

Funding options for cooperatives

Whether you are an aspiring entrepreneur, a business owner converting to a cooperative or you already run one, there are various funding options available to coops, from grants and loans to sponsorships and crowdfunding.

Learn how the coop business model works when it comes to funding and how the size and trading history of your coop can affect your funding choices.

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What are the funding options for a coop?

Existing profits

One way to fund your coop is to plough back profits from previous trading years.

Pros: No need for external investors or to pay interest on loans.

Cons: Less profit for members, making your business less appealing to new members; this won't work for startups.

Grants

You can apply for grants that are specific to your region or type of coop – grants for social enterprises, for instance. A good starting point is your local growth hub, which can offer dedicated support and help you find the right funding options.

You can also search your local authority's business and community funding website or the UK government's [Find a grant](#) database.

Trade body Co-operatives UK has a [comprehensive list](#) of organisations to approach for grants and support.

Pros: You don't have to repay grants; free advice is readily available.

Cons: Grants may restrict how you spend the money; preparing grant proposals is time-consuming.

Sponsorship

You can ask a reputable local business to sponsor an event or project in exchange for free publicity.

Pros: It will generate cash and build partner relationships.

Cons: If the sponsor's values don't align with your own, it could damage your brand.

Crowdfunding

Use an online platform to set up a crowdfunding page, so backers can make donations. You could offer a small gift in return or simply provide business updates.

Pros: Good for one-off fundraising projects and building a database of supporters.

Cons: Not all backers are online; not a long-term option; finding a platform and marketing takes time.

Loans

Individuals, including coop members, can lend your business money, which can be short or long term and unsecured or secured, against an asset such as business premises. You can also apply for commercial loans from banks and building societies, such as the British Business Bank which supports small businesses through [startup loans](#) and the [Growth Guarantee Scheme \(GGS\)](#).

You need a loan agreement, setting out the term, repayment schedule and any pre-agreed interest rate.

Loans also come in the form of bonds, loan and debenture stock. These are more complex, so seek financial advice before going ahead.

For short-term borrowing, consider applying for an overdraft.

Pros: Lenders don't have a say in running your business; overdrafts can be arranged quickly.

Cons: Startups find it harder to access business loans; interest rates can be higher on overdrafts.

Investment

"Community shares", where people invest in a coop that supports their local community, are unique to coops and community benefit societies. Investors get their initial outlay back plus interest if the coop performs well. If they decide to withdraw, shares must be sold back to the business.

Check out the [Community Shares Booster Fund](#), which offers grant and investment support to businesses in England.

Another option is transferable (ordinary) shares, where investors receive dividends and their shares could rise (or fall) in value. Larger coops can list shares on the stock market.

You'll need to set up a legal structure that allows members to hold shares. Co-operatives UK has a [useful guide](#) on ways to do this.

Pros: Community shares demonstrate local engagement, strengthening grant applications.

Cons: Legal limits apply to how many community shares investors can hold; investors may be deterred by having to find a buyer for transferable shares not listed on the stock market.

Other credit

Review ways to keep cash in your business account by getting credit, including:

- Asking suppliers if you can defer payment until you sell their products.
- Requesting customers pay for purchases in advance.
- If you use cash accounting and pay VAT, you can pay HMRC once customers pay you.

Pros: You'll improve your business's cashflow.

Cons: Deferred payments are generally only available for established businesses.



Tips for securing funding

Review your business bank account

Consider opening a specialist bank account. Several banks offer community and charity bank accounts, while [The Co-operative Bank's Charity and Community bank account](#) offers coops no monthly fee and the chance to apply for a grant from its Customer Donation Fund.

Research funding options

Take time researching funding options: what works for a large, established coop tackling the environment may not suit a startup in a community garden.

Prepare a strong business case

Whatever the type of coop, preparing a strong business plan is key to successfully seeking funding. Also engage with members and the local community when weighing up the options.

Make the most of the free advice available

For a deeper dive into funding options, contact the Hertfordshire Growth Hub which can offer support with funding options.

Wondering if a cooperative is right for you?

For more information speak to our Business Information Adviser: 01707 952777 (Mon–Fri, 9am–5pm) or email enquiries@hertsgrowthhub.com.