CWCF
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Canadian Worker Cooperative Federation
Fédération Canadienne des Coopératives de Travail

February 19, 2016

To The House Standing Committee on Finance
Via email

Dear Committee Members,

How Worker Co-operatives Can Effectively Contribute to Addressing Canada's Economic Challenges

Key recommendations:

1. The Canadian Worker Co-operative Federation ("CWCF") requests that the Government of Canada partner with CWCF in the following ways:

    a. Facilitate worker buy-outs through Employee-Owned Business Succession
    b. Facilitate start-up of employee-owned co-operatives through a program similar to the Co-operative Development Initiative.

2. CWCF requests that the Government restore the Co-op RRSP rules to those from prior to 2011 federal Budget (Finance Canada) (see below)

3. CWCF requests that the Government implement a Climate Change Statement similar to the one declared by CWCF in the lead-up to the Paris Conference - a focus on an integrated and cross-departmental regulatory approach to reducing greenhouse gas emissions in Canada.

4. CWCF requests that the Government of Canada demonstrate its support towards co-operative development by making an investment of **$50 Million, over 5 years, in the Canadian Co-operative Investment Fund (CCIF)** to supplement the $25 million already raised by the co-op sector – supporting the request of Co-operatives and Mutuals Canada.

Only requests 1 (a) and 2, above, will be described in detail below. Other requests are either supporting that of another organization (#4), are not primarily a Budget matter (#3), or are not yet fully developed (#1b).

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What is CWCF?
The Canadian Worker Co-operative Federation, since 1992, is a national, bilingual grassroots membership organization of and for worker co-operatives, related types of co-operatives, and organizations that support the growth and development of worker co-operatives.

CWCF's Vision is to be a growing, cohesive network of democratically controlled worker co-ops that provide a high quality of work life, and support the development of healthy and sustainable local economies, based on co-operative principles.

What is an Employee-Owned Co-operative?
An employee-owned co-operative (or "worker co-operative") is a business owned and operated by its employees. Co-operatives are in a unique position to contribute to the challenge of, among other things, retiring baby boomer business owners. Employees of small businesses will be highly motivated to save the business which employs them and the employee-owned model gives them a proven alternative.

Employee-owned co-operatives also enhance productivity. Because the enterprise belongs to the employees, they share in the profits. This provides a built-in motivation for them to operate the business effectively and efficiently. Various Canadian studies have shown that co-operatives have a survival rate that is two to three times better than conventional businesses.[3] Employee-owned co-operatives also maintain wealth in their local communities. The employee wages and profit-sharing stay in the local economy, building community wealth. And with ownership in the hands of local workers, these enterprises stay connected and accountable to their communities.

For CWCF, the phrase "employee-owned co-operatives" (also called "worker co-operatives") includes multi-stakeholder co-operatives with substantial worker control, and worker-shareholder co-operatives. There is another option for employee ownership: the employee-owned business corporation, but this model does not have all the advantages of employee-owned co-operatives, including increased productivity and democracy in the workplace.

1 a) Employee-Owned Business Succession Program

The Challenge and the Opportunity
Canada is facing a decade of economic challenges regarding succession of retiring business owners. The aging baby boomer generation, Canada's largest cohort, is facing retirement, and many are owners of small and medium-sized enterprises (SME's). This is a once-in-many generations issue that the co-operative business model can help address. In the next ten years, over 500,000 Canadian small business owners will want to retire and leave their businesses.

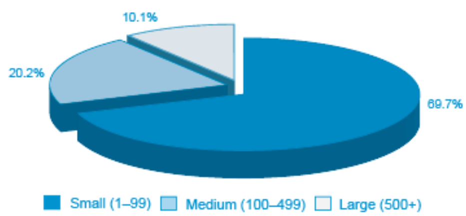
1. One in three (9.6 million) Canadians are baby boomers – those born between 1946 and 1965 – nearing retirement (Statistics Canada: 2011 Census).

2. One-fifth of small businesses (250,000 small businesses) with employees have owners aged 55 and over. This number has risen by 4% a year over the past decade, more than doubling the historical rate. (CIBC in Focus: November 2013).

3. Close to 30% (or 310,000) of current small business owners will want to exit their businesses by 2017. Within a decade, 50% (550,000) will want to exit (CIBC in Focus: November 2013).

4. According to Industry Canada, SME Research and Statistics, “In 2012, over 7.7 million employees, or 69.7 percent of the total private labour force, worked for small businesses and 2.2 million employees, or 20.2 percent of the labour force, worked for medium-sized businesses. In total, SMEs employed about 10 million individuals, or 89.9 percent of employees.” The following figure illustrates this.

Figure 1: Share of Total Private Employment by Size of Business, 2012



Source: Statistics Canada, *Labour Force Survey* (LFS), 2012, and calculations by Industry Canada.

▼ Description of Figure 1

Figure 1: Share of Total Private Employment by Size of Business, 2012

Small (1–99)	69.7%
Medium (100–499)	20.2%
Large (500+)	10.1%

[1]

https://www.ic.gc.ca/eic/site/061.nsf/eng/02805.html

With fifty percent of small business owners planning to retire within a decade, thirty-five percent of the private sector workforce will be impacted. If even a small percentage of these businesses cannot find buyers, a large number of jobs and businesses will be threatened.

This is an issue that affects the well-being of retiring seniors, the current employees in these small businesses, and our future workforce. If retiring business owners cannot find buyers for their businesses, they may require additional government supports in their retirement. Employees in these small businesses will be affected if their employers shut the doors and they become unemployed. Young people, who are already challenged in finding full-time employment, will face further struggles if small businesses in their communities close down.

Sales to the conventional buyers –family members, other entrepreneurs, and corporate entities – are well covered by the current offerings from banks, accounting firms, etc. However, with the large number of retiring baby boomers, the supply of businesses for sale will be so great that there is a serious risk that some business owners will not find successors through these conventional approaches. This could put many jobs at risk.

In addition to the conventional business succession options listed above, there is another alternative: the sale of a business to the employees, in the form of an employee-owned cooperative[2]. This business model is not well understood by Canadian business owners, and it is an approach that has significant potential in addressing the looming business succession challenge.

In Canada, under the leadership of CWCF, significant work has been done in the area of business succession to employee ownership. CWCF has carried out research, hosted a major international Conference (2011), collaborated in developing guides and workshops for various stakeholders, and has assisted in business transfer to co-operatives.

CWCF has designed an Employee-Owned Co-operative Business Succession Program to help meet the looming business succession challenge. We are proposing a partnership between the Government of Canada and the CWCF.

Summary of Proposal

CWCF, the national organization of employee-owned co-operatives in Canada, identified the coming crisis being precipitated by the aging cohort of small and medium sized (SME) business owners in 2004. However, a larger effort is required if significant job retention is to be achieved.

This partnership program will provide a strategic opportunity for owners to divest themselves of their businesses for a fair return that can secure their retirement. The successful conversion of enterprises to employee-owned businesses also provides longer-term non-precarious employment that allows workers to better plan for their retirement. The retention of jobs also provides for continuity of employment in the community for future generations.

Budget

There are two possible budgets that CWCF proposes, with the primary difference being the number of businesses that are transferred to employees. Two budget spreadsheets are available. The vast majority of the budget in either case would flow through CWCF to cooperative business succession experts and partner organizations, with only a small percentage used by CWCF for operating the program. The Basic program, which would support the conversion of between 44 and 68 businesses with an average of 20 employees each, would require a government investment of on average $645,000 / year, for a total budget of $3.2 million over 5 years. The Scaled-up program, supporting the conversion of between 88 and 136 businesses with the same average size, would require a government investment of on average $1.08 million / year, for a total budget of $5.4 million over 5 years. The Scaled-up program requires a larger total investment from the Federal Government, but has economies of scale.
The cost per job retained in the Basic program is approximately $2,879, while in the Scaled-up version it is $2,404 per job. These estimates are made on the basis of the median number of businesses assisted. In addition, there would be a matching investment in the technical assistance, on a declining scale over the years of the Program, by the businesses assisted.

There are three tangible outcomes that this Program will achieve:
(1) There will be improved awareness and “buzz” created about the employee-owned co-operative model for business succession resulting in retiring owners applying the employee-owned co-operative conversion option where other options aren’t available or as suitable.

(2) Expertise will be built to enable a continuation of co-operative business transfers into the future.

(3) There will be successful conversions to employee-owned co-operatives of the businesses assisted by the Program, resulting in the retention of jobs for employees and the community and secure retirements for former owners.

2) Co-op RRSP issue

In the Budget of 2011 the Conservative government made changes to the criteria for 'prohibited investment' in RRSPs and RIFs which brought them into conformity with the TFSA regulations. These changes negated the eligibilty of many co-operative shares; in particular worker co-operative shares in start-ups and small worker co-operatives whose opportunities for capitalization had been previously strengthened by ensuring their shares were eligible for placement in RRSPs. The earlier positive provisions providing for this eligibility had been introduced by Paul Martin, Minister of Finance in 1992 and used by many co-operatives in the following years.

The key change which the Liberal Government made at that time was to remove the restriction requiring that the annuitant of the RRSP hold less that 10% of the shares of his/her co-operative for the shares to be an eligible investment. Instead the the criteria for eligible investments became – either to own less that 10% of the share of the co-operative or *if owning higher than 10% of the co-operative's shares, that the shares eligible for inclusion in the holders RRSP be restricted to a maximum of value of $25,000.* It is the later provision which was eliminated by Conservative government that we would like to see reinstated. Given the inflation since 1992, we would suggest that the $25,000 cap be increased, to approximately $37,500 or some other appropriate amount with a provision to index this amount every three to four years.

These original changes were supported by the Chrétien Governement for a number of reasons. First, the governance structure of co-operatives being one member one vote and not based upon share ownership ensured that even in small co-operatives, an RRSP annuitant was not in the position to ensure an unfair return on his/her investment, creating a tax avoidance. Second, by providing the opportunity for members to use their RRSPs to help capitalize the co-operative, it allowed the member to strenghten their retirement savings while at the same time strengthening the capital base of their co-operative which provides a key element of their current income and thus retirement prospects. The strengthened co-operative enterprises were thereby also in a stronger position to be able to contribute to the broader social and economic life of their communities. This program was used by many co-operatives across Canada and was particularly benefical for the early capitalization of co-operatives. Since the 2011 Budget negated this eligibilty provision, new and smaller co-operatives have been handicapped in their capacity to finance their own co-operatives using their existing RRSP funds or by making new contributions.

It is respectfully requested that this eligibility provision be reinsituted in the 2016 Budget. For consistency, administrative simplicity and equity reasons, we also believe that this fiscal measure should apply to both RIFs and TFSAs to broaden the capacity for co-operatives to use these programs.

Yours sincerely,

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