

Budget 2012

PRE-BUDGET SUBMISSION
FOR THE HOUSE OF COMMONS
STANDING COMMITTEE ON FINANCE

**CO-OPERATIVE ENTERPRISES
BUILD A BETTER CANADA**

The **Canadian Co-operative Association (CCA)** is a national association for co-operatives in Canada, representing more than nine million co-operative and credit union members from over 2,000 organizations. CCA members come from many sectors of the economy, including finance, insurance, agri-food and supply, wholesale and retail, housing, health and the service sector. CCA provides leadership to promote, develop, and unite co-operatives and credit unions for the benefit of people in Canada and around the world.

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Executive Summary

The Canadian Co-operative Association (CCA) is a national organization representing co-operatives and credit unions in Canada. Our 2012 pre-budget brief recommendations are put forward in the context of legacy projects for the **International Year of Co-operatives in 2012**. There are 8500 co-operatives in Canada representing 18 million members and over 150,000 jobs. The three recommendations below are jointly supported by CCA, together with its sister organization the Conseil canadien de la coopération et de la mutualité (CCCM), and the Credit Union Central of Canada, Desjardins Group, The Co-operators Group, the Co-operative Housing Federation of Canada, and the Canadian Worker Co-operative Federation. Each project is based on government tax credits or investments leveraging major co-operative sector funding.

Our recommendations are:

1. A federal **Co-operative Investment Plan (CIP)**, which would provide a federal tax credit for co-op members and employees who invest in producer (agriculture, fishery, forestry) and employee-owned co-operatives.
2. A **co-operative development fund**, co-funded by the federal government and the co-operative sector, which would provide capitalization loans to co-operatives.
3. A renewed, expanded and permanent **Co-operative Development Initiative (CDI)** which would continue to provide grants and technical assistance to new and emerging co-ops. The current CDI program expires in March 2013.

Co-operative enterprises build a better Canada

The 2012 Budget is an important one for Canada. While our economy has done very well in the last years compared to many other OECD members, we are still dealing with the aftermath of the biggest economic crisis of the last 70 years, a slow recovery of our major trading partner, government finances which are still in major deficit, and while improving, still too high unemployment rates in many regions of the country. The 2012 Budget is also an important one for the co-operative sector in Canada as it is the Budget for the **International Year of Co-operatives**.

On December 18, 2009, the United Nations General Assembly adopted a resolution declaring 2012 the UN International Year of Co-operatives (IYC). The resolution, entitled "Co-operatives in Social Development", recognizes that "co-operatives, in their various forms, promote the fullest possible participation in the economic and social development of all people". It urges governments to take measures aimed at creating a supportive environment for the development of co-operatives.

On December 3, 2009 the Canadian government through the then Minister of State (Agriculture), Jean Pierre Blackburn, announced federal support for the International Year. This was the first time the Government of Canada publicly endorsed an International Year before its proclamation by the UN. This support was confirmed recently by the Minister now responsible for co-operatives, Agriculture and Agri-food Minister Gerry Ritz, who said in a message in June in recognition of the launch of the joint government-co-operative sector IYC website: "The International Year of Co-operatives is a unique opportunity for all co-operatives to promote their achievements and to raise awareness of the co-operative model. Our Government fully

recognizes the importance of co-operatives as they generate sustainable jobs and reinforce our economy.”¹

The theme of the International Year of Co-operatives is ***Co-operative enterprises build a better world*** and its primary objective is to raise public awareness of the co-operative business model and its contribution to economic and social development. Co-operatives are an important part of the Canadian economy. Canada’s over 8,500 co-operatives meet people’s needs in financial services (credit unions and insurance), in retail (co-op stores), in daycare centres owned by parents, in agricultural supply and marketing, in co-op housing, in health care and many other sectors. Across Canada, there are over 18 million members of co-operatives, which have combined assets of over \$325 billion and over 150,000 employees. Canadian co-operatives contribute hundreds of millions of dollars to the tax system and have been pillars of strength during the last economic crisis. A recent study by Johnston Birchall and Lou Hammond Ketilson, published by the International Labour Organization (ILO), noted the resilience of co-operatives which have generally done very well during the recent economic crisis: “...cooperative enterprises around the world are showing resilience to the crisis. Financial cooperatives remain financially sound; consumer cooperatives are reporting increased turnover; worker cooperatives are seeing growth as people choose the cooperative form of enterprise to respond to new economic realities.”²

CCA has summarized the contributions that co-ops make to the economy.

Co-ops:

- create jobs in our communities
- keep business ownership in Canada through membership control
- keep profits in the community through distribution of surpluses to members
- facilitate community participation and self-help
- act as training grounds for democratic leadership and accountable business practices
- last longer than investor owned businesses (see summary of 2008 Quebec government report at <http://s.coop/coopsurvival>)

Co-operatives are tools of self help and they have survived and prospered with little need for help from government but they do need some aid in getting started. This is why in a period of relative austerity the co-operative sector has concentrated its three budgetary program recommendations as legacy projects to:

- Celebrate the International Year of Co-operatives
- Create jobs and economic activity through as many new and emerging co-operatives as possible
- Leverage funds and resources from the co-op sector to match or supplement government contributions

The Canadian Co-operative Association (CCA), together with its sister organization the Conseil canadien de la coopération et de la mutualité (CCCM), has joined with the Credit Union Central of Canada, Desjardins Group, The Co-operators Group, the Co-operative Housing Federation of Canada, and the Canadian Worker Co-operative Federation in asking the federal government to make a lasting contribution to co-operative development with these three projects.³

1. **A federal Co-operative Investment Plan** (based on Quebec’s Régime d’investissement coopératif, which has existed since 1985) would provide a federal tax credit for co-op

¹ http://coopscanada.coop/public_html/assets/firefly/files/files/ENGLISHNewsrelease.pdf

² <http://www.copac.coop/publications/2009-ilo-coop-resilience.pdf>

³ These three recommendations were contained in the briefs of CUCC, Desjardins, CHFC, CWCF as well as CCA and CCCM

members and employees who invest in producer (agriculture, fishery, forestry) and employee-owned co-operatives. A national CIP would be a partnership between citizens who invest their own money and the federal government. Tax incentives for member or employee investment would not be provided unless co-op members and employees first invest their own funds.

Such a plan at the federal level is estimated to cost \$17-20 million per year and would produce some \$120 million per year of new investment across Canada. The Canadian Federation of Agriculture has consistently ranked the CIP as a top priority. More than 6,400 individuals made tax-deductible investments in 216 Quebec co-ops in 2010, raising a total of \$27.4 million under the province's Co-operative Investment Plan. The 216 co-ops raised an average of \$207,453 each through contributions under the plan, with an average individual contribution of \$4,234. About 49 per cent of the plan's beneficiaries were agricultural co-operatives. In Quebec, the plan has contributed to increased jobs and economic activity in sectors which are mainly in rural areas.⁴

This program has been unanimously endorsed by the House of Commons Finance Committee on a number of different occasions, the latest being the December 2009 Pre-Budget Report for the 2010 Budget *A Prosperous And Sustainable Future For Canada: Needed Federal Actions*: "As well, the government should implement a co-operative investment plan that would include the creation of a tax credit for members or employees of agricultural and employee-owned co-operative businesses that invest in their co-operatives."⁵

In a period where government has more limited resources, we believe that this program is ideally suited as small foregone tax revenues will leverage much larger private sector investments which go into existing businesses.

2. **A co-operative development fund**, co-funded by the federal government and the co-op sector, would provide large and medium-sized capitalization loans to new and existing co-operatives. The sector is requesting a one-time federal government contribution of \$70 million, after which it would be self-sustaining. We are certain that the federal contribution to the fund would leverage important contributions from the co-operative financial and non-financial sector. This fund would be a repayable loan fund and not a source of grant funding. Investments would only be made based on an analysis of a co-operative's business plan and its capacity to pay back loans. For a more detailed look at this proposal please see: http://www.coopscanada.coop/public_html/assets/firefly/files/files/CDF_FUND_booklet_final.pdf.

As the Quebec government has discovered in two studies examining all enterprise data in Quebec, the last of which was in 2008, co-operatives on average last twice as long as the average of all businesses.⁶ One of the major reasons for this trend is that starting up co-operatives requires the support of a group of members in a community. On the other hand, co-operatives, because they are not based on traditional equity ownership models, often find it harder to put together the package of loans and investments to get started. This is why program tools which support investment in co-operatives exist in many provinces, such as

⁴ The full 2010 Quebec government report is available at: http://www.mdeie.gouv.qc.ca/fileadmin/contenu/programmes/mesures_fiscales/investissement_coop/resultats_ric_2010.pdf. CCA has also produced a detailed analysis of the CIP in 2008 which is available at http://www.coopscanada.coop/en/gov_affair/InvestStrategy.

⁵ <http://www.parl.gc.ca/content/hoc/Committee/402/FINA/Reports/RP4304866/finarp06/finarp06-e.pdf>

⁶ http://www.mdeie.gouv.qc.ca/objectifs/informer/cooperatives/page/etudes-et-analyses-11087?tx_igaffichagepages_pi1%5Bmode%5D=single&tx_igaffichagepages_pi1%5BbackPid%5D=68&tx_igaffichagepages_pi1%5BcurrentCat%5D=&cHash=9285b9a743b238a2e78efe844690120c

the Community Economic Development Investment Fund (CEDIF) in Nova Scotia and now PEI; in Quebec, the Desjardins fund Capital Regional et Coopératif, the Fiducie du Chantier de l'économie sociale; and in the North, the Arctic Co-operative Development Fund.

Two of these examples merit further commentary. The Arctic Co-operative Development Fund was capitalized by the federal government in 1986 with \$10 million and is now worth over \$30 million. This fund has loaned over \$452 million to co-operatives in Nunavut and Northwest Territories from 1986 to 2009 and is one of the principal tools contributing to the success of co-operatives in Northern Canada.⁷

The present federal government also helped capitalize the Fiducie du Chantier de l'économie sociale (Social Economy Trust Fund). A contribution of \$22.8 million from the federal government in 2006 helped leverage major investments from the Quebec government and other sources. But there is no national co-operative development fund and no sources of specific co-operative investment available in most regions of the country. Here again government support for a co-operative development fund could help leverage millions of dollars from the co-operative sector for investments in co-operatives.

The co-operative development fund concept put forward by the two national co-operative organizations has been examined in detail to make sure it is a viable one. In 2008 the federal government's Rural and Co-operatives Secretariat commissioned PricewaterhouseCoopers to examine the CCA /CCCM model for this new fund. They concluded in their report that "the potential impact of the fund is positive and will assist emerging and existing co-operatives to grow and expand."

The co-operative development fund concept has also been endorsed by all parties in the House of Commons Finance Committee report of December 2009 with the recommendation "The government should also establish a \$70-million repayable co-operative loan fund."⁸

3. A permanent and expanded federal **Co-operative Development Initiative** (CDI), which provides grants and technical assistance to new and emerging co-operatives (note a full proposal for renewal can be found at: http://www.coopscanada.coop/en/gov_affair/Submissions_to_Government).

This program has impressive statistics for a modest cost to taxpayers: From 2003-2011, 292 projects received funding. The CDI projects which received funding from 2009-2012 can be found at <http://www.coopscanada.coop/en/coopdev/Co-operative-Development-Initiative>.

- Since 2009 alone some 521 groups have applied for project funding.
- Around 140 projects have received funding in the last 3 years (2009-2011).
- From 2003 to 2011, an additional 346 co-operatives have been created through support from the Advisory Services component of the program.

The CDI program was first established in 2003 and, although it includes all sectors not just agriculture, it is part of the **Growing Forward** suite of federal programs in the federal-provincial agricultural accord. In 2009, CDI was renewed for four years and this current phase expires on March 31, 2013. The 2009-2013 CDI is 95% managed by the two national co-operative associations, CCA and the Conseil canadien de la coopération et de la mutualité (CCCM).

⁷ <http://www.arcticco-op.com/acdf.htm>

⁸ <http://www.parl.gc.ca/content/hoc/Committee/402/FINA/Reports/RP4304866/finarp06/finarp06-e.pdf>

The current \$4 million-a-year budget needs to be increased to effectively support the creation of new co-operatives and strengthen existing ones. Twenty-one different national, regional and sector co-operative organizations are involved in delivering services (please see the complete list in the Appendix).

The program is divided into three components: an Innovative Co-operative Projects component which gives grants through a country-wide competition to new and emerging innovative projects to help them get started through activities such as feasibility studies and business planning; an Advisory Services component which is delivered across Canada by co-op organizations and provides technical assistance to those interested in starting a new co-op; and a smaller Research and Knowledge Development program. We believe that the CDI has demonstrated its success and viability over the last ten years and should be made a permanent activity of government.

The program is based on a minimum 25% of the total budget contribution of in-kind labour and resources from the co-op sector. The CDI program has also helped leverage important resources from other sources, for example:

- The Saskatchewan government has provided new funding for co-op development to the Saskatchewan Co-operative Association through Enterprise Saskatchewan. The grant of \$65,000 is for two years (2011 and 2012) and has a focus on seniors housing. The province is also providing funding for a youth co-op entrepreneurship program focused on helping youth learn about co-ops through developing their own co-op businesses to provide summer employment.
- The Manitoba government has introduced a tax credit for credit unions and co-operatives that contribute to a provincial co-operative development fund managed by CDI partner the Manitoba Co-operative Association. This program raised over \$89,000 last year (its first year).
- The PEI government has introduced a CEDIF (Community Economic Development Investment Fund) which provides tax credits to PEI residents who invest in new co-ops or other local businesses. This program will be managed by the PEI Co-operative Council
- The Newfoundland and Labrador government is funding the delivery of co-operative development services by government regional offices and funding the Newfoundland and Labrador Federation of Co-operatives to support this delivery.
- The charitable foundation of CCA—the Co-operative Development Foundation—has set aside \$250,000 to fund grants for the new CCA First Nations, Métis and Inuit Co-operative Development Program which funds new and emerging Aboriginal co-ops.

In the renewed program CCA and CCCM are asking for a permanent program which would be increased by the rate of inflation from the 2009-2013 phase of the program. The 2013-2018 program would total **\$23.67 million**.

CDI Budget	2009-2013 (over 4 years)	2013-2018 (over 5 years)
Advisory Services	6,519,361	9,628,980
Innovative Co-operative Projects	7,592,640	10,683,075
Research and Knowledge Development	800,000	937,327
Administration	2,015,999	2,422,994
Total	16,928,000	23,672,376

APPENDIX

Canadian Co-operative Association Members

Consumer and Supply

Arctic Co-operatives Limited
Calgary Co-operative Association Limited*
Co-op Atlantic
Federated Co-operatives Limited
GROWMARK Inc.
Mountain Equipment Co-op
UFA Co-operative Limited
Ontario Natural Food Co-op

Financial

Atlantic Central (NS/NL; NB; PEI)
Arctic Co-operative Development Fund*
Canadian Association of Mutual Insurance Companies**
The Co-operators Group Limited
Concentra Financial Services Association
Central 1 Credit Union (BC region; Ontario region)
Credit Union Central Alberta Limited
Credit Union Central of Canada*
Credit Union Central of Manitoba
The CUMIS Group
SaskCentral

Agriculture

Farmers Co-operative Dairy Ltd.
Gay Lea Foods Co-operative Limited
Granny's Poultry Cooperative (Manitoba) Ltd
Northumberland Co-operative Limited
Organic Meadow
Scotsburn Co-operative Services Limited

Provincial Co-op Associations

Alberta Community & Co-operative Association
British Columbia Co-operative Association
Co-operative Enterprise Council of New Brunswick
Manitoba Cooperative Association
Newfoundland-Labrador Federation of Co-operatives
Nova Scotia Co-operative Council
Ontario Co-operative Association (OnCoop)
Prince Edward Island Co-operative Council
Saskatchewan Co-operative Association

Service

Alberta Federation of Rural Electrification Associations
Canadian Worker Co-operative Federation
Community Health Co-operative Federation Limited
Co-operative Housing Federation of Canada
CoopZone Developers' Network Co-operative
Federation of Alberta Gas Co-ops Ltd.

Education

Centre for Co-operative and Community -Based Economy, University of Victoria**

Centre for the Study of Co-operatives, University of Saskatchewan**

Master of Management, Co-operatives and Credit Unions, Saint Mary's University**

**denotes Associate Membership*

***denotes Friend of CCA*

Co-operative Development Initiative Partners

Alberta Community and Co-operative Association

Arctic Co-operatives Limited

British Columbia Co-operative Association

Canadian Co-operative Association

Canadian Worker Co-operative Federation

Coopérative de développement régional – Acadie ltée

Conseil canadien de coopération et de mutualité

Conseil Coopératif Acadien de la Nouvelle-Écosse

Conseil de développement coopératif de l'Île-du-Prince-Édouard

Conseil québécois de la coopération et de la mutualité

Conseil de la Coopération de l'Ontario

Conseil de développement économique des municipalités bilingues du Manitoba

Conseil de la Coopération de la Saskatchewan

Conseil de développement économique de l'Alberta

Co-operative Enterprise Council of New Brunswick

Manitoba Cooperative Association

Newfoundland-Labrador Federation of Co-operatives

Nova Scotia Co-operative Council

Ontario Co-operative Association

Prince Edward Island Co-operative Council

Saskatchewan Co-operative Association

