Brief from the Conseil canadien de la coopération et de la mutualité to the Standing Committee on Finance regarding the Government of Canada's 2012–2013 Budget

Summary

The Canadian co-operative movement seeks to contribute to Canada's economic recovery by creating sustainable jobs in communities across the country. The additional revenue that these new jobs will contribute to the federal coffers will reduce the current government deficit and help Canada achieve a balanced budget.

The Conseil canadien de la coopération et de la mutualité has three recommendations to help achieve this goal:

1- Develop an investment strategy
   1.1 Create a co-operative investment plan
   1.2 Create a co-operative development fund
2- Ensure the continuity of the Co-operative Development Initiative

THE CO-OPERATIVE MOVEMENT: A PARTNER IN CANADIAN ECONOMIC GROWTH

Since 1946, the Conseil canadien de la coopération et de la mutualité (CCCM) has represented 3,700 francophone co-operatives and 54 francophone mutual companies in Canada. Its mission is to foster an environment conducive to the development of francophone co-operatives and mutual companies from coast to coast. The CCCM has eight regular members: these provincial councils report annual turnover of more than $23 billion and have more than 8,900,000 members. Member co-operatives also hold more than $180 billion in assets and employ more than 100,000 people across Canada. Moreover, in the last fiscal year, they gave back to Canadian communities more than $100 million in sponsorships, rebates, scholarships and donations.

It is a fact that the co-operative formula is a strong one. An analysis of the survival rate of co-operatives carried out by the Quebec Department of Economic Development, Innovation and Export in 2008 showed that co-operatives have a much longer life span than companies in the province. The report stated that four in 10 co-operatives have been in existence for more than a decade, compared with two in 10 for all Quebec businesses.

> *Co-operatives are not "just" another form of business, they are not enterprises "en miniature", but a specific, value-based business model for all sizes and activities. Just to mention famous examples like KPMG, the London Philharmonic Orchestra, the Best Western hotel chain, AP, which are all co-operatives. The crisis has led to a self interrogation about the right business model. co-operatives are one interesting alternative model. They put a premium on longer term sustainability and profitability, on sharing benefits between their members who are the capital owners and the main users (lenders, borrowers); they factor in the needs of the local community, are highly transparent and—fundamentally—have a social agenda which does not prevent them from being sustainable and profitable at the same time.*
> *Hagen Henry, ILO, April 2009.*

In this brief, we are conveying to the Government of Canada our desire to build a real partnership to develop, implement and evaluate government programs and policies in all sectors. In view of the United Nations' proclamation of 2012 as the *International Year of co-operatives*, a proclamation supported by the Canadian government, we would like to recommend that certain items be included in the 2012–2013 federal budget, items that will become this government's contribution to the success of the International Year of Co-operatives.

AT THE NATIONAL LEVEL

1) **Develop** an investment strategy for co-operative development in Canadian communities that:

> 1.1) gives members of producer and worker co-operatives access to credit through the creation of a **co-operative investment plan (CIP)**; and
>
> 1.2) creates a **co-operative development fund (CDF)** that would give co-operatives access to non-conventional loans in the form of patient capital at preferred rates;

2) **Ensure** the continuity of the Co-operative Development Initiative.

In 2009, the federal government revitalized its partnership with the co-operative movement by renewing the Co-operative Development Initiative, the main objective of which is to create new co-operatives throughout Canada. The CDI is an excellent program, but it is not enough to meet the essential needs of the co-operative movement in terms of: a) capital; b) credit and c) support for co-operative development in official language minority communities. We propose the following tools:

1.1 Develop a federal co-operative investment plan (CIP)

A co-operative investment plan like the one that has been in place in Quebec for more than two decades will endeavour to increase, through a tax incentive, ongoing financing for certain Canadian co-operatives and co-operative federations that need capital to ensure their own development. The plan will provide a tax deduction for members who buy preferred shares in their own co-operative. This will increase access to the capital that farm co-operatives and workers' co-operatives need to plan their expansion and deal with competition and market globalization.

In Canada, more than 1,300 farm co-operatives employ 36,000 people. Those co-operatives generate close to $19 billion in revenue annually and reinvest approximately $1.6 billion in the industry and their rural communities. **Between 1985 and 2006, the Quebec plan generated $393 million in new investment in eligible co-operatives at a total tax cost of $51 million.** Moreover, 75% of that investment went to the regions and to farming, logging and manufacturing. The plan has proven its worth in terms of its ability to raise new capital and increase the assets of participating co-operatives. It has given co-operatives more leverage with their core capital, enabling them to make more of their investment and take advantage of future financing opportunities. The estimated cost of the federal plan is between $17 million and $20 million a year, and the plan has the potential to generate $120 million in new investment nationally.

> *[TRANSLATION]*
> *In 2008, 218 co-operatives held at some point during the year a valid certificate enabling them to issue shares that qualified under the plan. Those 218 co-operatives accounted for almost 30% of the 740 active co-operatives included in an eligible category at December 31, 2008. Of those 218 co-operatives, 152 or 70% issued eligible shares. A total of $21.1 million was invested in co-operatives targeted by the tax measure. In all, 6,568 individuals acquired eligible shares issued by the co-operative in which they were a member or an employee. The average investment in issuing co-operatives is approximately $139,000. The average investment by new shareholders is $3,217. The proportion of the amount invested in farm co-operatives is 38%. More than 70% of those funds were invested in co-operatives located in the regions.*
>
> *Quebec Department of Economic Development, Innovation and Export, Co-operatives Directorate, October 2009, 2008 results*

In December 2004, the House of Commons Standing Committee on Finance tabled a report in which it stated, with regard to the CIP:

> In the Committee's view, it is important that all Canadian businesses—including co-operatives—operate on a level playing field and within a tax regime that enables them to meet their needs in order that they and the Canadian economy can grow and prosper. [...] the Committee recommends that the federal government immediately take the following three actions: [...] create a Co-operative Investment Plan that would encourage agricultural co-operative members and employees to invest in their agricultural co-operatives through allowing them to deduct their investment up to a fixed percentage of their gross income.

In December 2009, the Committee's report on the 2010–2011 Budget recommended again that the government implement this type of plan.

Support for a federal CIP has grown steadily. A study carried out in 2009 by the two national associations, the CCCM and the Canadian Co-operative Association (CCA), argued that such a program would be well received, especially if it were presented as a tool that would make it possible to maximize economic benefits and job creation in rural and agricultural regions. The results of the Quebec plan suggest that a similar federal initiative could have major benefits for co-operatives and their communities, economic development, sustainability and employment, particularly in Canada's rural and agricultural regions. The Quebec plan shows that, even in tough economic times, farm co-operatives can count on the support of their members. Projections based on the results of the Quebec plan suggest that a Canada-wide program along the lines of the CIP could generate approximately four dollars of new investment in participating co-operatives for every dollar the government foregoes in tax revenue. These figures are based on an evaluation of the cost of the program carried out by the Government of Quebec in 2007 that showed a decrease in tax revenue of

$8 million and $32.5 million in investment under the plan. New profits and salaries arising from the increase in investment would, of course, be taxable.

For more than a century, Canadian co-operatives have proven that they are stable and sustainable ventures. Owned by communities, they are true driving forces of economic development. However, if they are to play their role to the fullest, they need better access to capital. A federal program like the CIP is more important now than ever. Taken by the federal government, the initiative would put co-operatives and private companies on a more level playing field and would produce many benefits in many regions and communities throughout the country.

1.2 Create a co-operative development fund (CDF)

We call upon the Government of Canada to make a unique investment and create a co-operative development fund whose role would be to make patient capital loans, long-term loans at preferred rates, to co-operatives that submit applications. Access to capital has always been a problem for co-operatives. Because they are unable to increase their share capital and access to conventional or external loans is virtually impossible, the CDF would guarantee them access to external capital without the investors taking control of the co-operative or its decision makers.

The proposal to create this type of fund is based on the real experiences of the *Arctic Co-operative Development Fund* (ACDF) and the *Tenacity Works* pilot project, managed by the Canadian Worker Co-op Federation (CWCF). The ACDF received an initial grant of $10.2 million from the federal government in 1986. In 2009, the amount of project funding reached $35.7 million, with net profits of $1.5 million and $1.7 million in rebates to members. Since its inception, the fund has advanced more than $452 million to finance member co-operatives.

The *Tenacity Works* pilot project was created with an initial grant of $1.9 million from the federal government. The three-year pilot project, which ran from September 2000 to September 2003, exceeded expectations. It remains in operation on a small scale, making a few loans each year. In 2005, it had 14 current loans in a $900,000 investment fund.

A recent study by Price Waterhouse Coopers, commissioned by Agriculture and Agri-Food Canada on the viability of a proposal made by the co-operative movement to establish a similar fund concluded:

"[TRANSLATION] The potential impact of the fund is positive and will assist emerging and existing co-operatives to grow and expand. History provides many examples of co-operatives that have enjoyed long-term success. Fostering the growth of new and existing co-operatives would have long-term benefits. One of the possible effects would be to put co-operatives on an even playing field with small businesses."

The report went on to say:

"There will be other positive effects on the economy as a result of job creation, because the people who get the jobs created by the fund will fuel the economy by purchasing goods and services and paying taxes."

2) Ensure the continuity of the Co-operative Development Initiative

The Co-operative Development Initiative (CDI), renewed for the period 2009–2013, is a vital tool for co-operative development across Canada. By making the program permanent, the government would be investing directly in enterprises known for their resilience, their involvement in core communities and their investment in all sectors of economic and social activity in communities. A permanent CDI would be the government's contribution to Canadian society during the International Year of Co-operatives. More than 500 requests for funding will have been submitted by promoters of new co-operatives across the country. Nearly 175 projects proposed by new or developing co-operatives will have received funding under one of the components of the CDI during the 2009–2013 period.