners (W2O) collaborative, to share learnings, gather data, and refine strategy for business conversions. This community of practice, which explicitly foregrounds racial equity as a priority, has tripled in size and diversified since its founding. Its membership now includes more than 30 national and local organizations, among them lenders and ESOP support organizations.

In recent years, the worker cooperative development field has shifted its emphasis from creating new worker-owned businesses to conversing existing businesses to worker ownership. Several field-leading national organizations, including Project Equity, The ICA Group, and The Seed Commons, have dedicated most of their program work to supporting conversions. Many of the organizations driving cooperative conversions today have relationships with dedicated capital providers or are themselves investors or lenders.

The shift to conversions has catalyzed profound growth in the field. In particular, it has:

- Supported standardization of approaches with shared data gathering and impact reporting.
- Directed the focus to capital and mobilized more capital.
- Catalyzed innovations in form, such as ESOPeratives[15] and Employee Ownership Trusts (EOTs).
- Increased business skills and capacity in worker cooperatives.
- Clarified policy asks and the case for public and philanthropic investment.

As the focus on conversions has grown, the average size and diversity (by industry, location, and workforce demographic) of worker cooperative enterprises has increased.[16] Under the conversions umbrella, ESOP and worker cooperative communities have grown their collaboration, built touchpoints with economic and workforce development partners, and engaged in successful shared advocacy. Finally, conversions have generated interest from state, local, and federal government agencies seeking tools to address preventable business closures.

WORKER COOPERATIVE CONVERSIONS 2014-2022

A. 170 businesses converted

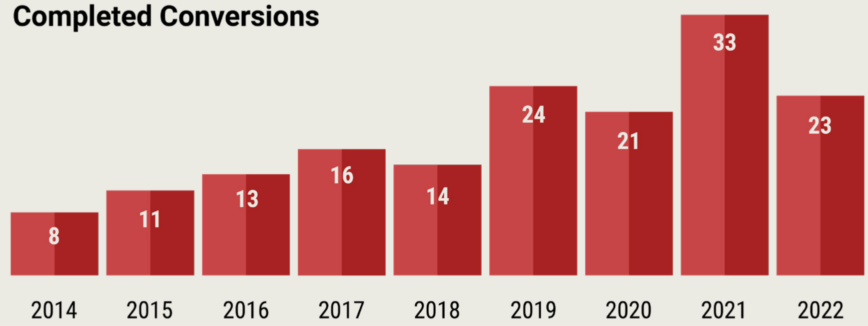
B. $77,120,710 in business assets transferred

C. 2313.5 worker owners/ ownership pathways created

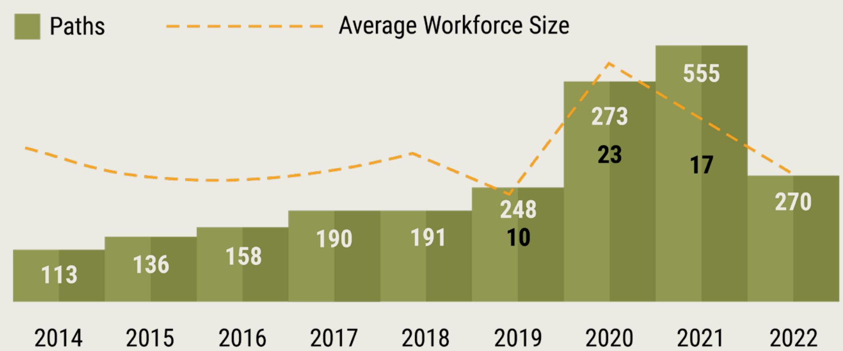
D. 64% are priority workforces (low-wage, immigrant, women and minority workers, rural businesses) since we began tracking in 2018

Source: Workers to Owners data housed at the Democracy at Work Institute. This data reflects W2O activity only and is not a complete picture of all conversions in this period.

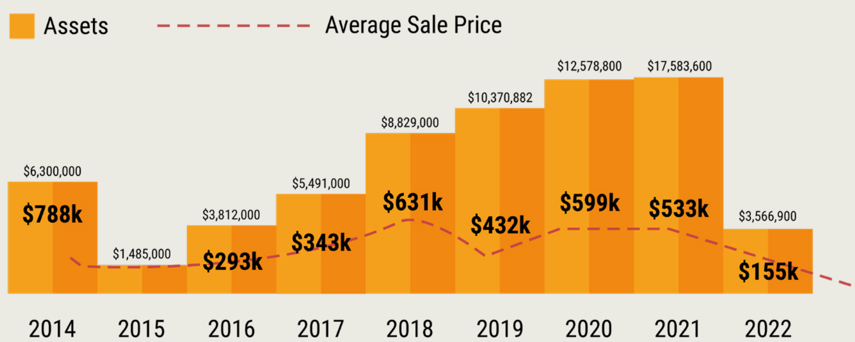
A Completed Conversions



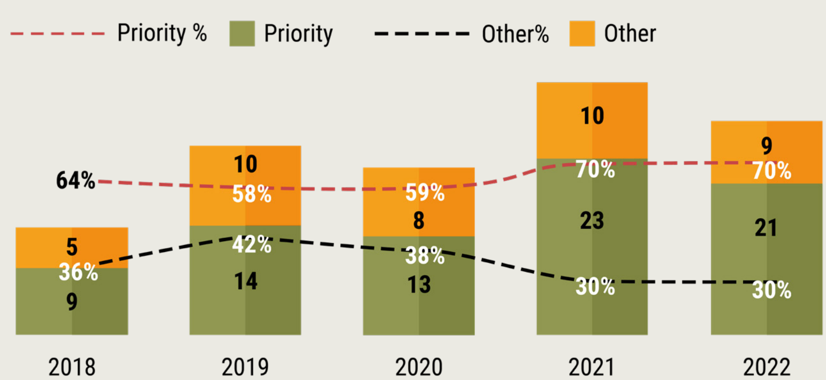
B Ownership Path Created



C Business Assets Transferred



D Priority Workforces Conversion %



WORKER COOPERATIVE DEVELOPMENT UP CLOSE

Cooperative developers engage in a spectrum of activities to launch and support new worker cooperatives.

Cooperative developers engage in a spectrum of activities to launch and support new worker cooperatives.

- Lower-touch developers may provide training and technical assistance and connect the startup to support services or capital sources, often with a focus on meeting community needs. They generally have impacts that are wider and shallower, such as developing skills and awareness, building networks, and generating lots of startups.

- Higher-touch developers may undertake partial or full incubation of a new business, often with an industry focus. They generally have impacts that are deeper but narrower, such as the creation of a single business. Successful high-touch developers often go on to replicate or network businesses they have incubated. [See Appendix.]

The lines between low and high touch may blur a bit in reality. The developer's challenge is always to align available resources and skills with projected outcomes. The pathway may vary, but the goal in all cases is a thriving business owned and controlled by its members. Cooperative developers generally remain committed to assisting the business beyond its startup period.

Worker Cooperative Developer Spectrum

	Low Touch Developers	High Touch Developers
Activities	Coaching, referrals, and connecting self-organized startup groups to capital and technical assistance. Advising business owners seeking to sell to employees. The developer may or may not have industry or small business expertise.	Direct investment of time and sometimes capital in incubation of new enterprises and/or transition of businesses to employee ownership, almost always working with groups who have not owned a business before.
Powers	Developer generally does not play a role in management or decision-making of the startup and have no control rights.	Developer may exercise some decision-making power at the outset, in proportion to resources it has devoted and risk it has taken on.
Examples	Training programs, boot camps, some academies, providing feasibility studies or business plans, offering template legal documents, referrals	Business development programs, some academies, investment, cooperative conversions initiatives and technical assistance
Impact	Tends to be broader and shallower	Tends to be narrower and deeper

INCUBATION: DEVELOPER-AS-ENTREPRENEUR

Worker cooperative incubation is one form of high-touch development. About 5% of extant worker cooperatives—around 35, including some of the oldest and largest, with the most diverse workforces—were developed using an incubation model to create jobs, build wealth, demonstrate equitable practices, or change industry standards.

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In an incubation, the cooperative development organization brings the initial vision, resources, and capacity to the project, assuming responsibility for its launch and transferring ownership to members over time. It is in many respects the entrepreneur. It must have industry and business expertise to launch and sustain the fledgling cooperative, and it must build members' capacity to be cooperative entrepreneurs. In a well-resourced cooperative incubation model, the cooperative developer:

- Raises funds to support a multiyear commitment to the incubation process, often including raising or providing startup capital.
- Dedicates at least one full-time person (often more) to the project, who brings business and industry expertise and training orientation.
- Holds initial ownership and control rights for the business, phasing out partially or fully over time as the business achieves defined benchmarks.
- Measures impact to understand the benefit created for all stakeholders.
- Structurally connects the cooperative to a network of support, leverages its relationships to create favorable conditions, and (sometimes) replicates or scales the cooperative.

The dual role of entrepreneur and entrepreneur-builder is time- and resource-intensive. Incubation projects have a longer timeline and require more resources than standalone business advisory services or cooperative training. An incubation model is not for all organizations; it is particularly well suited to those that have capacity, expertise, resources, and time to play an effective dual role.

"Starting a low-income employment enterprise is a high-gain, high-risk strategy," writes longtime field leader Steven Dawson. He encourages "workforce practitioners and their funders to consider creating social enterprises to employ low-income constituents, but with eyes wide open. They should do so strategically, in a way that maximizes social impact built upon hard-nosed business practices. They should do so thoughtfully, reaching out early to learn from those with years of hard-fought experience. And they should do so transparently, sharing their lessons openly and honestly with others within the workforce field."[62] These lessons hold true for worker cooperative startup developers as well.

ESOPS

ESOPs are always created in existing businesses; they are not a business startup strategy. Often the ESOP is implemented as a means for an owner to exit the business, with a bank lending to support the transaction and the seller carrying a note as well. Businesses must be large enough (at least 20–25 employees) and profitable enough and have adequate cash flow to pay for and sustain an ESOP. ESOP companies have a strong ecosystem of support, with dozens of for-profit service providers handling everything from trustee work to legal advice to accounting to organizational culture development.

The field of support for ESOPs has been built on the strength of ESOP companies and service providers, and it is largely self-sustaining. The major ESOP support and advocacy institutions are membership organizations, funded by member companies' dues and fees as well as contributions from service providers. These organizations have not received much philanthropic funding, although in recent years foundations have supported research, education, professional development, convening, and ecosystem-building in the ESOP field.

In 2018, Employee Stock Ownership Plans distributed a total of $126.7 billion to employee plan participants. An estimated $1.37 trillion in value is held by ESOPs in the US, that's an average of $129,521 per employee owner.[64]

With the policy origins of the ESOP as a tax-advantaged form and the aggressive regulatory approach taken by the federal government, the field's apex organizations initially focused on protecting the form, managing regulators, and cultivating bipartisan support. In recent years, the field has been more growth-oriented, forming state employee-ownership centers, undertaking strategic research and planning, building impact data, and advocating for supportive legislation. While the wealth-building impacts of ESOPs for employee participants are undeniable, intentional use of the form as a tool to address racial inequality has been less widespread until recently.

What is increasingly drawing philanthropy to the ESOP space is an opportunity to use ESOPs as a tool to address inequality.

What is increasingly drawing philanthropy to the ESOP space is an opportunity to use ESOPs as a tool to address inequality. In October 2020, the Aspen Institute held a roundtable focused on policies and practices that support economic recovery and lay the foundation for a more equitable and resilient economy, followed by their publication, Race and Gender Wealth Equity and the Role of Employee Share Ownership.[17] While the majority of workers in ESOP companies currently are neither people of color nor low-wage workers, recent investments explicitly aim to increase these numbers by implementing ESOPs in companies with low- and moderate-income workforces and workforces of color. These efforts are attracting additional philanthropic resources to support the training, wraparound services, and impact measurement required by this focus. [See highlight below and Legacy Fund case study.]

HIGHLIGHT: PHILANTHROPY'S ROLE IN FACILITATING AN EXPANSIVE EQUITY APPROACH FOR EMPLOYEE OWNERSHIP

In 2019, with multiyear funding from the W.K. Kellogg Foundation, the Rutgers Institute for the Study of Employee Ownership and Profit-Sharing conducted the first-ever research to understand the job quality and financial impacts of employee ownership for low- and moderate-income workers; the study included a demographic analysis.[63]

This early funding started a critical conversation about ESOPs as a vehicle for equity and began building a bench of academics and practitioners focused on these questions. Since then, a small group of funders have funded fellowships, with a priority for underrepresented scholars, at the Rutgers Institute, which has emerged as a leading institution and an important locus of power in the field. The Aspen Institute, along with the Rutgers Institute, has also provided critical leadership in convening the field around questions of employee ownership and racial and gender equity.

The National Center for Employee Ownership (NCEO) has continued building out an equity-focused research agenda and is beginning to study Minority and Women Business Enterprise (MWBE) certification in the context of employee ownership; this work could remove a critical barrier to realizing the broadest possible racial equity impacts for employee ownership. In addition, several state employee-ownership centers have begun outreach to minority small business owners and businesses with large workforces of color, with an intention to shift the demographics of business ownership.

CASE STUDIES & THE CASE FOR PHILANTHROPIC INVESTMENT

There is a consensus in the employee-ownership field that it is primed to grow. Some leaders interviewed for this brief suggested that the landscape for philanthropic investment in employee ownership may be akin to game-changing scale moments in adjacent fields, such as IDAs or affordable housing.[18] Others suggested that philanthropic intervention in employee-ownership strategies may look similar in many respects to philanthropic funding of small businesses as a strategy for equity, referring to previous work on microenterprise supports, including AFN's 2014 brief,[19] which offers recommendations that are also applicable to employee ownership: finance the cost of services, fund savings programs for business owners, promote expansion of products and services, inform public policy, fund research, and evaluate effectiveness.

While business is the vehicle, for many funders, employee ownership is actually ***not*** part of a small business strategy; rather, it is often part of job quality or equitable wealth-building strategies, which may imply investments supporting employee ownership for medium or even larger businesses. For still others, it is part of community development work. This brief therefore uses a ladder approach to lay out the benefits and impact at multiple levels, starting with direct business impact, moving to capital support, and finally encompassing the larger ecosystem of support.

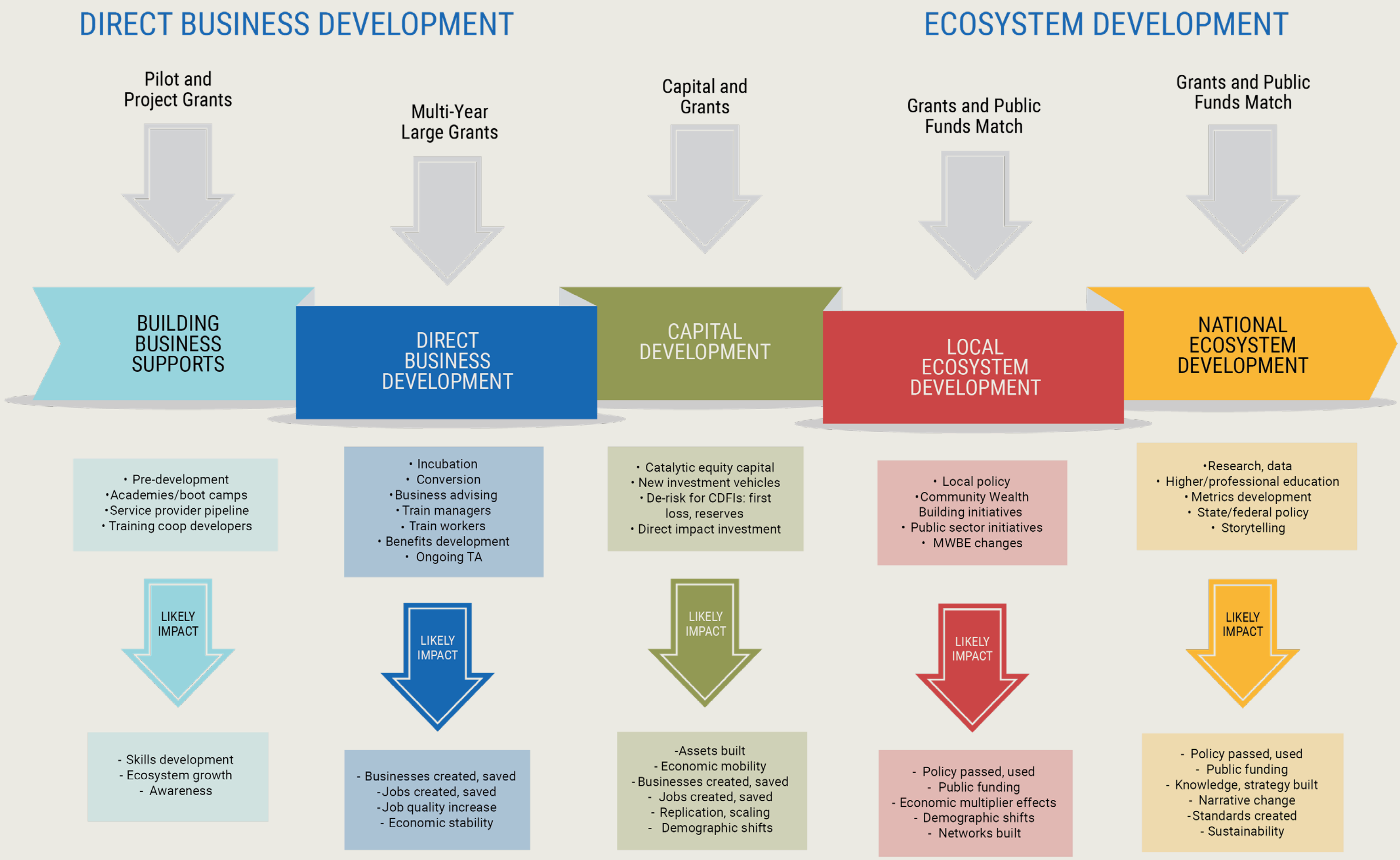
IMPACT: WORKER STABILITY AND MOBILITY

Worker cooperative business **startups** in low-margin sectors and low-wage work can contribute meaningfully to individual economic security and opportunity, even if the job does not dramatically increase financial assets. Worker ownership can form the base of the pyramid for asset-building in myriad ways:

- The business provides access to steady, predictable paid work for members.
- Frequent pay and direct deposit support steady cash flow.
- Connections to credit unions and banks support saving and may reduce reliance on predatory lending.
- Small cash-flow loans prevent falling further behind and asset stripping.
- Paid time off helps avoid fines, fees, and lost wages.
- Access to health benefits, even minimal, prevents illness and injury.
- Worker-centered scheduling accounts for commute distance, family obligations, and other jobs.
- Opportunities for office work and board service build professional skills.

Worker cooperative conversions and ESOPs are designed to transfer ownership of productive business assets to employees. In most cases, these employees would not have the opportunity to own or co-own a business without the shared ownership mechanism, so a primary benefit of this strategy is access. In addition, business asset transfer often has measurable wealth-building impacts, which are demonstrated in the existence and growth of participants' ESOP accounts or worker cooperative member equity accounts.[20] These account values may initially be quite small, as the business pays down debt used to finance the transaction, but they grow over time.

Pathways for Funder Investment



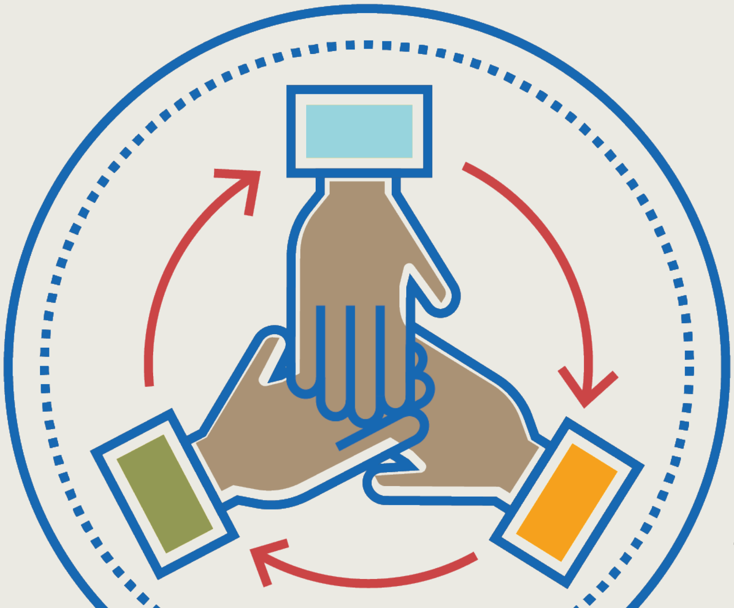
CASE STUDY: WORKER COOPERATIVE DEVELOPMENT IN IMMIGRANT COMMUNITIES

A large proportion of worker cooperatives today were started by immigrant entrepreneurs of mixed documentation statuses who used the form to create access to business ownership and ultimately good jobs for themselves, a topic covered in AFN's 2022 brief on economic security for undocumented immigrants.[65]

The LLC business form plays an important role in supporting shared business ownership by excluded workers. In the United States, anyone can own a business from which they derive income. Consequently a field of support has emerged around member-managed LLC worker cooperatives, which categorize their members as owners, not employees. Early projects were centered on development initiated in particular by Latina immigrants, starting with the high-profile WAGES Cooperatives (now Prospera) in the 1990s and continuing with the Center for Family Life's cooperative development program in the 2000s in Sunset Park, Brooklyn, which gave rise to the Up&Go Cooperatives and Brightly franchise model that is replicating now. Dozens of other immigrant-led and serving organizations across the country, inspired by these projects, have undertaken worker cooperative development with their constituents, with mixed results.

The Rapid Response Cooperative model, developed by the Democracy at Work Institute and initially piloted with Dreamers and other early-career professionals as a staffing agency model, attempts to streamline the startup process for member-managed LLCs. It assembles legally vetted documents and effective processes into a toolkit, provides a brand, offers dedicated technical assistance, and structures an ongoing role for a partner organization in recruiting members and creating access to markets via anchor client relationships. A cohort of organizations in Southern California piloted the RRC model for low-wage workers, with funding from the State of California's SEED program for immigrant entrepreneurs. City agencies, nonprofits, and community colleges across the country are piloting the relatively new RRC model to meet their communities' needs.

The number of Latinx-led cooperatives has grown steadily since the 1990s; around a quarter of all worker cooperative members in 2021 were Latinx.[66] The USFWC supports a fully bilingual English/Spanish environment for its members, along with an immigrant cooperative council and other bodies convening immigrant worker owners. In recent years, other immigrant community organizations have begun using the cooperative model, notably African Communities Together in New York City and the Pilipino Workers Center in Los Angeles.



IMPACT: JOB QUALITY, AGENCY, AND WEALTH-BUILDING

The deeper benefits of employee ownership are not automatic, but result from deeper investment in enterprise growth. Employee-owned businesses that build substantial individual financial assets tend to seek and use capital investment, be in higher-margin industries, have created a market advantage for themselves (often centered on the value proposition of shared ownership), or connect to wraparound services that support asset building; often, they have all of these characteristics.

Higher job quality, including worker skill-building and agency,[21] is often the primary aim of philanthropic investment, especially for businesses in low-wage industries. Investing in job quality may look different for the two major employee-ownership forms. For ESOPs, supporting engagement and participation, particularly for low-wage workers who may work off-site, requires dedication of resources to organizational development, leadership development, and ownership culture.[22] For worker cooperatives, which have participation and skill-building baked into the form,[23] business success that creates the higher margins that support higher wages and career pathways may be the key to realizing job quality benefits. Unfortunately, very little impact data on job quality in worker cooperatives and ESOPs has been made available. Defining and measuring job quality for employee-owned enterprises—and syncing this definition with the proliferation of job quality measurement tools in adjacent fields—could be a critical first step for making this case.

Wealth-building is the other deeper impact sought, and here funders should approach cautiously. ESOPs certainly build wealth, but it is primarily long-term wealth not readily measured on a 3–5-year funding cycle. As we mention elsewhere in this brief, to realize wealth-building impacts for workforces of color and low-wage workers, the ESOP form must be intentionally oriented toward those workers, which may not happen organically without philanthropic support. For worker cooperatives, especially those concentrated in low-wage industries, wealth-building impacts may be minimal and mainly center on stability. The advantages of such strategies as creating federated or franchised models, diversifying revenue from higher-margin activities, and positioning the cooperative as the provider of choice for anchor clients require shifting the terrain for low-wage work.

Access to appropriate capital is essential to drive deeper benefits, particularly for worker cooperatives. In reality, many worker cooperative development projects have not accessed capital investment for their startup, instead relying on grant funds and sweat equity to launch primarily low-capital service industry businesses. This lack of capital access is not unique to worker cooperatives. According to ***Bridging the Divide***, the Aspen Institute's study of entrepreneurs of color, "firms owned by Blacks and Hispanics start with lower levels of financial capital, for which they pay higher prices."[24] Black business owners bring less than 1/10 the equity White business owners do, so they are then not able to borrow as much for their businesses, limiting their growth and succession planning options. "In addition to simply not having the capital . . . entrepreneurs of color are often deterred by lack of access to networks and information barriers."[25] For worker cooperatives, bootstrapping the startup may not only result in underinvestment in the business; it may also camouflage fundamental business issues such as market fit, business model, and cost structure. Seeking outside capital, which requires a capital plan and business plan, can bring a level of rigor to the project that helps ensure its success.

As the worker cooperative field has gotten more sophisticated, it has begun to develop clearer strategies for using values-aligned risk capital to support targeted growth. The Seed Commons, a national Community Development Finance Institutions (CDFIs) with dozens of local partners [see case study], is bringing a capital-driven approach to worker cooperative startups and conversions. Several mature field organizations, including some in partnership with cooperative-focused CDFIs,[26] have started their own investment funds, creating locally rooted risk capital pools focused on racial equity impacts [see Appendix].[27] These funds, responding to a need for appropriate capital, generally pair investment with technical assistance to mitigate risk and deepen impact.

Public (government) capital has been less accessible for worker cooperatives; changing that is a long-term process that will rely on scaling, documenting impact more clearly, and creating conduits through existing field-oriented lenders. In the meantime, recent public funding from the state of California's SEED program has provided one important demonstration project. SEED is a $30 million initiative to support immigrant entrepreneurship that included worker cooperatives as an opportunity pathway for Californians who face significant employment barriers.[28] The funding explicitly includes microgrants for capitalizing startups; for the worker cooperative SEED projects, these microgrants were a critical factor in launching enterprises more quickly and with more members than otherwise would have been possible.

CASE STUDY: THE SEED COMMONS—NONEXTRACTIVE FINANCE FOR SHARED OWNERSHIP

What it is:

Seed Commons is a national financial cooperative that provides nonextractive financing for worker-owned and community-controlled enterprises of all sizes. Founded in 2015 with nine “peers” (local branches) spread out across the country from Richmond, California, to Baltimore, Maryland, Seed Commons has grown into a cooperatively governed national CDFI with more than 30 members serving underresourced communities and cooperatives with a shared investment fund of close to $60 million (mostly from impact investors, family offices, and fund managers). Its model is something like a producer cooperative for lenders, leveraging the cooperative structure to scale while maintaining local nodes of control. Seed Commons raises capital centrally, acts as the lender of record, and provides back-office functions, while local peers build relationships with projects and do the long-term business support. In other words, capital raising functions are centralized and capital deploying functions are distributed. For the Seed Commons, capital is the driver of ownership, and the only way for capital to function in the equity-like ways needed to realize its mission is if it scales.

How it works:

Using the power of a central entity mitigates risk and allows a lower cost of capital. About $15 million of the fund’s $60 million is dedicated high-risk capital. This “THRIVE Fund,” capitalized by donations, is intended to respond to volatility and support growth. At the same time, an infrastructure of support maximizes benefits to borrowers. Locally controlled organizations, called “peers,” maintain local accountability for building borrower relationships, understanding their pipeline, and sourcing deals, which are brought to a central credit committee of senior staff for evaluation.

The 30 current peers are community organizations and nonprofits, lenders, and cooperative developers. Twelve peers are full members, which serve on the organization’s governing body. All peers are trained in the Seed Commons lending methods and tools.

Its Impact:

To date, the Seed Commons has deployed around $20 million in investments in worker-owned businesses and aligned projects. Its average loan size has gone from $150,000 a few years ago to $500,000 today. The bulk of its investments are in expansions (lines of credit or investments for growth) and business conversions, followed by real estate. Startup financing comprises the smallest portion of the portfolio, and the fund often lends iteratively to startup projects.

CASE STUDY: A&H'S LEGACY FUND I—A CAPITAL STRATEGY FOR RACIAL EQUITY

What it is:

Apis & Heritage Capital Partners (A&H) is an investment firm that finances the conversion of companies with substantial Black and Brown workforces into 100% employee-owned businesses using a 100% ESOP structure. A&H's first fund, Legacy Fund I, closed at $58.1 million in late 2022.

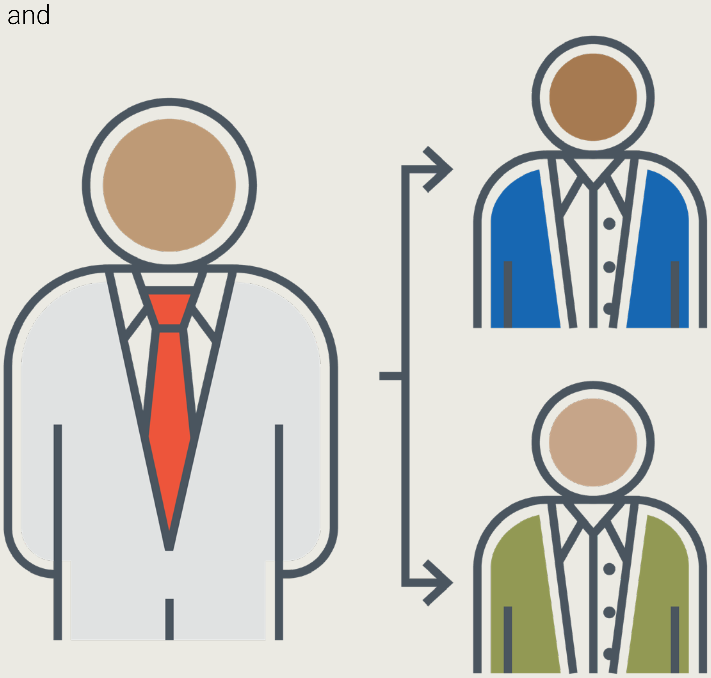
How it works:

A&H searches for businesses with large workforces of color where the owner is ready to sell and retire. A&H negotiates a fair price for the business and then provides financing and technical support to convert the companies into 100% employee-owned businesses. The firm's novel "employee-led buyout" (ELBO©) model solves critical problems with the traditional owner-financed ESOP transaction model, using mezzanine capital to pay the seller at least 90% of the enterprise value on day one, rather than over a decade. It also coordinates the legal and regulatory paperwork associated with ESOP transactions and bears much of the transactional costs. After transition, A&H serves on the new ESOP company's board, bringing resources and advice to management. A&H's partner, the nonprofit Democracy at Work Institute (DAWI), helps train the workforce and management about what it means to be employee-owners, building a strong ownership culture over three years. DAWI also measures job quality, ownership culture, and employee health and well-being in portfolio companies. Finally, DAWI and A&H collaborate to widely communicate the impact and lessons of the Fund.

Its Impact:

So far, Legacy Fund I has invested in two companies with 150+ workers, of whom 90%+ are Hispanic and the majority are low and moderate income.

Legacy Fund I's investor base includes the Rockefeller Foundation's Zero Gap Fund, the Ford Foundation, the W. K. Kellogg Foundation, the Skoll Foundation, Gary Community Ventures, the Robert Wood Johnson Foundation, Fresh Pond Capital, and Reynders, McVeigh Capital Management, Spring Point Partners, Sorenson Impact Foundation, Candide Group, Ascension Investment Management, Veris Wealth Partners, Social Capital Partners (Toronto), Tiedemann Advisors, Kachuwa Impact Fund, Franciscan Sisters of Perpetual Adoration, Kendeda Fund, World Education Services, the Libra Foundation, Realize Impact, Opus Foundation, Mary Reynolds Babcock Foundation, the Cooperative Assistance Fund, and numerous individual investors. In addition to capital, several investors have also contributed grant funding to support the training, data, and communications work.



Capital has also been critical to driving attention to the deeper job-quality impacts of ESOPs, although in different ways. While access to capital has not necessarily been a barrier to growth of conventional market-driven ESOPs, interest from philanthropy in investing strategically in ESOP models designed to close wealth gaps is growing. The Legacy Fund [see case study] is using a capital strategy to pilot a racial equity approach to ESOPs. Other investors have taken notice, and a small ecosystem is beginning to form, with investor terms that range from simple return of principal to competitive financial returns. The American Sustainable Business Network recently published a primer for its members to better understand investing in employee ownership for this purpose.[29]

Across the board, a clear role exists for philanthropic capital to partner with mission-driven lenders and investors as a risk mitigant to make existing capital more available and to fund technical assistance and wraparound services to deepen impact.

IMPACT: ECOSYSTEM, COMMUNITY WEALTH-BUILDING, POLICY CHANGE

The broadest employee ownership impacts come at the ecosystem level. Connecting to local ecosystems of support has the effect of both strengthening employee-owned businesses *and* helping shape the ecosystem. Employee-owned businesses create economic multiplier and community wealth-building benefits by recirculating dollars in the local economy, building ethical supply chain relationships, serving anchor institutions, and in some cases concentrating development in a place or industry [see The Industrial Commons case study]. Employee ownership is often used to preserve local businesses that serve as cultural and community hubs.

Ecosystem-building efforts are generally undertaken by more mature enterprises and higher-touch developers, working with allied organizations, often to create parity or advantages for employee-owned forms. Some examples of local, state, and regional ecosystem interventions include:

- Networking or federating businesses in secondary cooperatives,[30] franchise models[31] and conglomerates,[32] member-based organizations,[33] trade associations, and statewide organizations.[34]
- Creating an intermediary matchmaker between anchors, local vendors, and support providers, to make it easier to keep more dollars circulating locally.[35]
- Engaging other values-aligned businesses as vendors, customers, and partners.
- Connecting to the workforce development system for funds for training[36] or conversion feasibility studies[37] to access a pipeline for workers and raise the floor for industries.[38]
- Joining or partnering with a union, workers' center, or other organized labor entity.[39]
- Enrolling in MWBE certification, pushing to expand the definition to include employee-owned businesses, or participating in other preference and certification programs.
- Organizing and educating service providers and other technical assistance resources.
- Working with local economic development and small business support agencies to raise awareness and ensure access to government programs, including credit and funding

Recent employee-ownership legislation . . . [leaves] a gap in funding for the pipeline-building groundwork needed to . . . support uptake of policy wins.

CASE STUDY: THE INDUSTRIAL COMMONS—A REGIONAL SECTORAL ECOSYSTEM STRATEGY

What it is:

Western North Carolina's the Industrial Commons (TIC) and its industry-focused regional network, the Carolina Textile District, are inspired by, and draw on, the lessons of the Emilia Romagna region in Italy, particularly its strategy of growing by networking smaller enterprises into Flexible Manufacturing Networks. The Emilian model is less well known than its more famous cousin, the multinational Mondragon conglomerate of Spain, but it may hold more relevant examples for worker cooperative enterprise development in the United States. Rooting its regional rural economic development strategy in place (Western North Carolina) and industry (textiles), TIC emerged as a business engine to found and scale employee-owned social enterprises and industrial cooperatives. It aims to support frontline workers in building a new southern working class that erases the inequities of generational poverty and creates an economy and future for all.

How it works:

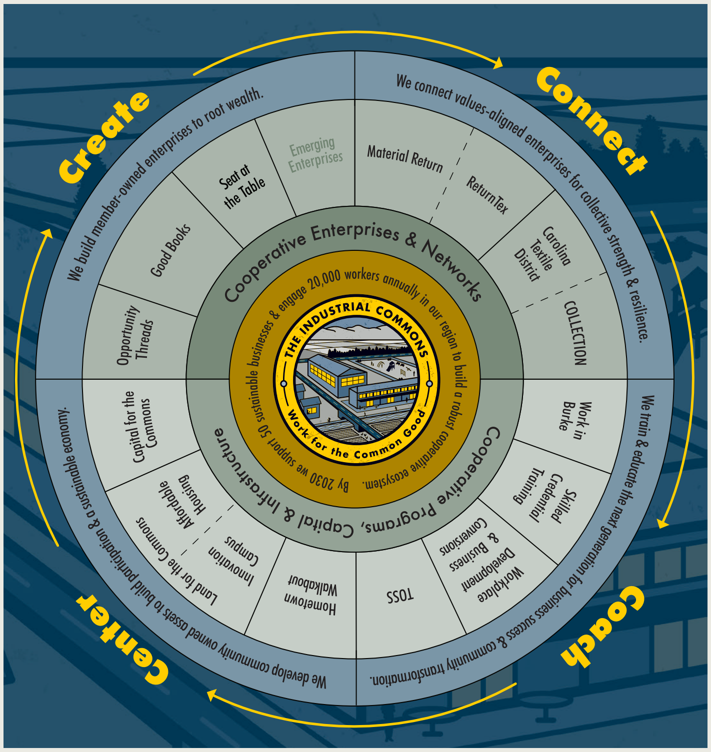
TIC's founders started with Opportunity Threads, a worker cooperative cut-and-sew factory. Growing from the organic needs of the business itself, leaders formed relationships with local colleges and universities to build a bench of professional service providers and collaborated with a local R&D facility, Manufacturing Solutions Center, to build workforce capacity and upskilling initiatives. As the project has grown, it has seeded additional enterprises both along the value chain and in sectors, providing services to the businesses.

TIC's ambition to "reshore" the textile industry led to relationships with local economic development organizations and the creation of the Carolina Textile District. The District is a member-governed and member-driven network of values-aligned textile manufacturers throughout Southern Appalachia designed to help both new and established companies grow and thrive. It is not exclusive to shared ownership forms, but welcomes all values-aligned high-road companies into its ecosystem.

TIC now has an ambitious development project under way to turn a 27-acre former brownfield into a thriving hub of manufacturing innovation and environmental sustainability. The Campus will also house an Institute that will welcome other rural communities to the region to learn TIC's model of cooperative ecosystem development.

Its Impact:

To date, the project has developed five new enterprises, generating 125 new jobs. It is also helping convert two existing enterprises to shared-ownership models and is supporting eight high-road employers to increase job quality and worker agency with training in open-book management. As an economic engine, TIC has generated $32 million of local, rooted wealth for its rural community in five years. More deeply, it is developing a regional ecosystem of support for shared ownership strategies. In addition to business outcomes, TIC \ has extensive community engagement programs that support high school students in pursuing postsecondary education and securing quality jobs and works in the region's elementary schools to share the organization's values with more than 1,100 young people each year.



The employee-ownership field has come together to collaborate on policy in the past five years. After more than two decades without any employee ownership–specific legislation, recent federal bills have passed to raise awareness, make supportive programs available, and provide government funds in support of employee ownership [see Appendix]. However, supportive federal policy for employee ownership, which often has strong bipartisan support, may be easier to pass than it is to put into practice. Underutilization is a real risk for an emerging field that needs to build capacity and relationships before it can take advantage of federal policy intended to increase access to capital and small business supports.[40] Recent employee-ownership legislation, when it is funded, focuses strictly on program utilization, leaving a clear gap in funding for the pipeline-building groundwork needed to raise awareness and in some cases build the relationships that will support uptake of policy wins. Private philanthropy could help fill this gap. Several states have allocated funding or adopted supportive policy for employee-owned forms (or both), often in connection with the establishment of a statewide employee-ownership center. These states include California, Indiana, Iowa, Massachusetts,[41] Minnesota, Pennsylvania, New York, Vermont, and Colorado [see case study]. Several cities (and rural regions) across the country have committed city funding and economic development or small business staff to pilot relatively small-scale employee-ownership initiatives, starting with New York City in 2015 (to date New York has invested more than $20 million in worker cooperatives). Most recently, the strategy supporting Chicago's $15 million investment in community wealth building centers cooperatives.

The recent and relatively rapid uptake of employee ownership by state and local governments is generally connected to economic inclusion strategies and centers around two pressing needs that employee ownership can address: (1) retaining the small business base and the jobs it provides, and (2) providing good, sustainable jobs for people locked out of them (for interest, immigrants, formerly incarcerated people, and gig workers). Advocacy efforts that have focused their messaging on these needs, built a strong coalition, made a clear ask, and cultivated champions in city government have been the most successful.

Over the past ten years, research and landscape analysis funded and published by foundations has played a catalytic role in local and state advocacy efforts. Additional investments in better data-gathering and broader dissemination of model legislation would increase the effectiveness of these publications. A non-exhaustive list of publications serving this purpose includes:

- *Worker Cooperatives for New York City*[42] laid the table for city funding.
- *Cooperative Growth Ecosystem*,[43]funded by Citi Community Development, established a generalized framework for ecosystem analysis.
- *California Cooperatives: Today's Landscape of Worker, Housing and Childcare Cooperatives*,[44] funded by the James Irvine Foundation, proposes cooperatives as a solution to "increasing inequality and racial inequity . . . exacerbated by the COVID-19 pandemic and its economic and social impacts," setting the stage for future advocacy.
- *Economic Recovery and Employee Ownership*[45] and the *Municipal Playbook for Employee Ownership*[46] position employee ownership as a solution to pressing problems and offer cities concrete pathways forward.

CASE STUDY: STATE-LEVEL SYNERGIES IN COLORADO AND OHIO

States have been important nexus points for employee ownership (see above), and will likely be even more so going forward, as the Employee Ownership Expansion Network (EOX)[67] supports the growth of state employee-ownership centers, nodes in building awareness and mainstreaming the concept. Two case studies show the very different routes ecosystem-building can take and illustrate some opportunities for philanthropic and public funds to work together.

Ohio

Ohio has more than 300 ESOPs and nearly three dozen worker cooperatives. The Ohio Employee Ownership Center[68] (OEOC), an outreach center of Kent State University founded in 1987 and the longest-standing such state center in the country, is both a pillar and a driver for this community. The OEOC provides outreach and assistance for conversions using ESOP and worker cooperative models. OEOC's Ohio Employee-Owned Network connects companies contemplating transition to peers in existing employee-owned companies for training and education. Since its founding, the Center has conducted research on the impact of employee ownership in Ohio; it also serves as a national resource. It is funded by public and private grants, program and training income, and other sources.

Since 2008, several projects have sprouted at the local level in Ohio, many with OEOC's support. Evergreen Cooperatives,[69] an anchor-driven experiment in alternative wealth-building and wealth-sharing models, started in 2008 and launched the Fund for Employee Ownership to finance conversions ten years later. Co-op Cincy[70] (formerly the Cincinnati Union Coop Initiative), a nonprofit co-op incubator founded in 2011, has started and converted several businesses, launched an investment fund, and developed a training curriculum and management certificate. More recently, local groups Co-op Dayton[71] and Cleveland Owns[72] have supported cooperative startups and conversions; local groups are forming in several other cities.

Ohio's manufacturing past and present give its ecosystem a distinct character. In 2012, the OEOC, United Steel Workers, and Spain's Mondragon Cooperative Corporation released a union co-op model template. In 2021, ten Ohio nonprofits, including the Cooperative Development Center at Ohio State, formed the Ohio Worker-Ownership Network (OWN) to coordinate their work. The network launched with the report ***Building Legacies: Retaining Jobs and Creating Wealth Through Worker Ownership***.[73]

Since 2011's state budget crisis, there has been little state-level policy or funding support for Ohio's rich and largely self-funded employee-ownership ecosystem, which has grown through an infusion of philanthropic funds, business and union support, international partnerships, and strong grassroots relationships.

Colorado

Colorado has taken a uniquely broad approach to incentivizing broad-based ownership in any form, supporting multiple pathways and structures. Governor Jared Polis championed employee ownership in his 2018 campaign as one of his "bold initiatives"; once elected, Governor Polis signed an executive order establishing the Colorado Commission on Employee Ownership. Governor Polis's effort fed into a budding ecosystem. The Rocky Mountain Employee Ownership Center was founded in 2010, and some of the top minds and service providers working on innovations in employee ownership happened to be in Colorado. They joined a broad range of people from private sector, academia, and nonprofits to form a working commission focused on helping the state define programming to (1) educate business owners about the benefits of employee ownership, (2) build a broader service provider network in Colorado, and (3) advance legislative asks to remove barriers to employee ownership.

In mid-2019, the state hired a director for the Business Support Division of the Colorado Office of Economic Development and International Trade (OEDIT), which oversees the employee-ownership programming. The Economic Development Commission (EDC), which operates a strategic fund, approved the advancement of a pool of funding as a special project to seed the agency's employee-ownership programming. OEDIT staffers field inquiries, refer business owners to service providers, run Commission meetings, convene service providers, gather data, and generally serve as a clearinghouse and implementation body for employee-ownership initiatives in the state. With the Exit Planning Institute (EPI), the state recently completed a study on owner succession readiness, the first such statewide survey by a government entity.[74]

- The state has developed a range of shared ownership tools targeted to different audiences:
- A grants program for businesses, including both transitions and cooperative startups (EDC seed funding)
- A tax credit for established companies that transition to some form of broad-based ownership (Governor, EO Commission, and House Initiated)
- Peer networks for existing Colorado ESOPs and worker-owned cooperatives to collaborate and share best practices
- The state's efforts to reach small business owners may be aided by the fact that the Colorado Small Business Development Center Network is located within the OEDIT office, bringing the full set of services under one roof.

For nonprofit organizations working on the ground in Colorado, particularly the smaller and more grassroots ones, state support may come with typical challenges that could be mitigated by additional philanthropic investment. Public funds must generally be used for specific purposes tied to deliverables, which creates an opportunity for complementary capacity-building funding from the private sector to maximize the effectiveness of public funding.

RECOMMENDATIONS FOR PHILANTHROPY

At one end of the employee-ownership spectrum, worker cooperatives, smaller in size and number, focus more on excluded workers and social mission; they have strong tools for worker participation, skill-building, and agency. Because their animating impulse often comes not from business but from community needs, cooperative members and developers could benefit from support to deepen business skills, relationships, and networks. For example, there is not a ready pool of managers trained in participatory management and skilled at balancing business imperatives with democratic systems. Growth capital is not as readily available as it could be. Investing in cooperative managerial talent, business skills and expertise, business service providers, and entrepreneurially skilled cooperative-development staff may be key not only to the success of individual worker cooperative businesses but also to the form being fully recognized as a scalable and widely available business option.

At the other end of the spectrum, ESOPs, larger in size and number, focus more on the business case for shared ownership; they have adequate capital and strong tools for management and worker engagement. Because they started out as a technical intervention in mainstream business, they may not cohere around a set of priorities beyond employee ownership. For example, there are very few educational resources and tools for non-English speaking, low-wage, and low-literacy workers. The capital structures enabling lower-margin businesses to transition to ESOP may need to be refined. Practitioners may benefit from support to build the diversity and cultural competencies that are mission-critical for business in the 21st century and that will be needed if ESOPs are to be fully recognized as a strategy to achieve racial and gender equity.

When these forms are intentionally and thoughtfully brought under the same big tent, the employee-ownership movement can leverage the strengths and appeal of both. Increasingly, the field's institutions are doing just that. In addition to the individual growth of the apex membership organizations, and growing collaboration between those ESOP and worker cooperative–focused organizations, a new generation of organizations are actively inclusive of multiple forms, particularly for communications and advocacy purposes.[47] A unified employee-ownership field presents opportunities to deepen collaboration, build infrastructure and strategy, and measure and amplify impact. Our recommendations follow.

1. FUND FOR THE IMPACT YOU SEEK.

Funders should clarify their entry point for investment and align the impacts they seek with this entry point. The framework we propose articulates various entry points for funders: direct business development, capital development, and ecosystem development, each with its own expected impacts. [See table]

- Funders interested in basic business development impacts, such as access to income or ownership, can explicitly include support for employee-owned businesses in small-business and microenterprise portfolios as an excellent first step.

- Funders interested in deeper business development impacts, such as job quality and wealth-building, should first clarify whether the deep and narrow impact of a higher-touch incubation model or the broad and dispersed impact of a lower-touch technical assistance model is what you seek; doing so will help you determine whether to engage with capital or build a bench of service providers. In all cases, the development or adaptation of a standard job-quality framework, impact metrics, and infrastructure for analysis, alongside research into current job-quality impacts in employee-owned companies, could be a fruitful area of support for facilitating more investment in this direction.

- Funders interested in building the ecosystem can clarify whether they aim to build an enabling environment through policy and communications; create conditions for expansion and replication by funding research and relationship-building; fortify promising member-based organizations; or shift narratives by helping employee ownership position itself within a larger universe of alternative business forms and mission-driven capital.

Whatever their desired impact and entry point, funders should take an overall ecosystem approach and collaborate to maximize their impact. One funder cannot and does not need to address all needs. Strategically aligning efforts with other funders, especially as the field looks to scale, will increase the effectiveness of philanthropic support.

2. FUND FOR A SHARED RACIAL EQUITY AGENDA.

Investments in people, research and development, and communications can deepen and sustain a shift already in progress and elevate organizations already leading with a racial equity strategy. Specifically, funders can:

BUILD THE BENCH.

- Help develop a bench of skilled service providers that reflects the diversity of employee-owners by funding business education for Black, Hispanic, and immigrant cooperative developers and worker-owners who want to support development.
- Establish fellowships and apprenticeships for Black and Hispanic MBAs and experienced entrepreneurs to work in the employee-ownership field.
- Provide early career fellowships, mentorship and training, possibly in partnership with academic institutions, for Black and Hispanic legal and finance professionals.
- Adapt existing or develop new culturally competent curriculum that is accessible for employee-owners who have low literacy levels or who may not speak English.

BUILD RELATIONSHIPS.

- Convene employee-ownership practitioners alongside adjacent racial equity–focused fields like microenterprise development and workforce development to break down silos and encourage cross-pollination; fund collaborations that expand and deepen these cross-field relationships.
- As the field undergoes generational and demographic change in leadership, it will be critically important to recognize and financially support member-based organizations and those with leadership that reflects the growing constituency of low-wage workers, immigrant workers, and workers of color.[48]

There is no effective funding for shared business development in asset-poor communities that does not consider capital to be core to its strategy.

BUILD KNOWLEDGE AND NARRATIVE.

- Fund impact research about asset-building impacts for low-wage, Black, Hispanic, and immigrant employee-owners; strategic research to identify ecosystem gaps like MWBE certification or additional employee benefits; and ecosystem research to identify common touchpoints with adjacent workforce development, economic development, and asset development fields.
- Fund the development of culturally and linguistically appropriate models, materials, and curricula for ESOPs and worker cooperatives in low-wage industries and industries with workforces of color.
- Support a strategic communications campaign to share results from innovative employee-ownership initiatives that build racial equity.

3. FUND CAPITAL DEVELOPMENT.

Effective funding for shared business development in asset-poor communities must consider capital to be core to its strategy. This does not mean that foundations should necessarily directly invest in businesses (though we believe direct investment may be more possible than conventionally assumed). It does mean that foundations should focus energy and attention on supporting the development of a capital ecosystem that meets the needs of low-income employee-owners and entrepreneurs in shared business forms, using all the tools at their disposal. Capital vehicles are starting and multiplying at all points on the employee-ownership spectrum; funders can build on this momentum to:

MAKE MORE CAPITAL AVAILABLE.

- Foundations can and do invest in other funds via MRI and PRI funds—for example, in the Legacy Fund, the Fund for Jobs Worth Owning, and Accelerate Employee Ownership. These investments are often matched by grant funding for technical assistance and wraparound services.
- Funding for direct business development by nonprofits can include microgrants for capitalizing the business. There are models and precedent for using microgrants as initial investment. For instance, structuring budgets to explicitly name, honor, and bound an expenditure as a startup investment (vs. simply the incubating nonprofit's "personnel" or "supplies") can help reinforce a business mindset and business plan and reorient a cooperative developer's accountability to the cooperative members. We can even envision a universe in which any foundation grant for business development includes a percentage for initial member investment.

DE-RISK EXISTING CAPITAL.

- Foundations can help make existing capital more appropriate by using funds to mitigate risk. Cooperative loan funds and other CDFIs have capital to lend, but CDFIs are bound by regulations, and available capital is generally not the high-risk capital best suited to startup development; it is also not geared to low-income entrepreneurs who may not have credit histories or assets to secure the debt.
- This is what we mean by "appropriate" capital: funding loan-loss reserves, first-loss money, risk pools, tools to reduce the cost of capital, and other mitigants, could help more existing funds actually move out to the field to become productive assets.
- Funding wraparound services in business and organizational development, to accompany capital from whatever source, is an important risk mitigant as well as an amplifier of impact.

AMPLIFY PUBLIC SOURCES.

- Provide match or accompaniment in support of accessing government funding.
- When the federal government announces capital sources that could be used to support employee ownership, like Treasury's State Small Business Credit Initiative, foundations can fund field groups to build access to federal funds (which generally flow through state and local entities): laying groundwork, building pipeline for uptake, and accompanying wraparound technical assistance that will likely not be funded by the government.
- When a city or state announces funding or lending programs for employee ownership development, foundations can dedicate resources to accompanying startup capital and grant funding for infrastructure-building.

CONVENE AND CONNECT TO ALIGNED CAPITAL SOURCES.

Funders can connect employee ownership advocates to adjacent non-extractive finance fields where they have relationships, like CDFIs, impact investing, and social venture capital, via funder convenings, apex organization introductions, and shared projects. This builds functional working relationships that can pave the way for additional capital investment.

4. FUND INFRASTRUCTURE: DATA, FIELD-BUILDING, COMMUNICATIONS, AND TRANSLOCAL WORK.

Recent concerted employee-ownership policy efforts have been relatively opportunistic and relatively successful. The time is right for a more systematized and coherent policy strategy focused on implementation and strategic coordination as much as on legislation. Funders can support the administrative and relational dimensions of policy work that often both precedes and follows from legislative policy. Additionally, funders can help build the connective tissue and infrastructure the field will need as it moves toward scale. Funding can accelerate basic building blocks to come online in the next few years.

FOCUS ON DATA.

- Government and private-sector financing partners have identified lack of data as a key barrier to advancing support; many cooperative development organizations do not have capacity to prioritize the data infrastructure and processes that would support their growth.

Clearly framing the social and economic value of broad-based ownership does not just deliver benefit to the employee-ownership community; it begins to shift the public discussion toward broadening ownership as a principle.

- Support the development of a standard set of impact metrics; require grantee organizations to implement strong impact measurement practices and support them in doing so.
- Fund one or more central organizations or a collaborative in a region, state, or city to develop capacity to provide impact measurement support and services to smaller organizations.
- Fund reporting and communication of fieldwide impact and ROI[49] data for employee ownership.
- Fund analysis of casemaking and predictive data for conversions.

REINFORCE MEMBER-BASED BIG-TENT FIELD-BUILDING.

- Fund thriving membership organizations of worker cooperatives and ESOPs to help them expand their offerings; bring members into conversations with researchers, practitioners, and policymakers; support peer learning; and support creation of member-based structures that will sustain long beyond philanthropic investment.
- Fund "big tent" organizations—umbrella groups doing grassroots and grass-tops movement-building and awareness—to continue to reinforce a broad-spectrum approach.
- Fund research and policy work that addresses shared issues for the field across forms, such as access to MWBE programs and other procurement preferences for shared ownership forms, and access to workforce and economic development resources.
- Support clearly framing the social and economic value of broad-based ownership to not just deliver benefit to the employee-ownership community but to shift the public discussion toward broadening ownership as a principle.

TELL POWERFUL STORIES.

- The field has great stories and is not telling them with as much impact as it could. Funders can support telling clear and powerful stories about employee ownership as an economic resilience strategy, and stories that unify ESOP and worker cooperative talking points and support continued refinement of shared policy messages.
- Support video, media and popular culture approaches alongside traditional written media and reports.

FOCUS LOCALLY AND SUPPORT TRANSLOCAL COLLABORATION.

- Cities and states have emerged as important laboratories for experimentation and critical contributors to a nationwide strategy.
- In places with emerging employee-ownership initiatives, funders could invest in early-stage casemaking and catalytic action research, which has demonstrated effectiveness.
- Funders can invest in the local and state staffing needed to access and make use of federal funds and programs.
- Organizations working at the city and state level could develop a library of state and local policies with implementation notes (analogous to the State Innovation Exchange), and coordinate efforts among ecosystem players.
- As the field builds state-level infrastructure for outreach and policy, funding can sustain state-level organizing beyond the initial three-year funded period of a state center and support a national network that will also need resources to build connections and share learnings among state-level organizations.

5. TAKE A SECTOR-BASED APPROACH.

A funding approach that focuses on a sector or industry has several advantages and, amid the proliferation of capital strategies and place-based strategies, is clearly missing in the field. In all places in the world where worker cooperatives have scaled, they have done so along industry or sector lines. A sector/industry approach can provide a lens through which to focus investment, help organize practitioners, and organize a collaborative of funders to address different parts of the ecosystem.

- Funders can invest by sector to help concentrate technical assistance and training, develop talent and services, organize capital, establish standards, set goals and measure impact, engender shared learning, build markets and supply chain relationships, support replication, and connect to policy.
- Emerging sectors where there are concentrations or emerging concentrations of worker cooperatives are home care, child care, cleaning, landscaping, solar, textile manufacturing, taxi and transport, the healthy food value chain, and—as state and local policy allows—cannabis dispensaries.
- ESOPs have a strong presence in manufacturing, construction and professional services. Strategic investments could support expansion into sectors with more middle-skill and low-wage workers.
- It is also possible to overlay sector/industry strategy with place-based or capital strategies. A sectoral strategy can be particularly well suited to industries where government support can play a substantial role in building the market.

CASE STUDY: SECTORAL CONCENTRATIONS IN HOME CARE

Worker cooperatives are concentrated in the service and care sectors, with real strengths and momentum in home health care specifically. As of 2020, the last year for which data are available, there were just under 3,000 workers in 14 home care cooperatives, with a wage differential of $1.93 more per hour more than noncooperative industry peers, and turnover of 36% compared to an industry average of 64%.[75]

The largest worker cooperative in the country, Cooperative Home Care Associates, founded in 1985 in the Bronx, is a home health care cooperative. With its thousands of workers, union affiliation with 1199 SEIU, workforce development relationships, and strong track record of state and local advocacy on behalf of the broader homecare workforce, CHCA is in many ways an ecosystem unto itself, and an outlier in the field. According to longtime leadership, it is CHCA's close partnership with Paraprofessional Healthcare Institute (PHI), a nonprofit training and workforce development organization that CHCA founded, that is responsible for its "off the charts" outcomes.[76]

CHCA has served as inspiration and mentor to a new generation organizing home care cooperatives now—and organizing institutions and networks of support around them. A national homecare cooperative working group organized by the National Cooperative Business Association is a robust community of practice.

Innovations on the model abound, from the AlliedUp cooperative created by SEIU UHW-West, to Courage Homecare Cooperative's $1 million regional sectoral replication strategy, to the Elevate secondary cooperative model developed by the ICA Group, to a regional cluster supported by the Northwest Cooperative Development Center. Cooperative developers and worker-owners are piloting new forms and supports in a low-margin, high-turnover industry in which cooperatives can make a real difference in job quality but in which it is incredibly difficult to succeed without policy and market changes.

CONCLUSION

These recommendations suggest a few starting points, with context, for funders to consider employee ownership as a strategy that increases worker, company, and community resilience. Employee ownership is worth considering as part of a job quality, racial equity, asset-building, or community development portfolio. The dynamic field has momentum and is at an inflection point of generational change and rising public awareness. As it continues a period of robust institution-building and capacity development, aided by growing public support, funders have an opportunity to make systemic interventions that build critical infrastructure. They can support collaboration that nurtures equity and capacity in a field that is increasingly focusing its resources on meeting the challenges of the day: good jobs and ownership opportunities for working people.

APPENDICES

APPENDIX A: COOPERATIVE CAPITAL AND NEW FUNDS

Several organizations in the employee ownership field have partnered with CDFIs and in some cases started their own loan and investment funds over the past five years. These new initiatives are animated by needs for more, and more appropriate capital, sometimes to accelerate business formation or conversion. Many of the newer funds are created by or in partnership with field organizations who focus primarily on technical assistance. Some are industry- or geography-specific. Below is a sketch.

ACCELERATE EMPLOYEE OWNERSHIP was launched in early 2019 with a $5M investment from the Quality Jobs Fund, to enable successful long-standing businesses to transition to employee ownership, in order to create and sustain high quality jobs in local communities. Transitioning businesses receive expert advice and support from Project Equity, a national nonprofit focused on employee ownership transitions, and flexible and affordable financing through Shared Capital Cooperative, a national CDFI loan fund with an over forty-year track record of financing cooperative businesses.

CAPITAL FOR THE COMMONS is the loan fund started by The Industrial Commons (see case study) to provide capital for startup and growth of their businesses. Currently a $500,000 fund housed inside their 510(c)(3), the fund currently provides no-interest loans to startups; but it is projected to grow and formalize as The Industrial Commons grows.

EMPLOYEE OWNERSHIP CATALYST FUND Project Equity has partnered with Mission Driven Finance to create a national fund that supports businesses throughout the U.S. that want to transition to employee ownership and need capital to finance the transition and transaction, and support business continuity. The fund is designed to provide a revolving pool of capital for financing employee ownership for years to come.

EQUITABLE ECONOMY FUND is a Boston-based equity fund designed to provide capital that can accelerate cooperatively-owned and shared ownership companies (worker ownership, consumer ownership, platform cooperatives), while also providing a financial return to investors. It was spun out from Start.coop to convene a community of investors looking to accelerate cooperatively-owned and shared ownership companies, while also providing a financial return.

EVERGREEN'S FUND FOR EMPLOYEE OWNERSHIP is an investment fund that exists to expand quality jobs throughout Cleveland and Northeast Ohio by purchasing privately held companies and converting them to employee ownership. Its Acquire, Convert and Support strategy allows business owners to enter into a transaction that feels like a sale to any other buyer.

FUND FOR JOBS WORTH OWNING Started by the ICA Group, the Fund invests in businesses that have support from cooperative development organizations or secondary cooperatives. It specializes in financing caregiver cooperatives in the child care and home care industries, but spans multiple industries.

LEGACY FUND I at Apis & Heritage is a $58 million investment fund (closed 2022) that finances the conversion of companies with substantial Black and Brown workforces into 100% employee-owned businesses using a 100% ESOP structure. It was incubated with the Democracy at Work Institute, which provides technical assistance and impact measurement for portfolio companies.

MAIN STREET PHOENIX PROJECT aims to help restaurant owners and workers build sustainable businesses and careers by creating a secondary cooperative model that integrates with small businesses and provides resources and infrastructure. In turn, workers become owners of the cooperative and gain stability, support, and community.

OBRAN ACQUISITION FUND I is a $30 million private credit fund focused on catalyzing the growth of Obran's worker-owned cooperative conglomerate model by financing transitions of small- and medium-sized enterprises and supporting the working capital needs of acquired operating companies.

P6 CAPITAL COOPERATIVE is a deal syndication network formed to increase size and speed of cooperative funding. Launched in early 2023, it establishes a cooperative infrastructure for more established cooperatives and other investors, including philanthropy, to come together to support the capitalization and growth of the U.S. cooperative economy. These new funds join an ecosystem of established cooperative capital providers, most of them certified community development financial institutions (CDFIs). These institutions have been pivotal to worker cooperative growth of recent years, particularly lending to cooperative conversions.

They include:

CAPITAL IMPACT PARTNERS A 35-year old CDFI with a closed loan portfolio in 2021 of $721 million, and a long history of lending to and supporting cooperatives, Capital Impact Partners financed its first conversion in 2021, with the Ward Lumber transaction.

COOPERATIVE FUND OF THE NORTHEAST (CFNE)
A community development financial institution (founded 1975), CFNE has provided financing to several worker cooperative conversions, including the large Island Employee Cooperative conversion. CFNE's 2021-23 strategic plan prioritizes racial justice, and they have played an active role in catalyzing an ecosystem for cooperative conversions in their footprint.

LOCAL ECONOMIC ASSISTANCE FUND (LEAF)
This non-profit community development financial institution (established 1983) provides low cost financing to cooperatives and community-owned businesses nationwide. In the past ten years, it has dedicated an increasing portion of its portfolio to financing conversions.

SHARED CAPITAL COOPERATIVE This lending and investment fund (founded 1978) for co-ops of all types and sizes is cooperatively owned and managed by the co-ops that borrow from and invest in it. Shared Capital Cooperative administers the city of Minneapolis Co-op Creation Fund, and has partnered with Project Equity to create Accelerate Employee Ownership (below).

THE SEED COMMONS This cooperatively-governed national CDFI (founded 2015) provides loans for cooperative startups, conversions and related projects in under-resourced communities. It has a shared investment fund of close to $60M (see case study in body of brief). The national Seed Commons entity has supported the startup of dozens of locally rooted loan funds across the country. Seed Commons 30 "peer" members are:

Co-op Catalyst of New Mexico
Cooperation Richmond
L.A. Co-op Lab
NDN Fund
Repaired Nations
Wind River Food Sovereignty Project
Cleveland Owns
Co-op Cincy's Business Legacy Fund
CO-OP Dayton
Detroit Community Wealth Fund
Illinois Worker Cooperative Alliance
Baltimore Roundtable for Economic Democracy (BRED)
Boston Ujima Project
Cooperation Buffalo
DC SELF (Solidarity Economy Loan Fund)
Co-op Hudson Valley
Philadelphia Area Cooperative Alliance
The Working World
Cooperation New Orleans
Federation of Southern Cooperatives
Catalyst Miami
New Economy of Tennessee (NET Fund)
New Economy Works (NEW) W Virginia
Patchwork Cooperative Loan Fund
PODER Emma
Southern Reparations Loan Fund
Climate Justice Alliance: Our Power
Right to the City Alliance: Homes For All

APPENDIX B: POLICY

FEDERAL HIGHLIGHTS

After several decades of lack of attention to employee ownership by lawmakers, beginning in the mid-2010's, the field began to see interest in drafting and promoting supportive policy – mostly coming from staffers within legislative offices, sometimes the result of promises made on the campaign trail. The Republican party platform includes a reference to employee ownership, while the Democratic platform does not, though there has been discussion about including it. Following is a list of federal policy passed (or in the works, in italics) in the past five years.

Generally, when the field initiates or is asked for input on policy, it takes a broad approach, attempting to encompass all employee-owned forms. It is worth noting that due to their highly technical nature and regulation under ERISA, ESOPs have a separate enabling policy agenda that is not included here.

MAIN STREET EMPLOYEE OWNERSHIP ACT (2019) directing the SBA to support employee owned businesses with capital and technical assistance

AMERICAN RECOVERY PLAN ACT (ARPA) (2020) waiving personal guarantees for shared ownership businesses utilizing PPP funds

STATE SMALL BUSINESS CREDIT INITIATIVE, PART OF ARP (2021) includes stating a priority for the Treasury Department to increase capital access for employee owned businesses

CHIPS AND SCIENCE ACT (2022), includes worker ownership through the Regional Innovation Act, the Manufacturing Extension Partnership, and the Regional Clean Energy Innovation Partnership program

EMPLOYEE EQUITY INVESTMENT ACT (EEIA), is being prepared for introduction now and aims to catalyze investment using the Small Business Investment Company (SBIC) form, among other things.

THE WORKER OWNERSHIP, READINESS, AND KNOWLEDGE (WORK) ACT, part of the Consolidated Appropriations Act of 2023—an omnibus spending bill signed into law on December 29, 2022—contains language that affects how the federal government will fund employee ownership. Advocates for employee ownership consider this one of the most important pro-employee ownership legislation since the 1990's. The bill's provisions (Section 346 of the SECURE 2.0 Act), direct the Department of Labor (DOL) to create an Employee Ownership Initiative within the department to coordinate and fund state employee ownership outreach programs and, require the DOL to set new standards for ESOP appraisals.

STATE HIGHLIGHTS

In California, the Worker Owned Recovery Coalition has successfully advocated for two bills, the Promote Ownership by Workers for Economic Recovery Act (AB 2849), which establishes a panel to study the creation of cooperative labor contractors, and the California Employee Ownership Act (SB 1407), which establishes the California Employee Ownership Hub within the California Office of Small Business, and provides a modest amount of funding for the initiative. In 2021, California's Department of Labor Employment Training Panel established $1 million annually for worker cooperative initiatives within its $30 million Social Entrepreneurs for Economic Development ("SEED") Program to support the entrepreneurship of immigrants and limited English proficient individuals who face significant employment barriers.

In 2022, Massachusetts Governor Charlie Baker signed into law An Act to Enable the Massachusetts Center for Employee Ownership (S.261 / H.511), which institutionalizes the Center (MassCEO), housed in the Massachusetts Office of Business Development. MassCEO, focused on outreach to business owners and serve as a resource hub for service providers and information, will be led by a full-time director, make grants to local groups, and have a formal advisory board comprised of representatives from a number of stakeholder groups, including governor-appointed representatives from Massachusetts-based ESOP companies and worker cooperatives. The Center starts with $300,000 in funding.

Colorado, perhaps the most robustly supported state initiative, is covered in the body of this brief.

A bill pending in **Washington** (SB5096) would create a state employee ownership program with a director housed in the state Department of Commerce, an appointed commission, a feasibility assessment and implementation tax credit ($2M annually), revolving loan fund for financing conversion transactions; contingent on federal funds being available for this purpose, including SSBCI funds. A similar pending bill in **Tennessee** (SB0085 and HB0154) provides funding for feasibility studies and an implementation tax credit, and also would make employee-owned companies eligible for the same contracting preferences as minority-owned, woman-owned, service-disabled veteran-owned, and disability-owned businesses. Bills will be introduced soon in **Texas**, **Minnesota**, and **Pennsylvania**.

LOCAL HIGHLIGHTS

- The most recent initiative is the City of **Chicago**'s $15 million Community Wealth Ecosystem Building initiative announced in 2022, which includes employee ownership and cooperatives at all three stages of its funding over five years.
- The highest profile initiative is the **New York City** Worker Cooperative Business Development Initiative ($3 million annually to 12 organizations since 2015). New York City also helped start the Owner to Owners hotline for business owners considering selling to their employees during the pandemic.
- **San Francisco**'s Legacy Business Registry includes information on employee ownership, and in 2021 the city committed funding to local social service agencies to develop cooperatives with excluded workers. The city's Office of Civic Engagement & Immigrant Affairs and the DreamSF Fellowship supported the launch of Radiate San Francisco cooperative.
- The city of **Boston**'s 2020 Worker Cooperative Initiative supports co-ops and businesses owned by employees with on-site technical help, workshops, support with procurement, and helping worker co-ops take advantage of City policies and grant programs.
- **Santa Clara**, California announced its worker cooperative initiative in 2021, focused on retaining local businesses, which partners with local support organizations to provide education about worker ownership and technical assistance to interested groups.
- **Durham**, NC, inspired by San Francisco, in 2020 created its own legacy business registry.
- The **Long Beach Economic Development Department** partnered with Project Equity, a national nonprofit focused on employee ownership transitions, to launch Accelerate Employee Ownership in early 2019 with a $5M investment from the Quality Jobs Fund, to enable successful long-standing businesses to transition to employee ownership, in order to create and sustain high quality jobs in local communities. Businesses receive advice and support from Project Equity and flexible and affordable financing through Shared Capital Cooperative, a national CDFI loan fund with an over forty-year track record of financing cooperative businesses.
- **Miami** amended its Economic Development Loan Fund (EDLF) to include business transitions to employee ownership in 2019.
- The City of **Berkeley** Office of Economic Development invested in 2018 in retaining local small businesses through a partnership Project Equity.
- **Minneapolis** expanded its Business Technical Assistance Program in 2016 to include startup cooperatives and businesses converting to cooperatives. The Cooperative Technical Assistance Program includes free Co-op Feasibility Training; Co-op Creation Grant Fund ($300k via one-time American Rescue Plan Act (ARPA) funds) for start-up cooperatives and businesses converting to worker-owned cooperatives as a pandemic recovery strategy; and Technical Assistance for cooperatives.
- **Madison**, Wisconsin in 2017 allocated $3.2 million dollars over five years to expand
- Madison's worker co-op ecosystem, including funding support for: capacity-building for technical assistance and lending programs, business transitions, cooperatives to create employment opportunities for excluded workers and creative community problem solving through small business creation.
- Regionally, Burke Community Development in **Western North Carolina** helped seed the growth of the Carolina Textile District and The Industrial Commons.

In addition to locally-led work, a number of the national employee ownership organizations do an increasing amount of targeted place-based work with localities.

APPENDIX C: METRICS

The Democracy at Work Institute is currently developing and piloting an impact measurement tool to be published in 2023 that gathers information about job quality[50], ownership culture[51], and worker health and well-being[52] in employee-owned companies of any form. Below are suggested standard metrics from an earlier draft currently in revision, DAWI's ***Measuring Your Impact: A Quick Guide***, a brief published in 2018.[53]

ENTERPRISE DEVELOPMENT IMPACTS

1. Number and size (revenue) or value of business enterprises created or retained ★
2. Cumulative profit or loss per enterprise † ★ **N**
3. How many workers have jobs in the enterprise ★
4. Who works in the enterprise—demographics of the workforce ★
5. Where is the enterprise based—demographics of the neighborhood and/or industry ★
6. Ways the development initiative has leveraged change beyond the enterprise
7. Cost per job created/retained (grant dollars / investment dollars) †

JOB QUALITY IMPACTS

1. How many workers remain in jobs per year ❇
2. Average hours worked per worker ❇ ★
3. Average annual income per worker ❇ ★
4. Injury rate or workplace safety rating
5. Worker access to benefits such as health insurance and retirement accounts
6. Worker skills development and internal advancement
7. Worker participation in governance
8. Worker civic participation ★

ASSET BUILDING IMPACTS

1. Amount of profit-sharing distributed to employees ❇ ★ **N**
2. Size of member capital accounts or ESOP account within the business ❇ **N**
3. Increase in individual or household income of employees
4. External savings account/plan created
5. Increased assets of employees (home or car)

HIGHER NEEDS IMPACTS

1. Employee perception of agency and voice †
2. Employee perception of ownership and value of ownership †
3. Employee health and well-being †
4. Employee perception of belonging, meaning †

KEY:
❇ At one year after hire and annually thereafter.
† Annually, since startup
★Tracked by DAWI surveys
N: May not be relevant for LLCs because profits are not held by the business

APPENDIX D: LARGE COOPERATIVE DEVELOPMENT INCUBATION/STARTUP PROJECTS

Model	Industry	Scale	Founding Date	Special Sauce	Impacts	Incubation Timing	Incubation Investment
Cooperative Home Care Associates[54]	Home care	1 large enterprise; 2000+ workers	1985 Still operating	Industry relationships; 501c3 affiliated workforce training entity	Wages 20% higher than industry avg; turnover lower than industry average (20% vs 50-60%); higher job quality[55]	3 years	Unknown
Arizmendi[56]	Artisan baking; now building	6 enterprises; 140+ workers	1997–2018 All still operating	Association; replicate successful biz; shared svcs	Wages 50% higher than industry avg; $10,000+ avg annual profit share	12–24 months	$750,000-$1m per startup
WAGES Coopera-tives (now Prospera)	Cleaning	5 enterprises; 100+ workers	1997–2009 Two still operating	LLC model; back-office sup-ports; training	Access to work and skill ladders, wages higher than industry average.	36–60 months	$100,000 per startup
The Industrial Commons[57]	Textiles	5 enterprises; 100+ work-ers; 25 small mills in CTD industry coop	2006–Present All still operating	Rural regional value chain “commons”; partners with economic and workforce dev	95% employee retention rate; access to work and skill ladders; health & dental benefits, PTO, annual bonus	24–60 months	$200,000-$1,400,000 (includes equipment)
Brightly[58] **(Center for Family Life)**	Cleaning	5 enterprises; 100+ mem-bers	2017–present All still operating	Franchise model	2-3x higher wages; 39% in leadership positions; steady work, skill building	12–18 months	Unknown
Radiate Coopera-tives (DAWI)	Pro-fessional services	6 enterprises; 50+ members	2020–present All still operating	LLC “rapid response” toolkit; developer builds market; Assn	Wages 50% higher than before coop; access to work for early-career undoc professionals	12–18 months	$50,000

ENDNOTES

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10. The largest worker cooperative in the country, Cooperative Home Care Associates in the Bronx, which employs 2,000 low-wage homecare workers, was founded in this era, as was fair trade leader and $50 million+ company Equal Exchange. Twenty years after they started the business, the founders of Namaste Solar were animated by this same intention to form, alongside the primary worker cooperative business, a purchasing cooperative and an investment fund intended to shift the industry.

11. See the U.S. Department of Agriculture's State Cooperative Statute Library, hosted by the National Cooperative Business Association and CLUSA International, at https://ncbaclusa.coop/resources/state-cooperative-statute-library/.

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14. The DAWI calculation is based on field interviews conducted in Fall 2022 and a field survey conducted in Winter 2022–2023.

15. ESOPs with employee participation in governance.

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20. Because ESOPs are technically a retirement plan created under the Employee Retirement and Income Security Act (ERISA), their primary impact is in the value of members' ESOP accounts, the financial benefits of which members will realize at retirement.

21. Previous work in the field has articulated job quality in a worker cooperative as having four distinct elements: (1) wages and benefits that are materially better than the industry average, (2) sufficient enterprise scale and training opportunities to support career advancement, (3) meaningful participation in decisions that affect workers as workers and as business owners, (4) opportunity to hold an ownership stake and benefit from the business's success. Sherman Kreiner, Sectoral Strategies in CED: Critical Factors in the Success of CHCA & Childspace, Making Waves 14, no. 3 (2002), http://www.communityrenewal.ca/sites/all/files/resource/MW140304.pdf; ICA Group, 2020 Home Care Cooperative Benchmarking Report,.September 20, 2021, https://icagroup.org/wp-content/uploads/2021/09/5465_HC_2020-BenchmarkingReport_9.20.21.pdf

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30. For example, Arizmendi Association for the Arizmendi bakeries, Elevate Cooperative for home care cooperatives, Main Street Phoenix Project for restaurants.

31. For example, Brightly cooperatives.

32. For example, Obran cooperative

33. For example, Network of Bay Area Worker Cooperatives, NYC Network of Worker Cooperatives, MadWorC, Philadelphia Area Cooperative Alliance, Worker Owned and Run Network, Co-op Dayton, Co-op Cincy, Co-op Buffalo,and many others.

34. About 20 states have statewide employee-ownership centers that focus on outreach and awareness. The oldest and largest are Vermont's and Ohio's Employee Ownership Centers. A national organization, EOX, was formed in 2018 to catalyze the growth of state centers in all 50 states.

35. For example, the BronXchange developed by the Bronx Cooperative Development Initiative, https://bcdi.nyc/bxc.

36. Cooperative Home Care Associates, via workforce development agency PHI, interacts deeply with the New York City workforce system; the Working World in New York City is accessing workforce development funds to train worker-owners in conversions.

37. Concerned Capital in Los Angeles uses layoff aversion funds to pay for conversion feasibility studies.

38. For example, Cooperative Home Care Associates and Paraprofessional Healthcare Institute.

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40. The Main Street Employee Ownership Act is an unfunded mandate that has been alternately neglected and actively deprioritized by SBA. The State Small Business Credit Initiative opens a major door, but the scale of the opportunity dwarfs both the existing pipeline and the capacity of the field to take advantage of it; funds flow through conventional economic development agencies and lenders under substantial pressure to deploy a lot of money very quickly, and these institutions may not have time or interest in becoming fluent in employee ownership for such a small portion of deals.

41. Massachusetts House Bill 5007, "An Act relating to economic growth and relief for the Commonwealth," establishes the Massachusetts Employee Ownership Center as a state agency. A new advisory board would play a key role in advising the governor and the Center's director on matters related to employee-ownership policy.

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47. Big-tent organizations include the Rutgers Institute for the Study of Employee Ownership and Profit Sharing, the state center–focused Employee Ownership Expansion Network (EOX), and the newly formed policy advocacy and movement-building organization Ownership America.

48. A generation of talented employee-ownership leaders of color is rising and must not be hamstrung by the well-documented phenomenon of organizations led by people of color being at a fundraising disadvantage. See Jim Rendon, Nonprofits Led by People of Color Win Less Grant Money with More Strings (Study), Chronicle of Philanthropy, May 7, 2020, https://www.philanthropy.com/article/nonprofits-led-by-people-of-color-win-less-grant-money-with-more-strings-study/

49. ROI: Return on Investment

50. Excellent work has been done in job quality impact measurement over the past several years; the employee ownership field's work is to review the many instruments and approaches, and synthesize and connect them to employee ownership practices.

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