

# **Brief from the Desjardins Group**

2016 Pre-Budget Consultations

House of Commons Standing Committee on Finance

August 2, 2016



## Summary

As part of the 2016 pre-budget consultations of the House of Commons Standing Committee on Finance, the Desjardins Group is pleased to discuss with the committee members certain measures that it believes to be worthwhile.

The measures presented below are related to the three main themes developed by the committee in the questions it asked as part of the consultation process that was launched on June 3, 2016.

In addition to investments in infrastructure, the government could support Canada's economic development by continuing to be open to international trade and free trade and by focusing on the issues of business transfers, the housing market and climate change.

In order to promote the competitiveness and stability of the financial sector, the government must recognize how financial cooperatives help to diversify the Canadian economy and promote the vitality of communities, and it must reflect that in the regulations governing cooperatives' activities.

## Budget measures

### **Infrastructure**

Everyone knows that Canada has serious infrastructure needs. It is good that the government is addressing those needs while staying on course to balance the budget over the medium term.

In a context of slow economic growth in Canada and worldwide, the government is smart to want to boost Canada's economic growth through investments in infrastructure. Such investments will ensure that the growing needs in a number of sectors, including road and transportation infrastructure, are met more quickly.

The government's current budget capacity allows it to borrow the money needed to make these investments. However, the government must still be sure that it has adequate room in its budget in the event that economic conditions erode.<sup>1</sup>

In order to maximize the economic impact of the investments, it is essential to ensure that the actions being taken by all levels of government are consistent. That way, the needs of each will be clearly understood, the decisions that are made will be more reasonable and profitable in the long term and the provinces and municipalities will have quality infrastructure that contributes to the economic health of the country. We therefore strongly encourage the government to act in concert with all levels of government to meet the specific needs of each and help all to prosper.

---

<sup>1</sup> *Should we be worried about major Canadian government budget deficits?* Desjardins Economic Viewpoint, May 12, 2016.

## Measures for businesses and the financial sector

### **Business transfers**

In budget 2016, the government indicated that it wants to foster the growth and prosperity of Canadian businesses. In order to achieve that objective, the government must consider measures that promote entrepreneurial renewal, particularly the transfer of businesses that are already well established, many of which are SMEs. In the current demographic context, many aging entrepreneurs are approaching the age of retirement and want to sell their businesses. However, they have very little information as to how to transfer their business in such a way that the company will be able to continue to grow. Many small business owners struggle with this. The Canadian government needs to carefully examine this issue, which has already been addressed by other countries.<sup>2</sup>

The government can support business transfers in a number of ways. For example, it could adjust tax measures to facilitate business transfers or establish a process to ensure a better coordination of efforts among those involved in the transfer, such as professional and trade associations and government organizations. The government could also improve the quality and quantity of information related to business transfers in order to inform the development of related policies and measures and ensure that relevant information is appropriately disseminated.

As a key partner of Canadian businesses,<sup>3</sup> the Desjardins Group developed a unique understanding of the issue. The Desjardins Group has developed an expertise in the matter via Desjardins Business Capital régional et coopératif, which partners with some 330 businesses and cooperatives, thereby helping to maintain nearly 35,000 jobs. We can therefore attest to the fact that business transfers go hand in hand with economic development and will be a determining factor in the future prosperity of all Canadian communities, particularly remote communities.

### **Free trade agreements**

Free trade agreements are crucial to economic development and usually have a positive impact on the Canadian economy. However, the opening of markets may put some sectors of the economy at a disadvantage and so it is vital that the government implement specific compensation measures with specific application deadlines. This will help make the transition smoother and give companies time to develop strategies to adapt to the new situation. This is very important for regions whose economic activity is highly dependent on sectors that will eventually have to deal with market losses.

---

<sup>2</sup> For more details, see *Business transition: the issue at home and elsewhere*. Desjardins Economic Viewpoint, May 16, 2016.

<sup>3</sup> In Quebec alone, the Desjardins Group holds a 41.1% market share of agriculture financing and a 26.5% market share of business credit in the SME segment.

## **Measures related to the housing market**

In its latest budget, the government committed to closely monitor vulnerabilities related to housing and consumer debt. Many corollary measures related to mortgages have been taken since 2008 in order to keep the market growing in a healthy way and make sure that it remains stable. In deciding on its next steps, the government must take into account existing regional disparities in Canada's housing market. The vitality of the markets in Toronto and Vancouver are causing concern and are the main reason for the rise in housing prices across Canada. Meanwhile, there has been a substantial slowdown in the housing market in Alberta and Saskatchewan. For their part, Quebec and the Atlantic provinces are seeing moderate growth.<sup>4</sup>

Regional disparities require adjustments and targeted measures that will not benefit some regions to the detriment of others. This should be reflected in the measures that the government chooses to implement to ensure the stability of the real estate market. In this context, it is essential that the government work with provincial authorities and consult industry stakeholders, particularly mortgage lenders.

## **Climate change**

Climate change is an unavoidable issue and, from now on, it must be an integral part of the overall approach to economic development in both the medium- and long-term. Some provinces implemented carbon pricing initiatives and the recent announcements regarding the Carbon Pricing Leadership Coalition are a step in the right direction. The Desjardins Group is proud to be part of these private organizations, which are committed to making the transition to a low-carbon economy, and we believe that climate change is extremely relevant to the budget development process.

## **Financial sector**

In its most recent budget, the government indicated that it wants to strengthen the financial sector in order to support economic growth. At the same time, the government also announced that it would be renewing the financial sector legislation by March 29, 2019. As a systemically important financial institution and the largest cooperative financial group in Canada, the Desjardins Group believes that the government must take into account the unique characteristics of financial cooperatives when reviewing the financial sector legislation.

Although the services they offer are generally comparable, financial cooperatives differ from traditional banks by virtue of their mission and their democratic structure. Because of this special relationship with their members, we can attest to the fact that, in addition to contributing to the Canadian financial system, financial cooperatives represent an additional vector of economic stability and prosperity in general. That being said, we would like to remind the committee that

---

<sup>4</sup> *What means are available to slow the housing market in some parts of Canada?* Desjardins Economic Viewpoint, June 22, 2016.

over 30% of the Desjardins Group's points of service in Quebec are located in areas with a population of 2,000 or less.

The Desjardins Group's mode of operation makes it accountable to its members, who are the users, rather than to shareholders whose interest is generally limited to the return on their investment. In this cooperative paradigm, emphasis is placed primarily on service and not on performance, and cooperatives have deep roots in the communities they serve, where they play a vital role. Without this type of institution, the financial sector would be less competitive and the consumer would surely be less well served.

It is therefore essential that the Canadian government consider, in the legislative review, the fundamental contribution of financial cooperatives to the diversity of supply in the Canadian financial sector, which contributes in turn to its competitiveness and its stability. The government should also fully recognize the characteristics, features and benefits of the cooperative system, as well as the fact that it is an important and integral part of the Canadian financial system. Furthermore, by promoting the development of financial cooperatives, the government will be reinforcing the stability of and fostering competition in the Canadian financial system. That is why we think it desirable for the government to take into account the cooperative context.

### Conclusion

To be able to fulfil their mission, financial cooperatives must be able to rely on a flexible legal and regulatory framework that will let them compete with the big Canadian banks without being obliged to give up what makes them unique. In order to show that it recognizes the specific needs of financial cooperatives, the government must consider their realities, needs and mission when developing and implementing regulations. The Desjardins Group is an advocate of fair competition, which must be manifested in outcomes and cannot be embodied in standards that take into account just one institutional model.

Only an inclusive approach by the government can bring about truly balanced competition in the Canadian financial system, while at the same time maintaining its stability and ensuring that it will fully contribute to the Canadian economy. We are convinced that the government has the will and the tools needed to achieve that goal.

We are pleased to be able to once again discuss the themes set out in this brief with the members of the Standing Committee on Finance and to continue to participate in consultations that affect sectors of interest to the Desjardins Group and its some seven million members and clients.