



by Erbin Crowell

The Cooperative Fund of New England

Getty Images

# FUNDING

New England's Co-operative Movement

Muhammad Yunus, Nobel Prize-winner and founder of Bangladesh's Grameen Bank, recently proposed the establishment of "social businesses" as a response to global poverty. Yunus said such enterprises would have a mission of bettering people's lives and would relieve pressure on governments and nonprofits through sustainable economic solutions to human needs. In this model, investors would contribute start-up funds not for a monetary return but for a social purpose.

When Yunus spoke, the media took notice, but few people were aware that there was already such a model serving millions of people worldwide.

The model is the "co-operative," and its primary purpose is to address community needs—often in areas that have been ignored by mainstream businesses. Co-ops provide people with groceries, housing, and health care. They help farmers market products. They provide loans, savings accounts, and other financial services where the need is greatest. The International Co-operative Alliance (ICA) estimates that there are more than 800,000 co-ops worldwide serving over 730 million members and including everything from small buying clubs to Fortune 500 companies.<sup>1</sup> The ICA's annual list of the world's largest co-operatives—the Global 300—has included such familiar names as Ocean Spray, REI (Recreational Equipment Inc.), and the Associated Press. The ICA list helps quantify the movement's

contribution to a more democratic, sustainable, and accountable global economy.<sup>2</sup> Although many co-ops have scaled up to serve their members more efficiently and effectively, most co-operatives are found at the grassroots level, where they address local needs on a local basis.

But whether they do international banking or microlending, comprehensive health care or day care, food production, distribution, or retailing, what most defines a co-operative is being owned and democratically controlled by the same people who use its services.

### The Roots of Co-operation

People have always worked together to achieve economic and social goals, but the modern co-operative movement probably began in 1844 in the northern England town of Rochdale. That year, a group of weavers and other workers who were concerned about poor working conditions, low pay, and expensive, low-quality food, pooled their resources to open a grocery. The store was owned and controlled by the community people who shopped there. The goals and principles established by the "Rochdale Pioneers" formed the basis of the co-operative movement.

Today co-operatives are on every continent and in every major industry. The definition of a co-op has been updated by the International Co-operative Alliance to de-

scribe "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise." And although co-ops are not all alike, they share the principles of voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education programs, co-operation among co-operatives, and concern for the community.

Co-ops vary in structure and scale, but in most cases they are groups that have come together to address a common need or to serve a common mission. Members invest at least a voting share in their co-operative and govern the enterprise on the basis of one member, one vote (in contrast to corporations and some worker-owned businesses in which votes are allocated according to the number of shares held). Members usually elect a board of directors, which hires management to operate the business. Additionally, co-ops may pool their efforts and resources by forming federations of co-operatives.

This simple model—common in communities that have been traditionally underserved—has empowered many people of modest means. In the United States, for example, rural electric and telephone co-ops have helped provide services to remote communities. Credit unions offer checking accounts, loans, and other financial services to members. And producer co-ops have transformed isolated family farmers into major actors in agriculture and have helped many move into markets such as organic foods.

### Ways to Fund Co-operation

The Cooperative Development Institute, which serves co-op enterprises in the Northeast, reports that New England and New York together have roughly 10,000 co-ops with 10 million members. The businesses are as varied as Vermont-based Cabot Creamery Co-operative, founded in 1919, and the worker-owned copy shop Collective Copies, founded in 1983.<sup>3</sup> Because they are rooted in their communities, all co-ops contribute to the local economy. Co-operatives also work together across sectors and national boundaries to form what may be described as the "co-operative economy."

Because co-ops often face challenges obtaining sufficient resources for growth, a



Willimantic Food Co-op has grown steadily since the 1970s and recently moved into space formerly occupied by a supermarket. Photograph: Erbin Crowell

group of activists founded the Cooperative Fund of New England (CFNE) in 1975. A 501(c)3 nonprofit, CFNE is a certified community development financial institution (CDFI) that transforms the resources of social investors (individuals, socially responsible investment firms, religious organizations, or other co-ops) into loans and other assistance to co-operative businesses, democratic worker-owned enterprises, and community-based nonprofits.

Launched with just \$25,000, CFNE has raised over \$14 million in investment, making more than 400 loans to new or expanding co-operatives and community organizations. Among its borrowers are the Willimantic Food Co-op in Connecticut, Deep Root Organic Cooperative in Vermont, Massachusetts-based Equal Exchange, and Oak Street Housing Co-op in Bath, Maine.

### **Willimantic Food Co-op**

Willimantic Food Co-op started small as a 1970s buying club for families seeking organic and unprocessed foods. Today it has completed its third expansion move, taking over space formerly occupied by a supermarket. With more than 4,500 members and about \$3 million in sales in 2007, the co-op has been named “Regional Business of the Year” by the Willimantic Chamber of Commerce.

### **Deep Root Organic Cooperative**

The globalized marketplace presents challenges to New England’s family farmers. Deep Root Organic Cooperative helps them compete by providing marketing and distribution for members’ organic vegetables. Today their products are found in produce departments of co-op groceries such as Willimantic Food Co-op and in conventional natural foods stores.

### **Equal Exchange**

One of the pioneers in the market for organic and fairly traded products is Equal Exchange. Founded in 1985 to create stronger relationships between consumers and family farmers in the developing world, Equal Exchange is a worker co-operative with more than 100 employees in Minnesota, Wisconsin, Oregon, and Massachusetts. The co-op markets coffee, tea, chocolate, and other products grown by small farmer co-ops worldwide. In 2007 it surpassed \$29 million in sales.

### **Oak Street Housing Co-op**

Oak Street Housing Co-op demonstrates another way co-ops make a difference. The city of Bath established Oak Street, a five-member co-op (a residence with five units), to provide housing for low-income residents. President Ron Leady contends that it offers more than the usual co-operative benefits and “has made me a better person.”

### **Supporting the Next Wave of Co-operation**

A barrier to launching a co-op, sustaining co-op growth, or converting to the co-op model is the lack of access to equity capital that fits the member-control model. Like any other business, co-operatives often need equity capital—for market studies, architecture and engineering work, organizational costs, training, and legal fees. Many opportunities involve high entry costs, too, and co-ops sometimes need help establishing a working-capital or cash-flow cushion. Additional equity also can help businesses leverage debt from lenders, banks, vendors, or landlords.

Co-op members often lack enough collective wealth for a desired initiative. In standard venture capital arrangements, businesses issue stock to outside investors, and it’s increasingly common for successful socially or environmentally responsible businesses to sell a controlling interest to a larger corporation. But that generally means giving up board seats and allowing outsiders an active hand in management, which subverts the principle of member control. Also at odds with co-op thinking is the typical venture capital investor’s emphasis on short-term gain over long-term asset building.

In response to co-ops’ need for *patient* capital, CFNE established the Cooperative Capital Fund in 2007.<sup>4</sup> Its goal is to augment CFNE’s current loan services by providing new capitalization options that perform like equity without changing a co-op’s member-owned and -controlled uniqueness. CFNE also has begun working with the Cooperative Development Institute to provide co-ops with the training, technical assistance, and support they need to keep improving service to members and communities.

### **Strengthening Co-op Entrepreneurship**

Co-operatives have long helped people to help themselves and strengthen their com-

munities. Now, as social responsibility and green business become the current watchwords, the co-op model is generating intensified attention. But in order for co-ops to grow and thrive, they need access to financial and technical support that emphasizes the values and benefits of co-operation rather than conventional business priorities. In fact, they may need a new word—a word that describes the entrepreneurship of ordinary people building grassroots economic institutions that help individuals find common solutions to collective challenges.

Perhaps the new buzzword should be “co-opreneurship.”

---

**Erbin Crowell** is president of the Cooperative Fund of New England and a co-op development specialist with the Cooperative Development Institute, based in South Deerfield, Massachusetts. He also serves on the board of directors of the National Co-operative Business Association in Washington, DC.

### **Endnotes**

<sup>1</sup> See <http://www.ica.coop/coop>.

<sup>2</sup> See <http://www.global300.coop>.

<sup>3</sup> See <http://www.cdi.coop>.

<sup>4</sup> See <http://www.coopfund.coop>.

► This Communities & Banking article is copyrighted by the Federal Reserve Bank of Boston. The views expressed are not necessarily those of the Bank or the Federal Reserve System. Copies of articles may be downloaded without cost at [www.bos.frb.org/commdev/c&b/index.htm](http://www.bos.frb.org/commdev/c&b/index.htm).