



# Innovative Finance Inclusion

## A co-op for fair trade: The case of a social change organisation owned by its workers

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## Abstract

This mini-case study reviews the case of “Equal Exchange”, one of the largest worker-owned and mission-centric cooperatives in the U.S. (NCBA Clusa, June 2020). Equal Exchange is active in the food industry, namely coffee trade, as well as chocolate, tea and certain grocery products. The company partners with small-scale farmers from around the world on the base of a Fair-Trade model. Equal Exchange maintains offices in different locations in USA (Massachusetts, Portland, Minnesota and Cleveland) and partners with farmers from North, South & Central America, Africa and Asia. Equal Exchange trades with customers mainly in the USA. The company is active for more than 30 years with their first traded product; Nicaraguan Coffee, arriving at the Port of Boston in May 1986 which essentially signaled the “birth” of the organisation (Equal Exchange, 2021a).

## Keywords

Regulation, Equal Exchange, Food Industry, Fair Trade





## 1 Sales and Growth

Equal Exchange is sourcing 40 small-scale farmer organizations from 20 countries in Africa, Asia, Latin America, and the United States and cooperates with wholesale customers all over USA, private companies, congregations and stores. Equal Exchange's coffees, teas, chocolates, and other fair foods are available to grocery stores, co-ops, supermarkets, cafes, restaurants and universities. The organisation also operates two cafes in Cleveland and Illinois in USA (Equal Exchange, 2021b).

In addition, Equal Exchange sells products through non-profits and interreligious organizations who commit to educate their constituents about fair trade products. These organisations are then able to keep certain profits from the sales in order to finance their social activities (The four Lenses Strategic Framework, 2021).

By 2018, Equal Exchange was profitable for 24 out of their 25 years as a cooperative, employed around 140 worker-owners, a board of directors and collaborated with a number of outside investors who are aligned with their mission (Small Giants community, 2018). By 2020, Equal Exchange exceeded 60\$ Million in annual sales, reported net earnings of \$951.824 and a total amount of assets that reached \$42.995.372 Million (Eco-System Report, 2020).

## 2 Alternative Structure and Governance

Equal Exchange is a worker cooperative, meaning the majority of its employees are also shareholders.

*“Worker co-operatives have the objective of creating and maintaining sustainable jobs and generating wealth, in order to improve the quality of life of the worker-members, dignify human work, allow workers’ democratic self-management and promote community and local development” (CICOPA/ICA, 2005).*

The company is not publicly traded in the stock market but according to the US legislation, it can sell non-voting shares to outside investors to finance the company’s operations. Equal Exchange screens and accepts the outside investors after a long-term internal procedure to ensure they align with their mission and worker-friendly ethos while that way, they avoid dealing with investment banks. Between 2014-2015, Equal Exchange raised \$4.1\$ Million for its business expenses from 136 investors, which to date remains the largest sale of equity to outside investors for any worker-owned cooperative in North America (Chesto, 2015).

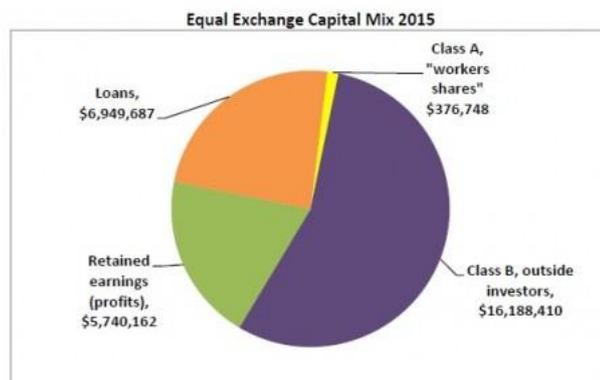


Only the workers-owners can own voting shares of the company allowing them to decide the company's own course. The workers-owners also decide the return to the investors which is usually around 5% but has also reached 8% in the past. The investors can buy a minimum stake of \$10.000 which is actually indicative of the trust that the investors place on the profitability potential of the company. Then, Equal Exchange and the workers-owners reinvested the profits through the net earnings (Mitchell, 2015).

Until 2018, Equal Exchange had raised more than \$16 Million in capital from outside investors and managed to pay annual dividend to workers-owners and investors every year for 28 years, even during the Great Recession (Abello, 2018).

According to their website, *“this approach allows mission-driven companies to get direct financing from their customers and supporters without giving up operational control or being pressured to sell out—as they would if they were getting money from angel investors, venture capitalists, or private equity firms”* (Fireside, 2021).

With regards to the company's “lenders”, Equal Exchange tries to partner with financial institutions that they consider supportive and relevant to their social mission. They partner with such different institutions at the same time as the National Cooperative Bank, the Calvert Foundation, RSF Social Finance, and Eastern Bank (NCB, 2021).



Source: <https://equalexchange.coop/how-equal-exchange-aligns-our-capital-with-our-mission>

## 2.1 Critic

Fair-trade organisations have gathered significant criticism. Mainly because on one hand they over-emphasise them respecting labour and financial standards for the farmers (also for marketing purposes) but on the other, they seem unable to concretely alter the



working and financial conditions of the farmers communities in the regions that they operate (Haight, 2011). In addition, fair trade labelling organisations have been accused the last years of “watering down’ their standards mainly because of the significant earnings that labelling more organisations as “fair-trade” can bring (Neuman, 2011).

It remains to be seen how organisations such as Equal Exchange with long history in fair trade which also put fair trade principles at the core of their existence will react. Equal Exchange itself seems to be critical towards this certification system anymore. They seem skeptical towards the “fair-trade” label, particularly after large corporations such as Nestlé are also “proud” to call themselves fair-trade organisations (Equal Exchange, 2021c).

Possibly as reaction to this, Equal Exchange has now moved beyond promoting and improving their fair-trade-operation and has embarked on a mission to inform and support other worker cooperatives and small businesses to raise capital while avoid dealing with investment banks and takeover bids. To this day, Equal Exchange has connected other worker cooperatives with their network of 600 investors (Abello, 2018). So, in addition to continuing their tradition and sustaining their operations on the base of fair-trade as known so far, they are helping others to discover this side of sales and entrepreneurship.

## 2.2 Public Visibility

The company is often awarded by US organisations and associations for their alternative governance, work ethos and social activities and contribution. Among the awards they have received are from the Sustainable Business Network (2017 Massachusetts Sustainable Business of the Year), Boston Globe (2009 #36 top places to work) and 2001 Oxfam America Heroes Award (Equal Exchange, 2021d).

The Equal Exchange website (<https://equalexchange.coop/>), among others, it offers the possibility to buy products online as well as find recourses and educational tools regarding workers cooperatives, fair trade, sustainable finance and other.

The same applies to their social media,

Facebook (<https://www.facebook.com/equalexchange>)

Instagram (<https://www.instagram.com/equalexchange/>)

Pinterest (<https://www.pinterest.com/EqExCoop/>)

YouTube (<https://www.youtube.com/user/equalexchange>)



### 3 Key Learning Points

- Access to capital remains a major barrier for most worker cooperatives to achieve their potential to grow and scale to the point where they can influence others in the sectors to change practices and possibly incorporate as or convert to worker cooperative ownership structures, but this case study actually shows us one of the few worker cooperatives that has raised a significant amount of capital from investors. They have moved beyond setting an example for how to court investors as a worker cooperative; they've directly supported other worker cooperatives to learn how to raise capital and have even connected others to their established network of around 600 investors, proving that changes in regulation and governance is possible
- This case shows us also that even if worker cooperatives need an outside investor at some point to expand, there are some actions (like the minimum stake) to ensure that the core values and missions are not sacrificed.
- There are drawbacks and challenges, raising capital is difficult even in the most liquid investment markets. In traditional investing, people with capital to deploy are seeking the highest possible return. That can corrupt the mission of a socially conscious company (such as by having it sold to a conglomerate), but it also tends to encourage growth.
- The idea is to provide a new opportunity for investors, growth is necessary to maintain a business for companies, but that doesn't mean that growth itself must be pursued at all costs. An industry populated by lots of small companies, and perhaps fewer gigantic ones, tends to wreak less havoc on the economy and the environment.



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## Appendix

Can be used to present tables, charts, etc.

### 4.1 Appendix1: Title

### 4.2 Appendix2: Title

