

GOVERNMENT RESPONSE TO THE
REPORT OF THE SPECIAL COMMITTEE
ON CO-OPERATIVES ENTITLED:
STATUS OF CO-OPERATIVES IN
CANADA

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INTRODUCTION

The Government of Canada is pleased to respond to the Report of the House of Commons Special Committee on Co-operatives (the Committee): *Status of Co-operatives in Canada* (the Report). The Government agrees with the overall intent of the Report and shares the Committee's commitment to highlight the importance of co-operatives and enhance their status in Canada.

The tabling of the Report is timely as the United Nations 2012 International Year of Co-operatives (IYC 2012) came to a close in December 2012. The Government and co-operative sector welcomed and celebrated IYC 2012 in order to acknowledge the important economic and social contributions of co-operatives to Canada.

As the Committee reported, co-operatives are robust businesses that contribute to Canada's economy and meet the needs of many Canadians. In 2008, 9,000 co-operatives and credit unions reported over \$252 billion in assets, employed 155,000 people and served 18 million members. Active in almost every sector of the economy, the co-operative business model has also demonstrated that it has a high survival rate and is capable of weathering the domestic and international economic challenges of the recent recession.

This Report has also been tabled in a time of economic uncertainty. The Government delivered Budget 2012 on March 29, 2012, to bolster Canada's fundamental strengths and address the important challenges confronting the economy over the long-term. In this context, the Government remains committed to co-operatives as an important contributor to economic growth and prosperity for Canadians. The Response demonstrates that many government departments, agencies and organizations provide support to Canadian co-operatives across various sectors. The Government will continue to collaborate with the co-operative sector and provinces and territories, to ensure that conditions are in place to support the development, innovation and growth of co-operatives in Canada.

The Government has carefully reviewed the recommendations in the Committee's Report and welcomes the opportunity to respond to each of the Committee's recommendations in full.

RECOMMENDATION 1

That the Government of Canada highlight the strategic role that co-operatives play in our economy by educating government employees in all departments, especially those in regional development offices, and the general public on the nature and benefits of the co-operative business model.

The Government agrees with the Committee's recommendation to highlight the strategic role co-operatives play in the Canadian economy by educating government employees and the Canadian public on the nature and benefits of the co-operative business model.

The Government supported the United Nations 2012 International Year of Co-operatives (IYC 2012) as an important national event to make all Canadians, including government employees, more aware of the co-operative business model. Government support for IYC 2012 included: \$1 million for the International Summit of Co-operatives in Quebec City; Canada's 2012 website (www.canada2012.coop); the publication and dissemination of a *Guide to Government Programs Available to Co-operatives*; and, a range of communication initiatives that served to educate Canadians about co-operatives.

The Government promotes long-term economic growth by supporting business and community economic development through the regional development agencies (RDAs). The Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, Canadian Northern Economic Development Agency, Federal Economic Development Agency for Southern Ontario, Federal Economic Development Initiative for Northern Ontario, and Western Economic Diversification Canada help businesses become more competitive, innovative and productive, and work with diverse communities and organizations to develop and diversify local economies. Given this role, co-operatives from various sectors across Canada have benefitted, and continue to benefit, from RDA support in the form of funding and business services. RDAs remain open to receiving additional information on the nature and benefits of the co-operative business model and to sharing this information with their clients. RDAs also continue to inform clients, including co-operatives, about the range of available government programs and services.

The Government will continue to highlight the strategic role that co-operatives play in the economy and provide focused policy and research expertise on the nature and benefits of co-operative businesses to government employees and the Canadian public.

RECOMMENDATION 2

That Canada Mortgage and Housing Corporation support housing co-operatives by continuing to provide reasonable mortgage and refinancing services.

The Government agrees with the Committee's recommendation that Canada Mortgage and Housing Corporation (CMHC) continue to provide reasonable mortgage and refinancing services to federally-assisted social housing providers through its lending programs.

The Government, through CMHC, has a long history of working with housing co-operatives, and continues to financially support co-operative housing projects that provide affordable housing solutions in communities across Canada.

CMHC supports co-operative housing projects through direct lending, which provides loans to federally-assisted social housing sponsors. As a federal Crown corporation, CMHC can obtain funds at rates that are lower than market rates. These rates are passed through to clients with no profit margin in order to offer the lowest mortgage interest rate possible. Since January 2009, CMHC's lending rates have averaged some three percentage points lower than average market rates for mortgages with five-year terms. Loans funded through direct lending are renewable, allowing project sponsors to refinance periodically with CMHC or a private lender with no penalty. CMHC provides low-cost loans directly to federally-assisted social housing sponsors seeking to renew their existing mortgage and to First Nations to finance new housing on-reserve constructed under CMHC's Section 95 Rental Housing Program.

For outstanding loans entered into prior to 1979, the majority of CMHC's lending programs offered non-renewable, closed mortgages in order to provide long-term financial stability to social housing sponsors. This benefit was often paired with ongoing federal assistance and, in some cases, an up-front capital contribution that was earned over time. These long-term closed mortgages were provided at or below the interest rates in place at the time.

In order to further assist co-operative and non-profit housing projects who want to refinance their mortgages to undertake the replacement or repair of major capital building components, CMHC will offer a discounted prepayment penalty. The discounted penalty will be consistent with industry practices and available for projects that meet eligibility criteria. This will enable project sponsors with financially healthy projects to undertake significant capital repair work, thus extending the useful life of their projects. It will also benefit low-income households living in the projects including families, seniors, persons with disabilities and Aboriginal people.

Federally-administered housing co-operatives received more than \$120 million in funding under Canada's Economic Action Plan to renovate and retrofit their properties. Co-operatives administered by provinces and territories had access to a larger pool of \$850 million in federal funding for social housing renovations and repairs, which was delivered and cost-matched by the provinces and territories.

Currently, the Government invests \$1.7 billion a year in support of almost 605,000 households living in existing social housing across the country. Most of this funding is delivered by provinces and territories, which contribute annually to the existing housing stock under long-term agreements with the federal government. Close to eight percent of the social housing portfolio is made up of housing co-operatives that are under CMHC's administration.

The Government, through CMHC, continues to work with provinces, territories and other stakeholders to ensure that Canadians have access to a range of affordable housing options, including co-operative housing.

RECOMMENDATION 3

That the Government of Canada explore the feasibility and cost of allowing Canadians flexibility to invest RRSP funds in co-operatives.

The Government acknowledges the Committee's recommendation to further explore the feasibility and cost of allowing Canadians flexibility to invest Registered Retirement Savings Plan (RRSP) funds in co-operatives.

The Government notes that Canadians are already able to use their RRSPs to invest in shares or bonds of a co-operative corporation, provided that the investments meet certain conditions intended to prevent self-dealing arrangements that seek to achieve unintended tax advantages.

In addition, Budget 2011, *A Low-Tax Plan for Jobs and Growth*, introduced new rules to address concerns regarding the use of RRSPs in tax planning schemes. One of these measures called the "prohibited investment" rule, effectively prohibits an individual from holding investments in their RRSP if they and, generally, their family members (non-arm's length persons) hold more than ten percent of the business in which they are investing. This rule applies to virtually any type of RRSP investment. The rules address two types of self-dealing concerns that were detected, despite existing restrictions, in relation to RRSPs:

- Transactions that indirectly divert income that should have been taxed in the hands of an individual RRSP saver into the individual's RRSP; and
- "RRSP strips", where steps are taken to intentionally reduce the value of a qualified investment to avoid or reduce tax on withdrawals from an RRSP or Registered Retirement Income Fund.

These transactions were occurring in a small minority of RRSPs, but using a wide variety of different RRSP investments, including shares in various types of small enterprises. The Government supports Canadians' ability to choose from a range of investments, including co-operatives, for RRSP saving purposes. The Government also has the responsibility to ensure that the RRSP system is being used for its intended purpose of helping Canadians to save for retirement, within the established system of contribution limits and withdrawal requirements.

RECOMMENDATION 4

That the Government of Canada work closely with regional economic development agencies to highlight the importance of co-operatives to Canadian economic development so that they can promote the co-operative business model along with other business models, and to ensure their officers have a clear understanding of how co-operatives are supported through existing federal programs and can promote such programs to co-operatives and entrepreneurs.

The Government agrees with the Committee's recommendation that it is important to work closely across departments and agencies in order to highlight the importance of co-operatives in Canadian economic development.

The Government promotes long-term economic growth by supporting business and community economic development through the regional development agencies (RDAs). Co-operatives from various sectors across Canada have benefitted, and continue to benefit, from RDA support in the form of funding and business services.

From fiscal year 2006-2007 until the beginning of October 2012, the Atlantic Canada Opportunities Agency has provided co-operatives with over \$15 million to support 99 projects in the four Atlantic provinces. In the same timeframe, Canada Economic Development for Quebec Regions has supported over 30 projects that benefitted co-operatives in Quebec with more than \$4.5 million in funding, including \$1 million to support the International Summit of Co-operatives that was held in Quebec City in October 2012. The Federal Economic Development Initiative for Northern Ontario (FedNor) has provided over \$1.3 million in total assistance to seven co-operative projects and has worked with the co-operative sector to raise awareness of FedNor programming available to co-operatives. Similarly, in the same time period, Western Economic Diversification Canada has invested nearly \$3 million in eight projects with co-operatives through regionally-based and national programs.

The Federal Economic Development Agency for Southern Ontario (FedDev Ontario) and the Canadian Northern Economic Development Agency (CanNor) have also provided support to co-operatives since being created in 2009. For example, FedDev Ontario provided funding support to five co-operatives to facilitate sustainable growth in official language minority communities. CanNor has provided \$600,000 to assist co-operatives with retail store expansion in the North.

Co-operatives are eligible for funding from Community Futures Organizations (CFOs) in rural and remote communities across Canada. RDAs provide operational support to CFOs under the Government's Community Futures Program.

In addition, Industry Canada (IC), in partnership with the RDAs, delivers the Canada Business Network, which helps small businesses, including co-operatives, get relevant and reliable information on government services, programs and regulations to establish and grow their operations. IC also supports BizPal, a jointly managed partnership involving governments at the federal, provincial, territorial and municipal levels, which provides on-line information on permits and licenses to businesses.

Finally, the Canada Small Business Financing Program (CSBFP), which is administered by IC and delivered by private sector financial institutions across Canada, is a key program that provides access to financing for small businesses, including for-profit co-operatives. IC has been working with the national and provincial co-operative associations to raise awareness of the CSBFP through outreach initiatives. In addition, the CSBFP website highlights that co-operatives can access financing through the program.

The Government invests in the development of co-operatives across Canada through regionally-based and national programs. Given the important role that co-operatives play in economic

growth, the Government will continue to work with and support co-operatives to further economic development in Canada.

RECOMMENDATION 5

That the Government of Canada review the issue of capitalization of co-operatives, including its causes, effects, and potential solutions.

The Government acknowledges the Committee's recommendation to review issues around the capitalization of co-operatives, including its causes, effects and potential solutions.

The Government understands that capitalization is a significant issue for co-operative businesses. Co-operatives' unique common ownership, control and capital structures and their emphasis on return on use for their members, rather than return on investment, provides reduced incentive for venture capital and other forms of traditional financing.

Recognizing the importance of addressing capitalization and financing issues, the Government amended a loan guarantee program in 2009 (the *Farm Improvement and Marketing Cooperatives Loans Act* program, now called the *Canadian Agricultural Loans Act* (CALA) program) to better support agricultural co-operatives. CALA is designed to help agricultural co-operatives and farmers with their financing needs by guaranteeing loans issued by financial institutions. In addition, between 2003 and 2012, the Co-operative Development Initiative made advisory services (including financial advice) available to Canadians and co-operatives across Canada, as well as funding for innovative co-operative projects. The now completed Agricultural Co-operative Development Initiative served a similar function for biofuel and value-added agricultural co-operatives between 2006 and 2009.

Farm Credit Canada (FCC), a federal crown corporation, also provides financing options to agriculture related co-operatives and their members. Over the last decade, FCC has provided over \$1 billion in loans to members of over 30 partner co-operatives located across Canada to facilitate member purchases of primarily livestock and crop inputs. In addition, the Canada Small Business Financing Program (CSBFP), which is administered by Industry Canada (IC) and delivered by private sector lenders, is another key program that provides access to financing for small businesses, including for-profit co-operatives.

Within the current financial context, the Government has also undertaken collaborative initiatives to ensure that co-operative businesses are fully aware of, and have easier access to, existing business development funding, programs and services. To this end, the *Guide to Government Programs Available to Co-operatives* was created to list federal and provincial programs and services available to co-operatives. IC has also been working with the national and provincial co-operative associations to raise the awareness of the CSBFP through outreach initiatives. Moreover, research on the financing needs of co-operatives in Quebec led to the announcement in October 2012 of a proposed collaborative financing arrangement, the \$30 million *Co-investissement coop*. The Business Development Bank of Canada is participating in this initiative along with the Community Futures Development Corporations Network in Quebec, *Capital régional et coopératif Desjardins*, the *Conseil québécois de la coopération et de la*

mutualité, and the Government of Quebec, with the aim of financing the development and expansion of co-operatives across the province.

The Government will continue to collaborate with financial institutions, the provinces and territories and other key stakeholders, working together to offer a range of business financing and capitalization programs to co-operatives.

RECOMMENDATION 6

That the Government of Canada, in consultation with provinces, territories, and the co-operative sector, review the *Canada Cooperatives Act* to determine whether updates are advisable.

The Government acknowledges the Committee's recommendation to review the *Canada Cooperatives Act* (CCA), in consultation with provinces, territories, and the co-operative sector, to determine whether updates are advisable.

Flexible legislative and regulatory framework laws are important to provide a favourable environment for the growth and competitiveness of co-operatives in Canada.

With the support of the co-operative sector in 1998, the former *Canada Cooperative Associations Act* was replaced with the CCA, which now governs federally incorporated non-financial co-operatives. The CCA allows for co-operatives to incorporate as a right and simplifies the complex rules that governed the incorporation of co-operatives. The CCA also includes a mechanism for co-operatives to raise capital by issuing investment shares to the public.

The Government continuously examines all of its marketplace framework laws, including the CCA, to ensure they are up to date and effective.

RECOMMENDATION 7

That the Government of Canada study the possibility of consolidating the responsibility for co-operatives under a suitable department, such as Industry Canada.

The Government agrees with the Committee's recommendation to study the possibility of consolidating responsibility for co-operatives under a suitable department, such as Industry Canada (IC).

To this end, a review was conducted and it was decided to transfer Agriculture and Agri-Food Canada's co-operative policy and sector support functions to IC. This will ensure a single, consolidated, focal point in Government to encourage and support development, innovation and growth in the co-operative sector. Finance Canada will remain responsible for legislation and regulation of all federally incorporated credit union associations and insurance mutual companies.

RECOMMENDATION 8

That the Government of Canada continue to reduce the red tape burden for co-operatives and businesses.

The Government agrees with the Committee's recommendation to continue to reduce the red tape burden for co-operatives and businesses.

The Government is committed to cutting red tape, as announced on October 1, 2012, through its Red Tape Reduction Action Plan. The Action Plan introduces systemic changes that will reduce administrative burden on businesses, which can include co-operatives. This will make it easier to do business with regulators, and improve service and predictability while continuing to protect the health, safety and security of Canadians.

For instance, the Canada Revenue Agency is undertaking a red tape reduction initiative to expand and enhance online services available through My Business Account. This initiative will improve on-line services for all businesses in Canada.

Two fundamental systemic regulatory reforms in the Action Plan will reduce administrative burden on business: the "One-for-One" Rule and the Small Business Lens. The "One-for-One" Rule requires that any new administrative burden on business from regulatory changes is offset through a commensurate reduction in burden from existing regulations. It also requires that a regulation be removed each time a new regulation is created. The Small Business Lens requires regulators to ensure that the particular challenges of small business are accounted for in regulatory design. Results of both reforms are available in the Regulatory Impact Analysis Statement published with each proposed regulation where those initiatives apply in the *Canada Gazette*.