CCIF
canadian co-operative investment fund

Business Case

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and mutuals
canada

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Executive **Summary**

The following business plan introduces the Canadian Co-operative Investment Fund ("Fund" or "CCIF") that is to be launched in 2015. This Fund will support the development and expansion of individual Canadian co-operatives and mutuals with loans and subordinated debt sourced from the national co-operative and mutual sector.

Under the leadership of Co-operatives and Mutuals Canada (CMC) and with the support of a dedicated Committee, this Fund is being organized in response to a major challenge facing co-operatives and mutuals: the challenge of accessing outside capital investment. The need for such a Fund has long been recognized by the sector.

The Fund intends to partner with co-operatives and mutuals across Canada to leverage resources that are available for new or developing co-operatives. The Fund will not duplicate or replace existing funding or development programs. The Fund will operate with the dual objectives of: (a) maximizing the amount of funds that are available to support the sector through the provision of loans and subordinated debt, and (b) providing investing co-operatives and mutuals with a reasonable rate of return.

The intention is to incorporate the Fund with $20 million in pledged sector support through a combination of investment shares and loan certificates. The Fund would then start its operation once a $25 million target is reached. Individual pledges to the Fund are expected to be between $50 thousand and $10 million, commensurate with the capacity of each co-operative. It is intended that the Fund will operate as a multi-stakeholder formally incorporated co-operative with a governance model that is representative of the groups that will be impacted by the Fund. The investor member class will have a majority of seats on the Board of Directors.

With a $25 million base, it is anticipated that the Fund will impact approximately 232 co-operatives providing $53 million in capital to the sector over a ten year period. If the Fund is able to generate $70 million in investments its impact grows to 688 co-operatives with an injection of capital of $164.5 million to the sector over the same ten year period.

The Fund will reinvest its earnings – beyond those that are paid out in the form of dividends and those that must be retained to ensure the liquidity of the Fund. The flow of capital will go back into the sector to support the development of Canadian co-operatives and mutuals.

An investment of $50 million was requested of the federal government in the fall of 2014. With an investment of $25 million from the sector, this would represent near 2:1 ratio for the federal government. On December 1st 2014, the current amount in pledges from investors was $19.35 million from co-operative enterprises.

Current pledged funders include:

Affinity Credit Union
Arctic Co-operatives Limited First
Assiniboine Credit Union
Canadian Worker Co-op Federation
Desjardins Group
Connect First Credit Union
Freedonia
The Co-operators
Vancity Credit Union

1.0 INTRODUCTION

There are approximately 9,000 co-operatives and mutuals in Canada that directly employ 187,000 people of which over 88,000 are in non-financial co-operatives. Co-operatives, including credit unions, have an estimated $415 billion in assets, which are owned by the members living within the communities they serve. Non-financial co-ops do nearly $36 billion a year in business. At least twenty-six co-operatives and mutuals are listed in the Top 500 companies in Canada, and several co-operatives have been rated the best places to work in Canada.

At least 70,000 co-op members serve on co-op boards of directors. This volunteer role develops local leadership and management skills and is an important part of the success of co-operative enterprises.

Co-operatives have demonstrated a higher survival rate than other forms of enterprise. A study published by the Québec Ministry of Economic Development, Innovation and Exportation in 2008 shows that the long-term survival rate of co-operative enterprises is almost twice that of investor-owned companies. Similar studies in Alberta and British-Columbia supported this finding.

Co-operatives and mutuals are democratically controlled enterprises designed to meet the social and economic needs of their members. Co-operatives are a proven tool for mutual self-help, allowing people to work together towards common goals. This in turn helps build social cohesion by promoting inclusion, trust and equity among citizens.

In their more than one-hundred-year history in Canada, co-operatives and mutuals have helped thousands of people and communities to create effective solutions to social and economic challenges, while building local leadership skills, local autonomy and control. Canadians continue to use the co-op model in innovative ways to address a wide range of needs and challenges.

Co-operatives across Canada have long expressed the desire for a national sectoral pool of funds available to support the development of individual co-operatives. In 2010, the Canadian Co-operative Association (CCA) launched a project to develop the Fund concept. In 2012, the International Year of Co-operatives, the Fund was identified by the co-operative and mutual movement as a legacy project in Canada. CCA then started to build this concept of a national fund while the francophone network moved on with the creation of two regional funds - *Coop Essor* (Quebec) and the *Fonds intercoopératif acadien* (New-Brunswick). In 2014, when CMC developed a strategic plan with its membership that was aligned with the ICA Blueprint for a Co-operative Decade, the importance of unifying the various capitalization initiatives to meet the bold development objectives of the Blueprint became obvious. The project of a Fund that would have close connections with other regional and sectoral funds was then reenergized.

CMC has so far identified and secured eight founding partners with a total investment of $19.35 million. It is expected that further pledges will be forthcoming from the national co-operative and mutual sector based on the strength of this business case and the confidence in the concept demonstrated by the founding partners.

2.0 DEFINING THE NEED

2.1. **Context**

The Canadian Co-operative Investment Fund is a response to a critical challenge facing co-operatives and mutuals; the challenge of accessing outside capital investment without compromising individual co-operative or mutual autonomy and without having outside capital take control of the enterprise, or becoming the controlling dynamic for decision-making. This requires having access to a source of capital which is knowledgeable about co-operatives and is mandated to structure investments in ways appropriate to co-operative principles and the role of capital within co-operatives.

Accessing capital is an ongoing challenge for most co-operatives and mutuals. For non-co-operative businesses, the capital markets provide an efficient source of investment; however, those markets are designed to provide capital through the lens of maximizing the return on capital. Because of lack of capital appreciation (gain opportunities) and other co-operative capital features, including the fact that co-operative common shares lack liquidity, co-operatives and mutuals cannot be taken to the market through an IPO, and the principle of member ownership and control, negates "normal" equity financing opportunities. The above scenarios explain why venture capital is not generally available to co-operatives compared to other forms of business.

Successful co-operatives and mutuals include those that have managed to navigate access to capital acquisition at crucial periods in their life-cycles. Some co-operatives and mutuals fail because they are unable to meet this challenge. Moreover, this challenge does not affect only the small and medium sized co-ops but also mature ones. A study done by Deloitte in 2012 showed that, amongst the largest co-operatives around the world, 35% of co-ops identified that access to capital was "somewhat difficult" or "difficult". This rate increased to 74% when they asked the respondents to forecast their access to capital in the future. This situation explains why 77% of the largest co-ops see access to capital as one of their top priorities.[1]

Some of the capital needs of co-operatives and mutuals can be met by conventional debt financing; however, the foundation for all conventional financing includes the equity position of the co-operative/mutual and the availability of assets to secure the loan. With limited capacity for members to provide equity, many co-operatives find it difficult to meet the criteria of traditional lenders.

The Canadian Co-operative Investment Fund proposed in this business plan is designed to assist co-operatives and mutuals access to capital that they may not find elsewhere and through that capital investment, develop their co-operatives in ways that may otherwise have been impossible.

The goal of the Fund is not to replace or replicate any of the current financing sources within, or accessible to, the sector. Rather it is to assist securing such resources by topping up the co-operative members' investments through quasi-equity (subordinated debt) which will in turn leverage the currently available loan offerings provided by credit unions and caisses populaires and other traditional lenders. Ideally the Fund will partner with credit unions and caisses populaires to provide co-operatives with a combination of traditional debt and subordinated debt, beyond what may have been possible by the credit union and/or caisses populaires alone.

1 Funding the Future, Deloitte, 2012, p.11

2.2 **Defining the demand**

The vision of the Fund is to partner with other funds across Canada to advance the goals and objectives of Canadian co-operatives and mutuals.

Demand for financing varies based on the unique needs of each business; however, it is estimated that 43% of all business apply for financing at least once every three years.[2] The Canadian Federation of Independent Businesses (CFIB) reports that in 2008, 19% of its members who applied for credit had their borrowing request rejected.

In 2007, a Statistics Canada study indicated that just over 35.2% of all non-financial co-operatives[3] in Canada had applied for financing within the past 3 years, compared to a rate of 43% for non-co-operative business.[4] Similar to non-co-operatives, one-fifth indicated that obtaining financing of any kind was a serious obstacle to the growth of their business.

For purposes of projecting the future demand for financing within the sector we have adopted a conservative position and assumed an overall borrowing demand of 25% (lower than the 35,2% experienced in 2007) of which 20% are declined for a total qualified demand of 1,275 applications over a three year period resulting in an annual total demand of 425 applications.[5]

2.3 **Defining the offer**

The demand for adapted funding for co-operatives and mutuals may be addressed by funds that have been created to support the development of the sector. According to our research **(Appendix Six)**, funds adapted to co-ops exist but they are generally limited to a specific sector (e.g.- Arctic and, school-based co-ops), to a specific province (e.g.- Coop Essor, Manitoba Tax Credit Fund, Momentum) or to a specific type (e.g.- Tenacity works – worker co-operatives).

This product offer for co-operative adapted financing creates an uneven field for co-operative development in Canada. It highlights the need for a national initiative that provides a better environment for co-operatives and mutuals to grow and thrive no matter their sector, type or where they operate in the country.

It also reaffirms the need for access to capital. In some cases, these funds respond well to the needs of their targeted clientele, but complementary financial products would help them mitigate risks. In other cases, these funds have developed the right financial tools but they don't have enough capitalization to respond to the demands. Finally, this landscape allows us to identify some unmatched needs like financing for business succession projects in many provinces or for expansion in emerging sectors.

Given these trends, we expect that the demand for the Fund will surpass the Fund's capacity to supply. The proposed Fund will proceed at $25 million in investment (debt and equity) with a goal of growing to a range of $40 million to $70 million.

2 BRUCE, Doug, WONG, Queenie, Banking on Better Service, Canadian Federation of Independent Business (CFIB), April 2010
3 Excluding housing co-ops and feeder financing co-ops
4 Excluding housing co-ops and feeder financing co-ops
5 5,103 Non-financial co-ops (excluding housing co-ops and feeder financing co-ops) Co-operatives in Canada 2008, Agiculture and Agri-Food Canada, 2012

The low end of the range supports the capital requirements of 232 co-operatives and mutuals while the top end of the range will meet the needs of 688 co-operatives and mutuals during the ten years of projection.

This situation allows us to carefully select the co-operatives and mutuals that the Fund will support, driving potentially higher returns for the Fund. On the other hand, there is a clear need to be fulfilled if the Fund is able to grow to $70 million.

Over time, the goal is to continue to grow and develop the Fund to assist as many co-operatives and mutuals as possible.

Included within the Fund mandate are co-operative start-ups, expansions and conversions:

- It is estimated that approximately 250 co-operatives are launched each year in Canada
- Research from within the co-operative sector and across the broader small business sector consistently confirms that more than 550 000 businesses in Canada will be experiencing some form of business succession within the next 5-7 years
- Employee conversions of existing businesses to the co-operative model is considered an area of significant growth for the sector in the coming years
- The vast majority of the demand for the Fund will be from co-operatives and mutuals seeking to expand an already strong business

A commitment to capitalize the Fund by the co-operative and mutual sector, and possibly third-parties, requires recognition of the important contributions that the sector plays in our communities. The Fund will grow through equity investments that will provide investors with a return in the form of dividends, based on the performance of the Fund. The Fund will also grow through loan certificates that will pay certificate holders an appropriate rate of return. (Loan certificates are similar to what would generally be referred to as "deposits." However, the word "deposit" is not being used as it has a legal significance that is not intended in the context of the Fund. The Fund is not a deposit-taking institution.)

The Fund will provide an important vehicle that co-operatives and mutuals can leverage to grow and expand their contributions to communities across Canada, strengthening the co-operative and mutual sector and the many communities and individuals whose needs co-operatives meet.

The Fund will not operate in isolation, it will partner with other Funds provided at the national, provincial, industry or sub-sector level to optimize overall sector performance. In addition, the Fund concept has been developed with the guidance of major Canadian co-operative organizations and sector associations.

3.0 FUND CONCEPT

The concept of the Fund is depicted as follows:

This participatory stakeholder research was conducted during between 2011 and 2014 including one-on-one telephone interviews, electronic focus groups. The stakeholder groups that were engaged included:

- Representatives from small and large co-operatives across Canada
- Experienced co-operative developers
- Potential clients or borrowers from the Fund
- Credit unions, *caisses populaires* and other mature co-operatives as potential equity investors, loan certificate holders or sources of grants for the Fund

3.1 **Proposed Fund**

The Fund will support existing co-operatives and mutuals as well as businesses converting to the co-operative enterprise (e.g., co-operative succession). A modest portion of the fund will be set aside in support of start-up co-operative enterprises. The following is a proposed allocation of the Fund.

	Fund Portfolio Mix	
Start-Up Investments	5%-30%	Loans and/or Loan Guarantee and/or Quasi-Equity Investment
Co-operative Succession	10%-35%	Loans and/or Loan Guarantee and/or Quasi-Equity Investment
Co-operative Growth and Expansion	50%-80%	Loans and/or Loan Guarantee and/or Quasi-Equity Investment

The long-term goal is to ensure that the Fund is actively engaged in the development of the sector rather than being more cautiously held in cash and bonds. It is not intended that the Fund will provide *Cash Flow Support* to borrowing co-operatives. Rather, this is a product that may be offered from a financial institution partner that accompanies each application.

It is expected that the Fund will contain a portfolio of loans that range in size from $50,000 to $3 million. The average size of individual loans is expected to be $250,000. Deals that are smaller than $50,000 are not considered cost-effective; however, will be considered based on the strength of each applicant's overall relationship to the co-operative and mutual sector.

Case study — Fédération des cooperatives du Nouveau-Québec

This co-op federation serves a network of 14 member co-operatives located in the remote arctic region of Québec, also known as Nouveau-Québec. The local co-operatives are multi-purpose in nature and most of them provide a wide range of goods and services to their communities — including retail goods, petroleum distribution, tourism facilities, arts and crafts, postal and airline services, and cable television and internet. The co-ops are owned by approximately 6,000 local Inuit and Cree members, and together the 14 co-ops own and democratically control the Federation.

The Federation's member co-operatives have problems with bank financing since they do not have enough property and their assets have no tangible market value for financial institutions. It is also very hard to verify the value of the inventories. The land is owned by the federal or provincial government and managed by local land corporations. Consequently, it is not possible to include the land among co-op assets and mortgage it. Financial institutions will almost inevitably require a government guarantee. To find a solution, the FCNQ is now working to set up a financing fund for its member co-ops to facilitate access to money. The Canadian Co-operative Investment Fund could extend financing to FCNQ and support the development of its member co-operatives.

Mature co-operatives and mutuals will be encouraged to take a leadership role in the development of the sector through direct investment shares into the Fund with 10 year terms earning a return through dividend, based on the performance of the Fund. Co-operatives and mutuals will also be encouraged to support the Fund with their excess liquidity in the form of loan certificates that will pay a market competitive rate of return based on 5-10 year terms. Grants and donations to the Fund from within the sector and from third-parties will also be encouraged.

Two financial scenarios have been developed to illustrate the impact of the projected Fund range. We are projecting a Fund that operates with commitments of between $25 million and $70 million (refer to **Appendices Four and Five** for more details).

	$25 million	$70 million
Sector Investment Shares	$18.75 million	$65 million
Sector Loan Certificates	$6.25 million	$5 million
Total Size of Fund	**$25 million**	**$70 million**

The recommended support from the sector is as follows:

Investment Shares: These investments will pay an annual return through dividends based on the financial performance of the Fund. Co-operatives and mutuals are encouraged to make equity investments commensurate with their size and capacity. Investments ranging from $50,000 to $10,000,000 will be included. We have targeted an equity investment range of between $15 million and $30 million.

Loan Certificates: These contributions will be in the form of certificates that will generate a market rate of return. Mutuals and co-operatives are encouraged to purchase loan certificates commensurate with their size and capacity. Investments ranging from $50,000 to $5 million (or more) will be included.

The investment shares and loan certificates will drive the critical mass of support that will be necessary to launch and sustain the Fund.

3.2 Equity Investors and Certificate Holders

While the Fund is designed to drive appropriate rates of return, equity investors and certificate holders will be provided with a second form of "return" on their investment; the knowledge that their support is driving community social, environmental and economic development across Canada.

Loan certificate holders will have the comfort and confidence of knowing what their rate of return will be for the duration of their certificate which will appeal to a large number of co-operatives. Terms of certificate will be between 5 and 10 years with described processes for liquidity (the ability to withdraw certificates) upon maturity. Equity investors will have less certainty in the return that they receive; however, they will share directly in the performance of the Fund and through their equity position.

However, considering that Loan Certificates will provide more secure investments, and possibly higher rate of returns, every investment will be comprised of 25% loan certificates and of 75% investment shares.

3.3 **Support for Ongoing Co-operative Development**

An important element of the Fund is to ensure that the sector and individual co-operatives prosper as a result of their engagement with the Fund. Professional co-operative developers who were interviewed during the research phase of the Fund concept shared their views that any initiative aimed at the development of co-operatives must be adequately supported to oversee and mentor the development process of these organizations.

The need for mentoring and development support appears to be particularly true for small and mid-sized co-operatives that do not have their own internal resources available for executive guidance.

The Fund is modeled on the premise that co-operatives will be supported through the application process. In some select cases this may require the provision of a technical assistance for the development of a business plan. If financing is provided by the Fund, the costs of the resources provided will then be added to the borrowing agreement for eventual pay-back.

The Fund will partner with professional co-operative developers and co-operative development organizations from across Canada to support the objectives of the Fund. These partnerships could be made to offer support to projects clients before, during and after the approval of the loan or to promote the Fund in their activities.

Case study – La Siembra Co-operative

La Siembra Co-operative is a fair trade worker co-op that started its activities in 1999. As it was growing, La Siembra faced different financial struggles. Operating in a very competitive global marketplace it needed to realign its product line. But to do so, they needed to have access to capital and the financial institutions were overcautious to lend money because they perceived a higher risk related to their co-operative nature and structure.

La Siembra then decided to rewrite its incorporation papers to allow the organization to raise essentially unlimited dollars from an unlimited number of shareholders. The co-op wrote an offering statement that included all details about the sale of Membership Shares as well as Class A (Supporters) and Class B (Members) Preference Shares. The strategy for reaching investors outside of their operating region (Ottawa) took a lot of time and effort.

With the Canadian Co-operative Investment Fund they would diversify their sources of funding and not face 10 years of under capitalization.

3.4 **Clients of the Fund**

Potential clients of the Fund (borrowers) can include (a) all types of co-operatives and mutuals and (b) individuals (natural persons).

The individuals/natural persons that will be considered as clients of the Fund are those who are borrowing to purchase shares in a co-operative. In this situation the co-op shares held by the person (member of the co-op) will provide the security for the loan from the Fund with loan payments made directly through deductions from the co-operative to the member (person) involved.

In terms of loans to co-operatives, the preferred debt structure will be a mezzanine financing[6] approach where the Fund takes a subordinated position in favor of traditional lenders – ideally credit unions and caisses populaires. This creates an internal protection to market forces and preserves sector funds to take on those risks that are not attractive to traditional lenders (e.g., length of payment term).

Some of the reasons that co-operatives will be drawn to the Fund include:

1. **Fast and Responsive:**
   Traditional lenders often do not understand the co-operative and mutual sector, and therefore too much valuable time can be taken explaining the co-operative business model, ownership and governance structure. Given the Fund's intimate understanding of the sector and the factors that drive the co-operative model, the Fund will offer a faster and more responsive level of service.

2. **Friendly Financing:**
   Friendly (subordinated) financing from the sector will enhance the confidence of traditional lenders who can take a primary position – thereby mitigating their risk. This will allow co-operatives to leverage support from traditional lenders.

3. **Patient Capital That Understands:**
   The Fund will provide financing terms and conditions that understand and consider the capacity, business goals and objectives of each co-operative thereby creating added value for client co-operatives.

6 Mezzanine Financing is a hybrid of debt and equity financing that is is typically used to finance the expansion of existing companies. Mezzanine financing is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as credit unions, banks and venture capital companies.

Case study – Funeral Co-operative of Ottawa

A group of co-operators created a funeral co-operative in Ottawa in 2010. One of their biggest hurdles was to have access to capital to start-up their activities. As a consumer co-op with accessible membership fees, the amount of money invested by members at the beginning wasn't high enough to get a loan from financial institutions – including credit unions, caisses populaires and BDC – which perceived a higher risk because of the small equity investment amount. After months and months of work, they got financial support from the Coopérative funéraire de l'Outaouais, the Community Foundation of Ottawa and the Vancity Foundation. With this financial support, the co-operative finally was able to get a loan from a financial co-op to start its operation. But even with all this tireless work, the amount provided helped to secure only a small amount of working capital. Today, the funeral co-operative is still undercapitalized.

The Canadian Co-operative Investment Fund would have been able to help this kind of co-operative start-up right from the beginning and to support them in the long-run.

4.0 GOVERNANCE AND BUSINESS MODEL

For the Fund to be accountable and sustainable it will be supported by strong governance and business models.

4.1 Ownership Model and Legal Aspects

The Fund will seek comprehensive legal advice along the implementation process to make sure that the chosen legal options are the best ones to fulfill its mission as well as to protect the investors. However, it plans to incorporate as a multistakeholder co-operative under the federal co-operative act in order to operate throughout the country. The headquarters will be situated in Ottawa and the co-operative will have another office in at least one other province.

As such, the Fund will request an exemption order from the Financial Services Commission of Ontario (FSCO) to file a prospectus when raising capital. It is anticipated that other provincial authorities will respect the exemption, eliminating the requirement for the Fund to seek approval from each security regulator.

The equity of the co-operative will be structure with two types of shares:

> **Member shares:** Each member will have to buy one member share at the amount of 100$
>
> **Investment Shares:** Investors will realize their investment through Investment Shares without voting rights, redeemable after 10 years. Investment Units will be offered in increments of $ 50,000. The co-operative will issue these shares in series.

As such, if one of the investor wishes to withdraw its investment in the Fund it will only be able to do so if another investor is ready to invest the equivalent amount of money into the Fund.

The Board of Directors will have to approve the buyback of investment shares from the first investor and to accept the new offering of Investment Shares from the new investor. Investment Shares cannot be sold directly by the investors. This rule is needed to secure the liquidity and the stability of the Fund.

The surplus, after reasonable return on invested capital, will be reinvested into the Fund.

Finally, in case of dissolution of the Fund, after the payment of its liabilities, the remaining reserve would be transferred to or distributed among one or more co-operatives or charities.

4.2 **Governance Model**

A multi-stakeholder model is common in Canada and is used when different stakeholder groups share a common interest in the success of an enterprise. In the case of the Fund, five groups of stakeholders will interact in the governance of the co-operative.

The governance model of the Fund will include:

4.2.1 **Membership**

The various groups or classes of membership are designated in the co-operative's bylaws in response to the intended membership structure and purpose of the co-operative. Stakeholders will have the capacity to join the co-operative if they meet the criteria of one of the three different types of members:

- **Investors:** Organizations or individuals that invest into the Fund with equity and/or debt certificate (ref: 4.1)
- **Developers:** Co-operative Development Organizations or individuals that are a professional co-operative developer and that has partnership with the Fund and/or that promotes it.
- **Borrowers:** Organizations or individuals that use the financial products of the Fund.

Members will be invited to an Annual General Meeting (AGM) each year and will have the right to vote on the general orientations of the Fund, to approve the financial statement, to approve by-laws and to elect Board members.

4.2.2 **Board of Directors**

At the outset, the Board will be structured with 7 seats. In order to reduce the perception of risk amongst the investors, a majority of seats (4) will be allocated to them. Of these four seats, three of them will be reserved for large investors ($5 million and more). The three other seats will be allocated to the Developers and the Borrowers. As the Fund starts-up, it is not anticipated to have members in the Borrowers category in the first year of operation. The three seats will then be occupied by the Developer members of which Co-operatives and Mutuals Canada (CMC) will have a reserved seat.

Once elected, the Board of Directors will have the responsibility to administer the Fund. That includes the definition and adoption of an Investment Policy, the implementation of the Operating Model and the supervision of the Fund performance. The Board will be accountable for the financial performance and co-operative development outcomes of the Fund. Decisions of the Board will be executed by staff and/or contractor. It is anticipated that the committee will meet by conference call quarterly and that the directors will not be automatically paid. However, directors representing small organizations will be allowed to ask for a modest financial compensation. Board quorum will be set at 50%+1.

4.2.3 **Investment Committee**

The Investment Committee will have the responsibility to apply Investment Policy and to make decisions to approve investments. The Investment Committee may not be restricted only to Board members but be open to different expertise. This means that an appointed group of qualified professionals will be required to develop and oversee the investment strategies that manage the fund (see proposed qualification criteria in **Appendix Two**. The Investment Committee members will be appointed by the Board of Directors and they will not be paid. It is anticipated that the committee will meet by conference call regularly and that the decision will be made by consensus. If consensus is not possible, the decision will be made by a simple majority vote.

4.2.4 **Management**

Management will be assumed mostly by outsourced expert contractors. The management will run the investment process of the Fund and will make recommendations to the Investment Committee and to the Board of Directors. It will also co-ordinate the activities of the Fund and will build partnerships with new investors, distributors and co-operative development organizations.

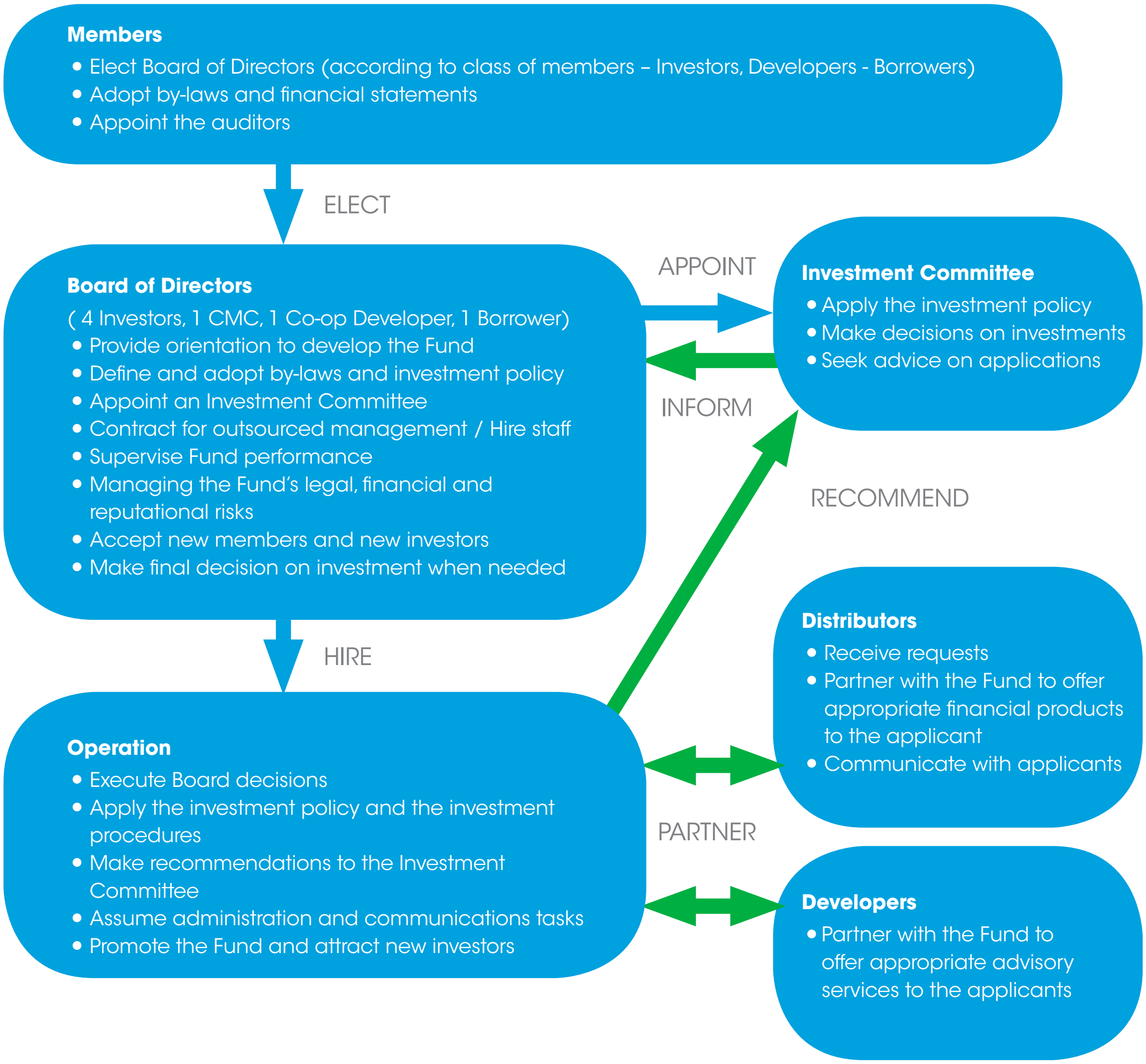
This function requires access to professional commercial lenders knowledge and co-operative development understanding to assess and adjudicate each individual deal that is presented in line with the strategies and policies that will be developed.

4.2.5 **Partners**

Relationships with financial co-operatives, developers and co-operative associations across Canada will be required to support the pipeline of opportunities being overseen by the Fund.

The partnerships built with these organizations will help to promote the Fund, to better assess the risks of each investments, to connect more closely with the borrowers and to support more effectively the clients of the Fund. Partners may receive compensation for their services **(see 4.9 & 4.10)**

FIGURE 1: AUTHORITY AND RESPONSIBILITIES



4.3 Business Model

The Fund will operate with the leanest possible operating model in order to have the capacity to lend money at a favorable rate to co-operative and mutual clients and to be able to generate a reasonable return on investment to investing co-operatives and mutuals. To achieve these objectives, it will work in close partnership with key stakeholders to reduce operating costs to a minimum, particularly in regards to promotion, underwriting, co-operative development and meeting co-ordination.

The operations of the Fund will be fully bilingual. To reduce cost of translation, bilingual staff will be hired in key areas, such as the underwriting and promotion, where communications need to be done in both official languages.

4.4 **Operating Model**

The day-to-day operations of the Fund will be managed within +/- 2.3 % of the asset balance.

The operating model is based on outsourced services from external providers. The operation would be divided into two roles: Management and Underwriting (Roles are fully described at Appendix Five). These providers would be organizations that have an expertise in Co-operative Network Development (Management) and in Co-operative Commercial Lending (Underwriting). The advantage of this model is to have access to scalable specialized capabilities.

4.5 **Disbursement Process**

The Fund will work closely with partnering organizations to obtain, assess and respond to investment requests. To have access to the Fund, clients will connect with a Distributor **(see 4.9)** of the Fund located in their sector. The Distributor will have the capacity to receive applications on behalf of the Fund and propose their own services or products to the client to complete the financing needs at the same moment. The Distributors will be provided with forms, guidelines and training to ensure the Fund receives duly completed requests. From that point, the communication between the Fund and the borrowers will flow through the Distributor.

This will solidify co-operative institutions and develop the knowledge of the sector. It will also create an incentive for co-operative entrepreneurs to build a relationship with co-operative development organizations and/or financial co-operatives as they build their relationship with the Fund.

The Fund will be open to applications received directly from entrepreneurs, but the intention will be to build a large network of Distributors that will be the main entrance for applications.

Once applications are accepted by the Distributor, they will be sent to the Fund Management who will then assess the application and the risk that it represents. A Conditional Letter of Offering will be sent directly to the client by the Distributor. This Conditional Letter of Offer will ensure that both the client and the Fund have the same understanding of the proposed deal without any liabilities for the Fund.

Upon the acceptance of the proposal by the client, an Investment Report will be produced by Management and sent to the Investment Committee (Compliance assessment may be added to this process). The Investment Committee will analyze the file and will approve or decline the loan with respect to the Investment Policy. A Final Offering Letter will then be sent to the client by the Distributor.

4.6 **Capital calls**

The investments will be realized through a capital call process. The Fund will anticipate the cash flow needed for a certain period of time based on approved deals and cash flow needs. Investors will be asked provide the amount needed according to their proportion of the total investment made in the fund. Every time that a new investor joins the Fund or that an investor has paid its entire pledged amount, the proportions will be recalculated.

4.7 **Distribution network**

The development of a distribution network is a key element in the success of the Fund. A network allows the Fund to be connected with co-operatives and mutuals everywhere throughout the country. It contributes to better assess the risk of each investment as each distributor connects personally with the borrowers and develops a good understanding of the cases and their economic environment.

To develop this network of Distributors, the Fund will go through an expression of interest process which will be open to any credit union, caisse populaire or co-operative development organization interested in being a point of access to the Fund.

These organizations will need to demonstrate their capacity in commercial lending and knowledge of the co-operative model. The financial co-operative interested in becoming a distributor of the Fund will also be asked to become an investor. This would help to limit potential conflicts of interest where distributors may be tempted to keep good deals for their own institution. The hope is to identify at least one to two distributors by province through this initial process. Each investor will be encouraged to develop a partnership with other credit unions in their province so that co-operatives from any region would have a way to get access to the Fund.

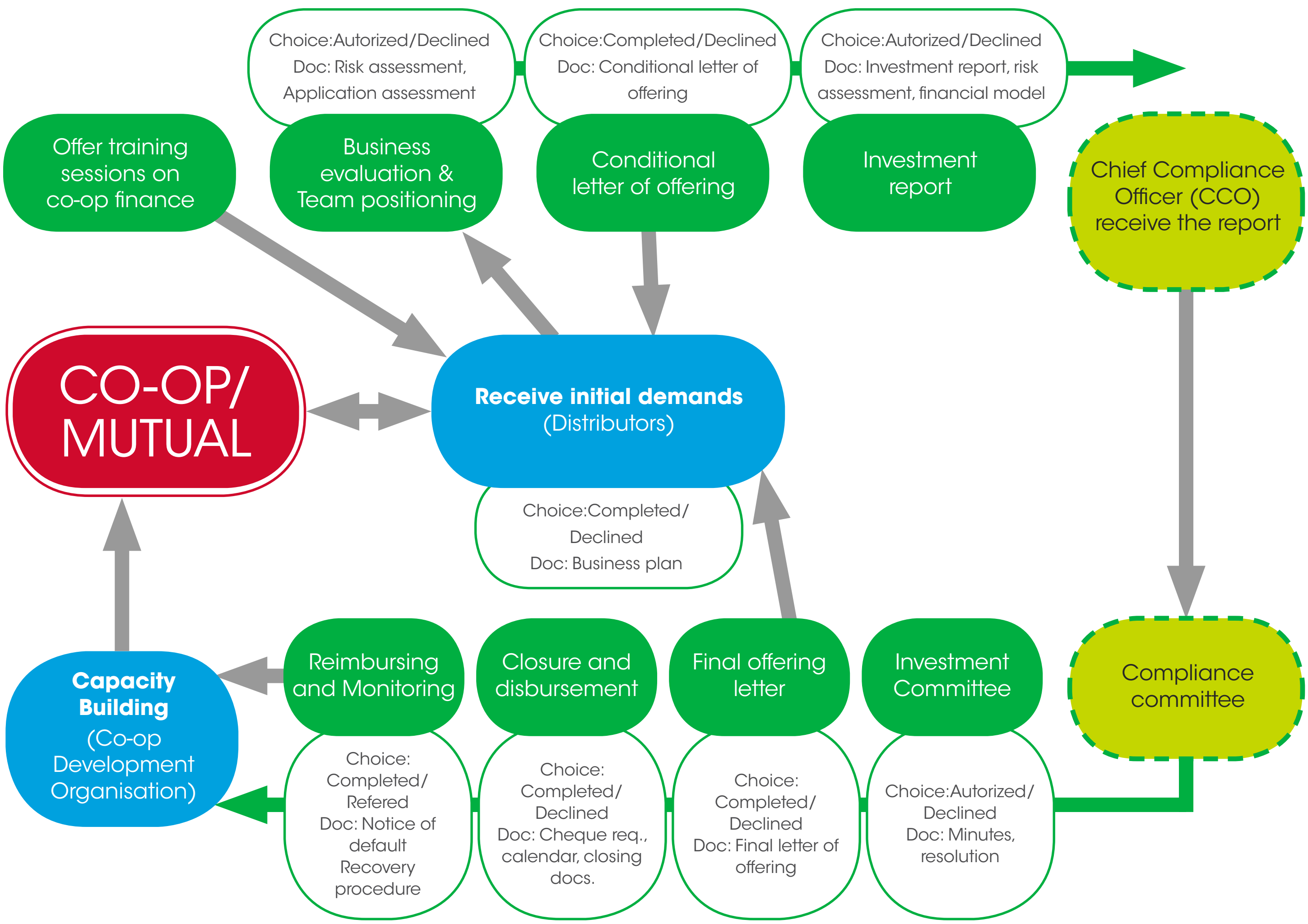
Following this, other organizations may be accepted at any time upon approval by the Board of Directors. Partnerships with other business development networks could also evolve in the future.

The role of the distributors will be to:

- Provide information on the Fund to co-operative and mutual clients
- Receive duly completed initial requests and send them to the Underwriter
- Partner with the Fund to offer appropriate financial products to the applicant
- Communicate with applicants

To fill this role, forms and administrative tools will be provided and training sessions will be offered. Financial co-operatives such as credit unions and caisses populaires, will be encouraged to offer their own financial products to enhance the financing. The Fund will compensate the distributors for processing a request. An amount of $750 per case processed has been planned in the financial scenario in **appendices Three and Four.**

FIGURE 2: INVESTMENT



4.8 Co-operative Development

A close relationship between the Fund and the co-operative development network is another key element in the Fund concept. Support from co-operative developers will be an important element to increase the potential success of the projects. The involvement of a professional co-operative developer should be favored from the beginning to the end of the projects.

In some cases, where the client is facing important problems, the Fund may hire a professional co-operative developer to support the client. This will help increase the support to new and expanding co-operatives and mutuals but also to secure the investment. To have access to the services of these professionals, the Fund will work with co-operative associations and/or co-operative developer networks. The Fund will compensate the co-operative developers when they will be asked to support a client. An amount of $1,500 per case supported has been planned in the financial scenarios in **appendices Four and Five.**

4.9 **Promotion and marketing to clients**

The Fund will be promoted by a large number of partners. It is anticipated that Co-operative Development Organizations, such as the Provincial Associations or Sector Federations, and the co-operative developers will promote the Fund to their clients/members. It is also an objective to develop partnerships with credit unions and *caisses populaires* across the country to promote potential synergies to make co-investments. Our intention is not to limit ourselves to organizations within the co-operative and mutual sector but also to develop partnership with other Community Economic Development organizations, Social Finance networks and other like-minded organizations.

Promotional tools will be developed by the Fund and will be given to the different partners for distribution. The Fund will also need to have a modest web presence to inform potential clients or investors about the Fund. Partner's websites could also be linked to the Fund website as part of a web marketing strategy.

4.10 **Promotion and marketing to investors**

The Fund will continuously approach new investors to expand and enhance its capacities. The promotion of the Fund to potential clients will create awareness amongst potential investors and specific initiatives will also be done to reach out to new investors.

The Fund will participate in several networking events in the credit unions and *caisses populaires* systems as they represent good opportunities to connect with new people. Individual approaches will also be used to develop partnerships with other organizations like development funds, non-financial co-ops and foundations.

The intention is to keep the Fund ready to accept new investment on a continuous basis.

5.0 FINANCIAL MODEL

The objective of the Fund is to offer co-operatives and mutuals a source of capital that takes into account the realities of the co-operative sector and that structures investments in a way that respects the principles and the role of capital within co-operatives. As such, the Financial model is based on the objective of creating a sustainable fund that will have the capacity to support the growth of the sector as well as providing appropriate return on investment.

Appendices Four and Five include the financial model.

5.1 Cash Flow Model

The following is a summary of the proposed cash flow goals of the Fund:

Item	Target
Earnings from Loans and Investments	Individual loan agreements will range from Prime+1% to Prime+10% depending on factors such as risk profile, security and length of term.
Fund Overhead	Range of 1.25% to 2.5 % of assets. Average 2.3%.
Return to Certificate Holders	
	Depending on the length of term, agreements will range from Prime+0.50% to Prime+2%. Average of Prime+1% on 25% of the Fund (debt) with the balance of the Fund capitalized through equity investments.
Return on Investment Shares	
	Return to Investment Shares will be determined annually by the Board of Directors based on the financial performance of the Fund; however a range between the Prime rate and Prime+2% will be the targeted rate for the 75% of the Fund that is capitalized through equity investment.
Loan Loss Provisions	Average of 2.5% of lent-out funds (estimated at 75% of all funds).
Available for Internal Reinvestment	Excess Cash Flow

5.2 Scenarios

The financial models project two potential Fund sizes illustrative of a range:

Low End of Range: $25 million Fund: This scenario projects a Fund that leverages investments from the sector totaling $25 million **(Appendix Three)**. The sector investments are made over the first 5 years of the Fund with 25% in the form of certificates that will receive market rate. The remaining 75% is in the form of equity investments that will receive dividends based upon the performance of the Fund.

	For-Profit
Retained Earnings at the End of Year Five	$6,133
Retained Earnings at the End of Year Ten	$137,420
Total Amount of Sector Investments Received	$25,000,000
Total Amount Returned to Investing Co-ops	$4,812,500
Total Number of Loans Granted in Ten Years	232
Total Amount of Loans Granted in Ten Years	$58,000,000

High End of Range: $70 million Fund: This scenario projects a Fund that leverages investments of $20 million from the sector and of $50 million from the Federal Government (**Appendix Four**). The investments are made over the first 5 years of the Fund including $5 million in the form of certificates that will receive a market rate of return. The remaining 75% of the investments from the sector is in the form of equity investments that will receive dividends based upon the performance of the Fund.

	For-Profit
Retained Earnings at the End of Year Five	-$855,146
Retained Earnings at the End of Year Ten	$6,678,988
Total Amount of Sector Investments Received	$20,000,000
Total Amount Returned to Investing Co-ops	$4,660,000
Total Number of Loans Granted in Ten Years	688
Total Amount of Loans Granted in Ten Years	$172,000,000

For purposes of projection, no dividends have been included in either the low-end or high-end models. The ability to pay dividends is illustrated in **Section 5.6 Return on investments.**

5.3 **Operating Ratios**

The following is a summary of the operating ratios of the various scenarios.

	Year Five		Year Ten	
	$25 million	$70 million	$25 Million	$70 million
Revenues as a % of assets	8.37%	8.30%	9.27%	9.47%
Interest paid on Loan Certificate as a % of assets	1.10%	0.32%	0.99%	0.26%
Net Interest Income as a % of assets	7.27%	7.98%	8.27%	9.20%
Op. exp. as a % of assets	2.22%	3.20%	2.34%	2.31%
Loan losses as a % of assets	2.95%	2.95%	2.88%	3.01%
Earnings as a % of assets	2.13%	1.65%	3.06%	3.89%

5.4 **Operating Expenses**

Two Scenarios have been evaluated to reflect two possible fund sizes. Both Models will have an impact on start-up costs and annual costs. These scenarios have been made in comparison to other similar funds and by keeping in mind that the Business Model of the Fund is based on modest overhead cost and on diversified partnership.

Based on the $25 million model, it is assumed that the Fund will receive around 70 to 80 requests per year. It is assumed that a number around 15 to 20 of these cases will received funding from the Fund which means that they would go through the whole Investment Process presented at **page 19**. It is assumed that the annual expenses would increase in a similar proportion to the total capitalization if the Fund grows to $70 Million.

The scenarios have been made by asking organizations to evaluate the cost of the roles defined at **Appendix Five** at their cost rate.

Start-Up		Annual	
Accounting and Legal	$30,000	Contract for Management	$125,000
Promotion	$40,000	Contract for Underwriting	$275,000
		Compensation to distributors (40 requests @ $750)	$30,000
		Compensation for Co-operative Development services (3 files @ $1,500)	$4,500
		Governance and audit	$15,000
	$70,000		**$449,500**

5.5 Assumptions

The business assumptions that underscore each of the scenarios are:

1. Dividend on equity investment will be determined annually by the Board of Directors based on the financial performance of the Fund
2. The average balance per loan/investment will be $250,000
3. Loan losses will average 2.5% of the outstanding balance of the portfolio
4. $25 Million Scenario: Start-up expenses will be $70,000 and annual operating costs will start at $450,000
5. $70 Million Scenario: Start-up expenses will be $200,000 and annual operating costs will start at $875,000
6. Operating costs will grow at an inflationary rate of 2.5%[7] per year
7. The repayment of loan principal is based on ten year amortization schedules
8. Investments will be stable during the first 10 years of the Fund with any maturing investments being replaced with new funds at the time of maturity
9. The maximum Fund size, for purposes of modeling is a range between $25 million and $70 million
10. The financial models project 10 years of results
11. Range of 70 to 80 requests per year ($25 M) and of 300 to 340 ($70 M) are anticipated with an approval rate of 1:5.
12. For the $70 million base scenario, the Government investment will be a repayable contribution with no annual rate of return (a forgivable loan can also be explored)
13. A Corporate Combined Tax Rate of 24.5% is used

7 CPI Annual inflation rate (2%) adjusted with salary inflation rate in the Finance sector (2.8%)

5.6 **Return on investments**

Investments will be made through Loan Certificates and Investment Shares. In both scenarios, loan certificates will offer a stable return to the investors of Prime+1% in average. Investment Shares will offer less secure investments that will provide a targeted return between Prime to Prime+2% but with a potentially higher return depending on the performance of the Fund. To share the risk and the benefits fairly amongst all investors, 25% of each investment will be in form of loan and 75% will be in the form of equity.

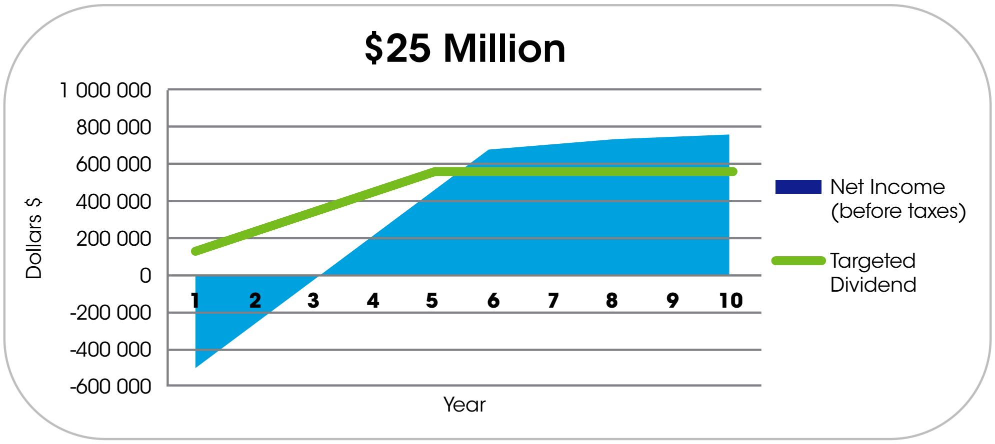
The goal of the Fund is to provide a stream of dividend payments to the co-operatives and mutuals that support the Fund through investment shares, equivalent to at least the prevailing 5 year Government of Canada bond rate. However, a rate equivalent at Prime+2% will be the targeted rate for the 75% of the Fund that is capitalized through investment shares.

Using this formula, only the $70 Million scenario has the capacity to pay the full dividend rate (+/- a reasonable margin) from the fourth year of operation. Return to Equity Investors will be determined annually by the Board of Directors based on the financial performance of the Fund and dividend payment may be given in the form of additional investment shares.

The following graphs illustrate the desired dividend rate (red line) compared to the Fund's ability to pay (blue bars).

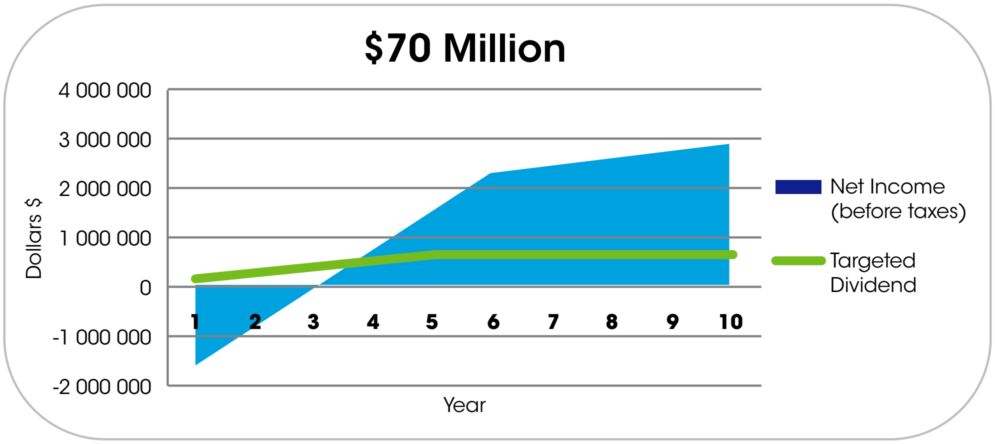
$25 Million

The $25 Million Scenario will drive sufficient earnings to pay the full targeted dividend rate (3%) from the sixth year of operation.



$70 Million

The $70 Million Scenario drives sufficient earnings to pay the full targeted dividend rate (5%) from the fourth year of operation.



5.7 Monitoring tools

The manager of the Fund will provide a series of monitoring tools to the investors:

- Financial statements on a quarterly and on an annual basis (audited)
- Quarterly report on the activities of the Fund
- Quarterly Budget tracking report
- Quarterly Report on capital calls
- Risk Mitigation report (problematic loans with exit strategy)

6.0 IMPLEMENTATION AND TIMELINE

It is recommended that the Fund move through the following next steps leading to its launch:

ACTION	TIMELINE
Promote the Fund and obtain additionnal investments	Ongoing
Obtain legal and fiscal advice on the investment vehicules to be used	April 2015
Formalize pledges	May 2015
Incorporate the Fund	May 2015
Develop by-laws and other policies	September 2015
Implement the Operating Model	October 2015
Develop the Distributors and Co-operative Developement Networks	Ongoing
Start-up the Investment Process	November 2015

While the above steps are being carried out, it is recommended that activities continue toward attracting additional funders to assist in building the Fund to higher and more efficient levels.

This Business Case is respectfully submitted for review and consideration by the founding Investors and other interested stakeholders and is designed to support the case for launching the Fund.

Appendix One

FUND BOARD OF DIRECTORS: PROPOSED QUALIFICATIONS CRITERIA

The Fund will be governed by a group of individuals who collectively seek to create and sustain value for the Fund on behalf of the sector. The following is a summary of the proposed qualifications criteria for the Fund Board of Directors in order of priority:

- Co-operative sector experience at the Board or management level
- Corporate governance experience
- Financial and/or risk management expertise
- Diversity of industry and geographic experience
- Co-operative business development and/or entrepreneurial experience
- Marketing and/or communications expertise
- Legal or regulatory experience

It is not expected that each Director will possess all of the above criteria; however, collectively the entire Board should possess these overall qualifications.

Appendix Two

INVESTMENT COMMITTEE: PROPOSED QUALIFICATION CRITERIA

The Board will delegate day-to-day investment decisions to an Investment Committee that will be responsible review and assess the applications and determine which ones to accept based on the investment policy. The following is a summary of the proposed qualification criteria for the Investment Committee in order of priority:

- High level of financial literacy and investment management experience
- Co-operative and mutual sector experience at the board or management level
- Policy development experience
- Credit committee and/or commercial underwriting experience
- Default, collections and loan work-out experience
- Diversity of industry and geographic experience

It is not expected that each Committee member will possess all of the above criteria; however, collectively the entire Committee should possess these overall qualifications.

Appendix Three

$25 MILLION BASED SCENARIO

Scenario One
$25 Sector only

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
BALANCE SHEET										
Assets										
Cash on Hand	956,652	751,677	459,860	673,277	463,963	864,765	241,407	765,224	581,860	1,695,599
Loan Portfolio	4,659,738	9,882,919	15,565,258	21,127,838	26,485,194	26,885,028	28,187,287	28,376,400	29,299,396	28,926,715
Less Loan Loss Provision	-116,493	-363,566	-752,698	-1,280,894	-1,943,024	-2,615,149	-3,319,832	-4,029,242	-4,761,726	-5,484,894
Loans	4,543,244	9,519,353	14,812,560	19,846,944	24,542,170	24,269,878	24,867,455	24,347,158	24,537,670	23,441,821
Total Assets	**5,499,896**	**10,271,029**	**15,272,420**	**20,520,221**	**25,006,133**	**25,134,643**	**25,108,863**	**25,112,382**	**25,119,530**	**25,137,420**
Liabilities										
Sector Investment - Debt @ 4%	1,250,000	2,500,000	3,750,000	5,000,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000
Total Liabilities	**1,250,000**	**2,500,000**	**3,750,000**	**5,000,000**	**6,250,000**	**6,250,000**	**6,250,000**	**6,250,000**	**6,250,000**	**6,250,000**
Equity										
Sector Investment	4,750,000	8,500,000	12,250,000	16,000,000	18,750,000	18,750,000	18,750,000	18,750,000	18,750,000	18,750,000
Government Investment (0% Return)	0	0	0	0	0	0	0	0	0	0
Retained Earnings	-500,104	-728,971	-727,580	-479,779	6,133	134,643	108,863	112,382	119,530	137,420
Total Equity	**4,249,896**	**7,771,029**	**11,522,420**	**15,520,221**	**18,756,133**	**18,884,643**	**18,858,863**	**18,862,382**	**18,869,530**	**18,887,420**
Total Liabilities and Equity	**5,499,896**	**10,271,029**	**15,272,420**	**20,520,221**	**25,006,133**	**25,134,643**	**25,108,863**	**25,112,382**	**25,119,530**	**25,137,420**
INCOME STATEMENT										
Revenue										
Loan Interest	186,390	581,706	1,017,927	1,467,724	1,904,521	2,134,809	2,202,893	2,262,547	2,307,032	2,329,044
GIC Interest (Earnings on Liquidity)	0	0	0	0	0	0	0	0	0	0
Total Revenue	**186,390**	**581,706**	**1,017,927**	**1,467,724**	**1,904,521**	**2,134,809**	**2,202,893**	**2,262,547**	**2,307,032**	**2,329,044**
Expenses										
Start-Up Costs	70,000									
Return to Investing Co-ops*	50,000	100,000	150,000	200,000	250,000	250,000	250,000	250,000	250,000	250,000
Operating Expenses	450,000	463,500	477,405	491,727	506,479	521,673	537,324	553,443	570,047	587,148
Loan Loss Provisions**	116,493	247,073	389,131	528,196	662,130	672,126	704,682	709,410	732,485	723,168
Total Expenses	**686,493**	**810,573**	**1,016,536**	**1,219,923**	**1,418,609**	**1,443,799**	**1,492,006**	**1,512,853**	**1,552,531**	**1,560,316**
Net Income/(Loss) before taxes & dividend	**-500,104**	**-228,867**	**1,391**	**247,801**	**485,912**	**691,010**	**710,887**	**749,694**	**754,500**	**768,729**
Taxes (24,5%)*	-	-	-	-	-	-	174,167	183,675	184,853	188,339
Targeted dividend rate (3%)	-	-	-	-	-	562,500	562,500	562,500	562,500	562,500
Net Income/(Loss) after taxes	**-500,104**	**-228,867**	**1,391**	**247,801**	**485,912**	**128,510**	**-25,780**	**3,519**	**7,148**	**17,890**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOW SUMMARY										
Cash Brought Forward	**0**	**956,652**	**751,677**	**459,860**	**673,277**	**463,963**	**1,427,265**	**1,540,575**	**2,810,566**	**3,374,555**
Investments Received	6,000,000	5,000,000	5,000,000	5,000,000	4,000,000	0	0	0	0	0
Loans Placed	-5,000,000	-6,000,000	-7,000,000	-7,500,000	-8,000,000	-3,500,000	-5,000,000	-4,500,000	-6,000,000	-5,500,000
Loan Interest Received	186,390	581,706	1,017,927	1,467,724	1,904,521	2,134,809	2,202,893	2,262,547	2,307,032	2,329,044
Loan Principal Repaid	340,262	776,819	1,317,661	1,937,420	2,642,644	3,100,166	3,697,741	4,310,887	5,077,004	5,872,681
GIC (Liquidity) Interest	0	0	0	0	0	0	0	0	0	0
Return to Investing Co-ops	-50,000	-100,000	-150,000	-200,000	-250,000	-250,000	-250,000	-250,000	-250,000	-250,000
Start-Up Costs	-70,000	0	0	0	0	0	0	0	0	0
Operating Expenses	-450,000	-463,500	-477,405	-491,727	-506,479	-521,673	-537,324	-553,443	-570,047	-587,148
Cash On Hand	**956,652**	**751,677**	**459,860**	**673,277**	**463,963**	**1,427,265**	**1,540,575**	**2,810,566**	**3,374,555**	**5,239,132**
New Loans Placed - Current Year	20	24	28	30	32	14	20	18	24	22
New Loans Placed - Cumulative	20	44	72	102	134	148	168	186	210	232
Funds Available to be Lent Out										
Opening Cash Balance	0	956,652	751,677	459,860	673,277	463,963	1,427,265	1,540,575	2,810,566	3,374,555
Investments Received - Sector	6,000,000	5,000,000	5,000,000	5,000,000	4,000,000	-	-	-	-	-
Investments Received - Government	0	-	-	-	-	-	-	-	-	-
Loan Principal Repaid	340,262	776,819	1,317,661	1,937,420	2,642,644	3,100,166	3,697,741	4,310,887	5,077,004	5,872,681
Net Income/(Loss)	-500,104	-228,867	1,391	247,801	485,912	691,010	710,887	749,694	754,500	768,729
Loan Loss Provisions	116,493	247,073	389,131	528,196	662,130	672,126	704,682	709,410	732,485	723,168
Total Funds Available	5,956,652	6,751,677	7,459,860	8,173,277	8,463,963	4,927,265	6,540,575	7,310,566	9,374,555	10,739,132
Less New Loans Granted	-5,000,000	-6,000,000	-7,000,000	-7,500,000	-8,000,000	-3,500,000	-5,000,000	-4,500,000	-6,000,000	-5,500,000
	956,652	751,677	459,860	673,277	463,963	1,427,265	1,540,575	2,810,566	3,374,555	5,239,132

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Ratios										
Revenues as a % of assets		7.38%	7.97%	8.20%	8.37%	8.52%	8.77%	9.01%	9.19%	9.27%
Costs as a % of assets		1.27%	1.17%	1.12%	1.10%	1.00%	1.00%	1.00%	1.00%	0.99%
NII as a % of assets		6.11%	6.80%	7.08%	7.27%	7.52%	7.77%	8.01%	8.19%	8.27%
Opex as a % of assets		5.88%	3.74%	2.75%	2.22%	2.08%	2.14%	2.20%	2.27%	2.34%
Losses as a % of assets		3.13%	3.05%	2.95%	2.91%	2.68%	2.81%	2.83%	2.92%	2.88%
Earnings as a% of assets		-2.90%	0.01%	1.38%	2.13%	2.76%	2.83%	2.99%	3.00%	3.06%
Payments of dividend										
Targeted dividend rate (3%)	-	-	-	-	-	562,500	562,500	562,500	562,500	562,500

* Taxes payable are likely to be less than this estimate

Appendix Four

$70 MILLION BASED SCENARIO

Scenario Two
$50 Million Government + $20 Million Sector

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
BALANCE SHEET										
Assets	**-**	**-**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Cash	729,295	1,683,261	1,609,330	1,996,808	1,766,062	1,462,353	1,032,810	763,264	45,122	1,101,068
Loan Portfolio	12,115,318	25,136,421	40,234,307	55,654,743	72,520,319	75,977,113	79,772,090	83,631,215	88,189,658	91,188,410
Less Loan Loss Provision	-302,883	-931,293	-1,937,151	-3,328,520	-5,141,528	-7,040,956	-9,035,258	-11,126,038	-13,330,780	-15,610,490
Net Loan Portfolio	11,812,435	24,205,128	38,297,156	52,326,223	67,378,792	68,936,157	70,736,832	72,505,177	74,858,879	75,577,920
Total Assets	**12,541,730**	**25,888,389**	**39,906,485**	**54,323,032**	**69,144,854**	**70,398,510**	**71,769,642**	**73,268,441**	**74,904,000**	**76,678,988**
Liabilities										
Sector Investment - Debt @ 4%	1,000,000	2,000,000	3,000,000	4,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Total Liabilities	**1,000,000**	**2,000,000**	**3,000,000**	**4,000,000**	**5,000,000**	**5,000,000**	**5,000,000**	**5,000,000**	**5,000,000**	**5,000,000**
Equity										
Sector Investment	3,000,000	6,000,000	9,000,000	12,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Government Investment (0% Return)	10,000,000	20,000,000	30,000,000	40,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Retained Earnings	-1,458,270	-2,111,611	-2,093,515	-1,676,968	-855,146	398,510	1,769,642	3,268,441	4,904,000	6,678,988
Total Equity	**11,541,730**	**23,888,389**	**36,906,485**	**50,323,032**	**64,144,854**	**65,398,510**	**66,769,642**	**68,268,441**	**69,904,000**	**71,678,988**
Total Liabilities and Equity	**12,541,730**	**25,888,389**	**39,906,485**	**54,323,032**	**69,144,854**	**70,398,510**	**71,769,642**	**73,268,441**	**74,904,000**	**76,678,988**
INCOME STATEMENT										
Revenue										
Loan Interest	484,613	1,490,070	2,614,829	3,835,562	5,127,003	5,939,897	6,229,968	6,536,132	6,872,835	7,175,123
GIC Interest (Earnings on Liquidity)	0	0	0	0	0	0	0	0	0	0
Total Revenue	**484,613**	**1,490,070**	**2,614,829**	**3,835,562**	**5,127,003**	**5,939,897**	**6,229,968**	**6,536,132**	**6,872,835**	**7,175,123**
Expenses										
Start-Up Costs	200,000									
Return to Investing Co-ops*	40,000	80,000	120,000	160,000	200,000	200,000	200,000	200,000	200,000	200,000
Operating Expenses	1,400,000	1,435,000	1,470,875	1,507,647	1,545,338	1,583,971	1,623,571	1,664,160	1,705,764	1,748,408
Loan Loss Provisions**	302,883	628,411	1,005,858	1,391,369	1,813,008	1,899,428	1,994,302	2,090,780	2,204,741	2,279,710
Total Expenses	**1,942,883**	**2,143,411**	**2,596,733**	**3,059,015**	**3,558,346**	**3,683,399**	**3,817,873**	**3,954,940**	**4,110,506**	**4,228,118**
Net Income/(Loss) before taxes & dividend	**-1,458,270**	**-653,341**	**18,096**	**776,547**	**1,568,656**	**2,256,498**	**2,412,095**	**2,581,192**	**2,762,329**	**2,947,004**
Taxes (24,5%)*					296,834	552,842	590,963	632,392	676,771	722,016
Targeted dividend rate (3%)				360,000	450,000	450,000	450,000	450,000	450,000	450,000
Net Income/(Loss) after taxes	**-1,458,270**	**-653,341**	**18,096**	**416,547**	**821,822**	**1,253,656**	**1,371,132**	**1,498,800**	**1,635,559**	**1,774,988**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CASH FLOW SUMMARY										
Cash Brought Forward	**0**	**729,295**	**1,683,261**	**1,609,330**	**2,356,808**	**2,872,897**	**3,572,029**	**4,183,449**	**4,996,296**	**5,404,924**
Investments Received	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000	0	0	0	0	0
Loans Placed	-13,000,000	-15,000,000	-18,500,000	-20,500,000	-24,000,000	-12,000,000	-14,000,000	-16,000,000	-19,000,000	-20,000,000
Loan Interest Received	484,613	1,490,070	2,614,829	3,835,562	5,127,003	5,939,897	6,229,968	6,536,132	6,872,835	7,175,123
Loan Principal Repaid	884,682	1,978,897	3,402,115	5,079,564	7,134,424	8,543,207	10,205,023	12,140,874	14,441,557	17,001,248
GIC (Liquidity) Interest	0	0	0	0	0	0	0	0	0	0
Return to Investing Co-ops	-40,000	-80,000	-120,000	-160,000	-200,000	-200,000	-200,000	-200,000	-200,000	-200,000
Start-Up Costs	-200,000	0	0	0	0	0	0	0	0	0
Operating Expenses	-1,400,000	-1,435,000	-1,470,875	-1,507,647	-1,545,338	-1,583,971	-1,623,571	-1,664,160	-1,705,764	-1,748,408
Cash On Hand	**729,295**	**1,683,261**	**1,609,330**	**2,356,808**	**2,872,897**	**3,572,029**	**4,183,449**	**4,996,296**	**5,404,924**	**7,632,887**
New Loans Placed - Current Year	52	60	74	82	96	48	56	64	76	80
New Loans Placed - Cumulative	52	112	186	268	364	412	468	532	608	688

Funds Available to be Lent Out										
Opening Cash Balance	0	729,295	1,683,261	1,609,330	2,356,808	2,872,897	3,572,029	4,183,449	4,996,296	5,404,924
Investments Received - Sector	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	-	-	-	-	-
Investments Received - Government	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	-	-	-	-	-
Loan Principal Repaid	884,682	1,978,897	3,402,115	5,079,564	7,134,424	8,543,207	10,205,023	12,140,874	14,441,557	17,001,248
Net Income/(Loss)	-1,458,270	-653,341	18,096	776,547	1,568,656	2,256,498	2,412,095	2,581,192	2,762,329	2,947,004
Loan Loss Provisions	302,883	628,411	1,005,858	1,391,369	1,813,008	1,899,428	1,994,302	2,090,780	2,204,741	2,279,710
Total Funds Available	13,729,295	16,683,261	20,109,330	22,856,808	26,872,897	15,572,029	18,183,449	20,996,296	24,404,924	27,632,887
Less New Loans Granted	-13,000,000	-15,000,000	-18,500,000	-20,500,000	-24,000,000	-12,000,000	-14,000,000	-16,000,000	-19,000,000	-20,000,000
	729,295	1,683,261	1,609,330	2,356,808	2,872,897	3,572,029	4,183,449	4,996,296	5,404,924	7,632,887

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Ratios										
Revenues as a % of assets		7.75%	7.95%	8.14%	8.30%	8.51%	8.76%	9.01%	9.28%	9.47%
Costs as a % of assets		0.42%	0.36%	0.34%	0.32%	0.29%	0.28%	0.28%	0.27%	0.26%
NII as a % of assets		7.34%	7.58%	7.80%	7.98%	8.23%	8.48%	8.74%	9.01%	9.20%
Opex as a % of assets		7.47%	4.47%	3.20%	2.50%	2.27%	2.28%	2.29%	2.30%	2.31%
Losses as a % of assets		3.27%	3.06%	2.95%	2.94%	2.72%	2.81%	2.88%	2.98%	3.01%
Earnings as a% of assets		-3.40%	0.06%	1.65%	2.54%	3.23%	3.39%	3.56%	3.73%	3.89%

* Taxes payable are likely to be less than this estimate

Appendix Five

ROLES & RESPONSIBILITIES IN THE OPERATING MODELS

Management

Promotion & Development of the Fund

- Promote the Fund within the sector
- Attract investments from the federal government and recruit new investors;
- Develop agreements with co-operative organizations to promote the Fund;

Management of the operations

- Overview the operations of the Fund
- Manage the relationships between partners
- Develop agreements with distributors, co-op developers and the underwriter
- Ensure that distributors collect all the information needed for the assessments of requests and the completion of legal documentation
- Follow-up on the investments and offer adequate support to projects having issues
- As required, ensure that expert advice is available to assess the funding requests
- Manage official communications with clients

Governance of the Fund

- Organize and coordinate Investment Committee meetings, Board of Directors meetings and the Annual General Meeting of the Fund
- Support the CCIF Board of Directors and the Investment Committee
- Provide clerical, administrative and database management support

Done by: Co-operatives and Mutuals Canada (CMC)

Underwriter

Fund management

- Receive, assess and process financing requests
- Develop forms and documentation for the Fund
- Write offering letters and legal documents
- Validate legal, regulatory and financial aspects with experts when needed
- Communicate with distributors and with the Manager
- Organize capital calls
- Manage the accounting activities of the Fund (disbursement, reimbursement, budgets etc...)

Support decision-making process

- Assist to develop and apply the Investment Policy
- Apply the investment process and make recommendations on acceptable funding requests to CCIF Investment Committee

- Develop the material needed for the Investment Committee and for Meetings of the Board of Directors.

Training

- Develop training tools and offer training on co-operative financing and on the Fund to distributors

Done by: A Financial Co-operative

Distributors

- Promote the Fund to their clients and to the public
- Provide information on the Fund to co-operative and mutual clients
- Structure the financing proposal with the client
- Partner with the Fund to offer appropriate financial products to the client
- Receive duly completed initial requests and send them to the underwriter
- Communicate with clients

Done by: Credit Unions, Caisses Populaires and Co-op Development Organisations)

Co-operative Development

- Partner with the Fund to offer appropriate advisory services to the applicant either before, during and after the investment process
- Promote the Fund to their clients and to the public

Done by: Co-operative Development Organizations (CDO)

Governance

- Define and adopt by-laws
- Define and adopt an Investment Policy
- Appoint an Investment Committee
- Contract with a Investment Manager
- Supervise Fund performance
- Financial statements

Done by: CCIF Board of Directors

- Elect Board of Directors
- Approve bylaws
- Approve financial statements

Done by: CCIF Annual General Meeting

Appendix Six

CO-OP DEVELOPMENT FUNDS INVENTORY

In the fall of 2014, Co-operatives and Mutuals Canada created an updated inventory of Canadian financing programs that are well adapted to the co-operative model. This inventory constitutes the second stage of CMC's assessment of capitalization tools accessible to the Canadian co-operative movement. In 2013, CCA produced a report on Government-Facilitated Capitalization Measures for Co-operatives in Canada, which included provincial tax credit instruments like Nova Scotia's Community Economic Development Investment Fund (CEDIF). Finally, a third study focusing on innovative capitalization tools, like the Unleashing Local Capital program in rural Alberta, will follow the present inventory to complete the picture of the capitalisation tools available to co-ops in Canada. This 2014 inventory focuses on established funds, and not capitalization strategies.

While there are numerous financing programs open to co-operatives across the country (government, co-operative sector, community-based, social enterprise/social economy-focused), as Table 1 shows, the number of programs determined by this inventory to have a strong understanding of the co-operative model and/or of the role of capital in a co-operative is quite limited in many regions. For example, community-based or social enterprise funds can be a potential option for co-operative financing because of their focus on funding enterprises with a good social mandate; however, this does not necessarily mean they have an adequate understanding of the co-operative model and/or of the role of capital in a co-operative. This can create problems as certain lending conditions may be incompatible with the regulatory/legislative framework of the co-operative model. An example might be a case where investors require a certain amount of power over the decision making of the enterprise while the co-operative governance cannot allow that. For this reason, only a few funds that seem to prioritize a co-operative mandate like the Jubilee Fund in Manitoba and the Social Enterprise Fund in Edmonton were included in the inventory. However, even some of these funds might not prove to meet our rigorous criteria upon further investigation.

In total, 51 different funds were included in the inventory with approximately half of them administered by an organization in the co-operative sector. We acknowledge that any study of this kind is limited because financing programs' products and capacities are subject to change over time. This report aims to capture as accurately as possible the current financing gaps in 2014.

This report maps the inventory findings with four tables: [1]

- Funds by Geographic Area and Total Capitalization of Funds
- Financial Products Offered by Each Program
- Stage of Business Development Funded by Sector
- Financing Needs Funded by Sector

1 The categories were adapted from a similar study conducted in 2010 in Quebec.

TABLE 1: Funds by Geographic Area and Total Capitalization of Funds[2]

CO-OPERATIVE SECTOR	INSTITUTIONAL	PARTNERSHIP/OTHER

*Indicates that the co-operative sector fund also funds social enterprises and/or non-profits.

Table 1 CODE	Program	Geographic Area	Total Capitalization
	NATIONAL		
N1	**Tenacity Works Fund (CWCF)**	All	$500,000
N2	**CWCF Technical Assistance Program**	All	$12,000 yearly
N3	**Co-operators Co-operative Development Program**	All	$150,000 yearly
N4	**Co-operators Community Economic Development Fund***	All	Aprox. $10 million[3]
N5	**Co-operators National Co-op Challenge**	All	$200,000 yearly
N6	**Canadian Alternative Investment Co-operative (CAIC)***	All	$7 million
N7	**First Nations, Métis and Inuit Co-operative Development Program**	All	$50,000 yearly
N8	**Community Futures Development Corporations**	All	N/A
	ARCTIC		
AR1	**Arctic Co-op Development Fund (ACDF)**	NWT, Nunavut & Yukon	$44.2 million
	ALBERTA		
A1	**Social Enterprise Fund**	Edmonton Area	N/A
	BRITISH COLUMBIA		
BC1	**Momentum Fund** (BC Co-operative Association)	BC	$87,700
BC2	**Vancity Community Project Grants Program***	BC	$900,000 (2013 amount)[4]
BC3	**Vancity Credit Union***	BC	N/A
BC4	**CCEC Credit Union Loan Programs***	Vancouver	N/A
BC5	**Resilient Capital Program**	BC	$14.5 million
	MANITOBA		
M1	**Co-operative Loans and Loans Guarantee Board**	MB	N/A
M2	**Manitoba Cooperative Assistance Fund**	MB	$30,000[5]
M3	**Manitoba Tax Credit Fund**	MB	$30,000 (2014/15)[6]
M4	**Assiniboine Credit Union Community Enterprise Development Grants***	Winnipeg	$450,000[7]
M5	**Assiniboine Credit Union Sustainable Community Grant Program***	Winnipeg	$450,000
M6	**Jubilee Fund**	Winnipeg	$1.6 million
	NEW BRUNSWICK		
NB1	**Fonds intercoopératif de développement-Acadie Ltée (FIDA)**	NB	$74,717

2 When available the total capital investment in each fund or the yearly investment is recorded. N/A means this information was not available.

3 This is the combined total for both Co-operators Foundation CED Funds (Co-operators Fiftieth Anniversary Community Fund (for charities only) and the Co-operators Community Economic Development Fund).

4 Only a small percentage of this community project grant money was given to co-operatives.

5 Funds are provided by the Province on a yearly basis without further commitment.

6 The amount varies depending on the Annual Plan, which is budgeted based on the annual contributions of the Manitoba Cooperative Community.

7 Currently, $450,000 yearly is allocated for ACU's Community Donation programs (Grants and Sponsorships). ACU's policy is to donate a minimum 2.8% of pre-tax earnings (averaged over three years) annually to support community projects, programs and events, with at least 75% awarded in the form of grants.

Table 1 CODE	Program	Geographic Area	Total Capitalization
	NEW BRUNSWICK		
NB2	**Coopérative d'investissement du Nord-Ouest Ltée**	North-Western NB	$235,000
NB3	**Saint John Community Loan Fund**	Saint John	N/A
NB4	**Business NB**	NB	N/A
	NEWFOUNDLAND & LABRADOR		
NL1	**Co-operative Equity Investment Fund**	NFLD	$250,000
	NOVA SCOTIA		
NS1	**Small Business Loan Guarantee Program** (NS Co-operative Council, Atlantic Central, NS Gov't, local credit unions)	NS	$50 million
NS2	**FarmWorks Community Economic Development Investment Fund***	NS	$271,500 (2014 amount)[8]
	ONTARIO		
O1	**Carrot Cache Community Resource Inc.***	ON	$120,000 (2015 amount)
O2	**Fonds de microcrédit pour les entreprises francophones** Fondation francro-Ontarienne / Le Conseil de la coopération de l'Ontario	ON- Southern	$500,000
O3	**Ottawa Community Loan Fund**	Ottawa	N/A
O4	**Toronto Enterprise Fund**	Toronto	> $1 million yearly
O5	**Ontario Trillium Foundation Grants**	ON	$110 million yearly
	QUEBEC		
Q1	**Coop Essor**	QC	$45 million
Q2	**Capital régional et coopératif Desjardins (CRCD)**	QC	$1.2 billion
Q3	**Réseau québécois du crédit communautaire (RQCC)**	QC	$5 million
Q4	**Réseau d'investissement social du Québec (RISQ)**	QC	$8.3 million
Q5	**Centres locaux de développement (CLD) [Fonds local de développement et Fonds de développement et l'économie sociale]**	QC	**N/A**
Q6	**Fondaction CSN (FCSN)**	QC	$843 million
Q7	**Filaction (Fil.)**	QC	$50 million
Q8	**Fiducie du chantier de L'économie Sociale (FCES)**	QC	$52.8 million
Q9	**Caisse d'économie solidaire Desjardins (CECOSOL)**	QC	$477.88 million
Q10	**Sociétés d'aide au développement des collectivités (SADC)**	QC	N/A
Q11	**Coopsco**	QC	N/A
Q12	**Fédération des coopératives funéraires du Québec (FCFQ)**	QC	N/A
Q13	**Fédération des coopératives d'alimentation du Québec (FCAQ)**	QC	N/A
Q14	**Coopérative fédérée et grossistes en alimentation (CF & GA)**	QC	N/A
Q15	**Fédération des coopératives du Nouveau-Québec (FCNQ)**	QC	$15 million
Q16	**CDR Estrie, CDR Saguenay-Lac-Saint-Jean, CDR Montréal-Laval (CDR)**	QC	N/A
Q17	**Investissement Québec**	QC	N/A
	SASKATCHEWAN		
SK1	**Affinity Micro Finance Program***	SK	N/A

8 Over the three years of operation this CEDIF co-operative has raised $721,000 in investments.

TABLE 1 ANALYSIS: FUNDS BY GEOGRAPHIC AREA AND TOTAL CAPITALIZATION OF FUNDS

The regional capacity for meeting the financing needs of the co-operative sector varies greatly in Canada. Provincially, Quebec with its prioritization of the co-operative model/social economy approach has a substantial number of co-operative focused funds (17 funds) and the nine funds that made available their total capitalization data each have over $5 million in their fund. In contrast, in the rest of Canada there is significantly less capacity. The other provinces and territories all have only six or less funds that are well adapted to financing co-operatives. Very few of these province and territory restricted funds with available data on the total amount available in the fund have more than $1 million in the fund, which means their capacity for larger lending limits is limited. Some provinces (Alberta, Saskatchewan and Newfoundland & Labrador) only have one relevant fund and Prince Edward Island has none. The comparative case of capitalization options in the Maritime provinces of Nova Scotia versus PEI or the significant variance in co-operative development focus of the different Community Futures Development Corporations are two examples that demonstrate the provincial/regional discrepancies. The inventory findings indicate the need for financial tools at the national level with a strong co-operative development mandate to help remedy the significant discrepancies between different regions in the country.

The current financing capacity at the national level is insufficient. Only seven co-operative friendly national funds were identified and the total capitalization capacity of many of these funds is not very substantial (TWF: $500,000 total, CWCF technical assistance fund: $12,000 yearly, CCDP: $150,000 yearly, CNCC: $200,000 yearly, Co-operators' CED Fund: around $10 million total, CAIC: nearly $7 million total and First Nations, Métis and Inuit Co-operative Development Program: $50,000 yearly). The total amount or a yearly amount of capital investment in the other two national funds was not available. Two of the seven funds focus exclusively on the needs of worker co-operatives, leaving only five funds capable of meeting the financing needs of all co-operative sectors. Further, as noted above, the relevance of the Community Futures Development Corporations program is limited to certain provinces. It is not a consistently applicable funding program option.

The data in the next three tables reflects this general pattern of uneven co-operative development financing capacity, but maps how it plays out at a level of greater detail. Particular attention will be paid to the capacity of national funds open to all sectors of co-operatives, as it is here that an addition of new financial tools can have the broadest potential reach.

TABLE 2: Financial Products Offered by Each Program

Note: A blank space means the fund does not offer that type of financial product.

Table 2	Loan	Loan Guarantee	Grants	Preferred Shares	Leasing-purchase Agreement
			NATIONAL		
N1	$15,000 - $50,000	Yes			
N2			$500 Stage 1 $500 Stage 2		
N3			Up to $20,000		
N4			Up to $20,000		
N5			$25,000 and $500		
N6	Up to $50,000				
N7			$5000 - $10,000		
N8	Varies				
			ARCTIC		
AR1	Limit = 15% of total assets of the Fund (would be $6.6 million)	Yes (Rarely offered)		Yes	
			ALBERTA		
A1	No minimum or maximum (*highest to date: $4.27 million)				
			BRITISH COLUMBIA		
BC1	$5,000 - $25,000				
BC2			Up to $15,000 (Generally range from $5,000 - $12,000)		
BC3	Microloans: Up to $75,000; Lending circles: Up to $7,500				
BC4	Varies depending on need and capacity of group and CCEC Credit Union				
BC5	$100,000 - $1.5 million				
			MANITOBA		
M1	Case specific	Case specific			
M2			Up to $2,000		
M3			Up to $2,000		
M4			Up to $5,000		
M5			$500 - $5,000		
M6	Case specific (Housing co-ops only)	Case specific			
			NEW BRUNSWICK		
NB1		Up to $50,000	$2,500 - $5,000	Up to $50,000	
NB2	Case specific	Case specific		Case specific	
NB3	Up to $7,500				
NB4	Varies	Case specific			

Table 2	Loan	Loan Guarantee	Grants	Preferred Shares	Leasing-purchase Agreement
			NEWFOUNDLAND & LABRADOR		
NL1				Up to $15,000 (matched on 3:1 basis)	
			NOVA SCOTIA		
NS1	Up to $500,000	Up to 75% of the principal of the loan for regular sectors; up to 90% for special financing streams			
NS2	$5,000 - $25,000				
			ONTARIO		
O1	Case specific		$500 - $5,000	Class A non-voting preferred shares	
O2	Up to $15,000				
O3	Up to $15,000				
O4			Up to $75,000 (non-profits only)		
O5			Up to $150,000 (non-profits only)		
			QUEBEC		
Q1	$50,000 - $3 million	$50,000 - $3 million		$50,000 - $3 million	
Q2	> $200, 000	> $200,000		> $200,000	
Q3	Up to $50, 000				
Q4	$20,000 - $50,000		$20,000 - $50,000		
Q5	FES: Up to $50,000 FLI: Up to $125,000		FES: Up to $50,000 FLI: Up to $125,000		
Q6	> $500,000	> $500,000		> $500,000	
Q7	Up to $500,000	Up to $500,000		Up to $500,000	
Q8	$50, 000 - $1.5 million				
Q9	> $50,000	> $50,000		> $50,000	
Q10	Up to $150,000				
Q11	Up to $500,000				
Q12	Up to $125,000				
Q13	Up to $50, 000	0 - $50,000			
Q14	> $500,000			> $500,000	
Q15	> $500,000				
Q16	Up to $50,000		Up to $50,000		
Q17	> $50,000	> $50,000		> $50,000	
			SASKATCHEWAN		
SK1	Up to $50,000				

TABLE 2 ANALYSIS:
FINANCIAL PRODUCTS OFFERED BY EACH PROGRAM

In terms of the kinds of financial products offered, table 2 shows a greater focus on debt financing than on equity financing. Loans are the most commonly offered financial product with 36 of the included funds offering loans. 13 funds offer loan guarantees. 17 funds offer grants to co-operatives, but grants are generally quite small in size (with only three outside of Quebec with limits exceeding $20,000, two of which are exclusively for charitable and not-for-profit organizations) and grants typically do not provide ongoing operational funding. There are not many options available for equity investment with only 11 funds offering preferred shares financing and six of these funds are limited to Quebec. These findings point to a need for more equity investment options for Canadian co-operatives.

Table 2 also reveals a gap in national level capacity for financing larger borrowing needs. The lending limits of the national funds are for the most part capped at $50,000, which means any co-operative requiring a larger amount in a province that doesn't have an accessible fund with higher limits, has to go to a traditional financing institution. Further, considering the variability in the priorities and objectives of Community Futures Development Corporations, only one national fund, the Canadian Alternative Investment Co-operative (CAIC), with its $50,000 maximum for loans, clearly lends amounts over $20,000 to all sectors of co-operatives. The viable provincial options for borrowing larger amounts are very limited or nonexistent in Alberta, Ontario, Saskatchewan, New Brunswick, PEI and NFLD.

TABLE 3: Stage of Business Development Funded by Sector

Table 3	All Co-ops	Targeted Sectors	Targeted Populations	Non-profits Only
Pre-startup	**National:** N3 **Quebec:** Q3, Q4, Q5, Q8, Q12, Q13, Q15, Q16 **Other Prov./Territories:** A1, M2, M3, M4, SK1	N1, N2	N7 NB1, NB2	O4, O5
Startup	**National:** N3, N4, N5, N6, N8, **Quebec:** Q1, Q2, Q3, Q4, Q5, Q6, Q7, Q8, Q9, Q10, Q12, Q13, Q14, Q15, Q16, Q17 **Other Prov./Territories:** A1, AR1, BC2, BC3, BC4, BC5, M1, M2, M3, M4, M6, NB3, NB4, NS1, NL1, O3, SK1	N1, N2 NS2, O1	NB1, NB2, O2	O4, O5
Consolidation and Expansion	**National:** N3, N4, N5, N6, N8, **Quebec:** Q1, Q2, Q4, Q5, Q6, Q7, Q8, Q9, Q10, Q11, Q12, Q13, Q14, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC1, BC2, BC3, BC4, BC5, M1, M2, M3, M4, M5, M6, NB3, NB4, NS1, NL1, O3, SK1	N1, N2 NS2, O1	NB1, NB2, O2	O4, O5
Recovery	**Quebec:** Q11, Q12, Q13, Q14, Q17 **Other Prov./Territories:** A1, AR1, M6, NS1	N1, N2		O4, O5
Business Succession	**National:** N3, N6, N8 **Quebec:** Q1, Q2, Q5, Q6, Q8, Q10, Q11, Q12, Q13, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC5, M1, M2, M3, M6, NB4, NS1	N1, N2 O1		O4, O5

TABLE 3 ANALYSIS: STAGE OF BUSINESS DEVELOPMENT FUNDED BY SECTOR

Note: Table 3 and Table 4 organize the coverage of the eligible stages of development and financing needs by sector, demographic and not-for-profit status restrictions on applicant eligibility to distinguish funds that are open to all co-operative from those with restricted eligibility. The targeted options include: worker co-operatives (N1, N2, O1), local/organic food /agriculture enterprises (NS2, O1), francophone co-operatives (NB1, NB2, O2), aboriginal co-operatives (N7) and not-for-profits only (O4, O5).

Table 3 shows there is a fairly strong focus on meeting the needs of co-operative startups and co-operatives in an expansion and consolidation stage of development; only four funds exclude start-ups and three exclude expanding co-operatives. Outside of Quebec, co-operative adapted financing possibilities for the higher risk stages of pre-startup and recovery are much more limited. No national fund prioritizes support for co-operatives in a recovery phase from all sectors and only one national fund, the Co-operators Co-operative Development Program, will finance pre-startup stage development for all sectors of co-operatives. Of the 14 funds that were identified as being open to financing pre-startup needs for all sectors, eight are limited to Quebec and three to Manitoba, which means the options for the rest of the country are extremely limited. The co-operative focused options for helping non-worker co-operatives outside ofa Quebec, Nova Scotia, Alberta, Arctic, Manitoba and Ontario (non-profits only) to recover are nonexistent, which increases the likelihood of struggling co-operatives shutting down rather than finding a viable solution for recovery. The co-operative development financing landscape in Canada needs to provide viable financing options for co-operatives in all stages of business development and new financing tools developed through a National Co-operative Investment Fund can help ensure this happens.

TABLE 4: Financing Needs Funded by Sector

Table 4	All Co-ops	Targeted Sectors	Targeted Populations	Non-profits Only
Pre-startup	**National:** N3 **Quebec:** Q3, Q4, Q5, Q8, Q12, Q13, Q15, Q16, **Other Provinces/Territories:** A1, AR1, M2, M3, M4, NL1, SK1	N1, N2	N7 NB1, NB2, O2	O4, O5
Startup	**National:** N3, N4, N5, N6, N8 **Quebec:** Q1, Q2, Q3, Q4, Q5, Q6, Q7, Q8, Q9, Q10, Q12, Q13, Q15, Q16, Q17 **Other Prov./Territories:** A1, AR1 BC2, BC3, BC4, M1, M2, M3, M4, M6, NB3,NB4, NS1, NL1, O3, SK1	N1, N2 NS2, O1	NB1, NB2, O2	O4, O5
Tangible Capital Assets	**National:** N5, N6, N8 **Quebec:** Q1, Q2, Q3, Q4, Q5, Q6, Q7, Q8, Q9, Q10, Q11, Q13, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC1, BC2, BC3, BC4, BC5, M1, M2, M4, M5, M6, NB4, NS1, NL1, O3, SK1	N1 NS2, O1	NB1, NB2, O2	O5
Consolidation and Expansion	**National:** N4, N5, N6, N8 **Quebec:** Q1, Q2, Q4, Q5, Q6, Q7, Q8 Q9, Q10, Q11, Q12, Q13, Q14, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC1, BC2, BC3, BC4, BC5, M1, M2, M3, M4, M5, M6, NB3, NB4, NS1, NL1, O3, SK1	NS2, O1	NB1, NB2, O2	O4, O5
Recovery	**Quebec:** Q11, Q13, Q14, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC5, M6, NS1	N1, N2		O4, O5
Business Succession	**National:** N6 **Quebec:** Q1, Q2, Q4, Q5, Q6, Q8, Q10, Q11, Q12, Q13, Q15, Q17 **Other Prov./Territories:** A1, AR1, BC2, BC3, BC4, BC5, M1, M2, M3, M6, NB4, NS1,	N1, N2 O1		O4, O5
Funding for Co-operators	**National:** N3 **Quebec:** Q9 **Other Prov./Territories:** AR1, BC4, NS1, NL1	N1	NB1	
Member Shares Buyback	**Quebec:** Q1, Q9			
2nd Tier Co-operatives	**National:** N5 **Quebec:** Q1, Q7, Q8, Q9, Q17 **Other Prov./Territories:** AR1, M2, M3, NS1	N1, N2 O1		O5

TABLE 4 ANALYSIS: FINANCING NEEDS FUNDED BY SECTOR

The coverage of core co-operative financing needs in Table 4 reflects the results in Table 3. The majority of funds will finance startup, tangible capital assets, and consolidation and expansion needs and over half of the funds will finance business succession needs. The options for financing pre-startup and recovery needs are considerably more limited. Outside of Quebec, the capacity for co-operatives from all sectors to obtain financing for recovery needs is very limited with no national funds and only five provincial or territorial funds (in Alberta, Arctic Region, British Columbia, Manitoba and Nova Scotia) focusing on providing this support to all sectors of operation. Outside of Quebec, only one national fund and four provincial /territorial funds have provisions for providing funding for 2nd tier co-operatives or funding for co-operators for all sectors. The option for member shares buybacks in the case of a co-operative undergoing liquidation or requiring assistance in repurchasing the shares of a departing member is currently only available in Quebec.

CONCLUSION

The findings in this report show that the currently available co-operative adapted funding options in Canada do not sufficiently cover the range of geographic areas, financing needs and stages of development required to fully support and stimulate development in the Canadian co-operative sector. The significant provincial and territorial disparities in financing prioritization and capacity shows that leaving the provision of co-operative development financing largely at the provincial /regional level results in an uneven capitalization landscape with some heavily under-prioritized areas.

The sector has the knowledge and the capacity to change the situation as co-operatives and mutuals are one of Canada's leaders in the financial sector with $370 billion in assets and a volume of loans that equals close to 16% of Canada's GDP. The issue is more about improving the availability of financial support so that co-operatives across Canada of varying sizes and sectors of operation can have the financial support necessary to become or remain viable co-operative enterprises in the Canadian economy. Facilitating a better range of financial products at the national level through a National Co-operative Investment Fund can help fill in the current capacity gaps for the co-operative sector.