



Canada's Post-pandemic Economic Recovery

A Partnership with Canada's Co-operative Enterprise Sector

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RECOMMENDATIONS

Recommendation 1: That the Government of Canada provide \$9.9 M over three years, through Co-operatives and Mutuels Canada, as an investment in the recovery, growth and launch of co-operative enterprises (businesses) across the country.

Recommendation 2: That the Government of Canada encourage traditional business conversions to co-operatives, as a succession strategy for Small and Medium Enterprises (SME). CMC requests \$3.75 M over three years to enable and accelerate conversions to consumer, producer, and multi-stakeholder co-operatives through its provincial and territorial network.

Recommendation 3: That the Government of Canada renew the Tax-deferred Co-operative Share Program as a permanent fiscal measure (TDCS – Income Tax Act, section 135.1).

Recommendation 4: That the Government review and expand its “Specified Farming and Fishing Income” definition (Income Tax Act, section 125.7) so that co-operative enterprises that meet the revenue and other criteria, can have equal access to the Small Business Deduction (SBD).

Recommendation 5: That the Government of Canada allocate additional and earmarked resources, for Innovation Science and Economic Development Canada’s (ISED) Small Business Branch, and related government agencies, to enable enhanced and dedicated capacity to work with the co-op sector.

CMC is the national/bilingual apex organization with a mandate to support the development of Canada's national ecosystem of 8,000 small, mid-sized and large co-operative enterprises (businesses). Our members are Canada's largest financial and non-financial co-operatives and mutuals, provincial/territorial co-operative associations, and national sector federations. In addition to representing some of the largest employers in their respective provinces and territories, CMC also provides a voice to 99.1% of Canada's active non-financial co-operatives that are small and medium-sized enterprises (SME)¹.

CMC is interested in establishing a productive partnership with the Government of Canada to support the economic relaunch, as well as initiatives that will ensure a sustainable economy and access to programs and services for Canadians thereafter.

CONTEXT:

Co-operatives are active throughout [Canada's critical infrastructure sectors](#) and are proven to be better adapted to challenging market conditions and more resilient in times of economic downturn². A strong co-operative sector will not only contribute to the economic relaunch, it will also support the implementation of longer term strategies and assist the Government of Canada to act on the recommendations of [Canada's Economic Strategy Tables](#).

According to the Government of Canada's own data³: Co-operatives are more likely than (traditional) SMEs to develop a new innovation, have diverse ownership, and are very mature, with an average business age of 43.7 years.

By their very nature, co-ops are rooted in communities and locally governed. They produce products and services made and delivered for Canadians, by Canadians.

In 2017, the House of Commons unanimously passed [Motion M-100](#), which called on the Government of Canada to recognize the important role co-operative enterprises play in the economy and to take concrete steps to ensure that they continue to thrive. We invite you to implement the following, measurable recommendations, to build on the progress made to date:

RECOMMENDATIONS:

¹ Government of Canada, Financial and non-financial statistics on Canadian non-financial co-operatives, 2019

² Carlo Borzaga, Gianluca Salvatori and Riccardo Bodini, Social and Solidarity Economy and the Future of Work, 2017.

³ Government of Canada, SME Profile: Financing and Growth of Co-operatives in Canada, 2017, 2019

Recommendation #1: That the Government of Canada provide \$9.9 M per year through Co-operatives and Mutuels Canada, as an investment in the recovery, growth and launch of co-operative enterprises across the country.

This dedicated funding would support initiatives/frameworks for recovery and growth. It could include:

- Accelerating the adaptation, commercial success and launch of co-operative enterprises contributing to the economic recovery and post-pandemic reality, through a framework of services and resources tailored to the co-operative business model. Coordinated and measured by CMC and implemented regionally by our provincial/territorial network of partners, programs could include mentorship/coaching, access to grants and professional services, best practice orientations (e.g. HR, financial management, governance), and others.
- Providing resources and supports to fast-track the launch and growth of co-operatives and co-operative networks in key sectors of the economy. This could include digital industries, clean technology, health and seniors' services, natural resources, and retail. The approach would be based on a successful 2019 project related to establishing a national network of co-op childcare centers, which was funded by Employment and Social Development Canada (ESDC) and coordinated by CMC.
- Increasing collaboration with existing entrepreneurship stakeholders and providing a "co-op entrepreneur lens" to their activities, to leverage successful programs such as Startup Canada and the J.W. McConnell Family Foundation's Innoweave. Funded collaborations would enable CMC to deliver co-branded/tailored co-operative entrepreneurship development programs in collaboration with these partners
- Supporting collaborations aimed at developing co-operatives in population groups seriously impacted by the pandemic⁴ and underrepresented in Canada's business ecosystem. According to the Conference Board of Canada, improved participation rates could add 2.2 million workers to the labour force by 2040, including more women, Indigenous people and persons with disabilities, as well as \$101 billion to the economy.⁵ For example, Arctic Co-operatives Ltd. and the *Fédération des coopératives du Nouveau-Québec* (FCNQ) are interested in collaborating with First Nations, Métis and Inuit leaders/communities to develop and launch co-operative enterprises that meet community needs. They are prepared to share their business and governance expertise to ensure success, as demonstrated in the multi-decade operational achievements of their existing multi-million dollar per year Indigenous co-operative enterprises.
- Support the implementation of the 12 key recommendations from the Social Innovation and Social Finance Strategy Co-Creation Steering Group.⁶

Recommendation #2: Encourage traditional business conversions to co-operatives as a

⁴ Statistics Canada, Disaggregated data for diverse population groups - Gender, diversity, and inclusion statistics, 2020

⁵ Conference Board of Canada, Can't Go It Alone Report, 2019

⁶ Government of Canada, Inclusive innovation - New ideas and new partnerships for stronger communities, 2018

succession strategy for Small and Medium Enterprises (SME). CMC requests \$3.75 M over three years to enable and accelerate conversions to consumer, producer, and multi-stakeholder co-operatives through its provincial and territorial network.

According to the Canadian Federation of Independent Business, even as early as the end of March 2020, 32% of (then) closed small businesses stated that permanent closure was possible⁷. The education of stakeholders, combined with data collection and funding, would enable conversion opportunities, preserving jobs and services in the process. By supporting this recommendation, helping raise awareness throughout its business ecosystem and leveraging existing sector-led co-operative development funds, the Government of Canada would help:

- **Maintain local businesses** threatened by financial hardship caused by the COVID-19 pandemic, as well as demographic shifts.
- **Offer a succession planning solution** to help address the significant challenge that fewer than 25% of retirement-aged owners have a succession plan⁸. A recent survey of exiting SME business owners revealed that 89% of them had not considered the co-operative conversion option due to a lack of awareness of this possibility⁹. Converting a business to a co-operative has served as a proven practice for responding to both succession needs and saving troubled businesses in Italy, France, Spain, Argentina, and the US. The practice is not well known within the business and professional advisory services community in Canada, creating an opportunity through the Government's post-pandemic economic recovery plan.

Hundreds of successful examples can be found from across Canada, many of which have become worker or housing co-operatives, but there are many other examples such as: the Battle River Railway NGC Inc. in Forestburg, Alberta, the Épicerie Coop Grocery in Moonbeam, Ontario and the Coop Éducafun Co-op Ltée in Tracadie, New-Brunswick. This Canadian opportunity is well informed by research, initiatives, and policies from around the world.

CMC also encourages the government to support employee ownership conversions, through dedicated and additional support of the Canadian Worker Co-operative Federation (CWCF).

Recommendation #3: That the Government of Canada renew the Tax-deferred Co-operative Share Program as a permanent fiscal measure.

This program was originally created in 2005 and then extended for a further five-year period in 2015. Its purpose is to help agricultural co-operatives meet their capitalization needs and was based on the December 2004 report of the House of Commons entitled "Study on Small Business Tax Measures: Canada's Agricultural Co-operatives". The recent Department of Finance [*Report on Federal Tax Expenditures - Concepts, Estimates and Evaluations 2019*](#) outlines the stability of this \$5 million program since 2016. A continuation of this program will help the co-operative business model remain a viable option for agribusinesses while allowing Canadian co-operatives to be stronger in the face of international competitors and current economic challenges. (TDCS – Income Tax Act, section 135.1).

⁷ Canadian Federation of Independent Business, Press Release, March 31, 2020.

⁸ Bruce & Wong, 2012; CBC, 2011; ISED, 2016; Israelson, 2017

⁹ Conversions to Co-operatives Project, Survey of Near-Retirement SME Business Owners, 2020.

Recommendation #4: That the Government review and expand its “Specified Farming and Fishing Income” definition (Income Tax Act, section 125.7), so that co-operative enterprises that meet the revenue and other criteria, can have equal access to the Small Business Deduction (SBD).

Before 2016, co-operatives could benefit from the small business deduction, often referred to as the SBD, based on their total revenues. In 2016, with the passage of Bill C-29, the federal government brought in measures aimed at preventing multiplication of access to the small business deduction within a single economic group, which was a worthwhile and legitimate objective.

However, the unintended consequence was that the provisions specifically put at a disadvantage Canadian-controlled private corporations (CCPCs) that are members of co-operatives, or whose shareholders are members of co-operatives. Although co-operatives were not specifically targeted by these measures, they were affected and continue to operate with its financial consequences.

Amendments adopted in 2017 and 2019 only affected co-operatives involved in farming and fishing and thus the tax inequity continues. Co-operative enterprises should be able to benefit from the small business deduction for Canadian Controlled Private Corporations (CPCC).

Recommendation #5: That the Government of Canada allocate additional and earmarked resources, in order for Innovation Science and Economic Development Canada’s (ISED) Small Business Branch, in collaboration with other departments and agencies, have enhanced and dedicated capacity to work with the co-op sector.

This could include:

- In collaboration with CMC, reviewing federally funded programs and business ecosystem partners, to identify opportunities and barriers to the integration of the co-op business sector, as was done with Futurpreneur. Included in this project could be the production of a current and digitized version of the 2012 *Guide to Government Programs Available to Co-operatives*, as a co-op enterprise resource tool. This would help to amplify the Government’s message and increase the participation of co-operatives in federally funded programs and services.
- Promoting further engagement, awareness, and education efforts to help maintain strong and resilient communities. Co-operatives are already crucial components of many rural and remote communities, providing services and offerings such as retail/wholesale operations, high-speed internet, tourism, and many others. They remain essential to their short and long-term economic well-being. For example, Canada’s 1,200 agricultural co-operatives collectively purchase, process and market up to 20% of Canada’s agricultural products, while also employing 30,000 Canadians ⁽¹⁰⁾. Supporting the delivery of co-operative solutions locally would help meet the goals of the [Economic Development Strategy for Rural Canada](#) and [Canada’s Connectivity Strategy](#), while also contributing to other objectives such as providing entrepreneurial opportunities for francophones in minority settings and Indigenous Peoples.

In conclusion, the impact and contribution of co-operative enterprises within various parts of our economy align closely with the government’s desire for economic recovery and resiliency, community

¹⁰ Co-operatives and Mutuels Canada, [Measuring the Co-operative Difference](#) research project, 2010-2015.

development, and making life more affordable for Canadians. Co-op enterprises offer a lower risk profile than small business ownership and are founded on principles of collective ownership, democratic governance, profit sharing and community impact.

We encourage the Government of Canada to restart the economy in partnership with us, by creating opportunities through Canada's co-op sector.