



Resourcing Your Cooperative: Financing and More

Insufficient capitalization is one of the top reasons co-ops (and many small businesses) fail. Much of the start up capital for a worker cooperative often comes from membership fees and additional capital contributions from the members. This guide walks you through other potential sources. Businesses converting to a cooperative (“conversions”) also benefit from the right mix of financial sources. [More info from a legal perspective about financing strategies here.](#)

Loans from cooperative-friendly lenders

These don't usually require credit scores or personal guarantees, but do require strong business plans. For larger loans, lenders often partner with each other. Here are some lenders and their specialties:

[Seed Commons/The Working World](#)

Includes equity like investment (see below), national network of locally rooted, non-extractive loan funds. It focuses on worker co-ops in BIPOC and marginalized communities.

[Co-op Fund of New England](#)

Lends to cooperatives and nonprofits in New England and New York. Offers lines of credit*, term loans and predevelopment loans and has experience with small and large conversions.

[Shared Capital Co-op](#)

Lends nationally to cooperatives, has startup and conversion experience, is accountable to its members.

[Fund for Jobs Worth Owning](#)

Administered by ICA Group and focuses on conversions / transition to employee ownership.

[LEAF](#)

Lends nationally to cooperatives and social enterprises.

[NCB](#)

Commercial bank loans.

***Line of Credit** - a type of loan that you are required to pay off usually at least once a year - good for businesses with seasonal fluctuations or delayed income.

Other sources of loans:

- **Loans from friends and family:** A loan agreement sets the terms, usually with low or no-interest. Be careful about securities laws ([more info here](#)). Securities laws allow certain kinds of direct public offerings, but they can be costly to set up.
- **A zero-interest lender** (such as [Kiva.org](#)): Usually pretty short payback periods, but no interest! This option is good if your members have a compelling story to tell.
- **Banks and credit unions:** Usually 3-10 year repayment period (can be longer if they have SBA support). Upon signing the loan, you agree upon a schedule of principal and interest payments usually monthly. A business track record is often needed to access these. Also, they will need collateral (assets that a lender accepts as security for a loan) that can often be personal guarantees/ assets.
- **CDFI** - Community Development Financial Institutions like those mentioned above, or sometimes credit unions / banks.

Equity

An investment in the co-op with repayment terms often linked to the success of the co-op.

- **Internal equity:** from members in the form of Member Capital Contributions. Co-ops can decide how or if this is paid back. Significant member capital can put your co-op in a good position to get outside capital.
- **Outside equity:** equity or equity-like investments from people or institutions. Investors are paid dividend distributions when the co-op ends the year with a surplus. Be careful about securities laws ([more info here](#)). Investors must understand that they do not get more voting power by investing like in a capitalist corporation (and only get a vote if they are made members). Equity is often patient (investors are not in a hurry to get it back) and flexible, making it sometimes a preferred source of capital.



Grants the kind you don't need to pay back!

Foundations: Most foundations require a fiscal sponsor and a charitable purpose. Consider finding a non-profit in your area that has mission overlap and ask them if they'd be willing to fiscally sponsor your co-op during startup / expansion. Tips: careful, many grants require lots of time upfront applying and reporting.

Some grant sources that do consider direct grants to co-ops:

- [The Workers Lab Innovation Fund](#)
- [Cooperative Development Foundation](#)
- [Ralph K Morris](#)
- [CHS Foundation](#)

Banks, Credit Unions, and Corporations with headquarters in your area often have a community giving funds that are not too strenuous to apply for, but may again require a fiscal sponsor non-profit 501(c)3 organization.

Contests and Awards: Universities, industry incubators and others offer these competitive funds if you have a cutting edge idea. Some accelerator programs offer cash - eg. [start.coop](#).

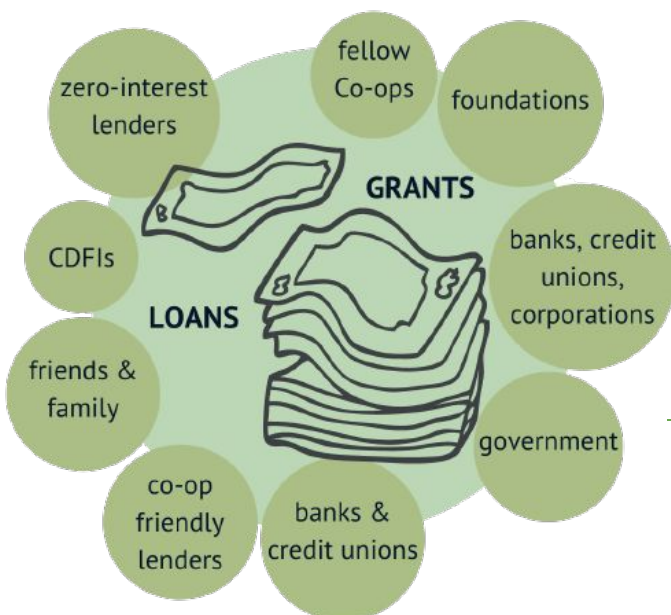
Co-ops! Principle 6 (Cooperation Among Cooperatives) and Principle 7 (Concern for Community) in action sometimes means grants from co-ops to co-ops. One example is [Wedge Share](#). Consider bartering too (careful, some bartering still needs to be taxed).

Government grants are often for larger contracts, but sometime workforce development funds are available, consider partnering with Co-op Clinic /USFWC or another co-op development organization to access these funds. Here are some keywords and common offices to look into first: [State] Office of Employee Ownership, Workforce Development Department, Workforce Investment Board, Office of Labor and Workforce Development, Division of Employment and Workforce Solutions.

- If you're in Home Care, Child Care, or Alternative Staffing industries, consider contacting [The ICA group](#) for partnership and support.
- No worker co-op developers or good mission fit non-profits in your area? Maybe someone in the [ESOP Association](#) can help you connect to resources.
- There are also many quasi-governmental entities that sub grant state funds, some by industry, some by target population. For example in Massachusetts, MassDevelopment, MassTech Collaborative and Mass Growth Capital Corp have supported co-op development.

Donations, Crowd Funding and Pre-Sales

- **Individual donations:** These are very flexible funds, but can take a lot of time and energy to get.
- **Crowdfunding:** using a platform like Kickstarter, IndieGoGo, GoFundMe, Fundly, Facebook to collect donations. Doing this successfully often requires a strong media/social media strategy/ network and/or very appealing rewards. Donors do not get a tax-deduction unless you partner with a 501c3 non-profit fiscal sponsor (good for education, training, consultants, legal fees, etc.).
- **Pre-Sales:** using a platform as mentioned above, gift certificates, or directly pre-selling your product or service can raise capital, but make sure you plan your cash flow accordingly.



The Co-op Clinic is here to help your business

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