

# Symbiotic System for Community Economic Development and Capitalistic System From a Cooperative-Funding Perspective

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## ABSTRACT

Both Neoliberalism and Community Economic Development (CED) system have unique advantages and practicality. However, due to the lack of understanding between the two systems, the synergy effect is almost impossible to be created. Both systems act in the form of being against each other, resulting in more severe conflicts. This paper dedicates to finding the way to connect the two systems and building a bridge for both parties to improve their communication with each other better, to find a peaceful solution that could create synergy effects that would not only benefit both systems but also improve the market into a stronger-efficiency form while improving the Corporate Social Responsibility (CSR) system. With the establishment of the factoring model between cooperatives and the for-profit sectors introduced in this paper, both parties would be able to establish and strengthen partnerships and benefit from the new relationship. If the system was to be massively promoted, there could be potentials for the for-profit sectors to generate more CSR-oriented entities. The two parties can develop on an equal footing, and eventually become a brand-new form of system, eliminating “bad apples” within the capitalist system without revolutions.

**Keywords:** Cooperative, Community Economic Development, Fund Raising, Neoliberalism, Factoring

## 1. INTRODUCTION

### 1.1. Background

Like corporations, a cooperative is a legal entity with rights and liabilities. However, cooperatives are owned by their members and their shareholders equally, following the principle of “one member one vote.” The legal status protects members and shareholders from losing their wealth other than what is personally invested in the cooperative. Those who participate in cooperatives or become founding members often share common values, which means they are willing to work together towards a common goal. One goal is to build a more inclusive economy by shifting business focus from profit to people. Fairness and equality are among the fundamental principles on which cooperatives are founded. The view of one cooperative member does not carry more weights than that of another. In terms of social justice and democracy, cooperatives are essential today

as they help to rebalance power, dilute concentrated wealth, and narrow the gap between rich and poor.

However similar corporations and cooperatives are to each other, cooperatives are bounded with more restrictions and face more challenges when it comes to financing. Some financial institutions ask cooperatives’ (co-ops’) board to secure loans if the institution considers the project risky. With both moral principles, economic restrictions, etc., cooperatives are developing significantly slower than corporations. Like charities being constrained to making “bold” moves, cooperatives seek ways to fight against the capitalistic system and accomplish their goals while remaining their principles and hearts true.

### 1.2. Related Research

Enns illustrated principles to follow in the CED work. With these principles, the communities would gain the right and the power to control the business entity. In addition, taking control over economic resources would

bring consumers closer to the value chain and make co-ops more capable of reducing costs by distributing jobs and demands to different communities, which would reduce competitiveness by focusing on each community's own strength [1]. The needs for these principles come from the situation, as Yenebat illustrated. The community development problems come from the incompatibility between decision-makers and the economic body. People who know about what's needed don't have the right to decide, vice versa [2]. However, there have been multiple failed attempts to try to resolve the problem. For example, based on the situation of the Community Development Corporations (CDCs) in Detroit, Heil illustrated the situation of CDC system. CDC system is a complicated economic system as it involves multiple interest parties, the conflicts between Neoliberalism and Keynesianism, races, and more. These conflicts were neglected. Right-sizing was brought out then, which depends on a coalition of powerful actors. However, it went wrong and became obsessed with the ideology that claimed that the racial problems no longer existed [3]. While many scholars are arguing the governments' inactivity with the community economic development. There are researches suggesting a counterpoint. By focusing on Chinese community foundations, Guo and Lai revealed some community foundation enterprises and based on Chinese situation, they provided different kinds of foundations based on two-dimension judgement (Public Fundraising Status & Government Affiliation), based on which, Guo and Lai provided their analysis and research conclusion that independent community foundations could be of more creativity. The more community involvement, the more their boards tend to be committed, on the other hand, government-affiliated community foundations, despite the resources at their disposes are more than the other, their efficiency, effectiveness, and adaptability are of a slightly lower level [4]. There are also successful attempts, for example, Causeway studied the development and transition of GNG, it stated that the procurement policy and interest-party analysis are of great help to the transition. Causeway provided a method that was adopted to lower the cost like JIT, which helps to reduce inventory and lower the costs of purchasing related expenses. And by analysing interest, related parties could provide the organizations with more opportunities [5].

It's suggested by Blakely and Milano, that there are mutual benefits which could be found between CED and for-profit sector. Community economic development is a branch of local economic development, which is based on two essential notions. First, the community should be the focal point for developing human, social, and physical resources. Second, the indigenous resources, particularly human and organizational, must be the foundation for any development activity. In the community, the idea of economic development is to build

new wealth from the basic local resources by repositioning these assets as attractors of capital. This can be accomplished by re-using local building to incubate local artists and entrepreneurs and other related strategies that restore pride and give local people more economic power to control their own economic destiny [6]. There are benefits for both parties in cooperation rather than confrontation. Phillips and Besser suggest that the role of economic development in communities is multi-faceted, having an array of antecedents, impacts, and implications. Their research discussed the relationship between economic development and community development, focusing on the aspects that impact communities such as social capital, participation, and business development. They also discussed the needs to align the goals of community betterment more closely with economic improvement and finding ways to enhance leadership and other resources [7]. Also, Markusen's research analysed why and how economic and community development planners might target occupations as well as industries in shaping an economic development strategy. Key occupations can be identified based on ability, high relative employment growth rates, connectivity across industries, fit with underemployed workforce groups, and potential for entrepreneurship [8]. And just like what Haynes and Nembhard illustrated and what other discussants argued against Michael Porter's conventional notions of economic development that if revitalization is to target both human needs and human potentials, then cooperation and collaboration are key components of a comprehensive and holistic strategy rather than a core that's based on fulfilling individuals' self-interests and their profit-oriented motivation [9]. Just like what Royer illustrated in the research, cooperative finance is a key challenge for the survival and development of cooperatives. Contacting industry partner leaders also indicates that income distribution decisions and equity management decisions (including equity investments and redemptions) remain high on their list of priorities [10].

### ***1.3. Objective***

Based on the existing research, this paper focuses on how to build a better approach between the for-profit sector and the cooperatives through financing to make cooperation between the two parties possible while satisfying both sectors' needs. With this model, both parties would be able to benefit, and with the model being massively prompted among CED entities, the CED system would be embedded into the Capitalistic System by creating a synergy effect. It would also pave the way for the economic system to evolve into a CSR-based system. Eventually, there would be no more distinguishment between the CED entities and the for-profit entities. Therefore, a new form of entity would be formed.

## 2. CURRENT SITUATION

Under Neoliberalism, the gap between the poor and the rich was even widened, and with monopoly and oligopoly occurring and dominating community-based markets, high unemployment rate, racial discrimination, sexual discrimination, and other social problems are occurring and becoming more and more fierce, social classes are even divided clearer than before. And for the welfare nations under Neoliberalism, premature Utopian fantasies are emerging. Although the people living within the countries are satisfied, the resources and welfare systems are dependent on the exploitation of other countries and people. To help the communities bring exploited out by themselves while respecting the fair rights of other communities around the planet, cooperatives are brought back into the public's view. While meeting the needs of the community, cooperatives found their ways to ease local unemployment issues while respecting its members and employees, restoring the confidence and the order of community livelihood.

When it comes to business activities, as long as they are following the commonly accepted moral codes and social conventions (regulations), all business entities should be equally treated. But the governments (especially in the countries that are deeply rooted in capitalism) tend to favour those who are exploiting others, but this wouldn't be surprising as these business entities are the ones who are large enough to fund the governmental activities. Inevitably, inequality would occur since the governments cannot act independently.

However, successful cooperatives face common bottleneck problems just like corporations, acquiring more funds would be the first step, but the existing financing rules and requirements do not necessarily meet with the situations of different cooperatives, whereupon some of the cooperatives surrendered and joined the for-profit array and put away their initial goals and visions while others struggled to accomplish further development goals by accumulating capital on their own.

Issuing bonds and preferred stocks are the most common ways for cooperatives to raise funds while maintaining their initial purposes, however, most cooperatives are founded in communities with financial distresses and they are mostly grass-rooted, for most of the suitable target funders, they are within the communities which suggests less likelihood of advanced financial situations. While the market is with sufficient funds looking for investment opportunities and financial institutions with needs to loan, co-ops are being excluded as they are not traditional and are not considered a member of the capitalistic system.

And according to Royer, Managing business risk while maintaining ownership is not a small challenge for

cooperatives. Cooperatives need to strike a balance or management balance between adhering to the principle of the ideal proportion of equity investment and the urgent need of more equity venture capital. Members want the cooperatives to invest in more assets, improve profitability, reduce business risks, require more equity to invest in financial assets and strengthen the balance sheet, but at the same time do not want to slow down the speed of equity redemption. That is, members want the benefits of the cooperative without the corresponding ownership responsibilities. That puts more pressure on boards and managers to ensure co-ops are profitable, to generate more equity investment and to use higher leverage to finance for more asset investments.

Some scholars would argue against the expansion and the further development for the CED organizations including co-ops, as it violates the 7 principles which was brought up based on the situations of cooperatives under special conditions, e.g., Cuba. And by following the principles and existing models would not only confuse the CED organizations, but also isolate them from the capitalistic system, no matter how great the organizations became, the overall economic system would hardly be influenced. Instead of seeking for opportunities and paths to cooperation, some scholars always quote themselves (as well as the co-ops and other CED entities) as the warriors that are fighting against the rest of the world. This paper looks forward to bringing innovative approaches to establish a bridge of cooperation between co-ops and the Capitalistic system. Showing the world as an example of how both for-profit and non-profit parties could benefit from cooperation and create long-term effect on the system.

## 3. FACTORING MODEL

### 3.1. *Factoring Model*

To make the cooperatives' side and the for-profits' side meet in the middle, the best way is to satisfy both side's needs. For example, the cooperatives need extra funding to better serve its goals of the development of the community, the for-profit private financial institutions need to achieve better loan-to-deposit ratio. However, since the two sides are so different from each other (including how they evaluate a project and the business model), the needs that are already complementary cannot meet with each other, this is when a third party needs to step in.

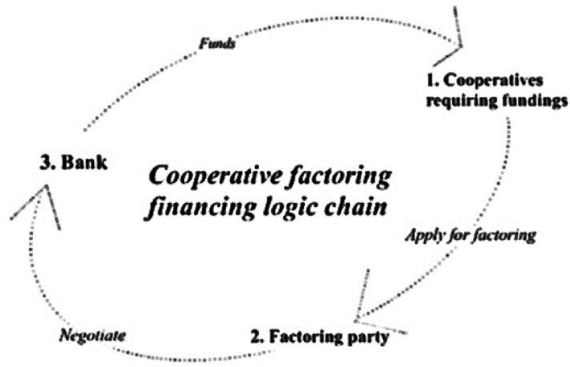


Figure 1 Cooperative Factoring

Cooperative factoring is a model that links the traditional entities with cooperatives together through short-to-mid-term fund allocation needs. As shown in Figure 1, a third party as a factoring-function entity could meet the needs by building a bridge between. When cooperatives need to look for funding (e.g., from a bank), but since the private banks couldn't recognize the business model (since cooperatives' vision and goal are set differently from the for-profit sectors, it's hard for both sides to reach a consensus. Besides, given the complexity of the social programs the cooperatives invest in, it's only the best for a professional institution to evaluate the effectiveness, expectation and the volatility of the program and set a fair transaction), cooperative could reach to a factoring party to get the project evaluated and apply for factoring. When the factoring party approved the application, the private bank would provide the agreed fund to the cooperatives directly, the factoring party would be responsible to see the principles and the interests being paid back to the bank by due date. The factoring party must be a professional entity with cooperative experience, so that the factoring party would establish contact with the cooperatives according to its understanding with the cooperatives.

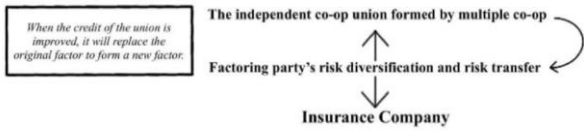


Figure 2 Risk Management

To lower the risks the factoring party is taking, there are two ways as shown in Figure 2. Firstly, to diversify the risks, the responsible part would be formed as the factoring party and the co-op union formed by multiple co-ops, by including not only the cooperative that's requiring the funds, but also the ones that are closely connected with each other, the pressure would be distributed to more parties which would be able to lower the risk of moral hazard and with the risk level being lowered, the interest rate charged to the cooperatives

would be lowered. Secondly, to transfer the risks, including an insurance company in to put up a safe net for a portion of the investment could also benefit the factoring company, especially when the scale of the factoring party is large enough.

Ideally, the co-op unions are formed by building connections with other entities (including cooperatives, for-profit entities and others) through the value chain. The entities within a union are obligated to be the supervisory boards of other co-ops within the union, they need to be updated with the information of how the funds are being managed. By getting inside the union, the co-ops would be able to benefit the convenience of getting funds through the factoring system and the co-ops would be able to issue commercial paper with each other to meet short-term fund-raising needs. The factoring party would not be a part of either for-profit sector or a part of cooperatives to meet both sides' needs. Eventually, some of the co-op unions would be able to become the new factoring party to satisfy the needs from the cooperatives and with the profit model, the co-op unions could become the group holding company of the cooperatives and improve their capabilities of raising more funds from the public market and benefit the cooperatives as well as themselves in an even better way.



Figure 3 The Profit Model of the Factoring Party

The factoring party would be making a profit by the difference between the interest rate required by the private financial institutions and the factoring rate (as the "service fee" in Figure 3, e.g., cooperative A got approved with a fund of \$10,000 for a year, annual interest rate 8% and the factoring rate 10%, then the factoring would be making a \$200 revenue from the deal). When it's due, the money would be paid directly back to the financial institution by the cooperatives and the bank would then wire the service fee to the factoring party.

3.2. Needs of The Factoring Party and The Financial Institutions

Firstly, the factoring party could benefit from this as cooperatives are by their nature "good apples", even though cooperatives are not aiming at making profits, but their needs to pursue the higher goals is through making profits, to enhance their ability of raising funds is a win-win outcome for both the factoring party and the

cooperatives. Besides, by comparing with other small and medium parties that require factoring, cooperatives are generally more socially responsible. Since they are more stable, the risk level is considerably lower.

For the financial institutions, the needs to make profits through loaning is intense while the projects that could meet the standards are significantly less than the need, even though there are cooperative programs that are looking plausible, because of the standards couldn't be met, the needs for both sides could not be realized. And, to fulfil the social responsibility, cooperating with cooperatives within the communities could not only make a social impact but also consolidate the social status within the communities for the corporations.

## **4. DISCUSSION**

### **4.1. Symbiotic System**

The CED system has its unique advantage in fulfilling its vision of making the world a better place, but within the economic system that's been established based on maximizing profitability for decades, the CED system couldn't maximize its effect, especially in nations under Neoliberalism. However, with a system that's capable of connecting the two parties could the CED entities better fulfil their visions and goals while creating mutual benefits for the private sectors.

This system designed for cooperatives to better raise funds could help meeting the needs between cooperatives and private financial institutions, the authors of this model believe, this is just the start of a rather long journey for the two parties to work together to satisfy their needs. However, if the model could be learnt from, and started from this, could private sectors and the CED system be able to build a long-term relationship that's going to lower unemployment rate, rise working satisfaction and narrow the wealth gap.

Economic system never was, is or will be a zero-sum game, for each entity that's looking forward to building it into one that's built to last, it's always necessary to consider the mutual benefits of the communities it's within and the rest of the market. The authors of this paper do believe in the theory of limited resources, this is also the reason this paper is advocating both sides to make concessions. Private sectors need try to embrace the new-form entities and develop new systems for future business opportunities. And for the CED entities, instead of trying to fight against the for-profit world, find common ground and seek for opportunities. There have been a lot of theories about principles cooperatives and other CED entities should follow, suggesting that the members within the network need to look out for each other, avoid the competition that's going to emerge among the CED entities. But human society is just like the nature where evolution theory applies, if the CED

entities keep being small and silent, it wouldn't do any good for themselves regarding their survival, let alone with human development. It seems that the only way for CED to better influence the current economic system is through expansion. If it's still pursuing its visions, communities they expand into would still benefit from the expansion. There are a lot of reflections of Cuba's cooperative model in the current research that are advocating non-expansion principles, but the authors of this paper believe that for the CED system to work in Neoliberalism nations, this could hardly be applied since the sequence of situation occurred in Cuba was the economic system being founded firstly and then the cooperative model emerged, which is not duplicable unless revolutions emerge, this could also be another reason why there has been radical voice in the CED system arguing "it's them against the rest of the world".

### **4.2. Expected Effect**

By building the bridge between cooperatives and the private sector, co-ops would be capable of growing and expanding effectively, while maintaining the authenticity of their vision and keeping the power of control within the community. In the last decade, there has been a huge number of corporations who have shifted their structure and vision into more corporate social responsibility (CSR) oriented ones. Business civilization is entering into a stage of taking CSR as the core. Almost every enterprise can be considered as a social enterprise now, and the funds are becoming more and more ethical. Under this background, CED and the current economic system could achieve great things together.

After the symbiotic system between the private sector and the cooperative unions was formed, the unions would become much more diversified and flexible. It's likely that mankind could finally perceive the combination of the assumption of Adam Smith (who believes that individuals who do what's best for themselves would serve greater interests) and John Nash (who believes that individuals who do what's best for themselves and the group would serve the greater interests), and the conflict that have existed in our social culture for hundreds of years being eventually resolved.

With the system being established and spread, there would be systematic changes in the economic system and the market. Some scholars believe that there would always be conflict between private sectors and the CED entities, but perhaps, it was never conflict, but lack of bridges connecting the two worlds. Instead of revolution, evolution would carry on the errand and the market would be able to transform the economic system into one that's of stronger-form efficiency and CSR would eventually become natural for entities to fulfil.

## 5. CONCLUSION

With the introduction of factoring model, for-profit sectors and cooperatives would be interrelated, and their relationship would depend on each other in multiple dimensions from profit to realization of organizational visions and goals.

This model can be applied to all CED entities who are in needs of seeking for opportunities of cooperation and further development. This paper believes that the source of the “conflict” between the two parties has never been about whether to maximize the profit of the organizations but the lack of effective communication that’s based on mutual benefits. For the two parties to separate from each other, it would be impeding each other’s development. Moreover, from the current situation, it is highly likely that CED would eventually be defeated, and the goal of changing the existing economic system will never be achieved. However, with both parties cooperating with each other, the synergy effect that would be generated from the relationship would benefit the market and many generations from environmental protection to stronger-efficiency-form market.

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