



Cannabis Corporate Social Responsibility: Engaging the Industry's *Mandate with Equity* 2022

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In a continued commitment toward equity and the resounding consequences of disparate incarceration, the Social Impact Center takes another look at Los Angeles City Department of Cannabis Regulation's mandate regarding Corporate Social Responsibility. While the pace of cannabis licensing remains challenged, so does the implementation of its policy commitment toward an equitable cannabis corporate social responsibility framework. The Social Impact Center continues to care for and support those most impacted, and our position remains unchanged: the many lives affected by the War on Drugs are still in urgent need for policymakers, regulators, and businesses to fulfill their commitments made during the decriminalization of this multi-billion dollar industry.

Key Findings

- A well-defined Cannabis Corporate Social Responsibility program is needed to implement a proper reporting structure that can track and measure the industry's CCSR participation, or lack thereof. This will inform a more concrete understanding of how the industry can lead the way in advancing a comprehensive vision of equity.
- With dedicated resources and appropriate staffing, CCSR is an opportunity to strengthen relationships among the City and cannabis businesses, and can support a pathway to reducing certain tax burdens in exchange for deeper community collaboration.
- There are existing tools that can be streamlined to facilitate implementation and ease the burdens to businesses, such as incorporating cannabis hiring targets into CCSR reporting. This will also encourage deeper neighborhood collaborations that are vital to the success of workforce development and equity efforts.
- CCSR can further an integrative view of equity - meant to repair bigger, interrelated, and intergenerational harms caused by racial, gender, and other forms of historical discrimination - and allow for innovation within new models that encourage private sector participation in restorative practices.

Key Recommendations

- Mobilize existing interagency efforts, resources, and statewide initiatives to create solutions that respond to both community and business needs, reduce barriers to participation and streamline reporting.
- Creation of a Community Reinvestment Fund that has a multi-pronged approach to provide direct support to community members and investments in social equity cannabis businesses and community-based organizations and local nonprofits.
- Incentivizing action toward CCSR by promoting within individual municipalities an opportunity to reduce taxes and/or fees based on participation in the CCSR program.
- Inclusion of sustainable and equitable business practices that work toward the eradication of extractive business practices such as worker-owned cooperative models; equity in governance and business structuring; workforce and employee participation in business profitability and ownership; partnerships that promote cross-pollination of leadership and access to business advisory services for social equity licensees (i.e., legal, accounting, tax advice); and diversification of supply chain partnerships.



The Social Impact Center (the Center) is a Los Angeles-based non-profit organization whose mission is to build, strengthen, and empower the next generation of leaders focused on the most impacted populations affected by the war on drugs and its resounding effects of incarceration. The Center's work focuses on educating and empowering generations of Angelenos who were most harmed by these systems and histories. The Center has previously published two timely research papers on Los Angeles's social equity push in the cannabis industry. Most recently the Center worked with the Los Angeles County District Attorney's office to identify 58,000 cannabis-related convictions for expungement.

In the Center's last publication¹, we analyzed the City of Los Angeles's (City) efforts around Cannabis Corporate Social Responsibility (CCSR). In this report, the Center highlighted the following:

1. A historical view of the cannabis industry's integrated social responsibility and equity pillars
2. Community empowerment through engagement being essential to the process
3. The importance of clear CCSR guidance, implementation and oversight of a holistically integrated CCSR framework centered on equity.

A year later, we now take a look at potential solutions to ensuring cannabis companies can be active participants in a framework built upon long-term solutions to achieve equity in a legalized market whose foundation was built upon the disenfranchisement of many Black and Latinx people.

1. Robert Chlala, Cannabis Social Responsibility: A Snapshot on LA's Growing Efforts, The Social Impact Center (May 2020), available at <https://perma.cc/H2BF-WR8F>

A Mandate and an Opportunity for Shared Responsibility

In light of another profitable year, California's cannabis businesses reported revenues exceeding more than \$5 billion in 2021.² While there are many legitimate questions about the current levels of taxation, these do not negate the need for existing companies to contribute to their communities and maintain sustainable and equitable internal practices. Especially if efforts to lower tax rates are successful, it will be vital to develop an approach to corporate social responsibility (CSR) in cannabis that allows them to remain accountable to communities and deals face-front with the harms of the war on drugs. While many states have decriminalized cannabis in one form or another, the City of Los Angeles's unique and groundbreaking municipal requirement that private businesses provide a cannabis corporate responsibility report is both a mandate as well as an opportunity to explore a shared responsibility. Arguably the largest retail and indoor cultivation market,³ and with important city-wide efforts on comprehensive equity, Los Angeles can have a major impact in cannabis and across sectors with the right approach.

In the final regulation created by policymakers, the City's municipal code states the following:

Prior to the issuance of a License or renewal pursuant to Section 104.12, a Licensee shall submit to DCR a Report that describes the Licensee's community engagement, corporate philanthropy, relationship with the neighborhood surrounding the Licensee's Business Premises, and compliance with applicable City and State Cannabis laws and regulations within the previous calendar year. If a Licensee fails to timely submit a Report, DCR may impose administrative penalties or order corrective action as provided in Section 104.13(b). Reports may be publicly disclosed, including but not limited to posting on DCR's website.

It is the Department of Cannabis Regulation (DCR) that has the responsibility to publish guidance on how licensees can meet this mandate. With ongoing delays and complexities within the City's cannabis licensing process as of March 2022 DCR had not published any guidance regarding this municipal requirement. The Center's prior research and engagement on this issue found that even minimal requirements like neighborhood liaisons, a person designated by the licensee to interact with communities, lacked guidance. Many have not been appointed yet, signaling that a more forward-thinking approach is necessary to ensure implementation.



2. California Department of Tax and Fee Administration, Cannabis Tax Revenues (2022) available at <https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=CannabisTaxRevenue>.

3. McVey, Eli (2021). "Chart: Top regions for medical marijuana sales in California." MJ Biz. <https://mjbizdaily.com/chart-highest-medical-marijuana-sales-in-california-by-county/> and estimations by researchers based on the role of Los Angeles relative to California's global market. McGreevy, Patrick (2019). "California now has the biggest legal marijuana market in the world. Its black market is even bigger." LA Times.

It is urgent and crucial to take actionable steps toward creating guidelines and metrics for CCSR reporting that both recognizes the unique nature of the industry while balancing the burden to operators.

By taking on CCSR at this key juncture, the City has an important opportunity in numerous ways:

- CCSR is a vital element in the broader vision of social equity, which was the guiding force behind the City's cannabis regulation. LA City Council's commissioned study regarding the criminalization of cannabis over the past decades confirmed the many ways Black and Latinx people and low-income neighborhoods faced higher rates of punishment and incarceration for this plant.⁴ Not only did this disparate policing impact individuals who now bear conviction histories, but also the families and communities of those incarcerated, resulting in decades of lost opportunities, wealth, stability and productive public investment. While DCR has approached social equity from the equitable distribution of licenses and workforce opportunities, the cannabis industry has an active role in community restoration from the war on drugs, given how much profits from the practices and networks build when the plant was criminalized. **Tracking and measuring the industry's progress and impact will create a more concrete understanding of how the industry can lead the way in advancing a comprehensive vision of equity.**
- The City's social equity program requires that businesses report semi-annually regarding its workforce composition to ensure employment opportunities are prioritized to those impacted by the war on drugs. Licensed businesses are expected to make good faith efforts to hire its workforce from surrounding communities, including hiring a certain percentage from underserved groups. For a business to implement this practice, however, it must have community relationships to create a pipeline for hiring. **Incorporating cannabis hiring targets into CCSR is a way to streamline reporting and to encourage deeper neighborhood relationships and collaborations that are vital to the success of workforce development and equity efforts.**
- CCSR policy can also help respond to concerns raised by businesses about their survival in a tax-heavy regime. In a marketplace where young consumers particularly value efforts for equity and sustainability, publishing and centering these efforts can, in fact, help build market value.⁵ At the same time, cannabis businesses can also measure and highlight local contributions helping pave the way for further acceptance among regulators, lawmakers and communities. With an accountability structure, the City can offer a clear menu of options to balance out tax responsibilities with incentives to reduce fees, taxes and other limits. **CCSR is an opportunity to strengthen relationships among the City and cannabis businesses, and opens a pathway to reducing certain tax burdens in exchange for deeper community collaboration.**
- The call for community engagement and social responsibility fits squarely within the City's broader policy goals. By embracing CCSR, the City will be taking an integrative view of equity meant to repair bigger, interrelated, and intergenerational harms caused by racial, gender, and other forms of historical discrimination and poor policymaking. The City's new Office of Equity, formed in October 2021 under the Civil + Human Rights and Equity Department, seeks specifically to "address centuries of legal, social and economic systems which have disenfranchised communities of color from their health, their wealth, and their freedom."⁶ **Cannabis is by no means the only market shaped by systemic racism, but it can be a place to pilot and test new models that encourage private sector participation in equity that can be mobilized through and demonstrate the importance of the newly-launched Office of Equity.**

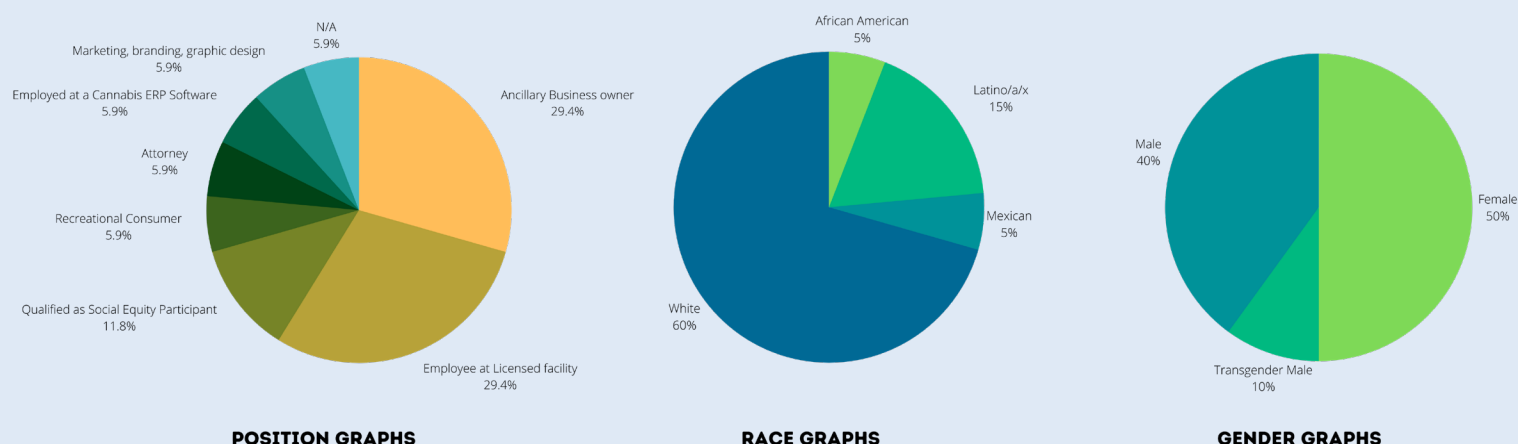
4. Los Angeles Department of Cannabis Regulation, Expanded Cannabis Social Equity Analysis Report; DCR Report No. 3 (Jun. 16, 2020) available at http://clkrep.lacity.org/online/docs/2017/17-0653_rpt_DCR_06-16-2020.pdf

5. Staff Authors, Here's How Young People Are Pushing Businesses to Take a Stand, Wall Street Journal (April 2021) available at <https://on.wsj.com/3sJKs6M> [<https://perma.cc/5NSJ-Y75Y>]

6. Office of Racial Equity, Civil + Human Rights and Equity Department (Accessed February 17, 2022) available at <https://civilandhumanrights.lacity.org/our-programs/office-racial-equity> [<https://perma.cc/NV28-Q2UC>].

Methodology

CCSR Survey Participants - Demographics (Self-Reported)



In 2020, the Center and its research partners sought to understand how initial standards of CCSR set out by LA City Council and DCR, including the neighborhood liaison system, were being implemented by cannabis businesses. The Center surveyed a number of licensed businesses via phone interviews to understand their CCSR efforts. The survey findings confirmed the need for clear and comprehensive guidance, oversight and tracking of practices. There were also continued concerns expressed about the progress of social equity licensing as well as confusion regarding multiple avenues (and regulatory requirements) to contribute to equity and to act responsibly. As licensing has progressed, further consideration can now be given to unified, comprehensive reporting requirements originally set out that represent the next phase in a more responsible, equitable and path-breaking cannabis industry.

One of the key facets to CCSR and equitable policymaking is stakeholder engagement while deepening research through a values-driven approach. The Center sought to understand best practices in CSR through its research and engaged with the community for its input and guidance.

In tandem with a comprehensive review of relevant literature, the Center held 25 initial individual interviews and a focus group that included Los Angeles cannabis business operators (including social equity licensees), employees and representatives from equity organizations, which included several Black, Latinx and Asian Pacific Islander-led groups that centered on formerly-incarcerated people. These conversations inquired into their visions for CCSR and concerns to its implementation. The Center then consolidated this feedback to develop a menu of policy options that was sent to the pool of initial interviewees in an anonymized survey. The final pool consisted of 20 survey respondents including: social equity and non-equity license holders, medical cannabis patients, legacy and licensed facility cannabis workers, equity organization leaders, and ancillary business operators (with some overlap across these categories). Demographics of survey respondents are noted above. Interview data informed our analysis, and survey responses are summarized in this paper, guiding the Social Impact Center's recommendations outlined in this document, in conversation with best practices and other data from relevant literature.

Cannabis Corporate Social Responsibility

Corporate social responsibility (CSR) emerges from nearly five decades of community organizing, advocacy and grassroots efforts to mitigate harms created by unchecked, profit-first driven business practices such as pollution, climate change, wealth inequality, or other damages. (A more in-depth history can be found in our prior report). As social and environmental issues continue to drive global conversations, CSR today within the business environment generally seeks to create social and environmental benefits while pursuing organizational goals that create value to shareholders, employees and communities. The shifting evolution of CSR can be attributed to technology, socially-conscious consumers, and business leaders, and the collection of data that speaks to its successes and failures. CSR often intersects with a company's ESG, DEI or Corporate Philanthropy efforts. Companies have found both internal and external value in CSR practices from boosting employee morale to enhancing reputational value. It is of course critical that CSR not become an opportunity for companies to trade-off some good for other harms they simultaneously create, or to merely benefit their public relations.

As knowledge and practices around CSR have evolved, practices such as engaging stakeholders, defining business ethics, advancing sustainability, and creating shared value have become defining features. The cannabis industry can turn to tangible examples of how other industries have both succeeded and failed at CSR efforts, while holding a shared responsibility to ensure CCSR works in tandem with social equity and restorative justice⁷ goals.

Due to federal prohibition, CSR in the cannabis industry raises a unique set of questions and concerns. On a federal level, cannabis businesses remain disadvantaged by federal tax filings which do not allow the same tax benefits as their non-cannabis business counterparts. But other challenges persist including: marketing restrictions which vary from state to state; the hesitation by some non-profits to take cannabis dollars if they receive federal funding; the inability for cannabis companies to receive tax benefits for monetary donations; and tax reductions for other costs of doing business. Cannabis companies and regulating agencies will have to find creative solutions to promote CSR practices in which companies can participate and communities can benefit. Many of the best practices in CSR parallel those for equity in governance already established by LA County and the City,⁸ and are a natural fit for an agency like the Office of Equity to help guide. In taking on CSR as a shared task among DCR and the Office of Equity, and in working closely with businesses and communities, there is potential to model a comprehensive, collaborative public-private approach to ethical, equitable and transformative economics that can be applied beyond cannabis to other growing industries in the region.

Standardized Reporting: Metrics, Tracking, and Reporting

Without accurate tracking and reporting there is little weight behind hopes to make impactful CSR by creating opportunities for community insight and feedback. CSR reports are important ways to communicate publicly to stakeholders about a company's performance in tackling issues such as environment, ethics, philanthropy, and economics. While CSR reporting is a mandatory business practice in other countries, this practice is not required in the United States and therefore there is no common set of reporting standards. The lack of standards makes it difficult to collect and synthesize data on a macro level regarding the guiding practices, challenges and true benefits of CSR efforts, or

7. Restorative Justice is a framework that seeks "to address the dehumanization frequently experienced by people in the traditional criminal justice system. . . [i]nstead of viewing a criminal act as simply a violation of a rule or statute, restorative justice sees this action as a violation of people and relationships." Restorative Justice Project, About Restorative Justice, University of Wisconsin-Madison Law School, available at <https://law.wisc.edu/fjr/rjp/justice.html> [<https://perma.cc/NM37-TNR9>].

8. For more on these best practices of equitable implementation that also can help understand CSR, please see: Vanessa Carter, et al., Measures Matter: Ensuring Equitable Implementation of Los Angeles County Measures M & A, USC Dornsife Program for Environmental and Regional Equity (Jan. 2018) available at <https://dornsife.usc.edu/pere/measures-matter-la/> [<https://perma.cc/YZX6-HHHK>].

a lack thereof. With no oversight, companies are left to their own vices in disclosing adverse practices that perpetuate harms. For these reasons, it's important that cannabis businesses have some type of guidance and standardization in reporting CSR efforts, to be able to share and speak across the industry. By requiring cannabis industry CSR reporting standardization on this data can provide insights regarding the industry's success (or lack thereof) in achieving social and environmental impact at an industry level. This shared reporting via a unified framework can also benefit the cannabis industry itself, helping make the case for expansive licensing, reforming taxes, or other hopes by showing how big of an impact this industry can make.

CSR reporting has also been known to spur urgent solutions to take action. Research shows that if a company publishes a goal, for example, to be carbon neutral by 2030 in its annual CSR report, stakeholders will be more likely to be driven to accomplish that goal and provide updates to the progress of reaching this goal in annual reports.⁹ If a goal isn't reached in its intended time frame, the CSR reporting process can prompt examination of how the project missed targets and what can be done to realign and accomplish the goal in a realistic timeframe. As such, DCR and **the Office of Equity should also provide guidelines on how to set metrics and benchmarks track progress over time to help companies succeed in advancing their set goals and to streamline reporting.**

CSR reports would allow for specific tracking of how different programs are making an impact across companies. For example, two decades ago, the social impact concept of “microloans” garnered much attention as a purported new tool to fight poverty and empower women. Many financial corporations rushed to incorporate this new trend into their respective CSR strategies. At the time, however, not much research existed on the real impact of this approach and so the success of the concept relied heavily on anecdotal evidence to prove its efficacy. Among much research, six randomized evaluations were conducted between 2003 and 2012. The results showed that while microlending increased some metrics such as business activity, they did not have a significant impact on income, investment in children's education, or an increase in women's empowerment.¹⁰ Facing such truths can direct resources to programs that really work. **When one considers the bigger goals of equity and restorative justice, including new policies to cannabis like transitional worker hiring, CSR reports with a solid framework and metrics will be a vital measure of progress for these experimental equity policies and an opening to understanding where to take action or redirect efforts.**

A Model Process for Transparency, Oversight, and Accountability

For CCSR reporting to be an effective tool, there must be upfront investment into a framework that enables transparency, oversight and accountability. Therefore, it will be crucial for any regulating body to dedicate staff and resources that support a framework's development, implementation and compliance. A common structure for government agencies is to form an interagency body that is responsible to collaboratively oversee requirements and reduce the compliance burden to one sole regulatory body. As noted above, DCR is ideally situated to partner with the Office of Equity for accountability standards given their interrelated mandates. With collective oversight, the potential for developing a CSR model framework centered around equity could be transferable in its use in other industries beyond cannabis.

9. Clodia Vurro and Francesco Perrini, Making the most of corporate social responsibility reporting: disclosure structure and its impact on performance, Corporate Responsibility (Aug. 9, 2011) available at <https://www.emerald.com/insight/content/doi/10.1108/14720701111159280/full/html>.

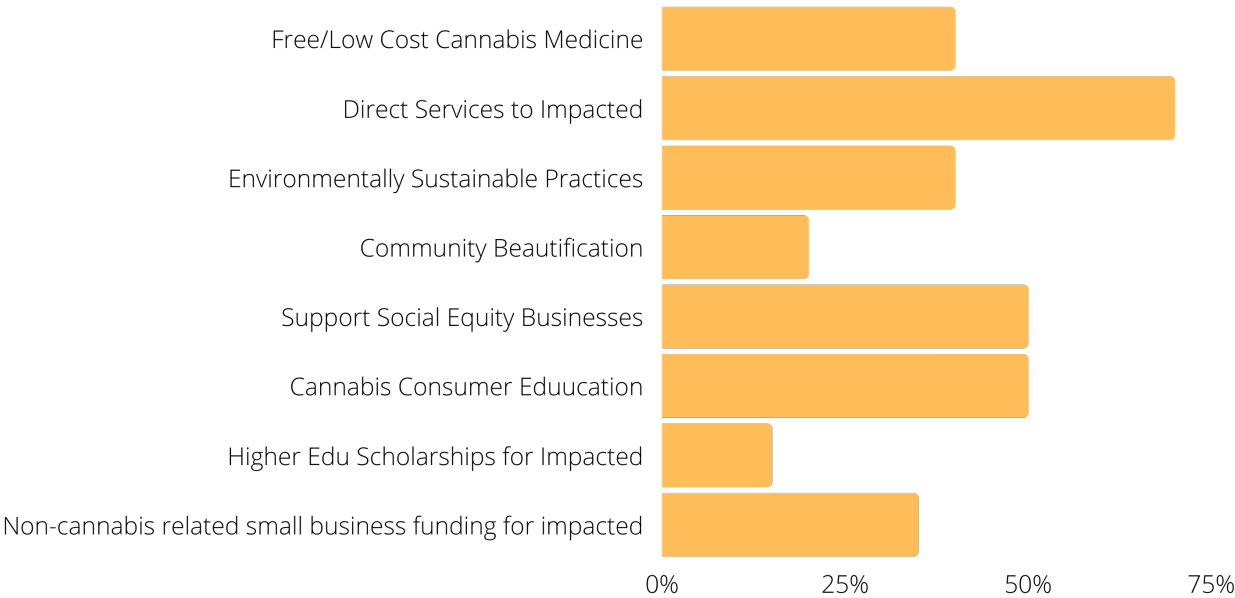
10. Abhijit Banerjee, et al., Six Randomized Evaluations of Microcredit: Introduction and Further Steps, 7 American Economic Journal: Applied Economics 1, p.1 - 21 (March 2015) available at <https://perma.cc/P5NK-CWA6>.

In the context of CCSR and its equitable implementation, the Center recommends building an infrastructure for tracking and accountability by taking the following steps:

1. **Define the purpose of CCSR by outlining the long-term goals and outcomes.** Build metrics toward ensuring long-term goals can be achieved overtime creating sustainable outcomes. Outcomes should be centered on the most adversely impacted communities and envisioning their restoration for generations to come.
2. Socialize and educate stakeholders on the defined purpose and long-term outcomes of CCSR. **Request feedback by publishing clear guidance with deadlines seeking stakeholder input.**
3. Create a **Community Advisory Board** to provide input and oversight relative to longer-term outcomes. Advisory board composition should include members from impacted communities, cannabis industry practitioners or experts, medical cannabis patients, and contributors with broader equity and justice experience.
4. In tandem, create vehicles or programs for cannabis operators to contribute to CCSR goals in ways that have oversight and address tax-related challenges, in particular a **Community Reinvestment Fund** (see page 11).
5. After receiving stakeholder feedback and defining CCSR purpose, **publish final guidance that includes a web-based, easy-to-use standardized reporting form that clearly defines outcomes and measurable metrics.** Consideration should also be given to incentivize and hold accountable licensees for non-compliance with the reporting requirement.
6. **Set an annual date for CCSR forms to be submitted.** Recommend July 1 of each year for licensees with a 180-day period for data to be reviewed and analyzed by dedicated staff and the Community Advisory Board. In an effort toward transparency and accountability, DCR would publish CCSR reporting results against metrics in an accessible format online for public review and input at the end of the review period.
7. Continual and periodic reviews of CCSR data to assess successes and challenges in collaboration with the Community Advisory Board. **Frequent and ongoing adjustments should be made to guidance to inform industry on best practices and to ensure industry standards are achieving their intended outcomes.**

The processes outlined above for building a reporting and accountability structure are rooted in CSR & DEI best practices, some of which LA City and other municipalities have already used to guide social equity work. Therefore, it is a natural outgrowth of DCR’s approach to cannabis regulation and the City’s turn to a comprehensive, integrative vision of equity beyond the industry. America’s history of enslavement, indigenous genocide and discriminatory policies have continually extracted wealth from communities while enforcing structural impediments that limit full economic participation for many. Continued practices such as redlining, mass incarceration, and disinvestment have produced large opportunity gaps that perpetuate racial and gender inequities. Research has estimated that closing racial inequities in health, education, incarceration, and employment by 2050 would equate to an additional \$8 trillion added to the U.S. economy.¹¹ As part of CCSR, the DCR can and should provide cannabis businesses with ready-made solutions that value economic empowerment and promote community autonomy with programs such as access to capital or workforce development programs. Given the responses to the cannabis sector CSR survey and research into other existing models of equity and responsibility, we have also compiled a preliminary list of additional policy elements to consider, see below. These are in response to the particular challenges cannabis businesses have expressed such as the inability to directly donate to nonprofits, overall sentiments of high tax burdens, excessive costs to survive a transitioning market defined by inflated costs of real estate, compliance and production.

TOP PRIORITIES



11. Ani Turner, The Business Case for Racial Equity: A Strategy for Growth, Altarum (Apr. 24, 2018) available at <https://altarum.org/RacialEquity2018> [<https://perma.cc/N7GZ-ZUGG>].

Given the daily demands at the infancy stage of cannabis businesses, many are looking toward ready-made solutions that ease their participation in meeting CCSR obligations while supporting the changes they hope to support. Among survey respondents, the vast majority wanted to see options in CCSR that allowed for direct reinvestment in communities harmed by the war on drugs.

As such, we suggest that as part of CCSR, DCR create a **Community Reinvestment Fund** that can invest in small businesses, workforce development, and community-based organizations and local non profits. Cannabis businesses can opt to donate or invest in this structure as part of their key elements of responsibility. These options also respond directly to the harms of the War on Drugs, outlined extensively in research and well-familiar to Los Angeles communities, and overall concerns with undoing generations of racial and gender inequities.

A Community Reinvestment Fund should have multiple approaches to responding to funding gaps. Proper structure could also allow for recycled monies that could serve as perpetual and sustainable funding for ongoing, long-term programmatic needs. Potential structures and approaches are as follows:

Direct Aid - Guaranteed Monthly Income: One of the most direct ways to help systems of impacted people is financial security that can be used in the ways that make most sense to them. That can be returning to school, working part time while taking care of mental health needs, or simply taking care of a household during re-entry. Guaranteed Income (also known as “Universal Basic Income”) is a pioneering program that is being seen as a means to ensure security and stability in a world of changing work. Guaranteed income is already showing proven results in places like Mississippi, California; Cherokee Tribal Lands; Alaska, Germany, Finland and Spain.¹² The Magnolia Mother’s Trust in Jackson, Mississippi focuses on Guaranteed Income for Black mothers with proven results countering the “economies of humiliation” in our current social service systems. It has also demonstrated how to link the concept of equity to Guaranteed Income.¹³ Chicago equity groups have made this a central platform for reinvestment, and a pilot reparations program in Evanston, IL is underway utilizing cannabis taxes. Existing programs have shown that recipients do not work less, but instead show more ability to pay rent, utilities, healthcare, and more, as well as improved mental and physical health and security. This is a major opportunity to further California’s, and Los Angeles’ in particular, own experiments in this field.

Small Business Capital: Flexible capital will be required to respond to the changing needs of cannabis businesses and necessary for social equity licensees to succeed. An ongoing and urgent need for entrepreneurs is access to capital. By allocating dollars as patient capital, both in the form of debt and equity, social equity entrepreneurs would have the ability to focus and grow their businesses without high-cost, high-risk capital.¹⁴ The success of social equity licensees is paramount to achieving equity, and access to capital is key in every stage of business in order to thrive, mature and create wealth for its owners, investors and employees.

12. Sigal Samuel, Everywhere basic income has been tried, in one map, Vox (Oct. 20, 2020) <https://www.vox.com/future-perfect/2020/2/19/21112570/universal-basic-income-ubi-map> [<https://perma.cc/7T9J-Z75B>]

13. Kirsten Savali, Magnolia Mothers Trust: 15 Black Mothers to Receive 1000 Per Month in Basic Income Initiative, Essence (Oct. 31, 2020) available at <https://www.essence.com/culture/magnolia-mothers-trust-15-black-mothers-to-receive-1000-per-month-in-basic-income-initiative/> [<https://perma.cc/4PXL-PSSQ>]

14. For a further discussion of the merits of patient capital, see Victoria Ivashina & Josh Lerner, Patient Capital: The Challenges and Promises of Long-Term Investing (Apr. 13, 2021).

Community-Based Organization Grant Program: Grant funding is an integral piece to the broader economic system that sustains community-based organizations which have spearheaded grassroots solutions to equity and restorative justice. Funds can support direct services to social issues intertwined with the long lasting impacts of incarceration, including to support community health and wellness in and outside of prison/jail, workforce development and other re-entry programs. It should be balanced with a focus on advocacy for systems change to maximize the impact on equity. In that respect, it is important to take a long view on social change and include multi-year, unrestricted funding. Setting up a grant program with too many demands will drain resources with little improvement on outcomes. Grants should be set up in a simple and clear process that has oversight by the Community Advisory Board, and should include minimal reporting requirements. Priority should be given to organizations that are led by systems-impacted affected communities and based in Los Angeles neighborhoods directly hurt by the War on Drugs.

Incentivizing Action

While federal tax credits do not exist, a system must be set up to allow individual municipalities an opportunity to reduce taxes and/or fees based on participation in the CCSR program in comprehensive ways. We suggest creating tiered options that respond to the concerns outlined by different operators and that reward deeper, trackable forms of participation. It will be vital to tie these to tangible, traceable metrics and documented practices, to ensure that incentivization leads to action. Throughout these, the program should ensure that CCSR metrics are designed, as detailed above, with equity and long-term change in mind and with specific ways of showing the impact on low-income, BIPOC, systems-impacted, LGBTQ+ and other underserved communities.

In particular, we suggest that operators be incentivized in the following ways:

- **Tax Reduction:** This should be tied to direct monetary investments to the community, and can be most closely linked to the Community Reinvestment Fund. For example, by donating 1% of revenue to the Community Reinvestment Fund, operators could receive a reduction in gross sales taxes by 2.5% for the following year (dropping to 8.5% for local taxes). For 2% of gross receipts, DCR would waive 5% of retail taxes (dropping to 5%).
- **Fee Waivers:** For documented participation in at least 2 types of direct, equitable program changes for CCSR (see Business Practices for Equity and Sustainability) we suggest awarding a waiver of annual license renewal fees.
- **New License Prioritization:** The City can offer opportunities for those who excel in overall meeting goals for CCSR in Year 1 and beyond to receive priority status as different categories of licenses open up. This can include any increased retail licenses or potential consumption lounges.
- **Recognition for Excellence:** DCR can also set annual awards to publicly recognize top businesses in this category. This will be vital to helping businesses in their own economic goals, given the ways in which equity participation has proven in cannabis in particular to increase market share and add economic value to companies.

Business Practices for Equity and Sustainability

A key facet of CSR is examining a businesses' internal processes and structures, and making sure that employment, production and reinvestment scale to contribute to the values and guiding principles of its CSR. **In other words, it is not enough to donate externally to make an impact.** Given the specific needs outlined by cannabis social equity businesses and the research on the impact of the industry and the current crises facing the City and state, we suggest including following potential frameworks to measure and guide internal processes and contributions to CSR. **These mobilize existing efforts by DCR and related state and county initiatives, which will help point businesses to these programs as key places for concrete, ready-to-go action and streamline reporting across these mandates.**

1. Worker-Owned Cooperatives: Worker-owned cooperatives are an underutilized business model that provide substantial benefit to workers. The basic structure allows front-line employees to own the business and participate in its financial success based on workers' contributions to the cooperative. Governance is also democratic in that every worker-owner participates in decision-making equally. Most commonly workers have equity in the cooperative. This model has been successful in empowering workers and incentivizing beneficiaries through their input and labor. In cannabis, worker cooperatives are an opportunity to give those who helped build the industry a chance to have a voice in and create wealth from their hard work. Worker-owned cooperatives also help with issues regarding lack of capital for social equity by allowing the pooling of many equity applicants and also access to designated national and local funds that support cooperative development.

2. Equity in Governance: The governance structures of businesses should also be considered. This includes, as equity programs have focused, ownership, but also should be extended across management, as well as executive boards. Promoting diversity "at the top" means building clear career ladders (especially focusing on hiring from within). It also means reducing barriers to retention and advancement by making benefits like parental leave, educational reimbursement, healthcare benefits, employee participation in profit sharing, retirement match, and stock purchase plans available to even front-line staff. Private businesses have latitude to reshape business practices that can result in improving livelihoods for workers who have helped build this industry from the ground up and help them stay longer in and move up in a company.

3. Workforce and Employee Equity: The City has created particular regulatory requirements for hiring transitional workers and local applicants from impacted communities, and has made more general commitments toward cannabis equity workforce development. For these hiring programs to be successful in promoting equity, workers need quality training and protection, including a voice on the job.¹⁵ Companies can help support such goals by signing onto union led apprenticeship programs and designating a percentage of their workforce to come through these programs. It's important that apprenticeship programs the City recognizes utilize proven models like the "High Road Training Partnership(HRTP)" used in healthcare, construction and other fields.¹⁶ This involves tight partnerships with on-the-ground workers, community-led groups, unions, community colleges and employers. From recruitment to training and retention, HRTP has been recognized by research and the state as a driver of equity. Without comprehensive community support and deep partnerships, as the LA Black Worker Center's research has shown, workforce development can end up reinforcing inequality.¹⁷ This can include apprenticeship program biasing out Black and

15. For more, see: Apprenticeships, Worker Equity Initiative, available at <https://workerequityinitiativeresources.weebly.com/apprenticeships.html> [<https://perma.cc/PM6A-EKFS>]

16. Ana Luz González-Vásquez & Magaly N. López, The High Road to Economic Prosperity, UCLA Labor Center (May 2021) available at https://www.labor.ucla.edu/wp-content/uploads/2021/05/Eval_FINAL-REPORT-2.pdf [<https://perma.cc/A85D-XEBJ>]

17. Ryan Reft, Los Angeles Black Worker Center Pushes for Inclusion (Apr. 4, 2016) available at <https://tropicsofmeta.com/2016/04/04/los-angeles->

other workers of color, or becoming a way for companies to hire lower-pay workers without actually offering security or support for long-term success.¹⁸

4. Mentorships and Business Advisory Services: Research shows the persistent racial wealth gap can in part be attributed to past exclusionary practices that hindered the ability of Black and Latinx households to develop business relationships and technical training.¹⁹ For generations, lack of access to capital has also suffocated the ability for local small businesses to thrive and grow, thereby reducing the ability for intergenerational transfers of wealth and knowledge. Opening the doors to the ins and outs of operating businesses can create more opportunities for successful businesses and wealth creation. Business owners and entrepreneurs can support social equity applicants by providing mentorship and advice in running the day-to-day operations of a cannabis business. Participation in city-led programs for mentorship that DCR will be launching can be recognized through the CCSR framework, and ensure mentorship occurs in a guided, equitable setting. However, it will also be important to be aware of predatory “mentorship” models offered by large cannabis investors and firms that have subsumed social equity businesses while restricting the license-holders’ voice and opportunities. Business advisory and mentoring can also be tied to investments made by the Community Reinvestment Fund, and established businesses could serve as mentors to equity groups receiving grants. It is critical that entrepreneurs have low-cost accounting, tax and legal services in their infancy stages of operating to ensure they can obtain capital and protect their ownership. Cited social equity licensee concerns included retaining majority ownership, and fair partnership and shareholder agreements.²⁰

5. Supply Chain Diversity: Supply chain partnerships are an integral part to the overall success of the cannabis ecosystem. Business-to-business purchasing can be a key driver in company growth and daily operations. CCSR reporting should define and show progress to targets that can be achieved through procurement strategies with social equity companies, measuring the percentage of both cannabis and ancillary supply chain partnerships to either social equity or certified minority-owned businesses.

6. Supporting Patient Access & Consumer Education: The transformation of the industry following recreational legalization has shut out many cannabis patients who relied on the plant for healing in relation to HIV/AIDS, cancer, epilepsy, seizures, PTSD (and much more) for decades. Many of these patients are low-income; Black, indigenous, Latinx or Asian and Pacific Islander; queer and transgender; or unhoused. In 2019, advocates pressed the state to reinstate permission for free medicine programs for specific patients, winning these via SB 34.²¹ DCR can incentivize business participation in this program via CCSR. The reporting process can also recognize efforts companies, including cultivators, make towards a more integrative public health educational approach to cannabis. Such approaches could include free, research-driven educational workshops or other teaching on safe and sustainable use of cannabis, including in partnership with community groups. Companies can also contribute to research on cannabis medicine, including through participating in certified, ethical university studies of cannabis science or economics.

black-worker-center-pushes-for-inclusion [https://perma.cc/8TNU-CSE2].

18. Id.

19. Algernon Austin, *The Color of Entrepreneurship: Why the Racial Gap among Firms Costs the U.S. Billions*, Center for Global Policy Solutions (Apr. 2016) available at <https://globalpolicysolutions.org/wp-content/uploads/2016/04/Color-of-Entrepreneurship-report-final.pdf> [https://perma.cc/ZHG6-VDYT]

20. The Initiative, *Social Equity Legislation in Cannabis: A National Study of State and Local Approaches* (2020)

21. California Senate Bill 34, Stats. 2019, Ch. 837.

7. Environmentally-Sustainable and Regenerative Practices: Cannabis business impacts to the environment such as water consumption, pollution, greenhouse emissions, soil erosion and plastic/disposable product consumption should also be considered within the CCSR framework.²² Towards this, DCR can include a comprehensive list of potential interventions, from production to consumption. For example, cannabis has created an enormous amount of waste to respond to complex packaging requirements, but some companies are starting to use new reusable/returnable containers or other means to mitigate this. So too can companies utilize electric vehicles or hybrid for deliveries (to consumers or business-to-business) or in facilities, as well as integrate more sustainable solar and energy resources for plant lights in cultivation operations. Right now, a leading way to define best practices is the use of regenerative farming practices that do more than merely avoiding pesticide use, but offer an integrative approach to healing the environment.²³ Collaboration and consultation with environmental justice groups (who integrate equity in their sustainability approach), or participation in city programs like the LA Green Business Certification, could be viewed as a positive grade to the CCSR rating of the cannabis business.²⁴

Conclusion

The Center remains committed to continuing to provide recommendations and support policy efforts for an equitable cannabis marketplace by giving voice to those most impacted by the War on Drugs. Without a comprehensive CCSR platform for cannabis businesses that centers equity and includes metrics, tracking and accountability, the long-term success of social equity is at risk. **There is enough historical data to allow us to not repeat history and to know where there is a tremendous need for investment, innovation and involvement to repair harms and create a more sustainable city.** At this juncture, with potential tax reduction and industry consolidation, it is important to recognize that there are still responsibilities to community transformation - especially for those hardest hit by incarceration and policing - that can be structured into the industry's development in Los Angeles. Common ground can be found in ways that recognize the diversity of business structures, the challenges operators face and the opportunity to build-in equity across a business organization and its relationships to suppliers, employees and neighborhoods. A collaborative but accountable model of CCSR is in direct line with the broader commitments to equity, sustainability and civil rights the City has enshrined in new departments and innovations, and can reverberate positively across a changing national cannabis industry and other sectors. Cannabis may be among the first to take on CSR in such a comprehensive way, but it can lead the way for a bigger wave of systemic change when the city, the nation, and the planet, could not need it more.

For any inquiries, please visit our website at thesocialimpactcenter.org or email us at support@thesocialimpactcenter.org

22. Zhonghua Zheng, et al., A narrative review on environmental impacts of cannabis cultivation, 3 Journal of Cannabis Research 35 (2021) available at <https://cannabisresearch.biomedcentral.com/articles/10.1186/s42238-021-00090-0> [https://perma.cc/LV93-RGT4]

23. Regenerative Cannabis Farming, available at <https://regenerativecannabisfarming.org/> [https://perma.cc/CRV7-9FDK] Trevor Hennings, 'Sustainability is Not Enough': Why Cannabis Growers Are Looking to Regenerative Farming, Leafly (May 23, 2018) available at <https://www.leafly.com/news/industry/why-cannabis-farmers-should-look-at-regenerative-agriculture> [https://perma.cc/HH6N-WK9Y].

24. LA Green Business Program, Los Angeles, CA