



Building Back Better In Partnership With Canada's Co-operative Sector

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RECOMMENDATIONS

Recommendation 1: That the Government of Canada re-establish and resource a Co-operatives Secretariat under Innovation, Science and Economic Development Canada (ISED), and explicitly include the Co-operative Sector in the Minister's mandate.

Recommendation 2: That the Government encourage business conversions to co-operatives to help maintain local businesses threatened by financial hardship caused by the COVID-19 pandemic and offer an option to retirement-aged owners who do not have a succession plan.

Recommendation 3: That the Government ensure that entrepreneurs and businesses are not penalized when it comes to their ability to claim the Small Business Deduction (SBD), because they are members of a co-operative and thus deemed a related party.

CONTEXT:

Co-operatives and Mutuals (co-operatives enterprises) are active throughout [Canada's critical infrastructure sectors](#) as well as the Canada's hardest-hit industries such as tourism, hospitality, travel, arts and culture. However, they are also proven to be better adapted to challenging market conditions and more resilient in times of economic downturn¹. In addition, and according to the Government's own reports² "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. In addition, co-operatives produce products and services made and delivered for Canadians, by Canadians.

In addition to private member's motion (M-100: Role of Co-operatives) tabled by MP Alexandra Mendès (Brossard–St-Lambert) which received unanimous support in the House of Commons on April 5, 2017, various reports and strategies recognize the important role co-operatives play in the economy. These include: the [Status of Co-operatives in Canada](#) (2012), the [Rural Opportunities, National Prosperity: An Economic Development Strategy for Rural Canada](#) (2019) and the [What We heard: M-100 Consultations Report](#) (2019). We present the following recommendations as concrete steps to ensure that co-operative enterprises continue to thrive:

Recommendation 1: That the Government of Canada re-establish and resource a [Co-operatives Secretariat](#) under Innovation, Science and Economic Development Canada (ISED), and explicitly include the Co-operative Sector in the Minister's mandate.

This Secretariat would advise the Government on, and coordinate the implementation of, policies affecting co-operatives. It could also draft a federal co-operative strategy as committed to in Motion-100 and encourage the use of the business model for the social and economic development of Canada's communities. Lastly, it would provide a link between co-operative enterprises and the many federal departments and agencies with which they interact.

The former Co-operatives Secretariat was established and successfully³ operated for 26 years under Agriculture Canada / Agriculture and Agri-Food Canada between 1987 and 2013. It merged with the larger Rural Secretariat in 2012, to become the Rural and Co-operatives Secretariat and was disbanded in 2013 as part of the [Deficit Reduction Action Plan \(DRAP\)](#). At that time, responsibility for co-operatives file, as well as two remaining employees, were transferred to ISED.

Co-operatives and Mutuals Canada recognizes that despite significantly diminished resources being dedicated to co-operatives since 2013, some incremental progress has been made in recent years. These positive steps include data collaboration between ISED and Statistics Canada, the training of public servants at Regional Development Agencies and the elimination of various program eligibility issues. However, significant progress cannot be accomplished without dedicated investments by the Federal Government.

¹ Borzaga, C., Salvatori, G. & Bodini R. (2017), [Social and Solidarity Economy and the Future of Work](#).

² Government of Canada (2019), [SME Profile: Financing and Growth of Co-operatives in Canada](#).

³ Government of Canada (2012), [Evaluation of Rural and Co-operative Development](#) (2012)

A new Co-operatives Secretariat could ensure that:

- Co-operative options are considered in the development and implementation of federal policies, measures and strategies such as the [Economic Development Strategy for Rural Canada](#), [Canada's Connectivity Strategy](#), the [Social Innovation and Social Finance Strategy](#)⁴ and the recommendations of [Canada's Economic Strategy Tables](#).
- Co-operative enterprises help maintain strong rural and remote communities and provide economic opportunities for population groups seriously impacted by the pandemic⁵ and/or underrepresented in Canada's business ecosystem.
- The Government's business infrastructure is engaged to identify opportunities, address barriers, allow the delivery of co-branded and tailored co-operative programs and leverage existing sector-led co-operative development funds.
- The Government and economic stakeholders have the key data points they need to inform policy decisions and engage co-operatives and co-operative networks in key sectors of the economy, such as digital industries, clean technology, health and seniors' services, early Learning and childcare, natural resources, and retail.
- The Government has the resources to develop, in consultation with various stakeholders and the Sector, a federal co-operative development strategy.

Recommendation 2: Encourage business conversions to co-operatives to help maintain local businesses threatened by financial hardship caused by the COVID-19 pandemic and offer an option to retirement-aged owners who do not have a succession plan⁶.

Business Conversions to Co-operatives (BCCs) take place when private, public, or non-profit entities transition for a variety of possible reasons into a co-operative corporation. 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 prevent the closure of locally based businesses and the elimination of economic drivers, usually in small or remote communities. Enabling conversions would save jobs and troubled businesses, while meeting local needs.

- The Canadian Federation of Independent Business (CFIB) estimates that 58,000 businesses became inactive in 2020, and that one in six remaining businesses, or "181,000 small business owners are now seriously contemplating shutting down. The CFIB's updated forecast projects that more than 2.4 million people could be out of work — a staggering 20% of private sector jobs."⁷

⁴ Government of Canada (2018) [Inclusive innovation - New ideas and new partnerships for stronger communities, 2018](#)

⁵ Government of Canada (2020) Disaggregated data for diverse population groups - Gender, diversity, and inclusion statistics,

⁶ Bruce, D., & Wong, Q. (2012, November). [Passing on the Business to the Next Generation](#). Canadian Federation of Independent Business (CFIB). / CBC. (2011, October 17). [10 Surprising Stats about Small Business in Canada](#). CBC News. / CBC. (2021, January 21) [COVID-19 could shutter more than 200,000 Canadian businesses forever](#), CFIB says, CBC News / Israelson, D. (2017, March 3). [Business-Transition Tsunami Coming for Aging Baby Boomers](#). *The Globe and Mail*.

⁷ CBC News, [COVID-19 could shutter more than 200,000 Canadian businesses forever](#), CFIB says, Jan. 21, 2021.

- CFIB also found, before the Pandemic, that nearly three-quarters of small business owners planned to retire in the next decade and that only 8% of them had a formal plan for succession.⁸
- Business succession through employee-ownership and co-op conversion has a higher success rate⁹ than succession to family members.¹⁰
- The BCC model is mostly overlooked and not well understood as an option for sustaining SMEs in crisis (pandemic or economic) or with succession issues in Canada.
- Conversions in Canada have been inventoried in many different industries, from Manufacturing and Retail to Agriculture, Fishing, Forestry, the Arts, Funeral Homes, the Health sector, and more.
- Nearly two hundred successful examples can be found from across Canada. Conversions are a tried-and-true solution for business rescue and succession in numerous jurisdictions around the world, and many jobs and potentially thousands of businesses and could be kept alive if the concept was broadly known among SME owners, workers, unions, and policymakers in Canada¹¹.
- Co-operative associations from coast-to-coast-to-coast have the economic development expertise and experts on the ground, who can help convert existing SMEs into co-operatives.

Encouraging traditional businesses to convert to co-operatives will safeguard businesses and jobs, as well as keep communities resilient. Co-operatives and Mutuals Canada and the Canadian Worker Co-op Federation (CWCF), with the assistance of the Co-opConvert Project, have prepared a detailed [background document](#) and would be delighted to provide more information if required, such as case studies.

CMC requests funding over three years to enable and accelerate conversions to consumer, producer, and multi-stakeholder co-operatives through its provincial and territorial network and 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 ensure that entrepreneurs and businesses are not penalized when it comes to their ability to claim the Small Business Deduction (SBD), because they are members of a co-operative and thus deemed a related party.

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

⁸ Canadian Federation of Independent Business (2018). [Nearly Three Quarters of Small Business Owners Plan to Exit their Business Within the Next 10 years.](#)

⁹ Ben-Ner, A. (1988). [Comparative Empirical Observations on Worker-Owned and Capitalist Firms.](#) *International Journal of Industrial Organization*, 6(1), 7–31.

Vieta, M., Depedri, S., & Carrano, A. (2017). [The Italian Road to Recuperating Enterprises and the Legge Marcora Framework: Italy's Worker Buyouts in Times of Crisis \(Report\)](#) 015–17). Trento, Italy: European Research Institute on Cooperatives and Social Enterprises (EURICSE).

¹⁰ Family Business Institute. (2016). [Family Business in Transition: Data and Analysis.](#)

¹¹ Vieta, M., Tarhan, D., Duguid, F., & Guillotte, C.A. (2021). Canada's SMEs, Business Succession, and Conversion to Co-operatives. Co-opConvert Report No. 1. Toronto: Centre for Learning, Social Economy & Work, University of Toronto.

specifically put at a disadvantage Canadian-controlled private corporation (CCPCs) that are members of co-operatives, or whose shareholders are members of co-operatives, because they are deemed a related party. Although co-operatives were not specifically targeted by these measures, they, and their members, were affected and continue to operate with its financial consequences.

Amendments adopted in 2017 and 2019 we welcome but only affected CCPCs and members of co-operatives involved in farming and fishing. As a result, the tax inequity continues for the other industrial sectors.

This can be accomplished by expanding the Specified Farming and Fishing Income (SSFI) definition, which is currently limited to the income from the sale of farming products or fishing catches from the corporation's farming or fishing business to an arm's length corporation. The exemption should be expanded to apply to similar transactions with co-operatives in other industrial sectors, such as forestry.

CO-OPERATIVES AND MUTUALS CANADA (CMC)

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, 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 the 52% of active non-financial co-operatives who have no employees and to the 99.1% that do and operate as small and medium enterprises (SME)¹².

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 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.

CMC is interested in working with the Government of Canada to support the post-pandemic economic relaunch, ensure a sustainable economy as well as provide access to programs and services. Co-operatives are uniquely positioned to help the Government realize its goals of a recovery that is inclusive, sustainable, and creates good jobs for Canadians.

We invite to Federal Government to take a leadership role in fostering a vibrant co-operative sector, as the Province of Quebec has done with its recent commitment of \$24.62M over five years to the *Conseil Québécois de la coopération et de la mutualité*, as part of its [Plan d'action Gouvernemental en Économie Sociale 2020-2025](#).

We encourage the Government of Canada to Build Back Better by supporting and creating opportunities through Canada's Co-op Sector.

¹² Government of Canada (2019), [Financial and non-financial statistics on Canadian non-financial co-operatives](#)