

COVID-19 and co-operatives

28 April 2020

1 Summary

1.1 Like all businesses, co-ops are being hit hard by COVID-19:

- one in two co-ops (48 per cent) report experiencing cash flow issues
- almost 40 percent are having to furlough workers in order to survive
- looking to the medium-long term 70 percent of co-ops express concerns about the health of their business

1.2 These negative impacts are not confined to retail, hospitality and leisure. Co-ops further up supply chains, including wholesalers, business service providers and makers/manufacturers are experiencing a dramatic fall in demand. Many co-ops might be able to survive in the short term by using up their reserves but they can only do this once, for a finite period.

1.3 Co-ops are part of the mutual response to the pandemic, provide decent livelihoods and essential services in response to market failures and pioneer a more sustainable and inclusive way of doing business. So it should concern government that thousands of co-ops may be at risk because its COVID-19 measures offer too little help for them.

1.4 **We are extremely concerned for the 17 per cent of co-ops that list ineligibility for any government grant as a major challenge to their survival.** We are also concerned for more than half of UK's 7,215 co-ops, which may be surviving now but will need better-tailored support in the months to come. **We particularly share the concerns of the wider social enterprise and business communities that the Coronavirus Business Interruption Loan Scheme (CBILS) is not meeting needs.**

1.5 Government has done great things in recent weeks. But in its efforts to protect businesses and workers it has left a number of dangerous gaps, affecting: non-ratepayers; small businesses that cannot afford expensive new borrowing; too many business that trade for a social and/or mutual purpose.

1.6 If government wants to 'level-up' the UK and reduce environmental harms in the years ahead – or in the words of the United Nations to 'build back better' ¹- its needs to do more to limit the loss co-ops, mutuals and social enterprises during this pandemic.

1.7 Alongside the wider social enterprise and business communities, we urge government to:

Survival

- extend eligibility for the Small Business Grant Fund to all micro enterprises (annual turnover up to £632,000) that have a clear social purpose and reinvest the majority of their profits in that purpose ²
- ensure the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loans scheme provide fast, simple and low cost loans to small businesses ³

- provide additional capital to social impact financiers, so that these can provide fast, patient, low and zero interest loans to co-operatives, mutuals and other social enterprises ⁴
- ensure community benefit societies will be eligible for the £370 million of grants being made available for charities and social enterprises via the National Lottery Community Fund
- include co-operative and community benefit societies in the fast-tracked and emergency insolvency reforms being legislated for companies ⁵

Build back better

- increase paid-for and subsidised specialist advice for co-ops and other social enterprises, to help them adapt business models, develop new products and increase productivity/efficacy ⁶
- support the #1MillionOwners agenda, which aims for a fivefold expansion in employee and worker ownership by 2030, by allocating funding for business support that helps the creation of new worker co-ops and the conversion of existing businesses to employee ownership, as part of planned succession and post-pandemic renewal ⁷
- deploy the £100 million Community Ownership Fund in a way that utilises co-operative approaches to community ownership, as part of a wider agenda for community development and empowerment
- refocus the UK Shared Prosperity Fund on inclusive and sustainable growth and earmark 25 per cent for community-led economic development, prioritising the participation of people in more deprived places

2 What is at stake?

2.1 The more co-operatives are lost in the pandemic, the greater the destruction of shared economic and social value. Communities could lose co-ops that are currently critical to the mutual response to COVID-19, as well as many they rely on to provide decent livelihoods and essential services in response to market failures. But we could also lose thousands more co-ops that demonstrate how free enterprise can be more sustainable, democratic and distributive. If we want to 'level up' the UK and reduce environmental harms in the years ahead, we need more co-ops, mutuals and social enterprises, not less.

Co-ops are part of the mutual response to COVID-19

2.2 We need to limit the loss of the estimated 1,400 co-ops involved in the community response to the pandemic, including community businesses, social clubs, credit unions and consumer co-ops.⁸ Many are directly involved in Shielding and related efforts. **We are especially concerned that 20 per cent of surveyed co-ops report having to respond to increased community need while coping with financial and operational stresses.**

Co-ops are providing essential services and addressing market failures

2.3 We also need to limit the loss of the estimated 3,500 co-ops that are instrumental in providing decent livelihoods and essential services in communities, in response to market

failures. This includes local consumer co-ops, credit unions and community businesses in rural areas and deprived neighbourhoods.⁹ **If these co-ops are lost, damaging localised market failures will remerge in critical areas like food retail and amenities, consumer credit and wellbeing services.**

Co-ops are the pioneers of a more sustainable and inclusive economy

- 2.4 The prospects of a deep recession, curtailments on some economic activity for a year or more, and further periods of 'lockdown', all heighten the risk for the UK's 7,215 co-ops and the more than 233,733 livelihoods they provide.¹⁰ Looking to the medium-long term horizon, 70 percent of responding co-ops express concerns about the health of their business. Once they have used up their reserves, they will be vulnerable to failure.
- 2.5 Underneath these crude numbers something very important is at stake: our prospects for a more sustainable, democratic and distributive market economy.
- 2.6 Co-ops are especially effective at reducing inequalities in power, wealth, wellbeing and opportunity through business. They democratise economic ownership and control,^{11 12} have lower pay ratios,^{13 14} more diverse boards,¹⁵ and prove that workers, customers and communities can share power in businesses effectively.^{16 17} Co-ops also pay their fair share of taxes.¹⁸
- 2.7 In more normal circumstances co-ops are also more resilient than businesses generally.¹⁹ ²⁰ What is more, the evidence suggests that mutual purpose, participative decision-making and democratic governance boost performance in worker co-ops.^{21 22} The same things help consumer, service user and community co-ops to meet needs more effectively.^{23 24} Over the past decade, co-ops have also emerged as a particularly effective tool for communities to mobilise economic and social capital simultaneously, creating community businesses with strong commercial rigor and self-sustainability.^{25 26 27}
- 2.8 Given our environmental, economic and social challenges, we cannot afford to lose this generative capacity, out of which a more sustainable and inclusive economy can develop.

3 The needs of too many co-ops are not being met

- 3.1 According to our most recent survey data:
- 62 per cent of co-ops say a cash grant would help them survive in the short / medium term
 - 17 per cent of co-ops say patient, low interest debt finance could help them survive in the short / medium term and recover thereafter

Grants

- 3.2 Given the critical importance of grants right now, **we are extremely concerned that 17 per cent of co-ops list ineligibility for any government grant as a major challenge to their survival.** Overall we estimate that **between 20 and 40 percent of all co-ops are ineligible for either the Small Business Grant Fund or the Retail Hospitality and Leisure Grant Fund.** Many co-ops that do not list ineligibility as a critical issue now, may come to do so in the near future.

- 3.3 Most of these co-ops will not be rate payers. Some will operate out of rented or shared workspace while others will be made up of home-based workers. There is an immediate issue with non-rate paying co-ops in the leisure, food and educational industries. Due to social distancing rules, these co-ops have lost most or all of their business and income for at least Spring/Summer 2020, yet will not receive a cash grant.
- 3.4 In time, if falls in demand cascade through supply chains, we may also see this issue affecting the hundreds of non-rate paying co-ops in the digital-creative and business service industries. Here, more than 600 co-ops with a combined annual turnover of £112 million could be at risk.²⁸
- 3.5 Others are ineligible for the Small Business Grant Scheme because they get Charitable Rate Relief rather than Small Business Rates Relief or Rural Rate Relief. This includes community businesses which, while having charitable status, also still rely heavily of commercial business models to be sustainable. The commercial operations of these community businesses are being hit hard, yet they have not so far been eligible for any cash grants.
- 3.6 We have two priority policy asks here:
- extend eligibility for the Small Business Grant Fund to all micro enterprises (annual turnover up to £632,000) that have a clear social purpose and reinvest the majority of their profits in that purpose
 - ensure community benefit societies will be eligible for the £370 million of grants being made available for charities and social enterprises via the National Lottery Community Fund

Loans

- 3.7 It is essential that those co-ops in a position to borrow can access to patient, low interest debt finance, now and in the recovery. Not only is this finance needed to help these business bridge financing gaps in the short to medium term, but it is also needed for them to adapt and rebound more productively. With access to patient, low interest debt finance, these co-ops can play a full role in restarting our economy on a more sustainable, inclusive and resilient trajectory.
- 3.8 So far, 20 percent of co-ops say they either are, or are planning to, apply for a loan under CBILS. **We share the concerns of the wider business community that CBILS has been under-performing. Given that co-ops as a group already contend with additional challenges in accessing commercial finance, compared to business generally, we are very concerned that CBILS may under-serve the co-operative sector.**
- 3.9 This would be because of the cost of finance being too high and lenders not understanding co-ops. Many co-ops operate social business models which cannot support expensive new borrowing and which non-specialised commercial lenders do not understand. To an extent, our concerns extend to the new Resilience and Recovery Loan Fund, which may still be too expensive and might exclude some of our most successful and social value-adding co-ops.
- 3.10 We very much welcome the Chancellor's announcement of the 'bounce back' loans scheme, with 100 percent guarantees for loans up to £50,000 (27 April 2020).²⁹ We hope that this will provide the greater speed, reduced complexity and low cost of borrowing many co-ops need.

3.11 We have two interlinked priority policy asks here:

- ensure CBILS and the Bound Back Loans scheme provide fast, simple and low cost loans to small businesses – we will be monitoring the impact of the new ‘Bounce Back’ loans scheme for co-ops
- provide additional capital to social impact financiers, so that these can provide fast, patient, low and zero interest loans to co-ops, mutuals and other social enterprises

About Co-operatives UK

Co-operatives UK is the national association of co-operative businesses. We have over 800 co-operatives in direct membership, including leading consumer co-operatives, worker owned businesses, community businesses and farmers’ co-operatives.

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Notes and references

¹ <https://www.un.org/en/un-coronavirus-communications-team/un-urges-countries-%E2%80%98build-back-better%E2%80%99>

² We jointly advocate for this along with the wider social enterprise community – [see here](#)

³ We welcome the Chancellor’s announcement of the ‘Bounce Back’ loans scheme (27 April) and will monitor its impact for co-ops

⁴ We support the proposal put forward by the wider social enterprise community, to provide £200-300 million to social impact financiers, in order for them to provide patient, low and zero interest loans to social enterprises – [see here](#)

⁵ Announced by Business Secretary on 28 March 2020

⁶ We jointly advocate for this along with the wider social enterprise community

⁷ #1MillionOwners is an agenda led by Co-operatives UK and the Employee Ownership Association, [see here](#)

⁸ From survey data and general sector data we estimate that at least 1,400 co-ops in the UK will be directly involved in the community response

⁹ This includes: community businesses in retail, arts and culture, health and social care and leisure (517 co-ops across the UK); social clubs (2,450 co-ops across the UK); credit unions and other financial co-ops (468 across the UK) and worker co-ops in health and social care (62 across the UK)

¹⁰ Co-operatives UK (2019) [The Co-op Economy](#)

¹¹ Community Shares Unit (2015) [Community Shares: Inside the market report](#)

¹² https://www.uk.coop/sites/default/files/uploads/attachments/co-op_economy_2019_0.pdf

¹³ Virginie Pérotin (2015) [‘What do we really know about worker co-operatives?’](#)

¹⁴ Co-operatives UK (2018) [‘Gender Pay Gap Report’](#)

¹⁵ <https://www.uk.coop/newsroom/women-boards-co-operative-retailers-double-those-ftse-companies>

¹⁶ Virginie Pérotin (2012) [‘The performance of worker co-operatives’](#)

¹⁷ <https://www.uk.coop/resources/governance-large-co-operative-businesses-0>

¹⁸ <https://www.uk.coop/promoting-co-ops/fair-tax-mark>

¹⁹ Co-operatives UK (2019) [‘Co-operative Business Survival’](#)

²⁰ Virginie Pérotin (2015) [‘What do we really know about worker co-operatives?’](#)

²¹ Virginie Pérotin (2012) [‘The performance of worker co-operatives’](#)

²² Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) [‘Productivity, Capital and Labor in Labor-Managed and Conventional Firms’](#)

²³ <https://www.uk.coop/resources/governance-large-co-operative-businesses-0>

²⁴ <https://www.uk.coop/resources/shared-space>

²⁵ Nesta (2019) '[Taking Ownership: Community empowerment through crowdfunded investment](#)'

²⁶ Plunkett (2019) '[Community Shops: A better form of business](#)'

²⁷ Community Shares Unit (2015) [Community Shares: Inside the market report](#)

²⁸ These figures include freelancer co-ops and others in arts and culture, digital and media and professional and legal sectors

²⁹ <https://www.parliament.uk/business/news/2020/april1/chancellor-announces-new-bounce-back-loans-for-small-businesses/>