Testimony, Mo Manklang, Policy Director of the U.S. Federation of Worker Cooperatives
Small Business Committee Hearing: Challenges and Benefits of Employee-owned Small Businesses
December 6, 2022

My name is Mo Manklang, and I am here today representing the U.S. Federation of Worker Cooperatives and the estimated 1, 000 worker cooperative and democratic workplaces across the country. Thank you so much to the subcommittee for creating the space to address this important issue.

In my role as Policy Director, I have a ground level view of the challenges and successes of our employee owned businesses, and are attuned to the needs of this growing field. Worker cooperatives are an increasingly lauded solution to economic challenges. They strengthen companies, reward workers, and prevent job loss in the case of converted businesses. Over the next decade this could avert massive job losses in the succession crisis for the 2.34 million businesses that are currently owned by baby boomers, imminently facing closure or sale.

The worker cooperative model offers many benefits to its members:

- They are typically small and strong businesses, typically employing 8 workers, and **paying an average of $19.67/hour** often in insecure industries like retail, manufacturing, food service, home care and childcare.
- Worker co-ops allow workers to benefit directly from the value that they create, with **an average of $8,241 in patronage distributed to each worker each year.**
- Worker co-ops are diverse - with nearly 47% employing workers of color and 52% of the workforce identifying as female.
- According to a recent study from Democracy at Work Institute and the University of Madison-Wisconsin, the majority of worker-owners not only plan to stay in their jobs, but also **72% of them are building skills through professional development opportunities.** Indeed, almost **75% of respondents are more satisfied with their worker co-op than their previous jobs**. They are also more engaged citizens, with **70% of the workforce voting in recent elections.**
- These businesses last longer, with a **25.6% success rate for businesses 6-10 years old**, compared to the 18.7% success rate of typical small businesses. and a **14.7% success rate in businesses that are 26+ years in business**; about 3% higher than the typical small business.
- Because of their scale and prioritization of workers and their families**, worker co-ops are more responsive to immediate household needs, providing better wages, benefits, and stability.** Currently the USFWC works with our member organizations to access dental, vision, and health insurance group rates, and organizes on their behalf to secure lower rates and better networks.

In 2018, we were proud and energized by the passage of the Main Street Employee Ownership Act, which passed with overwhelming bipartisan support. While a small part of the overall education, outreach, and training efforts of the SBA, this legislation, if enacted, would be a tremendous boon for the employee ownership space, bringing a proven, durable model of business ownership into greater prominence. This legislation, which aimed to improve access to capital and technical assistance for employee-owned businesses, was meant to:

- Finance the sale of businesses to their employees
- Work with Small Business Development Centers across the country to provide training and education on employee ownership options

- Report on SBA's lending and outreach to employee-owned businesses

This clear mandate from Congress that recognized employee ownership was incredibly important for this highly underserved sector, particularly with regard to its lending programs. Cooperatives have long sought access to SBA lending programs, but the personal guarantee requirement has been a barrier that keeps these vital businesses from accessing this critical funding. We simply seek an even playing field with other small businesses; this requirement has created a distinct disadvantage for cooperatives whose ownership structure – shared ownership across multiple co-op members – is directly at odds with asking a single member or the selling owner to take on ultimate responsibility for the loan.

Unfortunately, we have not seen any meaningful support from the SBA since the passage of the MSEOA with regard to financing, outreach, or education. In the 5 years that I have been on staff at the USFWC, I have only found 1 case of a worker co-op being able to access a SBA 7(a) loan. It was our hope and expectation that we would see this number rise, and that we would see more worker co-ops access the vital resources of the SBA.

We see two big issues in regards to the support of employee ownership: education and opportunity.

Education is needed for business owners, service providers, financial institutions, and the SBA itself. We know of at least two different worker cooperatives who were actively discouraged from pursuing a cooperative model in their startup phase. Financial institutions are unfamiliar with cooperatives and ESOPs, and deprioritize their applications. This even happened during the COVID-19 pandemic, with many worker co-ops who applied for Economic Injury Disaster Loans and the Paycheck Protection Programs being denied or running into significant challenges in accessing these business-saving resources.

We also simply need access to **opportunity**. The personal guarantee is at odds with broad-based ownership structures, even though these businesses inherently have a wide base of support and buy-in from workers and their communities. We understand the importance of ensuring that people have "skin in the game" - that they have a deep commitment to ensuring the success of their business and the repayment of their loan. The shared ownership structure of worker cooperatives actually makes employee owned businesses more dependable, and more resilient – better able to weather economic downturns, less likely to lay-off workers, and more productive than their traditionally owned counterparts.

There are many examples of cooperative loan programs that result in lower default rates than SBA loans with no personal guarantee. For instance, the Intermediary Lending Pilot Program resulted in loans to 17 worker cooperatives and zero defaults, with 16 of those businesses still operating. The ownership structure of co-ops creates plenty of incentive for the member-owners to succeed. To compound the issue, the regulations currently under review regarding the CDFI fund will cut off access to vitally needed programs, further restricting access to financing. We ask that the SBA draw from the field's deep expertise in lending to cooperatives to create a common-sense solution that works for both worker cooperatives and ESOPs.

Worker cooperatives need access to the full range of the SBA's tools to foster and create stable, high-retention jobs that empower workers and provide workplace flexibility. Programs like the 7(a) loan program are a vital piece of accelerating the already rapid growth of worker co-ops. While we have been disappointed in the SBA's report on cooperative options and its lack of action regarding the Main Street Employee Ownership Act, we also know that the SBA has the programs and assets to spark significant growth of the worker co-op movement. Our goal through these efforts is to support and protect the 24.7 million workers across the country, currently employed in baby boomer-owned companies, and to strengthen the worker co-op community. On behalf of the cooperative community, we thank the Small Business Committee for their attention to this issue. We look forward to working with you to ensure a prosperous future for our small businesses and workers across the United States.

In cooperation,

Mo Manklang, U.S. Federation of Worker Cooperatives