

Community-Based Asset Building: The Role Played by Credit Unions, Cooperatives, and other Community-Based Businesses: Summary of What we know so far

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Abstract

Cooperatives and community-owned enterprises are mechanisms for community economic development because they provide jobs and business ownership for community members, re-circulate resources within their communities, promote environmental sustainability and social responsibility, and develop economic, human, and social capital. This study summarizes Gordon Nembhard's current research on the benefits and impacts of cooperative enterprises, focusing on community development credit unions in Black communities. This paper also provides some supplementary meta-analysis of the existing research on the impacts of community-owned businesses, particularly in low-income communities. The author concludes that cooperatives and community-owned businesses are themselves, and also develop, community assets, and thus are an important strategy for urban and rural revitalization and asset building in under-resourced communities.

This study is based on my previous research on cooperatives and community economic development, measuring the benefits and impact of cooperatives on communities, and credit unions as community assets (Gordon Nembhard 2002, 2004a, 2008, and 2010; and Gordon Nembhard, Hammond Ketilson, and Thomas 2012). Gordon Nembhard (2004a) finds, for example, that cooperatives stabilize their communities – providing affordable goods and services, creating good jobs with benefits and often living wages, increasing local economic activity, and encouraging civic participation. Cooperative businesses are group-centered, needs-based, and asset building local development mechanism based on pooling of resources, democratic economic participation, and profit sharing. They are internally driven democratic institutions that promote group learning, economic interdependence, consolidation of resources, development of assets and protection of people and the environment. Community-based, cooperatively-owned enterprises are characterized by greater community input and participation in the planning, development and governance of commercially-viable socially-responsible businesses. Collective ownership helps to provide community control over economic resources, activities, assets and productive capacities; and to increase income and asset holding. Cooperative and community ownership provide opportunities for low-resourced people with few traditional opportunities, to create new economic opportunities for themselves.

Gordon Nembhard's (2004b, 2006b, and Forthcoming) research on African American cooperatives further finds that cooperative business ownership, cooperative financial institutions, and co-op housing have been solutions to past economic challenges, such as debt peonage under Jim Crow segregation; lack of food, affordable housing and financial services during the Great Depression; and various forms of racial economic discrimination throughout the past 200 years. During this time of growing asset poverty and increasing wealth inequality – impacts of the Great Recession -, community ownership, particularly cooperative ownership of community enterprises, is an important strategy to counter act these inequalities (Gordon Nembhard 2010, 2013). When addressing asset building, we often forget that there are limitations on what individuals (families) and government can do to address asset poverty (Gordon Nembhard

2008b). If we examine community level institutions and the effects of collective ownership and “locational” assets/wealth, we increase the menu of options available for effective and meaningful asset building among low wealth people and their communities (Gordon Nembhard 2008b, 2008a). Business ownership is a significant component of the portfolio of the wealthy. Social entrepreneurship and collective ownership are important strategies to provide business and home ownership opportunities to those with low-incomes and few financial assets (Gordon Nembhard 2008b).

This paper therefore focuses on understanding community businesses as community assets, and how they develop economic, financial, environmental, social and cultural capitals in their members, employees, and communities. I suggest that enterprises that develop collective as well as individual financial benefits (such as good jobs, business equity, retirement and other savings, land ownership, affordable housing, and commercial real estate), and positive externalities (such as leadership development, economic and environmental sustainability and revitalization, job ladder mobility, education and training, financial literacy, and civic engagement) are community assets because these impacts extend beyond the individuals who are directly connected with the enterprise.

This paper briefly reviews the literature on the roles of community businesses in community economic development, and asset building through cooperative and micro-business development. I discuss research challenges and outline the assumptions and purpose of the current research. I then provide an overview of findings about the impact and benefits from credit unions in the U.S., particularly community development credit unions’ (CDCUs) impact on low-resource populations and the formerly unbanked. The fourth section provides examples of how cooperative businesses and community-owned businesses contribute to local economic development and asset building. I conclude with a discussion of common mechanisms used by community enterprises to contribute to local economic development and asset ownership particularly of low-resourced people, as well as best practices for and challenges to these missions. I recommend community development strategies and public policies that promote and support cooperative and credit union development, and community ownership of local micro-businesses.

What are community-owned businesses, cooperatives and Credit Unions?

This study focuses on three kinds of community-owned businesses: microbusinesses, cooperative businesses and credit unions. A community enterprise or a community-based organization as defined as “a public or private nonprofit organization of demonstrated effectiveness that-- (A) is representative of a community or significant segments of a community; and (B) provides educational or related services to individuals in the community” (from the 20 USCS § 7801(6), USLegal.com). Community based organizations provide human, social, and education services that help to ensure a decent standard of living for residents and citizens. These community based organization provide voices to collective interests and needs that may not be heard in electoral or policy forums like those of children and youth in need of assistance, homeless families and individuals, immigrants, and others (Jennings, 2002). The roles of community based organization are heavily dependent on the needs of the local neighborhood and community members. Community-based Organizations “plan, implement and

monitor the social and economic development programs and provide technical and financial help to the communities” (Hussain, Khattak, and Khan, 2008). The goal of Community-based Organizations is to get involved at the grass roots level and to empower the disadvantaged segments of the population.

A small business is a for-profit enterprise that is privately owned and operated, with a small number of employees and relatively low volume of sales. The classification of small businesses varies depending on the industry and countries, but can be as large as 100 employees.ⁱⁱ Micro-Businesses are small businesses with fewer than 10 employees according to the American Association of Micro Business, and usually refer to businesses with fewer than 5 employees (JenniferD 2009). Most community-owned businesses are microbusinesses.

Cooperatives are businesses owned and governed by their members (Gordon Nembhard forthcoming, 2008c, see International Cooperative Alliance 2012a and National Cooperative Business Association 2012). They are formed to serve their members’ needs. Cooperative governance is based on one member, one vote rather than the number of shares owned or the amount of investment. The definition of cooperatives shared internationally is “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” (International Cooperative Alliance 2012a). Some cooperative enterprises are multi-million dollar businesses and others are small and micro businesses. The International Cooperative Alliance indirectly represents over one billion individual people throughout the world who are members of at least one cooperative (International Cooperative Alliance 2012b).ⁱⁱⁱ

There are three major categories of cooperatives, based on the relationship of the member-owners to the purpose: consumer owned, producer-owned, or worker-owned (or a hybrid of some combination of the stakeholders, consumers and workers for example is an emerging structure).^{iv} Consumers jointly form a buying club or a cooperative retail store in order to pool their money to buy in bulk the kinds of goods and services they want, and the quality they want, at an affordable price. A grocery cooperative, for example, allows consumer owners to provide themselves with fresh produce and natural and vegetarian foods that are often not supplied elsewhere or are very costly. Other consumer cooperatives include electric, financial (as in a credit union), sustainable fuels, pharmaceuticals, or child care cooperatives for example. The most common are credit unions and cooperative retail enterprises such as natural-food grocery stores and rural electric and energy cooperatives. Credit unions offer financial services and loans to a specific group of members through their affiliation with a union, a workplace or a church for example, or to underserved communities. Housing co-ops (cooperative housing) facilitate home or apartment ownership for people who may have trouble owning their own unit. Co-op housing addresses both financing and maintenance issues, and often builds in long-term affordability.

Producers form cooperatives to jointly purchase supplies and equipment and/or to jointly process and market their goods. Agriculture marketing and processing cooperatives as well as craft cooperatives are the most common producers’ cooperatives. Agricultural cooperatives are some of the largest and most successful of the cooperatives in the U.S. Workers form cooperatives to facilitate business ownership and democratic management of their business. This helps to stabilize employees’ employment, allows them to share the profits and participate in

making policy for the business. Worker cooperatives can be a result of conversion from an established company, to save a company that is being sold off, abandoned, or closed down; or may result from a specific effort to start a democratic workplace, with collective management, that hires local residents.

Another important aspect of cooperative ownership is that for cooperative businesses to be internationally recognized, they must operate democratically, according to seven principles that include open membership, “one person one vote,” returns based on use, continuous education and concern for community.^v “Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity” (International Co-operative Alliance 2012a), as well as accountability and transparency. For cooperatives, the surplus revenues (income over expenses and investment) to members are always proportionate to their use of the cooperative, not proportionate to their “investment” or ownership share. Co-ops also pay taxes on income kept within the co-op for investment reserves and taxes are also paid on surplus revenues that are returned to individual members as income (National Cooperative Business Association 2012).

Cooperative ownership therefore provides a strategy to address market failure and economic marginality. Cooperative ownership supports education and training, economic transparency, democratic participation, and profit sharing. While the net worth of a cooperative business translates into individual shares through member accounts (or stock ownership) and patronage rebates, a cooperative’s collective wealth is a store of value with a potential greater than itself. “There is an accumulated benefit stored in the business that is an asset in-and-of itself, as much as a distributional benefit from each member’s share of the business’s net worth, particularly as the value of each member’s account appreciates” (Gordon Nembhard 2008, 22). Members, their families, and communities prosper because the business prospers. They also may have access to some part of the value of the business as a whole separate from their individual interest in it. “Being a member-owner of a cooperative enterprise provides opportunities for cost savings and income generation (that can lead to asset ownership), as well as opportunities to maximize corporate savings, partner with the corporation on value added activities, and leverage corporate equity for individual and group gains” (Gordon Nembhard 2008, 22).

The Role of Community Enterprises in Community Economic Development: Overview and Research Questions

Gordon Nembhard (1999, 2006a, 2006b, 2008, 2010, 2011), Haynes and Gordon Nembhard (1999), Fairbairn et al (1997), and Fairbairn et al (1991) suggest that cooperative development is an important community economic development strategy. In particular these articles find that cooperative enterprises support community input in and benefit from economic activity and propose that cooperatives can contribute to revitalizing inner cities and redeveloping areas (such as New Orleans and the Gulf Coast after disasters, Gordon Nembhard 2006a). Fairbairn et al (1997: 15), for example, find that

Co-operatives and credit unions have a greater capacity to influence their community environment than do most businesses. Their directors are typically

community leaders; their memberships represent community networks; they are committed to education and improvement. In the economic sphere they administer pools of capital under democratic control that can be used according to local priorities, and they accumulate economic surpluses that are reinvested or redistributed back into the communities from which they came.

Similarly, credit unions are important asset building enterprises that are an alternative to payday lenders and subprime lending (Gordon Nembhard 2010 and 2013). So far we do not have good measures and have not fully delineated the mechanisms by which community-ownership contributes to asset building, especially among low-resourced people and their communities (see Gordon Nembhard, Hammond Ketilson and Thomas 2012; and Gordon Nembhard 2008a and 2010).

In part to address such challenges, and to further illuminate the myriad outcomes from community ownership, I have explored additional examples and analysis. The hypotheses for this study are that: 1) Community businesses have social mission(s) and provide benefits to and positive impacts on their communities. 2) This analysis will help us to better measure various impacts of and outcomes from community-based enterprises and cooperatives, including asset building. 3) Understanding how community enterprises operate as community assets will enable community developers and policy makers to develop strategies and policies to support cooperatives and community-based businesses, which in turn will facilitate asset ownership and joint assets among members and contribute to community-based asset building. These hypotheses are more or less obtainable depending on how community enterprises report information that we can use to analyze their potential as employers, green businesses, successful businesses that provide business equity for their owners, community donations and support for employees and members volunteer activity, etc. Most community organizations and microbusinesses, however do not have published data about their payrolls, sustainability programs, or member/owner equity. Therefore I am in the process of devising a survey questionnaire that would help collect such information; and then plan to calculate an employment and asset multiplier.

This paper combines findings from my previous research and reports preliminary information from some community-owned businesses among African Americans and low-income people in particular, in order to further this discussion and share preliminary results.

Credit Unions as Community Assets

Credit Unions are cooperative financial institutions that are owned and controlled by the people that use their services. The philosophy behind credit unions is that people should be able to pool their money and make loans to each other (Cerise 2010). Community Development Credit Unions (CDCUs) have a unique role in that they provide a safe haven for families without access to financial credit by granting fairly priced loans to its members; and provide financial counseling and education for its members, as well as, products, services and support that can help members free themselves from high-cost and predatory debt, gain control over their personal finances, and achieve economic independence (National Federation of Community Development Credit Unions n.d., also see Gordon Nembhard 2010 and 2013). The lending

practices of Community Development Credit Unions, Federal Credit Unions and other state chartered credit unions are important to low-income families because it gives them an opportunity to build assets in a variety of forms. Most Credit Unions provide both short-term and long-term loans to their members as well as car loans; mortgage loans; Individual Development Accounts; personal accounts, savings accounts, small business loans and the like (Gordon Nembhard 2010, 2013).

Credit unions, like all cooperatives, address market failure, market insufficiency, and asymmetric information.^{vi} Credit unions are democratically-owned, community-based, not-for-profit (in the USA) financial institutions whose purpose is to provide affordable high quality financial services to their members. Community Development Credit Unions (CDCUs) are credit unions that serve underserved communities, and are part of a larger group of community development financial institutions (CDFIs) whose purpose is to provide accessible financial services and to open capital markets to low-income communities. Credit unions provide a variety of services similar to commercial banks but often more sensitive to the needs of their depositors/members. Credit unions are controlled by boards of directors composed of community members, not stockholders looking for a good investment. Services provided by credit unions include: ATM/ debit card program, with no surcharge ATMs; check cashing; money orders; business share accounts; no-cost share drafts; share certificates with low minimum balance requirements; bilingual services; insurance/ investment sales; student scholarship; credit builder; overdraft lines of credit; real estate loans; risk-based loans; share draft credit cards; financial education; financial counseling; financial literacy workshops; first-time home buyer program; international remittances; low-cost wire transfers; money orders; business share accounts; interest only or payment option first mortgage loans; micro business loans; micro consumer loans; overdraft protection/ courtesy pay; participation loans; real estate loans; risk-based loans; stage of life specific services; character lending; flexible loan extensions; personal services and personal relationships. Community development credit unions also engage in activities to help their members/depositors make successful financial decisions and become asset owners. These include: public education; conference sponsorships; branches in ethnic communities; establish affiliate or group structures to reduce risk and to gain access to resources otherwise unavailable; expand flexibility in lending and investment; provide non-transaction services such as financial counseling; facilitate membership expansion; partnering to find best services and products for members. (Gordon Nembhard 2010 and 2013).

Credit union data and the findings reported in Gordon Nembhard (2010 and 2013) suggest that credit unions, particularly community development credit unions, are important community-based institutions that provide fair, low-cost credit and financial services to the under-banked and the un banked, and to low-wealth communities (also see Fairbairn et al 1997). Specifically they provide lower cost, stable loans and services; higher rates on deposits (savings) and overall stability of rates leading to economic stability (especially for those who have retired). Credit unions tend to focus on their members, provide convenient branch locations, invest within the community, reinvest in the community, tailor services for members, and practice relatively conservative lending. Gordon Nembhard (2010: 9) summarizes findings from case studies of several community development credit unions around the country:

A major recurring theme ... is the uniqueness of credit unions, that they are people-focused and mission-driven. One interviewee articulates the “mission to create and protect the ownership and economic opportunity for people of color, women, rural residents and low-income families and communities.” Others reiterate that their credit union stresses service for members and the community – personalized, tailored services; being people focused. “We are local. We tend to look at people in the face.” “We know them and they know us.” “If we make them [customers] stronger, then we make the community stronger.” Credit union staff help their members to personalize the services and to make decisions about what kind of loan they need - and even if they need a loan. As community-owned financial institutions that encourage democratic participation, credit union members feel comfortable making requests, asking questions, [voting for the board of directors,] and looking for alternatives through the credit union.

Credit unions provide financial options, loans and education. They are also good employers – providing stable jobs with decent wages and benefits –; and good neighbors – giving donations (financial and in kind), sharing meeting space, and supporting community development projects and affordable housing. Gordon Nembhard (2010) concludes that most CDCUs are deeply involved in their communities, and the larger ones actually provide donations, encourage their employees to volunteer in the community and are generous employers. Most credit unions provide salaried jobs with benefits, and often with job ladder opportunities. Gordon Nembhard (2010) also finds that some of the credit unions offer innovative services and instruments designed to be flexible in helping their members, or specifically designed to start them saving, to help improve their credit or increase their savings. Members are allowed to open and maintain accounts with low balances. Wiring to other banks, sending remittances abroad usually cost less than at commercial banks.

Some of the credit unions actually compete with check cashing outlets. One credit union provides a payday loan rate of 18% while the outlet down the street charged 124%.^{vii} Starting in 2005 the NFCDCU has encouraged community development credit unions to include services that discourage members from going to predatory lenders like pay-day loans and pawn shops to get loans which are heavily located in low-income communities.^{viii} Providing an alternative to predatory loans helps low income families reduce their debt and save more. This increases their economic stability and theoretically increases the amount of money that can be used for other things - and may be reinvested in the community.

Many community development credit unions find ways to help their members totally avoid a pay day loan (even a less risky one that the CDCU might offer). Some provide a low-cost microloan (consumer loan) and help a client work out a budget and financial plan (Gordon Nembhard 2010). In most credit unions every loan is reviewed by the staff to determine if the member has the ability to repay. Loan officers of CDCUs often advise more than they lend, and provide financial information and counseling (Gordon Nembhard 2010). Even the smallest credit unions offer financial education, financial counseling, and financial literacy workshops, and youth programs; some offer first time home buying programs and home ownership training programs. Also community development credit union loan managers try to guide clients/members to a better financial position, not just sell them a loan. CDCUs also have more

flexibility in how they provide loans and in the variety of loans they offer their members. They may rate employment record higher than credit score, for example. CDCUs regulator, the National Credit Union Administration, explains the uniqueness of CDCU lending (NCUA, 2010, 4):

LICUs [low-income credit unions] and CDCUs generally make credit available to their members by offering non-traditional lending products. These credit unions adapt their operations to fit the unique needs of their membership. Non-traditional products, procedures, and services that some credit unions use to better serve low income members include: Non-traditional loan underwriting, such as: Explaining limited, negative, or no credit history; Requiring payroll deduction for loan payments; Documenting history of making timely rent and utility payments; and, Using a qualified co-signor who sufficiently offsets credit risk.

Some credit unions also offer Individual Development Accounts (IDAs) that match members' savings (a federal program in which commercial banks cannot participate), to encourage and reward saving behavior.^{ix} Credit union services are often place-based, and credit unions with this mission are increasing. Many of the newer credit union missions are to serve people in a certain neighborhood or zip code. They make loans in the community they serve for the community they serve, to help individuals, families and communities (Gordon Nembhard 2010).

Credit unions therefore contribute to economic stability as well as help to re-circulate money and resources in their local communities. Because they are community-based and democratically owned, local community members participate in the decision-making, which may generally increase their voice and may develop their leadership skills. Because they provide savings instruments, as well as credit and mortgages to obtain assets, credit unions are asset builders – aid their members and depositors in building assets.

Community-owned Businesses, Cooperatives and Asset Building

Community-owned businesses vary in their function and have unique roles to play in their respective communities. Some of these enterprises provide services to the community; others educate the community on various issues. Although small with small payrolls, they do create jobs, and insert income into local economies. They create economic activity and stability in a community, exchange goods and services with other community enterprises, pay taxes, and provide business equity to their owners. Lyon et al (2002: 5-6), for example, find that a larger proportion of smaller businesses have owners living in the locality of their business and contributing to it; that social enterprises “have a much greater emphasis on delivery of local services especially in under-served communities”; and that community enterprises donate money and resources to their communities, participate in community groups, help other local businesses, and encourage and guide members of the community. These businesses are also more “embedded in local supply chains” which recirculate resources (Lyon et al 2002). *Green County Democrat* newspaper, in Green County AL,^x is a community-owned company, for example, that provides important information to the Black community in the county (that the previously white owned newspaper did not do), and also supports community activities that increases tourism in the area.^{xi}

Hayton (1996, 7) finds that employees report preferring to work in a community business because they have more day to day control over the business activities, team work is emphasized, and they have regular contact with the community. At the beginning of each year, the members of Indian Springs Farmer's Cooperative, in Mississippi,^{xii} for example, talk about what they want to produce (flour, honey, spinach, wild mustard, cabbage, and broccoli). The members of the cooperative then figure out how much to produce based on the size of their farms and the amount of resources. The cooperative creates about 20-30 jobs year round within the community. The co-op also has a beginner's farmers program. Other services provided by the cooperative include estate planning^{xiii}

Cooperatives in particular are often able to provide meaningful work and a good work atmosphere for their members and/or employees. Levine and Tyson (1990) find that cooperatives provide superior working conditions and that both participation and ownership have a positive effect on productivity. Logue and Yates (2005: 56) find that "Cooperatives facilitate people in pooling their greatest asset, their labour, along with small amounts of cash (perhaps all the cash they have), to create a larger enterprise from which they will receive a benefit and return." More than what they could do on their own, "employee ownership of the means of production and farmer and small business ownership of purchasing and marketing cooperatives increase income and wealth for employee owner, farmer and small business owner" (Logue and Yates 2005: 57).

Many of the worker-owned cooperatives, in particular, increase industry standards in wages and benefits, as well as provide self-management or team work between management and "labor," job ladder opportunities, skill development and capacity building, job security, and general control over income and work rules (for example Cooperative Home Care Associates, Childspace, Workers' Own Sewing Company, APR Masonry Arts, Colors Restaurant, see Gordon Nembhard 2004b, 2006b, 2008a and forthcoming). Women-owned catering and house cleaning cooperatives provide women with control over the hours of work, work rules, health and safety, benefits and income generation that allow them to balance home, family and work lives and own their own business (for example Emma's Echo Clean and the other cooperatives developed by WAGES, and the cooperatives developed by Cooperative Economics for Women, see Gordon Nembhard 2004b and 2006b). Cooperative music production companies (such as the emerging Rhythm Collective in New Orleans), similarly bring musicians together with social entrepreneurs to create their own company so that musicians can control their own production, distribution and profits, and remain local. There are many other such examples (see Gordon Nembhard 2006b and forthcoming).

There are many aspects to meaningful work, and many ways that cooperatives can be seen to contribute to creating decent jobs. Are wages in the cooperative higher than in the industry, were higher wages for the sector or in the community established to compete with the co-op's wages? Were more opportunities for advancement created in the cooperative? The answers to these questions appear to be yes (see National Cooperative Business Association, 1998, Gordon Nembhard 2002a and 2004a, for example), although much more research needs to be done. In the 1990s, fifteen mutual benefit service sector cooperatives in California provide higher wages for members than the national minimum wage and wages higher than comparable entry-level jobs (for the unskilled, non-English speaking immigrants who are their members),

engage in profit sharing, return surplus earnings to members, and provide some form of benefits (Conover, Molina, and Morris, 1993). Childspace's cooperatives provide above average salaries for the industry, with full medical coverage, child care services for all worker-owners (who are racially integrated), and access to a career ladder (Clamp, 2002; and "Providing Living Wages....," 1998). Also Cooperative Home Care Associates provides multiple benefits rarely seen in its industry or in any low-skilled employment. African American and Latina women became owners of a home care worker-owned cooperative as an alternative to public assistance and to create quality jobs and quality care in what was a low-grade industry (see Cooperative Home Care 2009, Schneider 2009, and Gordon Nembhard 2008a).

The missions of the above mentioned cooperatives are to create quality service by creating quality jobs. Worker ownership in a cooperative structure is a combination that these businesses have made work, to both deliver meaningful work and quality jobs as well as quality services. Cooperative ownership enables low-income residents, women, immigrants, and others (who often are without any avenue to gain income or assets) to provide affordable, quality goods and services, generate jobs, stabilize their communities, and accumulate some assets. Cooperative ownership also allows low-income residents, women, and others, to generate income and at the same time be family and community friendly (Gordon Nembhard 2004b). Collective and cooperatively owned enterprises often provide not only economic stability, but also develop many types of human and social capital, and economic independence. This provides an alternative model of development based on recognizing and developing internal (to the individual and to the community) capacities and re-circulating local resources of all kinds. This creates mechanisms that distribute, recycle and multiply local expertise and capital within a community, creating a solidarity economy.^{xiv}

Williams (2007) cites World Council of Credit Unions data that finds only about 10 percent of cooperatives fail after the first year, compared to the 60 to 80 percent failure rate of traditional corporations.^{xv} This is counter to the conventional wisdom that cooperatives have a higher failure rate. According to Williams, "The initial success of a cooperative most likely arises from the fact that starting a cooperative requires a great deal of support from the community," and many people are involved in startup (2007, 9). For African Americans, the first years are often precarious because the enterprise is underfunded and competition is fierce from hostile white businessmen and financiers, yet the support from members and their immediate community keeps them going. In addition, after five years, while only three to five percent of traditional businesses are still operating, more than 90 percent of cooperatives are still in business (Williams 2007, 9-10). Business success is actually an important accomplishment of cooperative enterprises, and an important contributor to community stability - as a business anchor in a local economy, in an increasingly global economy (see for example Williamson, et. al. 2002, Gordon Nembhard 2004a, and Fairbairn et al 1991).

Some studies find that successful cooperative businesses create wealth and help their members accumulate wealth and/or assets (Gordon Nembhard 2002a, 2008a, 2010; Logue and Yates 2005; Williamson, Imbrocio and Alperovitz 2004; Ownership Associates 2003; and Scharf 2001). Cooperatives are a form of communal, joint and democratic ownership of a business whose equity is an asset that can contribute to an individual member's wealth portfolio (Gordon Nembhard 2008a). Members of cooperatives put equity into a cooperative enterprise. A

successful enterprise gives a return on that investment. In the case of cooperatives the return is sometimes annual dividends or patronage refunds (often distributed upon exit from membership); and sometimes the return takes the form of job security and living wages and benefits, or reduced costs of products and services (Gordon Nembhard 2008a; also see National Cooperative Business Association 1998). Individual cooperatives decide democratically how much of the surplus should be allocated to members and how much unallocated or retained in the business. Because of the democratic nature of cooperatives, distribution occurs in an equitable fashion, which places the wealth generated from the business into the hands of the owner-members (and sometimes other stakeholders) (Gordon Nembhard 2008a). This means that cooperatives as a business are also a democratic mechanism for wealth creation.

In addition, some cooperatives such as Cooperative Home Care Associates (New York City) provide retirement accounts and encourage their members to be banked and to have a savings account, in addition to paying bonuses and dividends (Schneider 2009). Other cooperatives offer retirement accounts for their worker-owners, and in some industries are actually more likely to provide retirement accounts and higher valued retirement plans.^{xvi} Childspace (Philadelphia) provides an IDA (Individual Development Account) program (Clamp 2002 and n.d.), linked to the federal program which matches the savings of low-income people for education and business development.^{xvii} Mandela Food Co-op in West Oakland, CA, has plans to partner with its neighbor People's Federal Credit Union, to donate some of the cooperative's surplus earnings toward matching credit union members' savings (in Individual Development Accounts) (Gordon Nembhard 2013).

Conclusions and Policy Recommendations

Cooperative enterprise development makes possible new strategies (and connects with established practices from all over the world) for economic development and wealth creation, particularly among groups who have been excluded from them. Cooperatives have played an important role in forwarding the rights and prospects of low-income urban and rural communities (Gordon Nembhard forthcoming). African Americans, for example, have owned cooperative farms, marketing boards, grocery and other retail stores, gas stations, credit unions, insurance companies, construction companies, sewing factories, child care and home care agencies throughout the centuries, often as a strategy to gain community economic independence as well as the needed services (Gordon Nembhard 2004b, 2006b, and forthcoming). Because they also provide business equity and sometimes give dividends on ownership shares, cooperatives and community businesses are asset builders (Gordon Nembhard 2008a, 2010). The impacts of cooperative businesses on their members and communities are often transformational because an increase in finance capital is accompanied by increases in human and social capital.

With the a significant proportion of people still unbanked (34 million in 2011, an increase of 13% since 2009, Adler 2012), not to mention the unprecedented number of home foreclosures since 2007 (see RealtyTrac Staff 2012), there is a role for alternative financial institutions such as credit unions which are non-predatory and community based (Gordon Nembhard 2013). While not perfect, and often cannot or do not serve all the people who need their services, credit unions, particularly CDCUs, provide financial education, affordable financial services and access to affordable credit. As such they are asset builders, and because they are rooted in their

communities and governed by their community members they are also community assets. Previous research (summarized in Gordon Nembhard 2010) documents many of the successes of credit unions and how they benefit their members.

Policy recommendations therefore include increasing the number of credit unions under state and federal charters, and increasing the percentage of community business members and business loans – commercial banking – in which they can engage. There is also an issue of the National Credit Union Administration (NCUA) liquidating or merging many of the smallest CDCUs because of worries about their viability. Another strategy would be to work with credit unions and their supporters to figure out how to increase the viability of small CDCUs because it is important that low-income and marginalized as well as unbanked people be supported in owning their own financial institutions. The answer is not to just shut them down or force them to merge with larger credit unions that are not even located in their communities, but to strategize about how to maintain the local ownership of the CDCU but remain viable and able to provide full services.^{xviii} Partnerships, and/or requirements that commercial banks deposit certain percentages in CDCUs are some of the policies that would help.

While microbusinesses are already the dominant size of business in the U.S., more attention needs to be paid to supporting and encouraging locally owned businesses that are focused on community needs and community control. As the World Council of Credit Unions found (Williams 2007), cooperatives are a resilient and stable form of microbusiness. Collective ownership, pooling of resources, shared risk, and democratic distribution of profits create stable enterprises that support their member-owners and contribute to their communities. Municipalities that invest their workforce development and community development funds into worker cooperatives see a return on their investment, since these businesses often pay living wages with benefits and provide business equity to their worker-owners. More of this kind of investment is needed. Federal and state supports for cooperatives and community owned businesses are needed. The small business administration and community developers should support and promote cooperatives and community-based ownership. At the federal level the Small Business Association should be knowledgeable about cooperatives and able to advise cooperative business developments and provide loans to cooperatives. Individual Development Account savings should be eligible for investment in cooperatives and/or to cover one's equity share in a cooperative. Cooperative law needs to be standardized across states, perhaps with federal charters.

Education about cooperative business development needs to be more widespread. The general public needs to know more about cooperatives, and have access to training in cooperative economic development. High schools should teach cooperative economics, and help young people develop their own cooperatives. Engaging students in cooperatively-owned businesses and in democratic decision-making and group learning using real-world experiences has been found to motivate and excite students to further their education, and helps to develop their social capital and leadership skills while jointly running their own business (Gordon Nembhard 2008b). They gain confidence, general and technical skills, motivation to learn, and incentive to go on to college (and sometimes the savings to pay for higher education).

Cooperative ownership serves many purposes and has widespread benefits.

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Notes:

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ⁱⁱ Large businesses have 500 or more employees and are the smallest percentage of businesses in the U.S. Small businesses are the largest percentage of businesses because they include microbusinesses which make up over 95% of all businesses in the U.S. See The U.S. Small Business Administration website, www.sba.gov.

ⁱⁱⁱ The International Cooperative Alliance (ICA) is a nongovernmental trade association founded in 1895 to represent and serve cooperatives worldwide, see www.ica.coop.

^{iv} This paragraph and the next three paragraphs are based on the description of cooperatives in the "Introduction" of Gordon Nembhard, forthcoming. For more information on cooperatives see Gordon Nembhard 2008c; also The International Cooperative Alliance website, www.ica.coop (since the United Nations named the year 2012 as the Year of Cooperatives, the ICA has changed its website to focus on this designation. The new url is: <http://2012.coop/>; also see <http://2012.coop/en/what-co-op/co-operative-identity-values-principles>). The National Cooperative Business Association, the U.S. co-op trade association, website is www.ncba.coop. Also see Gordon Nembhard 2004b, 2002; Haynes and Gordon Nembhard 1999, more specifically about worker co-ops and their benefits.

^v The seven cooperative principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community. See the International Cooperative Alliance 2012a.

^{vi} Much in the following paragraphs about credit unions and community development credit unions derives from Gordon Nembhard 2010 and 2013.

^{vii} On the other hand, however, many of the credit unions do not provide any kind of payday lending because they have found it does not help their members in the long term, but rather ties them up in more debt; and it is not prudent for lender or borrower to lend "with no questions asked." See Gordon Nembhard 2010.

^{viii} The National Federation of Community Development Credit Unions began to offer a special grant program and training seminar to promote the development and expansion of affordable anti-predatory lending programs to its members (National Federation of Community Development Credit Unions no date).

^{ix} One CDCU is even piloting an IDA program that would be in part supported by the local worker cooperative - a health food grocery store located next door.

^x This is one of the community-based enterprises in my current study of community ownership in four southern states, for the Center on Race and Wealth, Howard University.

^{xi} From a 2012 interview with John Zippert, publisher, Greene County Democrat. Also see Greene County Democrat <http://greenecountydemocrat.com/>.

^{xii} Indian Springs is one of the community-based enterprises in my current study of community ownership in four southern states, for the Center on Race and Wealth, Howard University.

^{xiii} This information comes from a 2012 interview with Ben Burkett, Executive Director, from http://www.communityfoodenterprise.org/case-studies/u.s.-based/indian-springs-farmers-association/casestudy_history#contentStart and from Indian Springs Farmer's Cooperative Members. No Date. Cooperative Marketing: Interviews with Members of the Indian Springs Farmer's Cooperative in Mississippi. Retrieved from <http://www.federationsoutherncoop.com/coopmarket/indianspr.htm>.

^{xiv} The term "solidarity economy" is becoming increasingly popular since the first World Social Forum in Brazil. The US Solidarity Economic Network (www.ussen.org) describes a solidarity economy as an alternative economic framework grounded in shared values, solidarity and cooperation; that promotes social and economic democracy, equity in all dimensions (e.g. race, class, gender...), and sustainability. It is pluralist and organic in its approach, allowing for different nonhierarchical forms and strategies in different contexts, always building from the grassroots up. The term economic solidarity refers to economic activities whose purpose is to support, promote and develop a particular group, using shared values, trust and loyalty (see Gherardi and Masiero 1990).

^{xv} From the World Council of Credit Unions, 2003, *Statistical Data: United States Credit Union Statistics 1939-2002*; www.woccu.org; in Williams 2007: 9.

^{xvi} Two studies about the extent to which Employee Stock Ownership Plans (ESOPs) transfer wealth to employees are beginning to answer some of these questions for ESOP companies (i.e., worker ownership of stock), and particularly in regard to retirement savings. Washington State in 1998 finds that not only are wages higher in those ESOP companies, but also the ESOP firms "provide their employees significantly higher retirement wealth than similar non-ESOP firms" (2). For example, the average ESOP participant's account value was worth \$24,260 (in 1995) and the average value of all retirement benefits in ESOP companies in Washington state was \$32,213, compared with the average value of \$12,735 in the comparison companies. Thus employee -owners had more retirement assets without "sacrificing their wages" (4). Similarly a smaller Massachusetts study conducted in 2000 finds that per participant wealth held for ESOP employees was \$39,895 (in 1999) (3). An impressive 12% of Massachusetts ESOPs have average participant accounts worth over \$100,000 (3). The vast majority of these ESOPs in both cases use the ESOP ownership as a supplemental pension which explains the higher value. This is one way to show that broader ownership increases assets at least for retirement. Scharf also notes that much more research is needed in this area.

^{xvii} The Atlanta Cooperative Development Corporation started an Individual Development Account (IDA) program in the late 1990s with a grant from HUD (the U.S. Agency for Housing and Urban Development) that would allow savers to use the savings not just for education or small business development but for cooperative development as well - to use to pay for their equity share to start a cooperative business. This information comes from an email correspondence with Gloria Bromell Tinubu (one of the founders of the Atlanta Cooperative Development Corporation), December 28, 2007.

^{xviii} The problem is not so much that the mergers are not successful. Most of the time they have been successful, as in the example of Hope and Shriveport FCU. The problem is that it is more difficult for CDCUs to support local and small scale community economic development and be democratically controlled by local members if they must become a branch office of a separate large credit union not in their jurisdiction, and mergers reduce the sense of local ownership. However often the larger credit union does make it possible for the smaller CU (now a branch office) to provide the needed services with a strong enough reserve base.