



Canadian Worker Cooperative Federation  
Fédération Canadienne des Coopératives de Travail

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12 August, 2011

Guyanne L. Desforges, Clerk  
Standing Committee on Finance  
6-14 131 Queen Street  
House of Commons  
Ottawa, Ontario K1A 0A6

Dear Ms. Desforges,

Attached please find the Pre-Budget Submission of the Canadian Worker Co-operative Federation. Thank you for the opportunity to make this submission.

If you have any questions, please do not hesitate to contact us.

Sincerely yours,

Hazel Corcoran  
Executive Director

Encl.

## **Executive Summary**

Some of the national co-operative sector organizations, led by the Canadian Co-operative Association (CCA) and the Conseil canadien de la coopération et de la mutualité (CCCM), have agreed on three shared co-operative sector recommendations for the upcoming 2012 Federal Budget. These measures comprise the complete list of recommendations being submitted by the Canadian Worker Co-op Federation (CWCF)<sup>1</sup>. Employee-owned co-operatives<sup>2</sup> are effective, competitive enterprises. They enable Canadians who otherwise might not do so to participate in the labour force through becoming entrepreneurial along with others, and they increase members' skill levels. Employee ownership in general and employee-owned co-ops in particular have inherent benefits such as improved productivity as people have an ownership stake, and ability to create jobs in economically challenged regions such as rural areas. Both the United States and Western Europe have far more employee-owned companies and co-ops than does Canada on a per-capita basis. Canada has not yet realized its potential for increasing productivity through developing this form of enterprise. The United Nations has declared that 2012 is the International Year of Co-operatives. The Government of Canada can help support the International Year of Co-operatives and help realize the potential of co-operatives in Canada by creating legacy projects that will last beyond 2012.

Our recommendations are as follows.

Recommendation One: Create a Federal Co-operative Investment Plan

Recommendation Two: Create a Co-operative Development Fund, co-funded by the federal government and the co-op sector

Recommendation Three: Create a permanent and expanded federal Co-operative Development Initiative

## **Introduction**

A June 2011 TD Quarterly Economic Forecast noted that, "Following five years of excessive debt accumulation, Canadian households are finally tapped out." In addition, Canadian wages are stagnant and are failing to keep up with inflation. TD is predicting that the unemployment rate will likely remain above 7.0% through 2013. It also predicted that there will likely be a "period of lacklustre expansion over the next few years." With deep economic concerns in the United States and in Europe, the economic recovery that Canada has experienced is in peril.

To help prevent a double-dip recession, the Canadian Worker Co-operative Federation believes that the federal Government needs to create stable and decent-paying jobs that help strengthen our communities. The best way of accomplishing this is to invest in co-operatives. With a proven track record, the United Nations General Assembly on December 18, 2009 passed a resolution declaring 2012 the UN International Year of Co-operatives.

The co-operative sector has more than one billion members in more than 90 countries around the world. The world's 300 largest co-operatives have revenues in excess of \$1.1 trillion, about the size of the 10th largest economy in the world (Spain), and only slightly smaller than Canada's. Co-operatives provide more than a million jobs around the world, 20 per cent more than multinational corporations.

According to the United Nations, "co-operatives, in their various forms, promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons, persons with disabilities and indigenous peoples, are becoming a major factor of economic and social development and

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<sup>1</sup> Details about CWCF are provided on p. 4.

<sup>2</sup> The terms "worker co-operative" and "employee-owned co-operative" are used interchangeably. In French, the term is "coopérative de travail". It should be noted that CWCF also works with multi-stakeholder co-operatives where more than one class of member is involved (consumers, workers, etc.), as well as worker-shareholder co-operatives, where employees own co-operatively a certain percentage of the shares of a business corporation.

contribute to the eradication of poverty.” The United Nations “(e)ncourages Governments to keep under review, as appropriate, the legal and administrative provisions governing the activities of co-operatives in order to enhance the growth and sustainability of co-operatives in a rapidly changing socio-economic environment by providing a level playing field for co-operatives vis-à-vis other business and social enterprises, including appropriate tax incentives and access to financial services and markets.” Canada has a long and proud history of providing leadership at the United Nations. The Canadian Worker Co-operative Federation would like to encourage Canada to continue this. The best way that the Canadian government can do this is to help support the International Year of Co-operatives is by creating legacy projects that will last beyond 2012.

### **Recommendation One: Create A Federal Co-operative Investment Plan**

A Canadian Co-operative Investment Plan would provide a federal tax credit for co-operative members and employees who invest in producer (agriculture, fishery, forestry) and employee-owned co-operatives. It has been estimated that an investment of \$17-20 million per year would stimulate new investments into co-operatives to the tune of \$120 million per year. The rate of return of such a federal tax credit has been estimated to be an impressive 600% to 741%.

A similar tax credit program that exists here in Canada has been a resounding success. For example, Quebec’s Régime d’investissement coopératif has been in existence since 1985 and has stimulated \$479.9 million in investments into co-operatives. Each year over 10,000 people invest in the Régime d’investissement coopératif program, almost half of whom work in worker co-operatives, and 76% who live in rural Quebec. These investments have been important in maintaining and creating jobs. The tax credit program in Quebec allows a member or employee of a co-operative to deduct 125% of the amount they have invested in preferred shares of an eligible co-operative, up to 30% of their total income, from their provincial taxable income. To avoid speculation and tax grabs, the investment may not be redeemed for five years.

With cheap labour, investment in emerging nations is able to create high rates of return. In a competitive world, tax incentives are needed to direct investment locally. With so many global investment options, governments must compete to ensure that Canadians are investing their savings right here in Canada. One way of doing this is to provide tax credits to provide incentives for people to invest in co-operatives. The mission of worker co-operatives, and many other types of co-operatives, businesses owned and democratically controlled by their members, is to create jobs. Instead of looking to outsource jobs overseas, co-operatives seek to create local and decent-paying jobs right here in Canada. One of the barriers to creating more co-operatives in Canada is access to credit. A Canadian Co-operative Investment Plan would increase the incentive of Canadians to invest in their co-operative workplace or in the co-operative where they purchase goods and services. Having a financial stake in one’s worker co-operative will increase a worker’s motivation to work hard to ensure the co-operative’s success. Likewise, having a financial stake in your consumer co-operative will increase the incentive to support and to encourage others to support the co-operative.

A tax incentive program is enticing because member investors receive the immediate benefit of the tax deduction for each investment they make in their co-operative. Such a program would provide co-operatives with access to a stable source of needed capital that is both less expensive and less administratively cumbersome than capital from other sources. The tax incentive program would also increase the flexibility and autonomy that co-operatives would have in the use of these funds, enabling them to be more innovative and responsive to their members and their communities.

A Canadian Co-operative Investment Plan would stimulate the co-operative sector, which is composed of over 8,500 co-operatives, who own over \$325 billion in assets and who employ over 150,000 Canadians. The wheel would not have to be re-invented. The Canadian government could adapt an already successful tax incentive program from Quebec. This would be a wise investment that would create local jobs and help strengthen the participation and vitality in communities throughout Canada.

### **Recommendation Two: Create a co-operative development fund, co-funded by the federal Government**

## **and the co-operative sector**

Co-funded by the federal Government and the co-operative sector, a co-operative development fund would provide large and medium-sized capitalization loans to new and existing co-operatives. The fund would require a one-time federal government contribution of \$70 million, after which it would be self-sustaining. This 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. The fund would also seek financing from the co-operative financial and non-financial sector.

In 2008, the federal government's Co-operatives Secretariat commissioned PricewaterhouseCoopers to examine the CCA /CCCM model for this 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 fund was unanimously endorsed by the House of Commons Standing Committee on Finance in its 2010 pre-budget report.

Co-operative funds exist in Canada and around the world. An example of such a fund here in Canada is the Arctic Co-operative Development Fund, which was capitalized by the federal government in 1986 with \$10 million and is now worth over \$30 million. Since 1986, the fund has lent over \$452 million in financing to member co-ops. In 2009, the patronage refund alone was \$1.7 million. The Arctic Co-operative Development Fund is a self-managed fund of pooled financial resources, owned and controlled by the co-operative businesses accessing the capital. The Arctic Co-operative Development Fund provides leadership in financial planning to provide for the orderly development of the Co-operative System, while maximizing the benefits of available financial resources and maintaining the integrity of the fund's capital.

Italy leads the world with over 800,000 people working in the co-operative sector. In 1985, the Italian government established co-operative funds with the three largest co-operative federations in Italy. The largest of these is Legacoop's Coopfond which now has a capitalization of \$340 million. Over an 8-year period, Coopfond supported 109 co-op start-ups with \$48 million in equity and \$17 million in loans leveraging \$288 million in investment and creating 4,640 new jobs. It also supported 82 expansion projects with \$53 million in loans, leveraging \$370 million in co-op investments and creating 2,690 new jobs. That's 7,300 jobs for \$101 million invested or about \$14,000 per job.

An investment of \$70 million would create a sustainable financial resource based on a model that has been clearly successful in the Arctic and in Italy.

### **Recommendation Three: Create a permanent and expanded federal Co-operative Development Initiative**

A permanent and expanded federal **Co-operative Development Initiative** (CDI), which provides grants and technical assistance to new and emerging co-operatives is our third recommendation. In 2009, CDI was renewed for four years and is now managed by the two national co-operative associations, CCA and the Conseil canadien de la coopération et de la mutualité (CCCM).

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 cooperative organizations are involved in delivering services. Since 2009 some 414 groups have applied for funding

The Co-operative Development Initiative grants have been invaluable for providing the much-needed expertise to allow the formation of worker co-operatives (as well as other types of co-operatives). For example, Vancouver's Shift Delivery received a grant to help them incorporate and create their bylaws. Shift Delivery is a youth-run worker co-operative that delivers goods through downtown Vancouver on cargo bicycles. This business provides a more cost effective, more efficient method, and more environmentally sound way of making deliveries. Creating worker co-operatives can be more complicated than traditional businesses. The expertise provided by the co-operative developer, made possible with a Co-operative Development Initiative grant, helped the founding members create a business model based on their values.

The Canadian Worker Co-operative Federation is thankful that in 2009 the Co-operative Development Initiative program was renewed for four years. Since this time around 140 projects have received invaluable funding. The demand is high, for 3 out of 4 applications do not receive funding. It is clear from this that the current \$4 million-a-year budget needs to be increased to effectively support the creation of new co-operatives and to strengthen existing ones.

By 2013, the CDI program will have existed for ten years; given its strong track record, it should become a permanent federal program and part of Canada's economic and social infrastructure. Lastly, it should have an additional element of staged, non-repayable contributions to hire needed expertise as co-ops in development reach specific milestones that demonstrate their potential for long-term success.

### **Canadian Worker Co-operative Federation**

The Canadian Worker Co-op Federation (CWCF) is pleased to have had the opportunity to present its policy priorities to the House Finance Committee in this coordinated pre-budget submission. The CWCF is part of the broader co-operative sector in Canada that makes strong contributions to many areas of the Canadian economy and to local communities. The over 8,800 co-operatives and credit unions across Canada are key vehicles for their members to initiate and control sustainable enterprises that contribute to the economic and social well being of their communities through locally owned and democratically controlled co-operatives.

CWCF is the national, non-profit organization representing employee-owned co-operatives in Canada. The CWCF has been serving the developmental needs and representing the interests of worker co-ops in Canada for nearly twenty years. It is the organization in Canada committed to developing employment through the co-operative model, thereby enhancing the skills of groups of people to enable collective self-employment and support their community's capacity to achieve long-term sustainability.

The Vision of the Canadian Worker Co-op Federation 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.

Worker co-operatives are employee-owned businesses run on the democratic principles followed by all co-operatives. Worker co-operatives allow groups of people to pool their resources collectively to address employment needs that they are experiencing. Not everyone has the tools to be an individual entrepreneur; co-operatives allow for collective entrepreneurship so that the shared skills of a number of people can be applied to the task of entrepreneurship. Employees can share the risk of capitalization of their businesses. In this time of economic unevenness with people facing job loss in many sectors especially in rural areas and the need for economic diversification in communities traditionally dependent on some of the resource-based industries, worker co-operatives are a very effective approach to creating and maintaining jobs. Some regions are experiencing labour shortages. Worker co-ops can also facilitate entry into the labour force of people who need support in order to work effectively, thus assisting to expand the workforce where needed.

The full potential for positive change contained in the worker co-operative model has not been achieved in Canada for a number of reasons. There are only approximately 350 worker co-ops employing 15,000 across the country.

In countries in Western Europe, where public policy has been developed to support the creation and capitalization of worker co-operatives, the model has been very successful in economic terms. Thus in the European Union, there are over 70,000 worker and related types of co-ops employing over 1.2 million people. In the United States, tax incentives have driven the growth of employee ownership in companies with Employee Stock Ownership Plans (ESOPs). ESOPs now comprise an estimated 11,000 companies in the US, employing an estimated 11.5 million workers. In Canada, the existing pools of money available through venture capital funds, public programs and commercial financing have not supported the development of worker co-operatives or of related models of business ownership.

The success of worker co-ops in Canada and abroad is founded upon some inherent competitive advantages. Worker co-operatives' structure of employee ownership, investment and democratic control creates a level of commitment and participation in the affairs the co-op absent from many businesses and presents a strong foundation upon which to build a competitive advantage. Co-operative entrepreneurship, through effective organization, pools the skills, experiences and financial resources of employee-members and also provides a base for innovation and creativity in all areas of the enterprise.

## Conclusion

This submission has focused on three policy initiatives that can strengthen this inherent competitive advantage, including one which helps to bring the co-operative advantage to Canada.

- 1) Create a Federal Co-operative Investment Plan
- 2) Create a Co-operative Development Fund, co-funded by the federal government and the co-op sector
- 3) Create a permanent and expanded federal Co-operative Development Initiative

The CWCF encourages the Government of Canada to give these three recommendations serious consideration.

In closing, Canada has come out of the global recession with renewed economic activity and some important positive lessons for other countries in terms of regulation of the financial sector. However, many Canadian communities and groups of people are still hurting and unemployment rates are too high in many places. Co-operatives have helped in the recovery by continuing to provide jobs and services in communities across Canada.

The **International Year of Co-operatives** is an important occasion for Canada to recognize the contributions of co-operatives to Canada's economy and social life. Canada has one of the largest and most important co-operative sectors of any country. We believe that the role of the co-operative sector is a contributing factor to the relative strength and stability of the Canadian economy during the recent crisis. As a recent study by the Quebec government has shown, co-operatives last twice as long as the average lifespan of all enterprises in Quebec.<sup>3</sup>

At the same time as they are more durable, co-operatives, because they are owned by community members, have the social as well as the economic interests of those communities front and centre. As the United Nations Secretary-General Ban Ki-moon has said: "*Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.*"

Canada, like most of its other G8 partners, is in a period of economic recovery and reset. We believe the co-operative model can be used more as we examine how to refit and re-energize our economy.

We could start by examining the recent United Kingdom (UK) experience. The 2010 elections in the UK ushered in a new government made up of Conservatives and Liberal Democrats. During the election, all three major parties committed to support more co-operatives and social enterprises and the new coalition program includes the setting up of more co-operatives and social enterprises.<sup>4</sup>

The United Nations has called on all member states to take advantage of this special year to promote the co-operative sector, take "appropriate measures aimed at creating a supportive and enabling environment for the development of co-operatives" and "enhance the growth and sustainability of co-operatives".<sup>5</sup> In this context, we are asking the government to recognize the special role of co-operatives in Canada and to partner with the co-operative sector to help improve the socio-economic life of Canadians.

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<sup>3</sup> 44% of co-operatives last ten years while the average for all businesses is only 19.5% in *Taux de survie des coopératives au Québec*, Edition 2008, Ministère du Développement économique p. 41 <http://www.mdeie.gouv.qc.ca/>

<sup>4</sup> *The Coalition: our programme for government*, Cabinet Office, May 2010. Available at [www.cabinetoffice.gov.uk/media/409088/pfg\\_coalition.pdf](http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf)

<sup>5</sup> The text of the UN resolution, adopted by the General Assembly on December 18, 2010, can be found at [www.copac.coop/publications/un/a64r136e.pdf](http://www.copac.coop/publications/un/a64r136e.pdf)