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As business intersects increasingly with the ideals of sustainability and social responsibility, the traditional playbook of corporate conduct is being rewritten. This shift marks a departure from the singular focus on profits to a more holistic approach where values and ethics are as paramount as the bottom line. Welcome to the evolving landscape of ethical business models, where the emphasis is not just on doing well but also on doing good. It's a landscape where the economic motives of corporations are being recalibrated to address broader societal and environmental concerns – a change that’s both necessary and overdue.

Enter the concept of Regenerative Finance 2.0. At its core, Regenerative Finance (or ReFi) is not just about sustaining; it’s about revitalizing. It’s a financial philosophy that intertwines the health of the economy with the wellbeing of the planet and its people. In a climate where traditional financial mechanisms often fall short in addressing the needs of ethical business models – such as cooperatives, B Corps, benefit corporations, and DAOs (Decentralized Autonomous Organizations) – ReFi offers an alternative path forward. It propels these models not just to survive, but to thrive, fostering an economic environment where the ripple effects of business activities extend beyond profits to nurture communities and ecosystems.

The increasing relevance of this approach is underscored by the changing demands of our times. Society is becoming more conscious, not just as consumers, but as citizens. There's a growing recognition that businesses have a larger role to play – that they can be a force for positive change. This awareness is driving an unprecedented shift towards business models that embed social and environmental goals into their DNA.

Regenerative Finance 2.0 is more than a financial strategy; it’s a response to a world in flux. It's about harnessing the power of finance to rebuild, restore, and renew. In an economic climate battered by global challenges – from climate change to social inequalities – ReFi offers a pathway to rebuild not just economies, but also communities and habitats. It's a holistic approach, where financial success is intertwined with ecological and societal health. Let’s explore how these concepts are reshaping the business landscape, making it more inclusive, sustainable, and, ultimately, more humane.
### ETHICAL BUSINESS MODELS: A DEEP DIVE

Various business models have emerged in an era where ethical considerations in business are no longer optional, but essential. Each provides a unique blueprint for integrating ethics into the heart of business operations. Let’s explore four pivotal models: Cooperatives, B Corps, Benefit Corporations, and DAOs, delving into their backgrounds, structures, and philosophies.

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<td>Democratically-run businesses owned by and for their members.</td>
<td>Companies certified by B Lab for meeting rigorous social and environmental performance standards.</td>
<td>Legal business entity committed to creating public benefit in addition to profit.</td>
<td>Decentralized organizations governed by protocols or member consensus, typically on a blockchain.</td>
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<td>'One member, one vote' democratic ethos.</td>
<td>Balance between profit and purpose.</td>
<td>Legal obligation to consider the impact on all stakeholders.</td>
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<td><strong>Origin</strong></td>
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<td>Initiated by B Lab, a global movement.</td>
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<td><strong>Governance</strong></td>
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<td>Must meet B Lab certification standards; no specific governance structure.</td>
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<td>Member contributions; often struggle to raise external capital.</td>
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COOPERATIVES

“It’s important for business to be part of the change that we need in this world. I think whatever happens, business is a powerful driver of the forces in the world.”

- Jeff Pote, Founder and Managing Attorney, Pote Law Firm, PBC

Cooperatives, or co-ops, represent an age-old business structure, deeply rooted in human history and communal living. Societies, for generations, have understood the strength of collective action. From agricultural collectives in ancient civilizations to modern credit unions and retail cooperatives, this model has showcased its adaptability and relevance across generations and industries. Originating from the cooperative movements of the 19th century in Europe, especially the influential Rochdale Pioneers in the UK, these entities prioritize the welfare of members above all else. The Rochdale Principles, ideals for how cooperatives should operate, were originally created in 1844, but have since been revised by the International Cooperation Association to include seven principles. These key principles include democratic member control, economic participation, and concern for the community. By ensuring decision-making power rests with its members, cooperatives inherently create an environment conducive to sustainable growth and equitable wealth distribution.

As such, the strength of cooperatives lies in their member-centric approach. Every member has an equal say, ensuring that decisions resonate with the broader community’s aspirations. While they might not scale as rapidly as some other models due to their community focus, their grassroots impact is profound, fostering strong local economies and community ties.

By prioritizing the voices and needs of their members, cooperatives ensure that their decisions resonate deeply with the broader community’s aspirations. Jeff Pote, Founder and Managing Attorney at Pote Law Firm, PBC, delves into the essence of these models, “Cooperatives have ‘patron member’ owners. Patron member basically means that the member-owner is doing something to or through the cooperative. So buying things through REI, for example, or selling the owner’s services or products through the cooperative. If you’re like an agricultural cooperative like Cabot, individual farms are co-op members which sell their products through the co-op.” This patron-member relationship is central to the cooperative model, ensuring that those who contribute to the cooperative’s activities are the primary beneficiaries of its success.
A more modern iteration of cooperatives exists, where the patrons are workers. Alejandro Ruiz of Interstitial Technology, a public benefit cooperative and engineering firm focused on building impactful solutions for a sustainable future, highlights a key aspect of cooperative models – open and egalitarian communication. He shares, “In my experience, the most important difference in egalitarian business models versus startups that have failed, is that there was a leadership communication malfunction. And in a cooperative, it’s not that we don’t have those problems, it’s just that you can bring up issues and you don’t have to worry about retaliation.”

Echoing Ruiz’s sentiments on the cooperative model, Interstitial’s Chris Chronopoulos emphasizes the unique structure of co-ops where traditional hierarchical roles are redefined, “[With co-ops], there are no bosses. The other way to think of that is that we’re all collectively ‘the boss.’ We’re all member-owners. So that’s both empowering and also scary. Everybody has agency to do what they think is best, but also that agency comes with responsibility.” This duality of empowerment and responsibility inherent in the cooperative model showcases how every member is both a leader and a contributor, balancing agency with accountability.

Chronopoulos also delves into the practicalities of cooperative governance, illustrating how Interstitial operates. “We started the co-op with a set of bylaws, and they’re extensive, they’re specific, and they’re rigorous. We abide by them with everything that they apply to. So any kind of election or policy-making goes by the bylaws. Everybody’s entitled to vote. We need quorum. We have a process for executing the meetings. So the decisions are made democratically like that. The smaller, day-to-day operations are more like a doocracy. If a member is willing to, let’s say, fix the website, then they are granted some prerogative in how that gets done.”
When it comes to being a co-op within tech, an industry which is notorious for being “uncooperative-like” with mass layoffs and lowering labor costs, Ruiz elaborates, “With a cooperative, when we develop technologies, we think more along the lines of ‘how can we make our entire team more effective?’ So, your household might use this model. Your mom does the laundry. When you get a laundry machine, you don't lay off mom. You do more things as a family. And I think it really changes how you approach technology when you think of all of the workers as equal stakeholders versus them as being a source of cost.”

Pote further comments on the limitations of traditional cooperative financing: “If you’re stuck to raising from your members or borrowing the money, it just limits your options in terms of what you can do. I think the biggest change in cooperative law is the Uniform Limited Cooperative Association Act, [because] there was a need for cooperatives to be able to take investment from outside investors. So these kinds of hybrid models, you can think of it that way, have come along that kind of say, yes, you can take investors and even give them voting rights. But I say this to my co-op clients: I don't want you to think it's going to be easy to get investment. Investors are used to voting with their dollars. The more shares an investor buys, the greater their respective say in decision making. So an individual investor may have a 30% say. Or maybe even a 51% say. And now you’re saying to those investors, ‘Yes, you have a vote,’ but it's one vote just like the rest of us.”

Building on Pote's insights, Jacqueline Radebaugh, an attorney and partner at Jason Wiener, PBC, further clarifies, “Limited Cooperative Associations (LCAs) must keep the majority of voting power with their members. This ensures that the members remain the main beneficiaries, both financially and in decision-making, even when seeking external funding. I advise my clients to use this mechanism as a safeguard for their cooperative values, recommending it as a strategy to attract investors who align with their ethos, like the Center for Cultural Innovation and the Sisters of Mercy.”

This evolution in cooperative financing expands the possibilities for growth and impact, allowing these organizations to explore new avenues of capital generation. Later in this article, we will further examine alternative financing models, such as Revenue-Based Financing and Direct Public Offerings. These innovative strategies are pivotal in broadening opportunities for ethical business models, enabling them to flourish and extend their impact within today’s economic landscape.

As we explore the nuances of cooperatives through the insights of Ruiz, Chronopoulos, Pote, and Radebaugh, it becomes evident that these models represent a significant shift from traditional corporate dynamics. By emphasizing collective effectiveness, egalitarian communication, and member-
centric governance, cooperatives are paving the way for more ethical and inclusive business practices. While cooperatives like those described by Ruiz and Chronopoulos are redefining the tech industry’s approach, another model gaining traction in ethical business practices is the B Corporation (B Corp), offering a parallel yet distinct approach in this evolving landscape.

**B CORPS**

B Corps, born in the early 2000s, are for-profit companies certified by B Lab, a global nonprofit. This certification requires companies to meet rigorous standards of social and environmental performance, public transparency, and legal accountability. B Corps aim to use profits and growth as a means to a greater end: positive impact for their employees, communities, and the environment. They differ from traditional corporations by legally incorporating their commitment to people and planet into their business goals.

Amid growing consumer consciousness and a discerning clientele demanding corporate accountability, the B Corp certification is a rigorous benchmark of corporate responsibility. Entities like Patagonia and Ben & Jerry's, with their profound environmental and social commitments, exemplify the B Corp ethos, suggesting that fiscal growth need not be at odds with ethical governance. Although large multinational B Corps have faced scrutiny for their B Certification, this transition towards an integrative approach reflects the changing dynamics of the global business landscape and the pressing need for sustainable and ethical practices.

Nathan Stuck, Founder of Profitable Purpose Consulting, a leading B Corp consultancy which helps companies get B certified, provides insights into the B Corp movement that start with an emphasis on the overarching mission of these entities. He remarks, “I’d say the core mission of B Corps is a community of companies using business as a force for good.” This sentiment captures the B Corp philosophy – a commitment to not just being the best in the world, but the best for the world. Stuck further elaborates on the challenge of distinguishing genuine commitment from mere marketing, a crucial aspect in an era where corporate social responsibility often blurs with promotional strategies. “Every company now has a commitment to community, has a commitment to the environment, and has a commitment to diversity. B Corps' commitments have been vetted and verified, and that photo on their ‘About Us’ page isn't a stock photo, it's a picture of actual people that actually work there,” he notes, highlighting the importance of authentic engagement in these areas.
With the practical application of B Corp principles in business growth, Stuck shares a tangible example from his experience with his former company, Advictorium Solutions. “When they had five or six employees, they used the B Impact Assessment (a digital tool that helps companies measure and improve impact across five areas: community, customers, environment, governance, and workers) as the framework and as the foundation for them to build their business on,” he recounts. This reflects how the B impact assessment can serve as a guide for businesses to integrate ethical practices from the ground up, ensuring that as the business scales, its mission remains a core pillar.

Furthermore, Stuck addresses the expansion of the B Corp movement into larger corporate structures, emphasizing its growing influence and mainstream acceptance. “Sell it to them by talking about building an economy that works for everyone there,” he suggests, underlining the potential of the B Corp model to reshape broader economic paradigms. He notes the involvement of multinational corporations, “Nestle has basically green lighted all their subsidiaries to go. Unilever owns a bunch of B Corp brands. Danon did it,” indicating a significant shift as large-scale businesses begin to adopt B Corp principles.

Lastly, Stuck touches on the importance of framing the conversation around B Corps within the broader context of capitalism, ensuring that the dialogue remains open and productive. “We've got to be business first and humanity first. Let's say capitalism. That's the system we're in,” he asserts. This perspective highlights the need to work within the existing economic system to foster change, rather than opposing it outright.

These insights provide a comprehensive overview of the B Corp movement, from its core mission and challenges to its practical applications and future potential within the global economic system.

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**BENEFIT CORPORATIONS**

While the concept of socially responsible businesses isn’t novel, the codification of such principles into law certainly is. Benefit Corporations, or Public Benefit Corporations (PBCs), through their unique legal structure, attempt to bridge the gap between societal expectations and corporate actions. Unlike traditional corporations driven by shareholder primacy, Benefit Corporations are legally bound to weigh the societal and environmental implications of their actions. This commitment to a broader spectrum of stakeholders marks a seismic shift in corporate law, advocating for a holistic view of business success. By setting such legal precedents, Benefit Corporations pave the way for future entities, urging them to introspect and redefine their measures of success beyond just financial metrics.
Benefit Corporations operate with a clear mandate: prioritize all stakeholders, not just shareholders. This legal obligation ensures a consistent commitment to broader societal values, irrespective of market dynamics or leadership changes. Their adaptability lies in the flexibility to integrate any state-specific benefits while maintaining their overarching mission.

Benefit Corporations operate under a unique legal structure that mandates a balance between profit and purpose. They are designed to serve a public benefit, which is clearly stated in their charter and forms the backbone of their operational ethos. As Jacqueline Radebaugh, Partner at Jason Wiener, PBC, points out, “You choose to be a PBC. So when you file your organizational documents or articles of incorporation, you have the option to declare your business as a PBC. This choice means you’re committing your business to public benefit goals, in addition to any other business structure you choose, such as a limited cooperative association (LCA). It’s a way to align your business legally with a set of values that prioritize public good.” This choice to become a Benefit Corporation signifies a commitment beyond profit, aligning business operations with societal and environmental wellbeing.

One of the strengths of Benefit Corporations lies in their ability to adapt to state-specific legal requirements while maintaining their overarching mission of public benefit. This flexibility in how profits are redistributed beyond stockholders enables them to operate within different regulatory frameworks, making them a versatile option for businesses committed to ethical practices. Radebaugh elaborates, “Colorado is pretty easy – there’s a checkbox for the choice of status, or specific form to file as a straightforward PBC,” indicating the ease with which businesses can adopt this model in certain jurisdictions.
A key aspect of being a Benefit Corporation is the requirement to produce a benefit report, which details how the company has pursued its public benefit mission. This report is crucial for transparency and accountability, providing stakeholders with a clear view of the company's impact. Radebaugh shares her firm's approach: "Since there is no requirement to file the report with any public authority, we publish [the benefit report] on our website and then we share it with our network, our clients, and we'll let them know. Here's how we believe we fulfilled our public benefit purposes."

Benefit Corporations often go beyond financial contributions, addressing various aspects of employee welfare and community involvement. As Radebaugh's firm exemplifies, "We have increased health benefits, mental health benefits to our staff, because that's something we believe is important. We share profits with employees instead of only the partners." This holistic approach to corporate responsibility reflects a deep integration of ethical values in every facet of their operations.

The impact of Benefit Corporations is not limited to their direct stakeholders but extends to the broader business community, setting a precedent for ethical and sustainable practices. With an increasing number of companies adopting this model, the future promises a shift in the corporate world towards more socially and environmentally responsible practices.

As we consider the implications and potential of Benefit Corporations, it's important to also look at other emerging models that are redefining the corporate landscape. Among these, Decentralized Autonomous Organizations (DAOs) represent a cutting-edge approach to corporate governance and decision-making, leveraging technology to democratize business operations.
DAOS (DECENTRALIZED AUTONOMOUS ORGANIZATIONS)

The digital realm, while nascent, has shown an incredible propensity to disrupt and redefine traditional paradigms. DAOs, with their innovative structure and philosophy, epitomize this disruptive potential. Envisioned as a fusion of technology and democratic governance, DAOs negate the need for centralized control, bringing in a new era of organizational structures. They operate in the realm of smart contracts and blockchain, ensuring unparalleled transparency and security. In an age characterized by data breaches and opaque corporate dealings, DAOs offer a transparent, decentralized alternative. DAOs present a glimpse into a future where technology amplifies democratic values, rather than eroding them.

Moojan Asghari, Founder and CEO of Thousand Faces, illustrates this evolution with her pioneering work in creating an investment DAO focused on impact and funding women. Asghari shares the vision behind Thousand Faces, “Thousand Faces is a community-driven funding platform to fund women around SDGs.” This initiative underscores DAOs' potential to address systemic issues like the lack of inclusion and diversity in traditional investment models. By decentralizing the decision-making process and including a diverse group of stakeholders, DAOs like Thousand Faces are opening doors to broader participation and equity in finance.

However, the path of DAOs is not without challenges. Asghari points out common issues that can lead to dysfunction: "So most of the DAOs get dysfunctional because of two main reasons. One is basically the ownership is linked to how much money you put in and how many tokens you gain." This can create a disparity in influence and control, potentially leading to a loss of the DAO's democratic nature. Additionally, Asghari notes the problem of low engagement and participation, which can hinder a DAO's effectiveness.
To address these challenges, Thousand Faces has implemented a unique governance structure. Asghari explains, “We are actually tackling these problems with our governance structure, which includes a limit to the amount of influence a DAO member can have regardless of how much they have invested, and internal checks for project viability and engaging ‘super angels’ (members with investment experience who are assuring that the deal flow is high quality, that the projects are financially viable, etc.) in the decision-making process, ensuring that projects align with the DAO’s criteria and mission.”

Maintaining active engagement is crucial for the success of a DAO. Asghari describes strategies to keep members involved: “We have so many ways of offline community engagement and online community engagement.” Thousand Faces employs an “Impact Passport” and gamified elements like dynamic NFTs to make participation more engaging and rewarding, emphasizing the role of community in the DAO’s operations.

Jacqueline Radebaugh, Partner at Jason Wiener, PBC, provides a broader context on the nature of DAOs: “I would describe generally a DAO more as in it’s an attempt to decentralize or maybe a variation of that. In a DAO, contributors gain benefits not from how much money they invest, but rather from the value they add through their work, similar to how cooperatives function. This model emphasizes active participation in decision-making, based on labor and contribution, rather than financial input. It’s a shift from the traditional business mindset where the benefits you reap are usually tied to the amount of capital you contribute, focusing instead on a model that values people and their work.” She compares DAOs to cooperatives adopting sociocracy, noting their less hierarchical structure and need to adopt flexible legal entity types. This comparison highlights the evolving legal and operational frameworks of DAOs, balancing decentralized governance with practical efficacy.

Looking ahead, DAOs represent a significant shift in how ethical businesses can operate. Their focus on inclusivity, community-driven decision-making, and transparent operations aligns well with the principles of ethical business models. As DAOs continue to evolve and address their inherent challenges, they have the potential to become a mainstay in the landscape of ethical and sustainable business practices.

As DAOs like Thousand Faces break new ground in ethical financing and inclusive governance, they pave the way for a future where business is not only about profit but also about creating a positive impact and empowering communities. These organizations exemplify the potential of combining technology, ethical principles, and innovative governance for a more equitable and sustainable world.
INNOVATIONS IN FINANCING: EXPLORING RBF AND DIRECT PUBLIC OFFERINGS

At the intersection of traditional lending and equity financing lies a model that’s swiftly gaining traction, especially among socially-conscious enterprises: Revenue-Based Financing (RBF). Unlike conventional financing methods, RBF provides businesses with capital in exchange for a percentage of their monthly or daily revenues, rather than demanding fixed monthly payments or equity stakes. This ensures that during lean periods, businesses aren’t unduly burdened, and during prosperous times, investors reap a greater share of the success.

Historically, the concept of aligning capital repayments with business performance isn’t new. Variations of this idea have appeared in different forms across different cultures. For instance, the Islamic banking principle of "Mudarabah" is a profit-sharing agreement where one party provides the capital, and the other provides the labor or expertise, sharing the profit or loss. In many ways, RBF echoes this ethos, though adapted for the modern business landscape.

So why is RBF resonating so profoundly with ethical businesses?

The reasons are manifold:

- Flexibility & Adaptability: RBF allows businesses to repay their financiers in direct proportion to their revenue streams. This means during months when business is slow, repayments decrease, providing a cushion against unforeseen market fluctuations, which is especially crucial for startups and SMEs.
- Alignment of Interests: Investors in the RBF model inherently root for the business's success, as their returns are directly tied to the company's performance. This fosters a more collaborative relationship, unlike traditional debt which can sometimes become adversarial.
- Preservation of Ownership: Unlike traditional venture capital models, RBF doesn't require businesses to part with equity. For mission-driven enterprises, this ensures that the founding vision remains undiluted and decisions aren't made at the expense of ethical considerations for mere profit.
- Speed & Simplicity: Often, RBF agreements are more straightforward than complex equity arrangements, enabling faster access to capital when businesses need it the most.
• Inclusivity: Traditional funding avenues often have inherent biases, inadvertently sidelining ventures led by underrepresented groups. RBF, with its focus on revenue and business model viability, paves the way for a more inclusive financial landscape.

For ethical businesses that prioritize societal impact alongside profitability, RBF offers an avenue to access the capital they need while ensuring they don't compromise on their core values. As the global business landscape becomes more intertwined with social and environmental challenges, models like RBF underline the possibility of fusing profit with purpose.

RBF is particularly appealing for businesses in their growth phase, where consistent revenue streams can ensure mutually beneficial arrangements for both parties. RBF is a paradigm shift, offering a more adaptable and founder-friendly alternative to traditional models.

Zahra Alubudi, Co-Founder and COO of Levenue, an RBF platform that helps recurring revenue businesses get funded without dilution of shares, sheds light on the nuances of RBF, emphasizing its broad applicability and flexibility for diverse business models. “Revenue based financing is actually a very big umbrella term. It essentially means that you’re financing companies or allowing access to capital based on their revenue streams.” This approach caters to a range of business models, from subscription-based services to eCommerce, emphasizing the diversity in revenue generation as a key factor for financing.

At Levenue, the focus is on stringent criteria to ensure effective financing. Alubudi explains, “It starts with twelve months of historical data on the revenue stream. So you as a company, not only have to exist for the last twelve months, but you have to have been generating revenue.” This approach highlights the platform’s commitment to supporting businesses with a proven track record, aligning financing with growth potential.

The typical clientele for RBF platforms like Levenue are often bootstrapped or focused on efficient growth. Alubudi notes, “They're very conscious about the money they spend, and they're usually very lean.” These businesses tend to favor non-dilutive financing options, aligning with their long-term vision and mission.

Alubudi also advises on the timing of opting for RBF, “RBF should be used when you don't need it.” This strategy suggests using RBF as a proactive tool for growth, rather than a last resort, ensuring that businesses approach financing from a position of strength.
Complementing Alubudi’s insights, Cree Lawson, founder of Arrivalist, a leading location intelligence platform in the travel industry, shares his firsthand experience with RBF. “My finance guy kept saying, you need to check out these revenue finance loans.” Lawson’s journey with RBF exemplifies its role in facilitating growth without the traditional constraints of equity financing.

He highlights the freedom RBF offers, “It seemed like the revenue loan option eliminated a lot of the risk, but provided a similar reward. In other words, I did not want to give over my bank account to someone who was going to give me a line of credit. I did not want to give up any kind of dilutionary equity position that might come back to haunt me if things didn’t work out too well. I really, honestly didn’t want to give up a board seat. And as I continued to contemplate the revenue loan opportunity, I realized that it did away with a lot of the risk that I associated with bringing in large amounts of capital. And so we took a slow and steady approach. We tried a small revenue loan ($500,000). We repaid it. We tried a second revenue loan ($400,000). We repaid it.”

Lawson also recounts how RBF provided a financial safety net during uncertain times. “We signed the paperwork... And it’s a good thing we did, because on March 13, 2020, travel as we know it stopped. But I’m very proud of the fact we never laid anybody off throughout the pandemic. We kept everybody on board.” This cushion from a $2.1 million revenue loan allowed Arrivalist to navigate the pandemic without significant disruptions, illustrating RBF’s role in providing stability during crises.

Reflecting on using RBF for strategic growth, Lawson says, “We knew that we needed to expand at that point. So it was a 15 day cycle to go back and get another revenue loan.” This agility in securing funds contrasts with longer cycles typical in traditional fundraising, underscoring RBF’s advantage in rapidly evolving market conditions.

Through the insights from Alubudi and Lawson, the narrative around RBF is one of flexibility, strategic growth, and adaptability, making it an increasingly popular choice for businesses seeking non-dilutive financing options. RBF’s ability to align with a company’s growth trajectory while preserving founder control and equity makes it a compelling alternative in the modern financial landscape.
DIRECT PUBLIC OFFERINGS (DPOS): A CLOSER LOOK

“Financing can undermine the work of movements or can really support it.”

- Cate Fox, Director at AmbitioUS, a Center for Cultural Innovation initiative that invests in alternative economic models for creative communities

Direct Public Offerings (DPOs) stand out as a powerful tool for ethical business models, particularly for those that prioritize community engagement and ownership. Unlike traditional public offerings, DPOs allow organizations to raise capital directly from the public without the intermediaries typically involved in stock exchanges. This approach democratizes the investment process, making it accessible to a broader range of investors, including those within the community the business serves.

The concept of DPOs is not new. It traces its roots back to the early days of public stock offerings, where companies would offer shares directly to the public. Over time, as stock markets became more regulated and complex, the process became intermediated by financial institutions and investment banks. However, in recent years, there's been a resurgence in the use of DPOs, particularly among businesses focused on social impact and community involvement. This resurgence is partly driven by the desire to align business financing with broader social and ethical goals.

In a DPO, a company offers its securities (which can be stocks, bonds, or other financial instruments) directly to investors, including its customers, employees, and community members. These offerings are often made through online platforms, enhancing accessibility and simplifying the process. One of the key advantages of DPOs is that they bypass many of the costs associated with traditional IPOs, such as underwriting fees. This makes them an attractive option for smaller companies or nonprofits that might not have the resources to engage in a conventional public offering.

DPOs are subject to regulatory oversight, which varies by jurisdiction. In the United States, for instance, they are regulated by both federal and state securities laws. Companies engaging in DPOs must comply with these regulations, which can include requirements for financial disclosures and limitations on the amount that can be raised. Navigating this regulatory landscape is crucial for the success of a DPO.
The most significant impact of DPOs lies in their ability to foster community engagement and empowerment. By allowing community members to invest, DPOs create a sense of ownership and alignment of interests between the business and its stakeholders. This can lead to stronger customer loyalty, employee engagement, and community support. For cooperatives and social enterprises (like B Corps), this model aligns seamlessly with their ethos of community involvement and social impact.

Despite their advantages, DPOs are not without challenges. The process of conducting a DPO requires careful planning, clear communication with potential investors, and adherence to regulatory requirements. Additionally, businesses must be prepared to manage a larger and potentially more diverse group of investors. This can add complexity to shareholder management and decision-making processes.

The potential of DPOs extends beyond just the financial benefits. They represent a shift towards a more inclusive and democratic form of business financing. For ethical business models, DPOs offer a way to strengthen their social missions, engage their communities meaningfully, and build a solid foundation for sustainable growth. As more businesses and investors become aware of the benefits of DPOs, their use is likely to grow, contributing to a more diverse and equitable economic landscape.

DPOs embody a financial mechanism that resonates with the principles of ethical business practices. They offer a path for companies to raise capital while remaining true to their values of community engagement, inclusivity, and social impact. As businesses navigate the complexities of the modern economy, DPOs present the potential of aligning financial success with societal wellbeing.

Cate Fox of AmbitioUS highlights the effectiveness of DPOs in community-oriented projects, "If you look at the East Bay Permanent Real Estate Cooperative, they have a structure that allows for community members to purchase shares of that cooperative, and it's one of the first direct public offerings." This example underscores how DPOs can democratize investment, breaking down barriers that traditionally limited investment opportunities to a small, affluent segment of the population. "You can only have that kind of ability to buy into a thing if you're an accredited investor, which means you have to have $5 million in assets. Well, I don't have $5 million. But the reality is communities want to own their future, too," Fox explains. "But East Bay Permanent Real Estate Cooperative did take advantage of it and offered shares at $1,000 a share for community members to purchase, or for other investors like us who are mission
aligned to invest.” The success of the East Bay Permanent Real Estate Cooperative illustrates how DPOs can be an equitable tool, enabling broader community participation in investment and ownership.

Fox further elaborates on the need to shift the focus in impact investment from financial return to human return, “It’s just people don’t use it. People go to the same tools. Like everything looks like a nail if you’re a hammer.” This metaphor highlights the tendency to rely on familiar methods, underscoring the importance of broadening the approach to include innovative mechanisms like DPOs. “So I think if more people get exposed to it and if we can shift the conversation about impact to being less about financial return and more about the human return for those kinds of dollars, then we’re really going somewhere,” she adds, advocating for a deeper understanding and utilization of DPOs in ethical financing.

Fox acknowledges the challenges associated with DPOs, particularly the legal complexities and costs involved. “It’s a complicated legal structure and they’re just kind of experimenting. But now that a few folks have actually done it, there’s definitely more interest in it. But it’s still a very expensive proposition,” she says. This insight suggests that while DPOs are gaining traction, there is still a need for more streamlined and accessible pathways for their adoption.

Adding to Fox’s perspective, Nichole Christian of AmbitioUS underscores the importance of understanding community needs in the context of DPOs and ethical financing. “One of the greatest assets is the listening, and listening in a specific way instead of talking at folks and prescribing what communities need,” Christian remarks. This emphasis on listening and understanding reflects a core principle of ethical business practices – aligning actions and strategies with the real needs and aspirations of the communities they serve.

DPOs, as explained by Fox and Christian, represent not just a financial instrument but a movement towards a more inclusive and community-centered approach to business financing. By allowing a broader spectrum of individuals to invest and have a stake in local projects, DPOs are creating pathways for communities to shape their own futures, rooted in principles of equity, inclusion, and sustainability. As this model continues to evolve and gain recognition, it holds the promise of redefining the landscape of impact investment and community development.

The exploration of RBF and DPOs highlights the diverse financing options available to modern businesses, particularly those with ethical missions or community-focused models. As businesses navigate an ever-
evolving economic landscape, these innovative financing methods offer pathways to growth that align with their core values and principles.

**CHALLENGES AND MITIGATION STRATEGIES**

Adopting ethical business models and integrating innovative financing strategies is not without its hurdles. While these approaches offer numerous benefits, they also present unique challenges. Understanding these challenges and exploring strategies to mitigate them is crucial for businesses aspiring to operate ethically and sustainably.

One of the most common challenges faced by ethical businesses, particularly those engaging in novel financing methods like DPOs and RBF, is navigating complex regulatory landscapes. This is especially true for Benefit Corporations and DAOs, which operate under distinct legal frameworks.

Maintaining the balance between ethical objectives and financial viability is a tightrope walk for many ethical businesses. For B Corps and cooperatives, this often means making decisions that uphold their social and environmental commitments without compromising financial health. Accessing capital can be particularly challenging for ethical businesses, as traditional investors may be skeptical of models that prioritize social and environmental goals alongside profits. This is where innovative financing models like RBF and DPOs can play a critical role.

For DAOs and cooperatives, managing the diverse interests of their stakeholders can be complex. Decentralized decision-making, while democratic, can sometimes lead to slower consensus-building processes.

Finally, a significant challenge lies in driving cultural shifts and educating the market about the value of ethical business models. This is particularly pertinent for newer models like DAOs and innovative financing methods.

While the challenges are significant, they are not insurmountable. The strategies and solutions discussed by experts provide a roadmap for ethical businesses to navigate these hurdles. By leveraging legal expertise, focusing on long-term sustainability, maintaining transparency with investors, managing stakeholder interests effectively, and driving cultural shifts in market perception, ethical business models can thrive and create lasting impacts.
THE ROAD AHEAD FOR ETHICAL BUSINESS AND REGENERATIVE FINANCE

The shift towards business practices that prioritize ethics, sustainability, and community empowerment is not just a trend, but a fundamental change in the global economic paradigm. Models like Cooperatives, B Corps, Benefit Corporations, and DAOs, once considered peripheral, are now at the forefront of redefining success in business. These models, coupled with innovative financing strategies like Revenue-Based Financing and Direct Public Offerings, are proving to be more than viable—they are the signals of a more equitable and sustainable future.

These ethical business models and innovative financing mechanisms offer a blueprint for a future where businesses contribute positively to society and the environment, without sacrificing profitability. The stories and insights shared by experts in this field underscore this potential and highlight the growing demand for such practices in the market.

However, realizing this potential requires more than just the adoption of these models by individual businesses. It calls for a systemic change, where investors, policymakers, and business leaders collectively recognize the value and necessity of ethical business practices. It necessitates a shift in perspective, from viewing business as merely a profit-generating machine to seeing it as a key player in addressing global challenges.

Therefore, the call to action is clear: businesses must embrace these ethical models and innovative financing strategies, investors should support ventures that prioritize sustainability and social impact, and policymakers must create environments that foster and facilitate such practices. By doing so, we can ensure that the road ahead is not just more profitable, but more equitable, sustainable, and beneficial for all.
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Nichole Christian, Narrative Shifter at AmbitioUS, a Center for Cultural Innovation initiative that invests in alternative economic models for creative communities