Financial and Investment Needs of Workers Co-operatives: A Short Study undertaken for Industrial Common Ownership Finance Ltd.

Other

FINANCIAL AND INVESTMENT NEEDS OF WORKERS COOPERATIVES

A Short Study undertaken for

Industrial Common Ownership Finance Ltd

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at the Cooperatives Research Unit

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A Short Study of the

FINANCIAL AND INVESTMENT NEEDS OF WORKER COOPERATIVES

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The general aim of this study has been to establish the financial and investment needs of UK worker cooperatives, with a view to assessing the appropriateness of different possible investment instruments and assisting in developing a national strategy for the financing of worker cooperatives. The initial research was carried out on a short timescale in June and July of 1992. It is only possible therefore to set out the issues in broad terms.

The report is in five sections. The first gives an up to date estimate of the size and shape of the worker cooperative sector and how it has changed since the most recent published figures in 1988. This information was gathered mostly by Cooperative Support Organisations[1] (CSOs) on 23 geographical areas and includes more than 500 cooperatives. In conjunction with findings of our recent study of Trends in Cooperative Development, this sets the context within which to view the results of the rest of the study. Estimates on the market for investment in UK worker cooperatives were based on questionnaires returned from 39 cooperatives, and related to the above estimate of the sector as a whole.

The second and third sections relate to the expressed problems and needs and then to ideas and "solutions". The concerns of cooperators and their advisors about the choice of investment instruments were explored by convening six consultative meetings. These were held in areas with dissimilar resources and opportunities. Representatives of the main types of worker cooperative were included and a distinction was made between the needs of (i) established cooperatives, (ii) new-start cooperatives and (iii) new conversions/buyouts where appropriate. Some experts and advisors attended these meetings; others were interviewed by telephone. Participants were invited to set out the financial and investment situation in their cooperative or area and focus on any problems they have. This was followed by consideration of solutions, initially drawn from the meeting, but subsequently introducing those broadly discussed within the movement. In conclusion each participant filled in a "Reaction Sheet" giving both a quantitative and qualitative reaction to the issues discussed in the meeting.

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[1]CSO - a Cooperative Support Organization is any organization which as part of its brief or policy gives support to cooperatives and groups wishing to set up cooperatives. CSOs therefore include not only specialist cooperative development agencies but also certain financial organizations, companies, economic development units etc.

The fourth section combines individual ideas into a discussion of strategies for the future. A draft report was circulated for a seminar held in Birmingham in September which was attended by representatives of the worker cooperative movement and other interested parties[2]. The meeting considered the possible strategies tentatively set out in the draft report. Their additions and conclusions have been incorporated into this report.

In the conclusion we summarise the main survey findings and issues, the areas in which new financial "products" for cooperatives might most usefully be developed further for market testing and try to draw together the views expressed in the seminar.

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[2]Those who attended the seminar are listed in Appendix B

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1.0 The Shape and Size of the U.K. Worker Cooperative Sector

1.1 Size of the Cooperative Sector

To assess the size of the cooperative sector, an analysis was carried out of 23 geographical areas comprising more than a third of the population of cooperatives. These areas included four where there was no funded CSO and one where only very restricted activity occurs. The other areas all have active CSOs and the numbers here are based on their reports. Data for those areas where there is no support activity is clearly difficult to assemble in a short period and will be less reliable than that from CSOs.

The current assessment of the number of worker cooperatives was then set against the 555 from those areas identified in the 1988 Directory[3]. Table 1 shows the findings.

Table 1 Estimate of the current number of worker cooperatives

Area:	1988 Directory	Coops still Trading[4]	Coops registered since 1988	1992 Total
Avon	23	13	25	38
Black Country	46	11	50	61
Bradford	20	3	6	9
Brighton	8	4	18	22
Cambridgeshire	11	6	8	14
Dorset	3	2	0	2
Durham	13	9	12	21
Gt. Manchester	58	30	57	87
Harlow	5	3	4	7
Huddersfield	11	4	7	11
Humberside	12	4	13	17
Islington	49	25	2	27
Lambeth	27	15	3	18
Northamptonshire	27	11	19	30
Northern Ireland	10	3	10	13
Northumberland	5	0	4	4
Nottinghamshire	30	11	21	32
Port Talbot	23	4	11	15
Scotland	85	39	73	112
Sheffield	36	26	15	41
Southwark	29	7	12	19
Suffolk	5	1	1	2
Sunderland	19	3	10	13
Totals	555	234	381	615

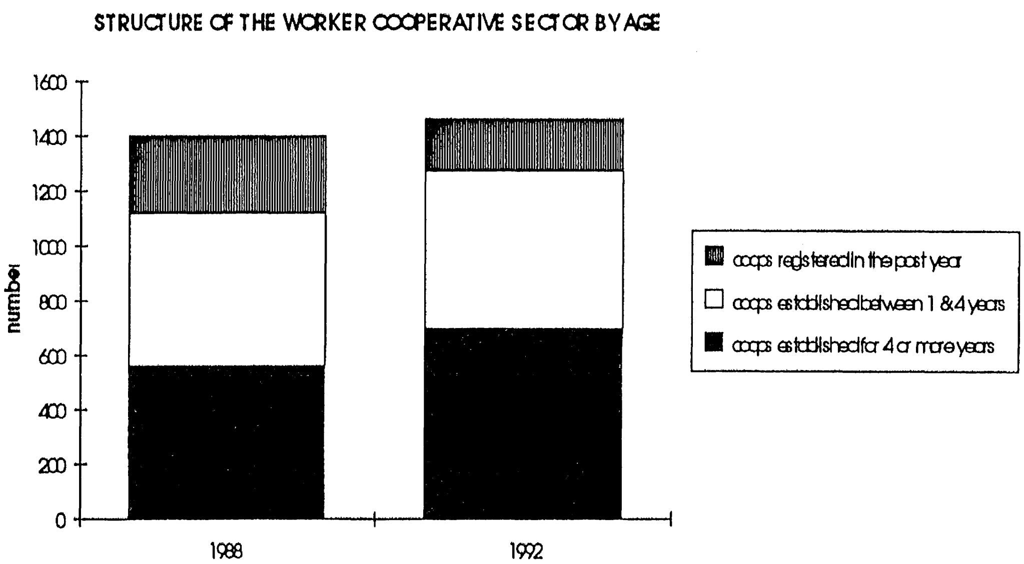
[3]The data assumes that all the organisations shown in 1988 were correct entries, including a small category whose only claim to reliability is that there is "no information to indicate that this entry is incorrect".

[4]This total includes a small number of organisations which have moved out of the area or converted to private companies but are still trading.

The estimated number of worker cooperatives in 1988 was 1,400. Present data indicate for the areas selected that the number is 9% higher. Other things being equal this would imply 1,525 cooperatives trading in 1992. The majority of areas with a CSO however show increases between 10% and 65%. Areas without a CSO generally have a smaller number of cooperatives and although they appear to show a fall in numbers, in absolute terms they are less significant.

Areas vary widely of course notably with the three London cooperative development agencies[5] (CDAs) reporting a decrease in number of cooperatives. Considering the high concentration of worker cooperatives in London up to 1988 it may be more accurate to give proportionally more weight to the returns from Islington, Lambeth & Southwark. This lead to an estimated increase of 4.4% rather than 9%. A more realistic assessment of the number of worker cooperatives for 1992 may be only 1,460.

Figure 1



A maturing profile, as shown by Figure 1, may then be indicated for a slowly growing cooperative sector in a prolonged period of recession. About 52% of the organisations will be relatively new (established for less than four years). Registration of new cooperatives by ICOM has also settled at about 140 per year. This is generally accepted as representing approximately 75% of all registrations in Britain.

In numerical terms the 'market' for investment in worker cooperatives is stable or growing only slowly when set against data from the 1988 Directory.

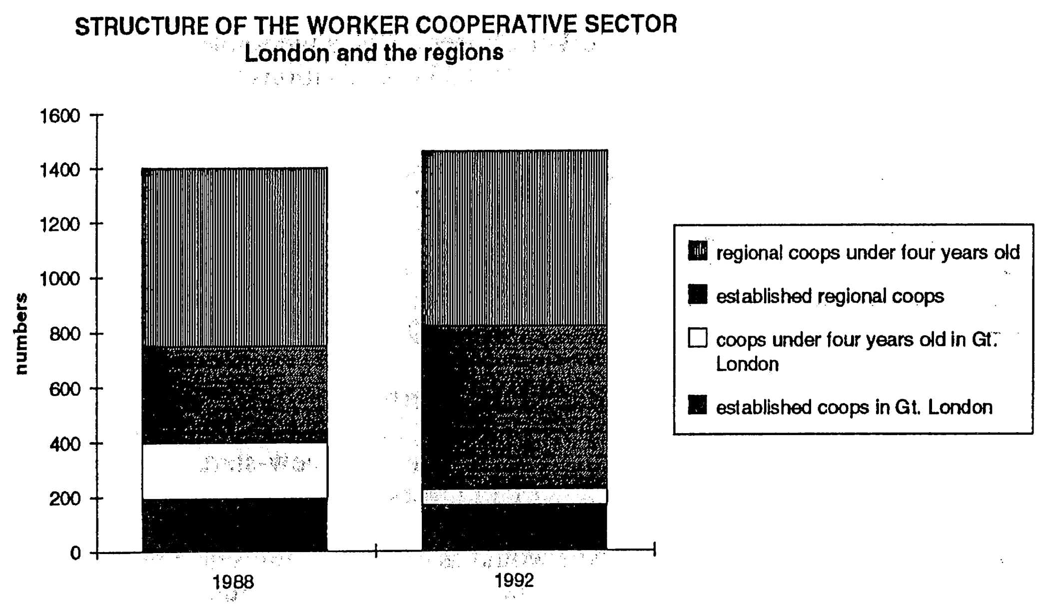
If the returns from the London CDAs are typical of the capital then its importance in terms of numbers of worker cooperatives will have declined from about 28% in 1988 to 15% of the total now. Additionally, dates in the 1988 Directory indicate that in London, numbers of cooperatives were almost equally balanced between those

[5]CDA - Cooperative Development Agency refers to an organization whose prime function is to support cooperatives and groups wishing to set up cooperatives over a wide range of services. These will have an independent management committee and funding.

registered before and after 1984. Almost all other regions had only approximately half as many mature cooperatives as those under four years old. It may therefore be that London has also lost its position as having a large and uniquely "mature" stock of worker cooperatives (Fig 2). Clarification of this will have to await the production of the 1992 Directory of Worker Cooperatives.

The data from London comes from areas where CSOs continue to operate. The relative decline in the prominence of London may not therefore be attributed to the demise of CSOs. It is possible that this can be explained by the loss of the coordinating effect and support of the GLC combined with a higher failure rate among "job creation" cooperatives formed in the 1980s.

Figure 2



Of the total cooperatives listed in the 1988 Directory as "Reliability 1" or "Reliability 2"[6], for the areas surveyed, just under 50% were found to be trading as cooperatives now. This is a minimum figure since the information in areas where no CSO exists will tend to underestimate the worker cooperative population.

The figure suggests, however, an average annual failure rate of up to 16%. This is at the high end of the rates calculated for 1982-86 of between 10% and 16%[7] but it has occurred during a long period of recession where small businesses in general have also been failing at a much higher rate than previously.

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[6]In order to obtain a good comparison with present data, organisations of "Reliability 3", i.e. not reported to the CRU by a CSO, have been excluded.

[7]Chris Cornforth, Alan Thomas, Jenny Lewis and Roger Spear, *Developing Successful Worker Cooperatives* (1988, Sage Publications) p33.

1.2 Workers in the Cooperative Sector

The 1988 Directory of Worker Cooperatives recorded an average of 6.1 workers per cooperative based on all available information. The simple average of the 171 cooperatives where current information was reported by CSOs is 6.18 workers; almost exactly the same figure.

However, areas varied not only in comparative averages but also whether they had experienced increases or decreases. By comparing statistics within areas, the overall figure was a 6% decrease. If these very limited measurements are correct, they would give a small overall rise in the total number of workers employed, so that the estimated 1,460 worker cooperatives employ between 8,370 and 8,900[8].

1.3 Larger Cooperatives

Data in the 1988 Directory of Worker Cooperatives is incomplete with regard to numbers of workers but it is estimated that 33 organisations were listed employing 20 or more workers[9].

If the seven of these we have been unable to contact are no longer trading, this would give a maximum average annual failure rate of less than 6%. Of the 19 cooperatives for which we have comparable data from 1987 and 1991, 14 report a rise in their average number of employees. The increase for five of these cooperatives only has been mainly part time work. Where losses in average numbers of employees were reported they were all less than 21% of their 1988 level.

A number of worker cooperatives such as Paperback and Letterbox Library have moved into this category although in the case of the latter it is again part time work which has increased. There is also a small number of new-starts and phoenix or rescue cooperatives which have 20 or more workers.

The established larger cooperatives would as expected represent a more secure part of the sector. Also there would seem to be considerable opportunity to make 'ready made' additions.

The opportunity for the formation of new larger worker cooperatives is of course increased by recent political and corporate changes. Privatisation of services from local authorities and state industries, the care sector, corporate sell-offs are all providing possibilities. The support, and particularly, financial organisations for cooperatives may find themselves advising organisations far larger than those for which they have experience or resources. There have been a number of notable successes but there is a clear need for research to evaluate these experiences, focus on successful strategies and assess the potential market.

During the course of the research we learnt incidentally of several examples of such new, larger cooperatives. These included two trading producer cooperatives from the Black Country CDA, a bus company in development in Northern Ireland, a clothes manufacturer in Hull and in Scotland a corporate sell-off, a bus company and another producer cooperative in development. It was not possible in a brief study to quantify the potential in this area.

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[8]Note that the actual total may be disproportionately affected by a few larger cooperatives that may not be within the area sampled (see Section 1.3).

[9]The criteria used was average number of full and part-time workers employed

1.4 Cooperative Support

Bottom-up worker cooperative development represented the single largest activity of CDAs replying to our study of Trends in Cooperative Development in 1991[10]. However 72% were either working with, or expected in the future to work with, phoenix / rescue and conversion groups.

In addition many CDAs are diversifying their workload into other parts of the social economy. An aggregation of their reported time spent working as consultants with non-cooperative organisations, ethnic businesses, secondary cooperatives, community businesses, credit unions, housing cooperatives, and voluntary organisations showed an average doubling to 19% in the four years up to 1991. There is a distinct difference between larger and smaller CDAs. Those with more than four staff members have generally continued to concentrate on worker cooperative development and only increased their involvement in secondary cooperatives. Smaller CDAs mostly report a broadening workload in the social economy but often specialising in one area.

Generally CDAs' involvement in business training has also increased. ESF funded and other training courses were reported as occupying on average nearly a fifth of the agencies' time.

A slightly higher proportion, 32%, of the sample of CSOs contacted in 1991 were involved in local loan fund management compared to four years earlier.

The profile of the worker cooperative sector very much depends on the continuing and successful work of the CSOs. Support favourably affects the cooperative sector but seems to do so within the parameters set by the 'economic cycle'. Following a four year period of no appreciable real overall growth (or decline) in funding, responses from CDAs showed more than 70% expected cuts in their 1992/1993 budgets and nearly a third believe these will be substantial. The latest government proposal to 'cash limit' public spending rather than negotiate ministerial budgets indicates no change of policy. To date contraction in the network has occurred in the south. Financial strategies to support workers cooperatives would benefit from the presence of well informed local support organisations and although the absolute numbers of CDAs remains much the same as it did in 1988, their continuation in the present form cannot be assumed.

In consideration of the achievements of SCDC and some regionally based CSOs, some consideration has been given to the possibility of rationalising the support organisations. The present funding structure generally does not lend itself to regionalisation. If the importance of local authority economic development were to decline further, however, and a strategic national approach developed, including more large scale conversions to worker cooperatives, the option could reopen.

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[10]Terry Newholm, *Trends in Cooperative Development* (1992, Cooperative Research Unit, Open University, Milton Keynes).

1.5 Common Ownership

Not all cooperatives are registered as common ownerships. There is a general perception of a proportionate decline in numbers. With the diversification of support organisations in some areas into development of community business and other areas of the social economy (see 1.4), some would argue that the 'principled cooperative sector' is in decline.

ICOM report a small decline in the proportion of common ownership registrations from 72% in 1988 to 67% in 1991. SCDC report that all their registrations are common ownership except for the recent Taybus Holdings. Records of the Registrar of Friendly Societies are not differentiated but are in any case only a small proportion of all registrations. Such small changes take a long time to work through and *if* present trends are continued would only effect a 10% reduction in the number of common ownerships over the next two decades.

1.6 Overall Financial Indicators for the Worker Cooperative Sector

Of the cooperatives contributing to this study 23 gave full financial information.

Average annual TURNOVER per worker was £31,340 with the majority (72%) between £10,000 & £75,000.

Average TOTAL NET ASSETS per worker was £3,837 but this varied widely between those operating on a deficit and some established cooperatives like Fingerprints, Infinity Foods, Lithosphere and Trylon, reporting in excess of £10,000.

Without making a detailed breakdown into different industrial sectors and subsectors, it is hard to assess these figures. On the whole, however, they appear to represent a reasonable level of productivity attained with a considerable degree of under-capitalisation. To get a better idea of productivity one would have to measure value added per worker. Turnover per worker varies widely according to different mark-ups in different industries, so that a high turnover per worker is to be expected in wholesaling, say, compared to retailing or manufacturing. As for assets per worker, again one would expect a wide variation but cooperatives in general are clearly well below Schumacher's criterion for intermediate technology of an annual salary's worth of total capital investment per permanent job.

Although the cooperatives contributing to the study in general include a wide range of types, stages of development and size, this sample of 23 is, perhaps inevitably, biased towards the larger and more established cooperatives. By taking those values per worker and relating them to an average of six workers per cooperative, we can estimate very roughly that the sector turnover would be £300m with net assets of £37m[11].

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[11]This estimate again could be strongly affected by the inclusion or exclusion of a few larger, well-endowed cooperatives.

1.7 Estimated Financial Requirements

Although some cooperatives have financed themselves from the start using commercial loans others have relied on grants or more usually a combination including 'soft' loans. The financial arrangements of cooperatives are diverse but certain trends can be discerned from our sample and these are illustrated in table 3.

Table 2 Analysis of Balance Sheets[12]

	Average at Start	Percentage of total financial requirements	Average Now	Percentage of total financial requirements
Own long-term funds (members contributions)	£6,410	12.12%	£6,747	6.31%
Reserves	£3,882	7.34%	£31,880	29.84%
External equity (and 'Quasi' equity e.g. debentures)	£545	1.03%	£3,955	3.70%
Total equity (and quasi equity)	*£10,837*	*20.49%*	*£42,592*	*39.85%*
Private loans (e.g. friends)	£4,000	7.56%	£1,911	1.79%
Public sector loans	£2,159	4.08%	£1,381	1.29%
Special coop loan fund	£3,205	6.06%	£3,318	3.10%
Other 'soft' finance	£23,580	44.58%	£25,693	24.05%
Total 'soft' finance	*£32,944*	*62.28%*	*£32,303*	*30.23%*
Commercial loans	£4,931	9.32%	£20,909	19.57%
Overdrafts	£4,181	7.91%	£11,045	10.34%
Total commercial finance	*£9,122*	*17.23%*	*£31,954*	*29.91%*
TOTAL	£52,893		£106,840	

Cooperators' own contributions, in the order of 6-12%, are well below the level of 'own funds' for small business generally which average around 70%-85% both at the start and as the business expands. This confirms the continuing need for unsecured finance. Reserves in general increase greatly; it is important that these are treated also as a type of 'own funds'. Notably, however, some established cooperatives in the

[12]Table 3 compares the sources of finance used by cooperatives with those used in their first trading year. Ideally this type of analysis would compare Year 1 of the cooperative with say, Year 4 and Year 7, whereas our analysis because of the sample size compares Year 1 with the current year, which for different cooperatives could be Year 2, 5 or 20. The cooperatives for which we have sufficient financial information varied in age between one and twenty six years but with over half between 3 and 9 years old.

sample relied solely on their accumulated reserves for slow expansion. Even if reserves are included, the total 'own funds' for cooperatives is still only about 36%.

In our sample 'soft' finance included loans and grants from Mercury Provident, Princes Trust, British Steel and British Coal Enterprise, public grants, sympathetic factoring and support from other cooperatives. The data showed a proportionate reduction in 'soft' loans in more established cooperatives.

Commercial finance, including overdraft facilities, are shown as increasing as the cooperative establishes. A refinancing of, say, 50% of cooperatives' overdraft facilities could be in the order of £3.4m[13].

1.8 Expected Investment Needs

Table 3 Expected investment needs

	Now	Three years' time
No requirement for additional finance	17%	5%
Restructuring existing finance	11%	3%
Growth in existing business leading to need for more working capital	17%	11%
Development of related new line of business, new product or service	6%	24%
Acquisition of another business	3%	14%
Refurbishment/repair/renewal of fixed assets	14%	24%
Implementation of new technology to upgrade production	22%	11%
Implementation of new technology in a support role (office system)	11%	8%

In our sample of cooperatives only 16.6% did not require additional finance and fewer believed they would not want external finance in the future. By the nature of the research, cooperatives agreeing to take part were those likely to be considering additional finance. This, however, suggests a growing market for investment in established cooperatives.

A high proportion wanted to implement new technology but it was clearly hoped that this need would not be on-going. Future needs centred on two areas. Nearly a quarter expected to develop a related new line of business, new product or service. A similar proportion expected to refurbish, repair or renew their fixed assets in the next three years. A significant number of cooperatives wanted more working capital due

[13]The figure is reduced to take account of bias in the sample.

to growth in their existing business and this provided a theme which arose in some consultative meetings.

All of those considering that they may wish to acquire another business were in the wholefood sector. Whilst our sample is too small to draw conclusions, this may reflect a restructuring of the sector.

Many cooperatives increasingly utilise overdraft facilities as they develop so as to meet their working capital needs flexibly. While 28% of the cooperatives in our sample saw an immediate need for restructuring or working capital, this figure reduces for future needs; we feel this may be an inaccurate reflection of the problem, which is perceived as immediate, but is actually likely to be just as great in three years time as now. The difficulty of incorporating an element to allow for working capital in any financial package was discussed, but did not feature as of central importance in the final Response Sheets although it may be assumed to be incorporated under the important head of flexibility.

1.9 Diversity in the Cooperative Movement

Any generalisations about worker cooperatives are of course limited. This was amply underlined in the consultative meetings. The structure and financial needs of the cooperatives represented varied enormously.

Although they were registered as cooperatives and some operated in a deliberately egalitarian way, others had one central person of very considerable importance in terms of decision making. This was so much the case in one cooperative that the organisation had an insurance which would finance the replacement of their key worker should they leave.

In financial terms the variety was no less. Some cooperatives, theatre companies or 'ethnic' community news sheets for instance, depend on grants or communities of supporters and would never expect to be commercially viable in the conventional sense. A growing number in the care sector will be successful businesses although their clients will be state financed. Most are, or aim to be, successful commercial businesses usually with a social element. Here also the variety shows. Within the wholefood market cooperatives vary from a substantial one whose trading has been hit by bad debts in the recession but will nevertheless want to take advantage of an option to purchase their premises and will be looking for a loan package to another who own one premises, whose reserves have built up and when they consider another property purchase will have no security problem. At the other end of the scale a small group of wouldbe paid workers have voluntarily staffed a local community shop in the hope that it can be built up to a viable cooperative business.

Anyone associated with the worker cooperative movement will be aware of its diversity. This section of the report has been included simply to highlight the inadvisability of drawing universal, unqualified conclusions. Financial needs can be particular to sectors, start-up types and even individual cooperatives.

2.0 Financial Problems in the Cooperative Sector

2.1 Cooperators Perceptions

Before the consultative meetings representatives of cooperatives were asked to rate the importance of a number of financial problems facing the sector (Table 5). The same questions were asked of other established cooperatives. That the continuing poor business climate was selected as the most serious factor is hardly surprising but it is important to set the present considerations in that context. Some support organisations have increased their training activities at the expense of registrations partly as a response to the adverse conditions for new-starts. Only in Glasgow was there a little less pessimism, rating other issues above the economic climate.

Table 4 Cooperators rating of problems facing the cooperative sector in order of seriousness

	Importance Rating[14]	Agreement/ Disagreement
Poor business climate in current recession	32	agreement
Poor understanding of cooperatives among financial advisors	29	agreement
Lack of loan finance for cooperative start-ups	26	agreement
Difficulty of obtaining larger amounts of finance for expansion	24	agreement
High gearing of cooperatives	17	agreement
Lack of financial business skills among co-operators	16	disagreement
Lack of range of financial services within cooperative movement	9	disagreement
No incentive for skilled members to stay in cooperatives	2	disagreement
Too much insistence on pure cooperative principles	-13	disagreement
No good way for members to invest in their own cooperative	-13	agreement

[14] Respondents were offered five ratings for each problem from "not at all serious" to "very serious". The 30 responses were scored on a numerical scale from -2 to 2 and the scores aggregated.

2.2 Areas of Agreement

Poor understanding of cooperatives among financial advisers was quite a serious problem to 75% of the sample and considered very serious by more than a quarter. There was discussion of the hazards of bank managers being changed and the resulting inconsistency of service and attitude. Certainly the Cooperative Bank did not escape from the criticism. There were also complaints about managers not considering a cooperative to be a 'proper' business although equally some managers were seen as very accommodating and appreciative of the commitment value inherent in the cooperative structure. However there is reason to expect that such a strong statement of dissatisfaction from co-operators extends to support and financial organisations beyond the purely commercial sector. "A lack of skilled and imaginative financial advisers within the cooperative support organisations" was an appended problem to one questionnaire. ICOF, not unlike other financial institutions of the cooperative movement, was the subject of high praise and dismissive criticism. The praise was usually for the quality of its on-going financial advice to clients; and the criticism for what was seen as excessively slow responses. In some cases co-operators clearly held their CSO financial advisors in very high esteem. There is therefore a case for suggesting that further study be undertaken to be precise about this important difficulty.

Additional problems facing the worker cooperative movement were, of course, identified as a lack of loan finance for start-ups and difficulty in finding larger amounts of finance for cooperative expansion. In some ways this latter problem can be interpreted as encouraging. Considering the relatively low requirement for restructuring capital borrowing (Table 4) a demand for expansion capital in a recession may show a relatively healthy established sector.

Interestingly the perception of lack of start up finance was more strongly held by the established cooperatives than the more general cross-section from the meetings. What seemed most critical to CSO workers was the existence of a local loan fund and the ability to direct money locally. Records from both Humberside and Brighton which have no local loan funds, however, showed a good increase in the numbers of cooperatives in their areas since 1988 (Table 1).

Related to these issues is the general tightening of loan policies among the commercial banks as a reaction to the profligate policies during the 'boom'. In most cases the possibilities of borrowing from commercial sources was seen as being restricted. Funds within the cooperative movement will therefore become of greater importance in sustaining the sector.

2.3 Areas of Disagreement

Questions where there was not agreement are also interesting. Cooperatives were asked how serious was the problem of incentive for skilled members to stay in the cooperative. Answers were clearly particular to each organisation with as many rating it a very serious problem as those considering it no problem at all. Established cooperatives were significantly less likely to identify this as a problem. However, the issue does underline the variety of cooperatives and their needs.

Of no apparent difficulty to cooperatives are the issues of common ownership and investment in their own business. It was the case however that some cooperative workers held investments in their cooperatives without being aware that this could be achieved with tax advantages.[15]

2.4 Additional Problems Raised by Cooperators

A number of cooperators linked what they saw as the sector's problem with lack of credibility with its financial problems. This they related to their relationship with banks and other companies but also with the public and the difficulty of raising money more widely to support them.

A lack of start-up grants was also cited as a problem. Setting up, paying wages and repaying a loan, especially in areas where purchasing power remained low, of course present problems.

Insufficient cooperative support coverage geographically was a concern mentioned in one questionnaire and discussed elsewhere. Almost all the cooperatives responding to the questionnaire were in areas covered by a funded CDA.

A depressing suggestion was that there were too many questionnaires and not enough action.

[15]Whilst not entering the argument of the efficacy of various methods in relation to worker cooperatives, it may be of some advantage to set out the broad outline of one possible scheme:

A separate trust with its own trustees is set up. The cooperative pays a proportion of its surplus to the trust and reduces its capital gains tax. The trust invests in the cooperative and receives shares which it allocates to the cooperators in an agreed way. Providing the money remains with the trust for five or more years the cooperators do not pay tax or national insurance on the proceeds.

3.0 Possibilities, Problems, Ideas and Reactions

3.1 Consultative Meetings

The purpose of the consultative meetings was as far as possible to draw out problems and solutions from those present and only broaden the discussion at the end to include possibilities which we felt had not been raised. Most of the possible financial instruments which could be considered have been well discussed in the cooperative movement.

3.2 Participants' Summaries

Participants in consultation meetings were asked before leaving to complete a "Reaction Sheet" summarising their views after having taken part in the meeting. The main part of the "Reaction Sheet" asked participants to write down in their own words what they now thought were the *three most important problems* for the future of the worker cooperative movement and the *three most likely ideas* that could lead to useful new ways of financing worker cooperatives or financial services for worker cooperatives.

Table 5 shows the most important problems and most likely ideas from 49 participants (including 29 co-operators, 14 advisors or CDA workers and 6 from the OU facilitators). In practice many of the same points came up both as problems ("limits to growth caused by lack of access to external equity") and as ideas ("need for 'cooperative friendly equity'") so we have put the responses together in one table. Variations on the same idea ("need for low-interest start-up loans"; "appropriate start-up finance"; "start-up finance where no local authority loan fund exists") have been counted together and made into a composite response. The composite responses in turn have been grouped so that related ideas appear together on the list. The sub-headings have been added so as to give coherence to each group of ideas.

Table 5 Most Important Problems and Most Likely Ideas (from 49 participants 'Reaction Sheets')

NO. OF MENTIONS

Loans and loan arrangements

38 Need for low-cost, easy-access, unsecured, locally available loans for start-ups; either more local loan funds or national fund easily available in areas without universally available appropriate start-up finance; local loanfunds may cease; support for local CDAs.

22 Flexible loan arrangements, inc. wkg. capital repayment holidays.

4 Need for rapid response, slowness at present.

8 Monitoring by central body, importance of skills in specific trade/business, no need for jargon/complex business plan, go on past record, improve recovery rate.

8 Need for unsecured loans, acceptance of need for more monitoring.

Equity and long-term needs of established coops

29 Quasi-equity, external equity, outside money, off-the-peg equity/debenture structures, "coop friendly equity", share capital co-ops, Mondragon-style models.

17 Problems of continuing viable businesses, need to source variety of funds, overcome high gearing, pros & cons of expansion, distributable reserves to

be treated as own capital, problems caused if change to co-ownership (buy-in/buy-out).

7 Long-term capital.

9 Personal equity to members, members to invest/loan in own coop, underwriting personal loans, financial commitment of members a 'necessary evil'.

5 Motivation, need to develop and keep skilled/experienced members.

3 Employee trust/profit-sharing/tax advantages; paper profit to be credited to individuals; BES.

Advice and Consultancy

28 Range of advice/consultancy needed from within movement; central free info. point; personal advice/training/member awareness; lack of expertise or business skills in coops; inability to write good business plans.

Leadership and promotion

14 Proactive central body, leadership, regional/national CDAs, build movement, lack of national coordinating body, coops to be a cohesive sector, need financial support on national basis, think big!

5 National promotion, high-profile CDAs, success stories, public profile for large co-ops.

5 Lack of credibility, image problems, misunderstandings by banks etc.

4 Hard attitude from banks, risk-averse, inability to raise funds from commercial sources, etc.

8 Current economic climate, Thatcherism, decline in 'collectivism culture', political wind of change, need for Government policy shift.

Special Needs

14 Need for sufficient capital for larger enterprises, large loans, special packages, penetrate capital-intensive sectors, national buy-out consultancy, employee-owned ex-municipal-owned businesses, new-starts along not build significant co-op sector, make large co-ops with individual shareholdings work.

9 Funds for higher-risk lending, guarantee funds.

Business services

6 Leasing; lease hire; purchase of fixed assets.

5 Centralised brokerage.

4 Factoring.

2 Deposit-taking fund with range of services; subsidy tied to provision of specific services.

1 Secondment of managers to larger co-ops.

Open-ness

9 Not restricting to common ownership; flexible attitude to what is a coop; ECOPs, community businesses, links to credit unions; promotion of co-ownership as well as common ownership models.

Research

3 Comprehensive examination of all methods of financing (e.g. look at Mercury Provident; keep in touch with market trends).

3 Financial support for research into new business ideas; feasibility studies financed by levy on profits elsewhere, or cost to be included in future loan if successful.

Ethical Investment

4 Investment from sympathetic individuals; money from sources who are interested in the coops, not their return.

Grants

5 Grants from % of loan fund profits; grants to new coops (one response said grants <u>not</u> a good idea).

Other

2 No incentive for new business to be a coop; ethical ideas taken over by mainstream.
2 Need to get away from conventional business attitudes; changing lifestyles, redefining value etc.
5 Lack of relevant legal framework or relevant financial instruments; coop statute; finding right structure.
2 Misunderstandings about ICOF; ICOF ceasing to exist.
1 Competition between similar coops.
1 Government cash (regional, UK, Euro).
1 More commitment from Coop bank.
2 Cash flow.
1 Accept primary need to make a surplus
1 No confidence in coop option.
1 No 'manager' post reduces credibility.

The other part of the Reaction Sheet asked for a 'tick the box' reaction to prioritise a list of 12 previously prepared "Options for Providing Finance to Worker Cooperatives". These were not specific ideas but general areas for future investigation - Appendix A is the sheet given out with a brief explanation of each "Option". Table 6 shows the overall priority ratings given. The rating is on a scale of 0 - 10 with 10 as the highest priority.

Table 6 Priority given by participants to a variety of broad financial instruments

High priority given by at least two meetings:	
flexible loan arrangements	10
wider financial consultancy	7
full brokerage service	7
unsecured term loans	6
Second priority items:	
stepped loans	5
"quasi equity" loans	5
equity fund	5
purchase of fixed assets	4
loan guarantee fund	4
loanstock or debenture	3
Low priority items:	
factoring	2
underwriting personal loans	0

3.3 Summary of Ideas

Looking at Tables 5 and 6, one can make the following points:

A Loans and Loan Arrangements - the need for easy access to start-up loans on preferential conditions scored the highest number of mentions in Table 5. However, this may be more a call for the continuation of local funds and for the availability of unsecured loans and a matter of ensuring good visibility for ICOF or any other national fund in areas without local loan funds, than a suggestion for anything new. Two other aspects under this heading deserve highlighting:

- ***Flexible loan arrangements*** (including capital repayment holidays) covering both the specific idea of stepped loans or moratoriums and the suggestion that extra short-term finance or renegotiated terms should be possible at short notice, replacing some of cooperatives' need for large overdrafts. This area comes out clearly as a top priority, was prominent in the quantitative returns from all areas and attracted no dissension.

- ***Call for responsiveness*** on the part of cooperative lending institutions such as ICOF; not just a quicker response, although that is very significant in some cases (as discussed below) but an approach to assessing applications and monitoring loans based more on past record, evaluation of practical and business skills, etc. than on production of complex (some said jargon-ridden or fictitious) business plans (which could have been done as an exercise by a CDA worker).

B Equity and long-term needs of established cooperatives - these problems are not so universal and do not show up so clearly on Table 6 but are of major importance to a substantial number of cooperators, and arguably are of major importance to the cooperative movement for the long term. Advisors and CDA workers were particularly likely to highlight there issues on their Reaction Sheets.

In terms of problems, there are three linked difficulties:

(i) how to manage simultaneously to pay back loans on a regular schedule, to put aside reserves for investment for growth, and to pay decent wages (perhaps after an initial period when members accepted lower rates in order to build up the cooperative);

(ii) how to continue to motivate and develop workers, especially those with greater skills and/or experience;

(iii) how to relate to a financial environment which does not cater for cooperatives: banks may look askance at apparently high gearing, not being prepared to count accumulated commonly owned reserves as 'own capital'; government schemes (such as profit-sharing, BES) will not be tailored for cooperatives; etc.

Essentially there are two ways of solving these problems: equity and quasi-equity. Both these imply ways for outside investors (institutions and individuals) and cooperative members to put long-term money into a cooperative in such a way that regular repayments are not required and any financial return is conditional on the performance of the cooperative.

'Real' equity such as non-voting preference shares means a share-capital cooperative constitution, which for some calls into question common ownership principles, but does allow for mechanisms to take advantage of e.g. tax-efficient profit-sharing. See footnote on p.16 for the outlines of one scheme.

'Quasi' equity, for example using loan stock or debentures, avoids the clash on principles but loses tax advantages and may restrict the range of institutions prepared to offer support.

It should be noted, however, that very few of those consulted saw this potential clash of principles as a problem. For some it was irrelevant; others were sure there were formulae that got round the problem; others that cooperative spirit was more important than rules, and that any rules could be abused if the spirit was absent. What is needed, however, is one or more standard or 'off-the-peg' versions of:

- *'Coop-friendly' equity or quasi-equity.* It would certainly be well worth developing and testing the acceptability of two or more alternative models, rather than leaving the situation where individual cooperatives, with their advisers, make up their own solutions, or in some cases decide to cease being cooperatives and convert to ordinary company status.

C **Advice and consultancy** - This scores high in both Table 5 and Table 6. Note that a 'vote' for "wider consultancy" on Table 6 could be taken to be an endorsement of broadening boundaries beyond worker cooperatives or common ownerships only, rather than a call for more advice services. Nevertheless, it seems that something a large number of cooperators would like to see is:

- *A national financial advice service within the cooperative movement.*

D **A National General Cooperative Finance Organisation**

No other needs or ideas rated so high as those mentioned above. But several of the other items rate further consideration. In some cases, one person's idea may be worth following up even if no-one else has yet realised its potential. The following seem particularly pertinent or interesting:

- *National Leadership and promotion of cooperative ideas*
- *Special attention to buy-outs and larger cooperatives*
  (a national 'task-force'?)
- *Business services to be available within the cooperative movement*
  (as part of finance package).
- *Finance for feasibility studies repayable only if proved successful.*
- *Some link between an expanded credit union movement and cooperative investment.*
- *A high profile ethical investment fund.*

The least attractive option that was proposed was underwriting personal loans. Views on the provision of a factoring service varied with the overall rating quite low but since the service is becoming more widely available through West Midlands

Cooperative Finance it may not be considered a high priority for a new financial initiative.

3.4 Regional Variations

There was a considerable difference of course between areas in which traditional industry had declined in the 1980s and those which are more recent casualties of the market recession. In areas like Glasgow, Cardiff and the Black Country, it was possible to access European, selective regional aid and regional industrial funds which had been set up either to encourage entrepreneurialism or to ameliorate unemployment. Whilst there were complaints about bureaucratic delay in dealing with British Coal Enterprise and Government agencies, the funds were seen as significant for larger financial packages. Although in areas like Avon, Brighton and Humberside a variety of sources of finance are available they are not on this scale. In Bristol, and certainly other areas, demand for start-up finance is at present much reduced.

Advisers and cooperators from areas where a local loan fund was not available (such as Humberside, Brighton, Hastings, Harlow, and parts of London) all argued that some potentially viable cooperatives failed to attract funding. This also applied to Wolverhampton where the effectiveness of WMCOF as a revolving loan fund has been much reduced by depletion.

By contrast, those in areas with loan funds, Bristol, Cardiff, Nottingham and Scotland, were more confident of funding viable projects. However not all local revolving loan funds were seen as working well and even where several local loan funds are available as in Strathclyde a need for increased national funds was also voiced.

3.5 Local Loan Funds

The consultative meetings were of necessity located in areas where cooperative support was organised and able to arrange the event. Many of the areas had local loan funds. These were mostly administered in close conjunction with a local cooperative support organisation. They were seen as important, not just in providing small loans, but also in starting the process of putting a financial package together.

There was an inevitable contrast between areas having no local loan fund where it was argued that viable business proposals were being lost due to lack of financial support and those with loan funds where it was believed that only inadequate projects failed.

Locally controlled loan funds certainly address a key issue for new-starts, and respond to local needs based on direct information. However, they require experienced administration to revolve successfully. Initial periods with unacceptably high failure rates were reported. Presumably they also are susceptible then to the loss of key management personnel from the management committee.

If this option of decentralised loan provision were continued and extended, were taken it would work best with an adequately extended CSO network, perhaps with a central organisation in an advisory and underwriting capacity.

3.6 Appropriately Timed Decisions

"Finance should be quick and easy to arrange so that cooperatives can take advantage of good deals".

It was more than once pointed out that businesses sometimes need to be able to take swift decisions. The commonly cited situation related to machinery or property purchase.

The recession has created a buyer's market and brought prices into the consideration range of many cooperatives. However well placed within the market, businesses will try to take advantage of the best opportunities. For these they often cannot afford to stall for long. Many cooperatives have utilised commercial loans in preference to 'soft' loans in order to achieve a swift response in principle. It may be that the financial advantage to be gained in swift action can outweigh possible higher interest rates.

Often rescues and conversions may also need to take advantage of the moment. A buy-out on favourable terms can depend on a credible response. Another point of a swift decision is that a rejection allows other sources to be canvassed.

In contrast to this argument it was realised that a reasonable period of project evaluation could also have positive features especially where new-start cooperatives were concerned. Clearly working to satisfy the questions of a possible sympathetic financier can wonderfully clarify the opportunities and pitfalls.

3.7 High Risk Capital

A difference of opinion arose at one meeting as to what the term "high risk capital" should define. All capital investment in new start cooperatives carries a high risk but clearly there is a continuum within this. Any financial organisation will evaluate the risk and decide on action according to a policy. A different perception of the economic environment, the availability of funds and the aims of the organisation will affect the degree of risk considered tolerable.

This study uses the term "higher risk capital" to include strategies aimed at extending the range of investment further into the risk area. It would only be appropriate to consider this option where it is reasonably sure that truly viable groups in development are failing primarily because they are unable to attract funding.

3.8 Cooperative Principles

The structure of worker cooperatives was not something which greatly exercised our sample of people. There was disagreement but it was more among supporters than representatives of worker cooperatives who were concerned with financing business. Among the contributors to this study were common ownership worker cooperatives who had failed to get funding from within the cooperative movement but are at present trading successfully. Although there may be good reason to extend the range of the movement's service towards the growing number of democratic businesses that are not, arguably, strictly cooperatives, there is clearly still scope for optimising financial services to common ownership worker cooperatives.

4.0 Possible Strategies

Considering the potential for investment in the worker cooperative sector and the probable limited range of additional ethical and venture capital which will become available, some hard choices will have to be made. Three strategies were offered in the Draft Report to the Birmingham Seminar. These were "Consolidation", "Extension" and "Growth / new areas" and they were intended to help to focus the discussion. A fourth "Sector" strategy was added at the Seminar and is included here.

- **"Consolidation" strategy** - *a national financial organisation such as ICOF concentrating particularly on supporting the substantial number of worker cooperatives registered in the last 4-5 years.*

  This could include further developing cooperative friendly equity and flexible loan arrangements in a portfolio of different "instruments" in conjunction with the ability to respond quickly where specifically required by market dictates.

- **"Extension" strategy**- *including support for local CDAs and ensuring the availability of higher risk capital to increase new-starts to the optimum national level.*

  Strengthening the role of support organisations could include the establishment of locally administered loan funds, where none exist, direct services to areas without a CSO and possibly underwriting these with a guarantee fund.

- **"Growth/new areas" strategy** - *including setting up an additional national institution to respond to 'larger' phoenixes, rescues, worker buy-outs, conversions etc, as well as plans for growth from existing cooperatives.*

  This would include the further development of expertise in providing partial 'catalyst' funding with, again, the ability to respond quickly where specifically required by market dictates. Publicity would be given to the benefits of conversion to cooperative working from private businesses especially where owners are retiring. It would probably mean a new institution alongside existing ones such as ICOF - which could simultaneously put small improvements in place.

- **"Sector" strategy** - *a financial organisation allocating funds to specific sectors which appear to have market possibilities; the leading edge of the worker cooperative movement.*

  This might raise and publicise funds specifically for, say, the alternative energy, community care and/or women's cooperatives. The policy would of course require a periodical review.

A point made in the Draft Report and reinforced in the Seminar is that the strategies are not necessarily mutually exclusive. It was suggested that they could be viewed in terms of priorities. For instance it was argued that two funds should be set up under the Business Expansion Scheme, one to fund new-starts and another phoenix/rescues, both funds to take advantage of the government's tax concessions available until the end of 1993.

Most of the discussion that follows derives directly from the contributors to the Birmingham seminar. It is not generally concerned with the opportunities or scope for raising finance in support of worker cooperatives. This is the subject of other concurrent research. Comments are included here only when there is a direct relation to the purposes for which the money is to be used.

4.1 Consolidation

The 'consolidation' strategy responds defensively to the poor economic climate. It would seem logical if new-starts are close to the present optimum and if it is considered that an improvement in the situation of CSOs in the present political and economic 'reality' cannot be effected.

It was noted that established cooperatives are able to raise funds commercially or use their own reserves to expand and do not need the services of a dedicated financial organisation. Interest rates, however, may be very high, banks are cutting back on overdrafts, and larger sums for major expansions are difficult to raise. Additionally this safer lending policy could produce a surplus and therefore raise money for investment elsewhere. Funds could be raised on the basis of a *profitable* ethical investment.

Conversely, it was argued that, especially if such a fund provided "equity" it could tie up large sums of money and reduce that available for new-starts. Additionally there was no agreement as to whether a form of "equity" or "quasi-equity" existed, or could be formulated which did not alter the democratic structure of common ownership worker cooperatives. This strategy, therefore, dictates that a significant debate would need to be held to develop new structures. Also, equity is usually attractive because of the expectation of a higher return. In the case of worker cooperatives, it was argued, this could simply be a more expensive loan. Nevertheless, however difficult this strategy might prove, the prospect of improving further the performance of established cooperatives, the commitment of cooperators and the retention of profits is considerable. The aim would be not just to improve the survival rate *of* cooperatives, but *as* cooperatives.

A strategy should not be chosen simply because it may strengthen a dedicated financial organisation such as ICOF. Nevertheless it may be argued that a secure support sector would be able to be more generally effective, providing a good balance could be struck between 'hard' and 'soft' finance.

4.2 Extension

Although the 'extension' strategy, focusing on new-starts, would probably increase the number of registrations of worker cooperatives, "job creation" cooperatives which have been shown in the past to have high failure rates and may not be committed to cooperative principles are not of long term benefit to the movement and more especially to the people involved. However, as other development organisations are withdrawing from promoting new-starts in the face of escalating small business failures, it may be argued that there are opportunities to promote worker cooperative structures. Additionally, a geographical widening of the area of active promotion and improved assessment procedures does not necessarily entail higher risk lending.

This strategy would assist and improve the financial advice skills of the local support organisations which have been relatively successful under financially restricting conditions. It also, possibly, assists areas which might be able to set up a CDA to become more credible. CDAs are, however, not so much suffering from lack of potential support as restricted finance on the part of local authorities. It is arguable how much promotional impact support to localities and local loan funds would have on the CDA network.

An initial danger with locally administered revolving loan funds is that it takes time to gain the experience to run them. Funds can be lost initially at an unacceptable rate. The availability of additional local funds which simply increased the short term registration rate at the expense of future failure rates would clearly be of no benefit.

Again, the fact that this strategy could strengthen the local CSOs is not sufficient reason for it to be promoted. However, local support greatly facilitates development and would seem to be a necessary component of a significant worker cooperative sector.

The strategy does not necessarily require the development of radically new financial instruments although the question of "personal security" might become significant in some cases. A lack of continuing support for cooperatives was a potential problem identified by some at the seminar if too much emphasis was placed on new-starts.

4.3 Growth/new areas

The 'growth/new areas' strategy is of course potentially efficient in that buy-outs and rescues usually involve numbers of workers in excess of the average for worker cooperatives. It may be significant in *saving* employment. What however is not known is the potential extent of this market. Whilst CSOs report dealing with more of these and expect to do so increasingly[16], it is not clear whether there is scope for supporting a national agency. Additionally it was thought that there may be some difficulty with identifying potential clients.

Although rarely familiar with business management the workers are, unlike those in many new-starts, most often highly skilled. Phoenixes and buy-outs mostly require large sums of money, perhaps beyond that potentially available in cooperative dedicated finance; but by using cooperative friendly funds as leverage, the strategy could make maximum use of other 'semi-soft' finance available through special government and business funds. An additional brokerage role is therefore appropriate.

The strategy deals with high profile businesses. If successful it would gain publicity locally and possibly nationally and perhaps fulfil the hopes of many cooperators that the worker cooperative structure could gain more public credibility and acceptance in the business world.

Although rescues, phoenix and buy-outs can occur anywhere, they are more likely in areas where traditional manufacturing industry has been run down. This strategy can therefore be seen as locality selective. Proactive work in conversions where an owner retires can be a more general policy.

Some organisations are already specialising in the development of phoenix and buy-outs and any new initiative might be seen to be in competition. However, to effect a significant shift of strategy, new skills would be required more widely. There is a potential conflict in one organisation acting as financial and management consultant, broker, and investor. The creation of a new organisation as a national consultant over this wide, but specialised area of development should therefore be considered.

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[16]Terry Newholm, *Trends in Cooperative Development* (1992, Cooperatives Research Unit, Open University, Milton Keynes).

Finally, although major planned growth within established cooperatives or spin-off new cooperative enterprises formed from existing cooperatives are relatively unusual in the U.K., this strategy could well include a commitment to backing these ways of developing new areas for cooperation as well.

4.4 Sectoral

Concentrating development on a restricted number of growing sectors could improve the degree of expertise available, raise the profile of the project and improve the credibility of the worker cooperative sector by making a significant contribution in a particular 'leading' field. This would require a degree of 'responsive leadership' in a national organisation designed to make assessments of sectors, and promote cooperation and cooperatives within those selected. Conversely, should the promoted cooperatives not perform as expected in the market the service might be seen as misguided. Too narrow a concentration might therefore be unwise.

The strategy avoids the difficulty of "choosing" emphasis between new-starts, established cooperatives and all types of conversions since it may involve promoting all three. However, this would require financial instruments to be developed appropriate to all types and therefore, perhaps, the fullest debate.

Whether the sectoral concentration would facilitate fund raising is difficult to assess. It would reduce the number of possible investors but increase their identification with the project.

4.5 Financial advice services

It was generally considered at the seminar that worker cooperatives and CSOs should and would pay for high quality financial advice. A national organisation providing dedicated advice would probably offer a service at lower rates than those commercially charged in the wider business sector. Whether and how the provision of advice services could be combined with one or other of the strategy options is an important question for further detailed consideration.

5.0 Conclusion

5.1 The Cooperative Sector

In the introduction to the 1988 Directory of Worker Cooperatives the CRU argued:

> "On the whole, this picture gives grounds for optimism. The numbers continue to increase, though the hopes for exponential growth rates in the worker cooperative sector of a few years ago were clearly unfounded. However, we have certainly found no evidence of what pessimists have looked for as the "inevitable decline" of the new movement."

Given the fall, and partial recovery, of registrations since that date and the long decline in economic activity, this statement still largely applies.

5.2 Subsidiarity

There did seem to be strong support for the idea of a national cooperative finance organisation that would supply a variety of services as well as making finance available through a variety of mechanisms. Nevertheless others supported a diversity of organisations, national or local, offering different financial instruments, and more expressed support for decentralisation. Perhaps a cooperative version of 'subsidiarity' is called for: do what can be done locally, but have regional and national organisations to provide those services, such as promoting the worker cooperative movement and monitoring government policy, which require a high profile or are best carried out centrally.

5.3 Financial Instruments, policies and services

There are a number of areas which this study identifies where more work is required to develop 'new' financial instruments or policies. These should then undergo "market testing" and further development before implementation.

The most important areas are discussed in section 3.3 above. To summarise they are:

- flexible loan arrangements
- responsive assessment procedures
- "cooperative friendly equity"
- national financial advice services

Although it is realised that few ideas are entirely new, some of the special ideas noted in section 3.3D above may merit further investigation.

5.4 Further Research

In addition to the above, three particular areas, identified in the study, merit further research:

- To study new larger **rescue, phoenix and conversion cooperatives** and consider the options open to them. To asses the likely market and make recommendations on appropriate financial instruments, the achievement of tax efficiency and profitability.

  (Section 1.3)

- To establish from *cooperators* the nature of, and preferred delivery mechanism for, the **financial advice** they require. To assess the strengths and weaknesses of the present system and make recommendations for change.

  (Section 2.2)

- To make generally available detailed case studies of **innovative financial packages** with an analysis of their impact on cooperative working. To establish commonly accepted terms and facilitate informed discussion.

  (Section 3.3)

5.5 The Way Forward

It was questioned at the Birmingham Seminar whether the worker cooperative "movement" was sufficiently coordinated to consider implementing strategies realistically. Much of this report emphasises its diversity. However, there were calls for "vision" and a more adventurous approach to build on obvious successes. Whether it is decided that a dedicated financial support organisation should spread funds thinly or concentrate in one or more areas, the decision, however minor in comparison to the needs of the sector, *is* a strategy and would benefit from a rationale.

The seminar did not chart a conclusive way forward; that of course remains for the organisations and individuals concerned to resolve. What was achieved was some clarification of the options, each with its distinct implications for the organisational structure.

It should be possible for discussions to take place between the relatively few national cooperative movement organisations over future strategic options and possible areas for joint action, while these organisations simultaneous move ahead on their own priorities.

The realistic options do not include taking on any of the strategies discussed in Section 4 to the exclusion of the others, but rather to combine them in different ways and to give priority to certain areas rather than others. Three important options for combined strategies would be:

- To try to ensure sustainable institutions and consolidate successes to provide the basis for future, perhaps slower, expansion ("Consolidation" with some "extension").

- To expand the sector by providing funds and consultancy where new worker cooperatives can be created: new-starts, phoenixes, buy-outs and conversions. ("Extension" and "growth/new areas")

- To take a high profile in selected market sectors with a broad promotional strategy. ("Sectoral")

5.6 Accessible Policy

For many cooperatives unsecured loans will continue to be appropriate to the position of their workers and the organisational type. However, the question of "Flexibility - terms, amounts, periods" will need to be addressed. There are of course trade-offs, but what is clear is that within the cooperative movement the rationale behind the policy of financial organisations must be made very accessible. Good communication will be the key.

Appendix A

This is the sheet given out at the end of the regional consultative meetings, giving the options to which participants were asked to react, having previously given their own ideas.

Some Options for Providing Finance to Worker Cooperatives

Below are set out briefly some possibilities for financing cooperatives that might be provided nationally within the cooperative movement.

1. **Unsecured term loans** - like ordinary bank loans except for not requiring personal or other guarantees, these would normally be for a fixed term (say five or seven years) with a fixed repayment schedule and regular interest payments. The interest rate could vary. Such loans might have to be closely monitored.

2. **Flexible loan arrangements** - like bank overdrafts, such arrangements would allow variable amounts of money, probably up to an agreed limit, to be available for short periods to cover cash flow or other difficulties. Interest rates would probably be higher than for term loans.

3. **Stepped loans** - these are designed to avoid the problem of term loans whereby the total monthly payment of interest plus repayment of the loan is generally higher at the beginning than towards the end of the period of the loan, by stepping up the repayment schedule from an initially low rate.

4. **Guarantee fund** - a special fund could be raised which would underwrite loans to cooperatives. This would allow investment in cooperatives trading in high risk areas.

5. **Loan stock or debenture issues** - some cooperatives have raised funds by loans or debentures from friends and supporters, but this can be costly and difficult; an intermediary could help with legal and other arrangements in such cases.

6. **External equity** - There are various ways in which cooperatives could issue shares. Shares are not repayable but are given a dividend related to profits and are traded. They therefore have significant advantages but they normally carry voting rights; even if a special non-voting class of shares is suggested there are still issues of democratic worker control to be resolved in such proposals.

7. **'Quasi-equity'** - loans might be devised that would be as much like shares as possible that without the voting rights. There could be an indefinite repayment timescale, variable interest rate linked by a formula to the performance of the cooperative, and such loans might not be redeemable except by being traded, possibly through an intermediary.

8. **Factoring** - This works for cooperatives in sectors where a number of substantial outstanding invoices are inevitable. A financial organisation could pay a proportion, say 75%, of the invoice/s to the cooperative and recoup the remainder on payment. A standing charge and interest for this service would usually be less than the cost of an overdraft or loan.

9. **Purchase of fixed assets** - Fixed assets could be purchased on behalf of a cooperative. The item/s would be used by the cooperative and be owned outright by the cooperative once the loan is repaid (like a mortgage).

10. **Underwriting personal loans** - A special fund could employed to underwrite commercial loans to members of cooperatives to enable them it invest in their own cooperative. This evidence of personal financial commitment should encourage commercial sources in turn to loan money to the cooperative.

11. **Full brokerage service** - A financial institution could offer a full, national, brokerage service to the cooperative movement, advising on, and arranging financial packages from a variety of funds, public and commercial sources.

12. **Wider financial consultancy** - a financial organisation based in the worker cooperative movement might also offer services to the wider social economy, including community cooperatives, ESOPs, all kinds of businesses with democratic worker participation, and so on.

Appendix B

We would like to thank the following for contributing to the study:

Cooperatives:

Alternative Services Cooperative Ltd
Avgraff
Bay Tree
Beaumont Street Studios
Beechwood Conference Centre
Buzz Cooperative Ltd
Care Coops
City Security
Crada
Cronica
Dennis Hill Crystal Ltd
Essential Trading
Evergreen Wholefoods
Fingerprints
Greencity Wholefoods
Heat Treatment 2000 Ltd
Hiziki Wholefoods Collective
Hull Freetown Theatre Company Ltd
Infinity Foods (Retail and Wholesale)
Letterbox Library
Lifes Rich Tapestry
Lithosphere Printing Cooperative Ltd
Muchachas
Natural Health Clinic
New Internationalist
Not the National Theatre
Payam
People's Trading Co Ltd
Proper Job Theatre Company Ltd
RAP Ltd
Safeguard Coop Services Ltd
Second Skin
Soft Solutions
Paperback
Ealing Business Services
Suma
Tactile Audio Braille Services Ltd
Trylon Ltd
Upstairs Downstairs
Wave Design

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Development and Finance Workers and Specialists[16]

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Andy Carlton*	*Humberside CDA*
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Steve Collins*	*Nottinghamshire CDA*
Nigel Draper	*Cardiff and Vale CDA*
Jean Goldsworthy	*Humberside CDA*
John Goodman*	*Coventry CDA*
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Simon Harris*	*Wales Cooperative Centre*
Martin Hockley*	*ICOF staff*
Rhona Howarth*	*ICOF Trustee*
Nick Hutchinson	*Robert Tressell Workshop*
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Lanzel Linton*	*ICOF London Policy Group*
Malcolm Lynch*	*Malcolm Lynch Solicitors*
Nigel Mason	*Capital Strategies Ltd*
Dave Mills	*Black Country CDA*
Chris Newis	*Black Country CDA*
Charlie Rose	*Southwark CDA*
Susanne Sannerstedt	*Brighton Area CDA*
Roger Sawtell	*Daily Bread Cooperative Ltd*
David Scholes*	*ICOF Trustee*
Alex Smith*	*Scottish Cooperative Development Company*
Shaun Spiers*	*ICOF Trustee*
Sarah Stubbins*	*Centre for Alternative Technology*
Ian Taylor*	*ICOF staff*
Ray Tobias*	*DTI*
Bruce Wood*	*Tower Hamlets CDA*
Vivian Woodell*	*ICOF Trustee*

[16]Those who also attended the seminar held in Birmingham in September 1992 are indicated by an asterisk.