Report on the Co-operative Model of Business Enterprise in Ontario: Applications, Successes and Challenges

Prepared for the Ministry of Economic Development and Trade

Build a better Ontario...
Move forward with the Co-op Secretariat.

Prepared by the
Ontario Co-operative Association

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Executive Summary

RATIONALE

The Ontario Co-operative Association (On Co-op) and its francophone counterpart, the Conseil de la cooperation de l'Ontario (CCO), along with many leaders and stakeholders from the Ontario co-operative sector, have been lobbying the government for the past four years, in an effort to establish a Co-operatives Secretariat dedicated to promoting awareness within Government of Ontario's 1,300 co-operatives, credit unions and caisses populaires.

This brief is part and parcel of this effort. Having met with several representatives from the Ministry of Economic Development and Trade on various occasions since April 2007, this report is the direct result of the most recent meeting, held on July 3rd, 2008, between Ms. Denyse Guy, Executive Director of On Co-op, and Mr. Flavio Volpe, Chief of Staff to Minister Sandra Pupatello. Also present at this meeting, was Minister Ted McMeekin, as well as several representatives from the co-operative sector. Similar to previous meetings held with the Ministry, the objective here was to discuss the mutual benefits and potential impact of a creating a public and co-operative partnership for Ontario, and what steps could be taken to achieve this goal.

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A request was made at the July 3rd meeting to provide specific information to the Ministry, which would then be used to brief (the former) Minister of Economic Development, Minister Sandra Pupatello, prior to a follow-up meeting with On Co-op. This report is a response to that request and addresses the questions and issues that were raised. We have included the following information:

- A statistical snapshot of the Ontario co-operative sector using the most current census data;
- A summary of the provincial support provided to co-operative development across Canada;
- A summary of some of the current challenges limiting co-operative development in Ontario;
- Five case studies, which demonstrate the application of the co-op form of enterprise in the finance, manufacturing and other sectors in various parts of the world, including particularly North America and Europe;
- A summary of the 2008 Québec report on the survival rate of co-ops versus other forms of business enterprise.

This information is documented in **sections two through six** of this report.

You will also find a listing of websites where information related to co-operatives can be located, including the provincial and national associations mentioned in this report, the Federal Co-operatives Secretariat, and some sites containing profiles and statistical information related to co-ops. This information can be found in **section seven** of the report.

Section eight of this report draws a final summary of the information presented within this brief - what does all this information mean, and why is it relevant?

Included at the end of the report is Appendix A, which charts a comparison of support offered for the co-operative sector in the provinces of Québec, Ontario, Alberta, Manitoba, Nova Scotia and Newfoundland and Labrador. This information is located in **section nine** of the report and provides the statistical basis for the analysis in section three.

OBJECTIVES

It is our hope that this brief will provide you with a greater understanding of the Ontario co-operative sector - its successes and challenges, as well as the contribution it makes (and has the potential to make) to the social and economic fabric of the province.

The case studies on how the co-op model is being applied in various sectors in the world are meant to demonstrate how the co-operative form of enterprise can be incorporated on a local level, as a means towards achieving stronger and more sustainable social and economical development within Ontario.

The examples cited of manufacturing co-ops in this report are derived from a European context - notably those of Mondragón in Spain and Emilia-Romagna in Italy. Both of these regions demonstrate a highly successful application of the co-operative model in their respective manufacturing sectors.

We have summarized each section of the report in the following sections. For a more detailed explanation of each section, please refer to the report itself.

SUMMARY OF CONTENTS

Section 2: 2007 Census of Ontario Co-operatives

The most current statistical information on the Ontario co-operative and credit union sector has recently become available through the first-ever comprehensive census on co-operatives and credit unions, which was completed by On Co-op in 2007. Key statistics point to the existence of **1,300 co-operatives** (this includes credit unions and caisses populaires), which provide employment to **15,500 individuals**, have more than **1.4 million members**, and combined **assets of over $30 billion in the province of Ontario**. When branches and secondary offices are included, there are approximately 1,900 co-op locations in more than 400 communities across the province.

Further breakdowns reveal that **83 percent** of co-operatives are **non-financial** in nature, with housing representing the biggest sector, followed by financial services, child care, agriculture and other types of co-operative enterprise. On an asset basis alone the analysis would likely be different. Geographically, almost half of all co-ops (48%) are located in central Ontario.

In addition, **76 percent** of those employed in the sector work **full time**, and the large majority of co-ops (70%) have less than five paid staff. Co-ops also have a significant volunteer support network, made up of close to 50,000 individuals, as well as a leadership constituted of 10,000 board members.

<u>Section 3</u>: Provincial Analysis of Co-operative Development in Canada

Using a variety of reliable sources, including the Federal Co-operatives Secretariat, the Canadian Co-operative Association, and the provincial associations and federations that are part of this analysis, On Co-op created a snapshot of the types of provincial support afforded to co-operative development across the country. The objective here was twofold: to enable a comparison to be drawn between the provinces, with respect to the types of support that exists for co-operatives, as well as to demonstrate where Ontario's stands with respect to support for its co-op sector, in comparison to the other provinces.

The provinces detailed in this analysis include Québec, Ontario, Alberta, Manitoba, Nova Scotia and Newfoundland and Labrador. While some of the provinces have been left out, these six were chosen because we were able to get the most up-to-date information on them. They also seemed to be quite representative of what is happening across the country. While the analysis and its results have been summarized in section three of this report, the following conclusions can be drawn from the chart provided:

1. Despite having the second largest co-op sector in the country (second only to Québec), Ontario has very little to no support from its provincial government, for its co-op development initiatives. In fact, the only government agency tied to the sector, the Financial Service Commission of Ontario (FSCO), is responsible for the regulation, registration and incorporation of co-operatives, as well as reviewing all offering statements. This stands in stark contrast to the other provinces detailed in the analysis, which have fewer co-ops, and yet have a much greater level of support from their respective governments for their *co-op development initiatives*, be it through dedicated departments or a variety of partnership programs.
2. This lack of provincial support and recognition has greatly contributed to the Ontario co-operative sector's inability to operate and develop to its full capacity.

3. The other provinces included in this study each have a government body dedicated to co-operatives, or some form of partnership with them, that supports their development efforts. As a result, they have been able to achieve significant recognition for and development of their co-operative sector.
4. While representation for co-ops via a provincial association or federation is important, it is not enough to meet the unique needs, objectives and challenges that face the co-operative sector.
5. Greater recognition for co-ops usually means greater membership, and therefore, greater overall support and dedication to the co-operative sector within a province.
6. A little bit of government support can go a long way when it comes to helping the co-operative sector achieve its goals of creating more sustainable economies. The other provinces in this analysis support this conclusion.

<u>Section 4</u>: Summary of Challenges Limiting Co-op Development in Ontario

While there are many challenges facing the Ontario co-operative sector - some unique to co-operatives and some that are similar to other business enterprises - three key challenges have been identified for the purposes of this report, and some possible recommendations on ways to deal with them have also been included in section four. These are the issues that the sector believes require the most immediate attention, and it is proposed that through a collaborative partnership between the public and co-operative sectors, they can be adequately addressed and resolved. The three key challenges are summarized as follows:

1. Overall lack of public awareness of the co-operative model;
2. Insufficient resources for capacity building and support of co-ops;
3. Regulatory framework and financial incentives governing co-ops is limiting.

Many of the recommendations provided under each of these challenges point to the need for partnering with a specific, or in some cases, more than one ministry, as a means towards identifying and working towards solutions for each challenge. They emphasize that both the co-operative sector and the province should take some of the responsibility and work *together* to address these challenges in order to achieve positive results.

The study, therefore, again points to the need for greater provincial support for co-operatives - in other words, an equal playing field as compared to other business models - if the sector is going to remain competitive in today's global economy. Co-operatives also have a long-standing history of providing certain benefits and solutions not available through traditional businesses, and ignoring this contribution and potential would be a great loss to our social economy.

<u>Section 5</u>: Applications of the Co-operative Model Throughout the World

Each of the case studies in this section have been included with the primary objective of demonstrating how the co-operative model is being used and applied throughout the world, as a means to improving a community's or a region's social economy. Specific examples have been taken from the financial, manufacturing and renewable energy sectors, as found in North America and Western Europe. Of particular interest is how both government and public perception play key roles in the successful implementation, promotion and development of the co-op model in each area.

Case Study 1:
The first of five case studies takes a look at the financial co-operative sector in Ontario, and draws on a 2007 report entitled, "Strengthening Ontario Communities: The Contribution of Credit Unions and Caisses Populaires to Economic and Social Development in Ontario." *(See full report in section 9)* It profiles how Ontario's **217** credit unions and caisses populaires provide services to 43 communities throughout the province at their **687 locations**, and **contributes $410 million** to the Ontario economy. They also provide jobs to over **7,000** individuals, the majority of which (80%) are outside of the Greater Toronto Area.

Interesting to note here are the distinctions that exist between financial co-operatives and traditional financial institutions. Financial co-ops tend to operate outside of the financial hub in the GTA, and focus their efforts on serving the local community in which they are located. By doing so, they are providing not only jobs in these communities, but are also and often the *only* local alternative to a single financial institution in that region. Another distinction is that they contribute more than 1 percent (and often up to 5%) of their pre-tax profits towards various community initiatives, compared to an average 1 percent by larger, non-co-operative financial institutions.

The study also discloses that credit union membership tends to be greater in some of the other provinces, due in part to the overall awareness for other forms of banking that is generated within the provinces. Ontario credit unions, on the other hand, tend to focus their attention on increasing membership in the smaller communities (and outside of the GTA), where they receive less recognition.

Finally, the study discusses why there may be a general lack of public support for Ontario credit unions, in comparison to traditional financial institutions. It sites two reasons for this: First, it again points to the fact that the majority of its members and market share lay outside of the GTA, resulting in their contribution within the GTA being overshadowed by the larger financial institutions and banks located therein. Second, as credit unions focus on serving their local communities, much of their promotional and government relations efforts are dispersed among the

219 local organizations, and being so local in nature, they tend not to receive the recognition of our provincial policy makers and representatives.

Case Study 2:
The second case study highlights the rural electric and renewable energy generation co-operatives that are located in the Midwestern United States, in an effort to disclose some of the other innovative sectors that co-operatives can be situated in.

It particular, the study stresses the positive impact that this sector has had with regards to local economic development, by noting that locally-owned renewable energy projects tend to have a higher economic development benefit than private projects within the same community. For example, farmers tend to own and not lease the equipment, and locally-owned projects tend to use local labour and companies, and are also more likely to spend the dollars and profit locally.

Currently, there are over 850 rural electric co-operatives that are part of the National Rural Electric Co-operative Association (NRECA) in the US. The Association's sixty members combined, have over **40 million** members across 47 states, and assets of over **$100 billion**. They generate **5 percent** of the total electricity produced in the country. In more recent years, the co-operative model has been applied to develop electricity generation and transmission services, including new renewable energy sources.

Furthermore, various loan and grant programs exist in the US that provide support to electric co-operatives, as there is a general awareness that they are local economic development agents that create employment for the communities in which they exist.

There exists one similar example of an electricity distribution co-operative in the Ontario context, **Coopérative Hydro Embrun Inc.**, in Embrun, Ontario. In this case, the community demanded that upon privatization, the municipal utility be incorporated as a co-operative.

Case Study 3:
The third case study in this series further exemplifies the farmer-owned renewable energy generation within the European context - specifically in Germany and Denmark. Particularly noteworthy is how the success of this innovative sector also contributed to a burgeoning manufacturing sector in both countries: Germany's manufacturing industry is considered to be one of the world's powerhouses, and Denmark is ranked 6th in the world in wind power generation, with its manufacturing industry having expanded rapidly with the increase in installed wind turbines in the country.

In Germany, local farmers united to jointly own and finance the generation projects. This led not only to an increase in manufacturing, but also fed the development of more energy generation. Similarly, by maximizing the skills of both unemployed and displaced manufacturing workers in the country, they concurrently improved the social and economic situations of the workers and the communities in which they live.

Furthermore, farmer-based initiatives in Germany are usually co-operative-based, which are financed through limited partnership agreements. This enables the projects to take advantage of tax benefits, while ensuring that both control and profits remains in the hands of the members. There is a similar project in Québec, known as **Val-Éo**, which is exploring a hybrid co-operative model, largely influenced by the financing advantages enjoyed by the German model. In Denmark, general partnerships (i.e., co-operatives that work under the Danish Power Law), have facilitated farmer and landowner ownership of wind farm projects.

The study also notes that in Ontario, several challenges such as access to the grid, regulation and capitalization issues, have greatly hindered the development of renewable energy co-operatives (as well as of private companies). This is relevant in that it indicates that the barriers to development are not the result of the co-op structure of the business. It has also been occurring, despite the fact that the Ontario government has already proven itself to be a leader in electricity generation in North America, in part by issuing standard offering contracts for the purchase of electricity in the province.

Case Study 4:
The fourth case study focuses on the significance and success of the co-operative model in Spain. The Mondragón Corporación Cooperativa (MCC) is a business group based in the Basque region, yet extends its reach to the rest of the country and abroad. It is considered to be one of the world's largest worker co-ops, constituting **264 companies** that span across manufacturing, retail, finance and educational sectors. With over **100,000 employees** and assets of **$33 million** (euros), MCC makes a significant contribution to the social and economic fabric of the country.

MCC's mission is to combine the basic objectives of a business organization competing within the global market, with the application of a democratic organizational structure. Its focus is one of job creation and a commitment to the development of its social environment; it therefore operates, as many co-operatives do, to provide opportunities for people to participate in a *relationship economy* (i.e., involvement of the people). Statistics have shown that MCC is twice as profitable as the average organization in Spain, and that employee productivity surpasses all others.

Also noteworthy is that the Mondragón region, saturated with co-operative activity, is at the top of the Spanish per capita income scale, and has a comparatively low employment rate. Local media has also reported a greater level of economic development in the Basque region, as well as a fairer distribution of wealth.

The Basque government and tax authorities have incorporated many special measures to help co-operatives - undoubtedly, one of the keys to MCC's overall success.

Case Study 5:
The fifth and final case study points to the strength and success of the co-operative sector in northern Italy, known as the Emilia-Romagna region. The region has **4.2 million** inhabitants (aside: roughly 1/3 the size of Ontario!) and is uniquely characterized by the existence of thousands of co-operatives. Here, **two of every 3 people** belong to a co-op. E-R co-operatives make up over **40 percent** of the GDP for the entire region. E-R is considered to be the second richest region of Italy and is ranked 11th of 122 regions in per capita GDP European economic zones - an incredible statistic, given that it was one of the poorest regions in Italy after World War II! The co-operative nature of the region's economy is believed to be largely responsible for the high standard of living enjoyed by its inhabitants.

Throughout Emilia-Romagna, there are **90,000** manufacturing enterprises; here, private companies and co-operatives work in flexible networks, which combine small firms in joint projects. Bologna, one of the provinces making up this region and with a population of less than 400,000, has a remarkable **8,000** co-operatives, and thus clearly demonstrates the successful development of small and medium-sized business through the integration of the co-operative and private enterprise models. This region also boasts an almost non-existent unemployment rate (4%), a per capita income that is 50 percent greater than the national average, and an unusual homeownership rate of 70 percent - all key indicators that its social economy is both strong and stable.

The success of the region's co-operatives can be attributed, in part, to its government recognizing the advantage in passing on the role of providing key social services through co-operatives at a lower cost. It has also played a key role in establishing sector-based services that help smaller companies, such as co-operatives, to develop. Finally, the government provides a significant tax incentive which has greatly benefited co-op development efforts in the region. Under Italian co-operative law, every co-op must contribute 3% of its annual surplus to a national fund for development. This money is *not* taxed and the sector is then responsible for directing the funds back into the region to help finance its co-operative development initiatives

***Section 6*: Summary of Québec Report on Survival Rate of Co-ops**

A recent study conducted in Québec, demonstrates that co-operatives operating in the province have a significantly longer survival rate than other forms of business enterprise. In fact, the statistics are almost double, with **62 percent** of co-ops surviving the first 5 years of operation, compared to **35 percent** of other businesses, and **44 percent** surpassing the first 10 years, compared to **20 percent** of other businesses! Québec businesses operating under the co-operative model, therefore, survive about **24 percent longer** than their traditional business model counterparts.

The study offers many relevant statistics, all of which point to the fact that Québec co-operatives tend to outlive other business enterprises in the first, fifth and tenth year of operations. It also offers many valid reasons for this fact, all of which point to the very unique nature and structure of the co-operative model - i.e., its primary focus on member needs and services, its democratic nature, their concern for the triple-bottom line, etc. The results also point to a number of other factors contributing to this success, including: a well-rooted and historical advantage enjoyed by Québec's co-ops, where there exists a strong representation in various economic sectors that fulfill basic human needs, such as agriculture, housing, and education, as well as province-wide support and recognition for the co-operative model of business enterprise, often in the form of various financial aids and incentives afforded to the development of co-ops.

The study also compares the survival rate of co-operatives and other business enterprises within specific sectors, noting that both producer and consumer co-ops have double the survival rate of their non co-op counterparts, after merely five years of operation. A further expansion of this analysis reveals that co-ops also surpassed other business enterprises in the housing, telecommunications, hotel and restaurant, education, agriculture and forestry sectors. *(See section 6 of this report for related statistics).*

In the cases where the co-op model did not prove itself to have a higher survival rate than their business counterparts, such as the construction, manufacturing and financial sectors, several possible reasons were offered for this discrepancy. The first motive points to the existence of large chains in these particular sectors, consequently making it much harder for smaller co-ops to compete. The case of manufacturing, in particular is noteworthy, as most of the companies in the study (both co-op and non), were experiencing difficulties, and the co-op model was being applied as a last recourse for survival. In addition, while agricultural and agri-food manufacturing co-ops have a proven strong survival rate, most of them were in operation before the period covered in the study, and were therefore not accounted for.

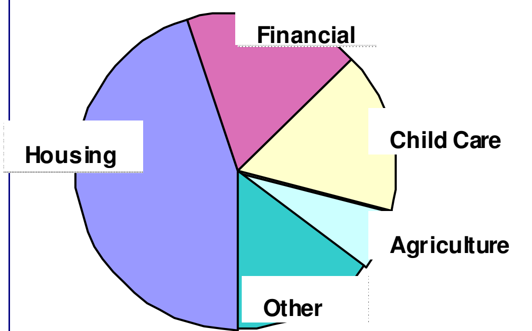
The study concludes by highlighting some of the challenges facing the Québec co-operative sector, such as the lack of research and support on co-operatives operating in the more urban regions. It is our belief, however, that the most important point to extract from this analysis is the fact that co-operatives, by demonstrating their ability to outlive other forms of business enterprise in many relevant economic sectors, also exhibit the ability to create a more sound and sustainable economic environment for the communities in which they are situated. In other words, the longer a business is able to remain in operation, the more stable is the employment, and therefore, the general well-being of the people living and working in the community. If the co-operative sector is not supported and not allowed to develop to its full capacity, then this signifies a great loss of economic stability - and of potential growth - within a given community. The co-op model clearly holds the key to the long-term social and economic sustainability that is greatly needed in today's ever-changing and evolving world.

READ ON…

While this executive summary has been created to provide a synopsis of the information detailed in this report, we ask you to take the time to review the individual sections to gain a better understanding of the co-operative sector and some of the possibilities that this unique business model has in improving the social and economic fabric of our province.

KEY NUMBERS FROM THE FIRST-EVER COMPREHENSIVE CENSUS OF ONTARIO CO-OPERATIVES AND CREDIT UNIONS (2007)

Here is a quick snapshot of things we're learning about Ontario's co-operative sector…

Item	Notes
1,300 CO-OPERATIVES IN ONTARIO  	o Includes all co-operatives, credit unions and caisses populaires operating in Ontario under the province's Co-operative Corporations Act (CCA act), or federal co-operatives (operating under the Federal Cooperatives Act) who carry on some of their business Ontario o Does not include federal co-ops which do not operate in Ontario o Does not include "co-op–like" organizations even though they may operate according to co-op principles or philosophies). Because they are not operating under the CCA act, "co-op-like" organizations could modify their business structure at some future date. o When branch/secondary offices are included, there are more than 1900 co-op locations in Ontario, in more than 400 communities
KEY SECTORS: o Housing – 45% of all Ontario co-ops (587 co-ops) o Financial services – 17% (226 co-ops) o Child Care – 17% (216 co-ops) o Agriculture – 6% (77 co-ops) o "Other" – 15% (194 co-ops)	o Financial services includes credit unions, caisses populaires and co-op insurance companies o "Other" includes energy, communications, retail, wholesale and miscellaneous sectors
ASSET SIZE: o Conservatively, $30 billion	o The Ontario credit union system represents a significant portion of that asset figure
PAID STAFF: o 15,500 employees o 76% full time; 24% part time o 13,550 Full time equivalent (FTE) o More than 70% of all co-ops have less than 5 paid staff	o Paid staff does not include contract workers o FTE is based on 35 hour work week
MEMBERSHIP: o Conservatively, 1.4 million members	

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FEDERATIONS AND ASSOCIATIONS:

- 77% of co-ops belong to a federation or association
- 3% of all co-ops are federations or associations

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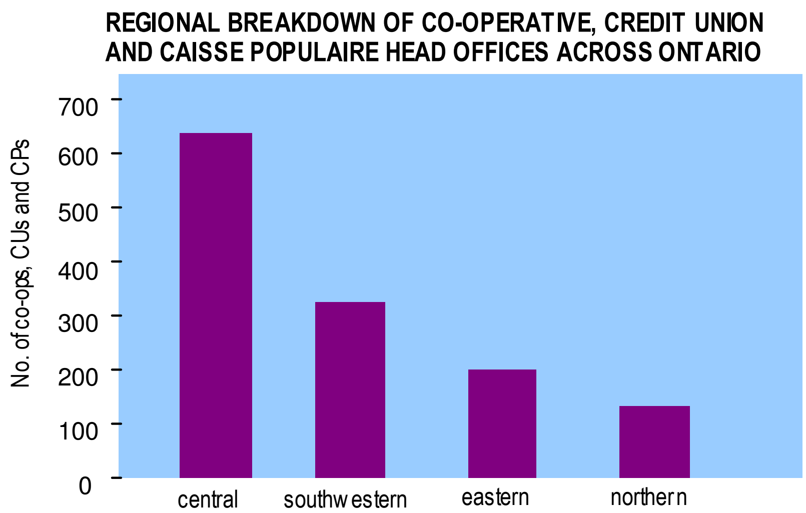

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GEOGRAPHICAL BREAK DOWN:

- 50% of all co-ops located in central Ontario
- 25% in south-western Ontario
- 15% in eastern Ontario
- 10% in northern Ontario

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REGION SERVED:

- 78% of Ontario's co-ops serve a building, town or city
- 11% serve a larger region of the province
- 3% serve all of Ontario
- 5% serve more than one province

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VOLUNTEERS:

- 49,000 volunteers
- 10,000 board members

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- 49,000 figure includes board members
- The mean number of directors at each co-op varies from 7-8
- 91% of Child Care Co-ops and 90% of Housing Co-ops require their members to volunteer (19% for Financial Co-ops, 22% for "Other")
- 97% of Child Care Co-ops and 93% of Housing Co-ops involve volunteers in their activities (40% for Financial Co-ops, 44% for "Other")

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GROWTH IN MEMBERSHIP OVER THE LAST 5 YEARS:

- 20% of co-ops surveyed have experienced an increase in membership
- 64% had no change
- 16% had a decrease

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ABOUT THE CENSUS…

This is the first comprehensive survey of Ontario's co-operatives (including credit unions and caisses populaires). It was undertaken to create a data set to indicate the size and scope of Ontario's co-operative sector, as well as gather information on a set of related issues such as the challenges that these organizations experience. The research builds upon existing work: the 2002 National Survey of Non-profit and Voluntary Organizations, which mapped the size and scope of the non-profit and voluntary organizations in Canada. It also leverages the work done by On Co-op in 2002 as part of its efforts to produce a map of Ontario's co-operatives.

Specially trained On Co-op staff researched and implemented the census over a six-month period. Data analysis was provided by Imagine Canada, as part of a research alliance with the Social Economy Centre of OISE/University of Toronto.

Provincial Analysis of Co-operative Sector throughout Canada: An Overview *(see Appendix A)*

The **objective** of this provincial analysis is two-fold:

1. Draw a comparison between the provinces, with respect to the types of support that exists for co-operatives. This is further divided into three sections: a sector profile, government representation and representation via provincial association and/or federation.
2. To demonstrate where the province of Ontario stands, with respect to support for its co-operative sector, as compared to the other provinces.

Overview

Québec…

- **Sector profile:** The analysis reveals that the province of Québec ranks 1st in the number of co-ops it has (also accounting for higher numbers in membership, those employed in the sector and its combined assets). In fact, the province is unique in that the amount of individuals and businesses that belong to a co-op at 8.8 million, is actually greater than its population! The Canadian Co-operative Association (CCA) offers that in Québec, 70% of the population is an individual member of a co-op, bringing the actual amount to about 5.4 million. It clearly demonstrates that the co-op sector in Québec is well grounded, publicized and supported by its people.

- **Government representation:** Part of the co-op sector's success, is due to the fact that the province's 3,200 plus co-operatives are also strongly supported by their government. Through the Ministry of Economic Development, Innovation and Exports, the province has an established "Direccion des coopératives" that is solely dedicated to its co-op sector. With an operational budget of over $1 million, plus an additional $4.3 million dollar partnership co-op development fund between the government and co-op sector, and a staff of 17. This is an extraordinary and highly unique situation, as the province has nearly four times the money dedicated to its co-op sector, than that of the Federal Co-operatives Secretariat at $1.4 million! Also unique to the province, is the provincial funding of a Regional Co-operative Development network - or CDR - which constitutes 11 regional co-op development agencies that are dispersed throughout the province. Several staff members at each of these agencies are responsible for their specific region's co-op development initiatives. There is also a distinct government department that deals, in part, to the regulation of co-operatives in Québec. Through these partnerships and initiatives, Québec co-operatives are able to generate annual assets of over $150 billion dollars, making a very significant contribution into the province's economy.

- **Representation via Association/Federation:** A provincial association exists that operates on an annual budget of $1.8 million and has a staff of 14. Similar to all other associations representing co-operatives in the country, its mandate is to unite and develop the co-op sector within their province. (For more detailed information on this association and all others in this analysis, please consult the reference list of all the provincial websites).

Alberta, Manitoba, Nova Scotia and Newfoundland & Labrador…

- **Sector profile:** Further analysis demonstrates that the provinces of Alberta, Manitoba, Nova Scotia and Newfoundland and Labrador, rank third, fourth, fifth and sixth with respect to the number of co-operatives in each region. The number of co-op members, employees and assets generated by each of these provinces, tends to reflect the size of their respective sector. The only exception here is Nova Scotia, which has almost double the number of employees as that of Manitoba, despite having slightly less co-ops. Another statistic worth highlighting is that Alberta, Manitoba and Nova Scotia each have a co-op membership of approximately one of every two or 3 people living in the province. This speaks to the high level of publicity and support that is afforded to their co-op sectors.

- **Government representation:** The four provinces also enjoy varying degrees of government support, with each of them having at least one specific Ministry department or branch dedicated in whole or in part, to co-operatives. In some cases, there was a budget allocated specifically to co-op promotion and development (e.g., Manitoba), and in others, the budgetary provisions were already part of the Ministry's overall administrative expenses (e.g., Alberta). While we were not able to verify budgets for Nova Scotia nor Newfoundland and Labrador, we are assuming that these provinces fall into one or both of these categories. What is noteworthy, however, is that in all cases, we were able to identify at least one, if not more individuals, who were dedicated to co-operatives on a full-time and/or part-time basis. In three of the provinces, and similar to that of Québec, we were also able to pinpoint the existence of a distinct government department or body that dealt in part, with the registration and incorporation of co-operatives in their province.

- **Representation via Association/Federation:** Each of the province's also have at least one association or federation that support their co-operative communities, and three of them have two associations, each being responsible for the Anglophone or Francophone co-op sectors therein.

The budgets and staffing of each of the associations vary. What is noteworthy, however, is that at least two of them have a number of trained co-op development officers: 7 in Alberta and 4 in Manitoba, in addition to their operational staff.

Ontario…

- **Sector profile:** The analysis proves itself to be most revealing with regards to the Ontario sector, on many levels. We see that Ontario ranks second to Québec, in the number of co-ops throughout the country. An interesting comparison can also be drawn from the fact that while Québec has more than double (but less than three times the number of co-ops as Ontario, it has combined assets totaling more than five times that of Ontario! Another comparison can be made based on the total amount of funding that Ontario receives for supporting its co-operatives (much of which is dependent on various government grants and membership dues, thereby contributing to its continuous instability and insecurity on a daily basis): a total of $2.1 million, compared to that of Québec, which stands at over $7 million - no wonder the Québec co-op sector is thriving! It is also noteworthy that membership for Ontario's co-ops, while high at 1.4 million, only accounts for approximately one in every 9 people living in the province. This statistic speaks to the obvious lack of publicity, understanding and support of the co-op model here in Ontario, as compared to the other provinces in the analysis.

- **Government representation:** The analysis also verifies that there is no government department or body dedicated to Ontario's co-operative sector. While the Financial Services Commission of Ontario (FSCO) deals with regulation of the Act, reviewing of offering statements, as well as the registration and incorporation of co-operatives, their key mandate is to regulate the financial service sector throughout the province. Considering that only 17 percent of co-ops are responsible for offering financial services (as compared to 83 percent of non-financial co-ops that exist in the province), the large majority of co-operatives in Ontario are left without any form of government support or representation. The Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA), does provide some valuable funding to Ontario's agricultural co-operatives through various programs. However, considering that this sector represents a mere 6 percent of the entire co-operative sector in Ontario, this leaves the other 94 percent of co-ops to fend largely for themselves. It is possible to conclude then, that there are no Ministry departments or bodies which dedicate themselves solely or in part, to general development of the Ontario co-operative sector - a factor which is quite distinct from the other provinces in this analysis.

- **Representation via Association/Federation:** Ontario has two associations - one dedicated to Anglophone and the other to francophone co-ops in the province. Combined, they operate on an annual budget of just over $2 million dollars, and yet, they have less employees working either full-time or part-time at the associations, than the provinces of Québec, Alberta and Manitoba respectively. Also noteworthy is that the Ontario associations have only 3 dedicated co-op developers (one of which is part-time) - a very low number when considering the number of co-ops in the province. This statistic becomes even more significant, when one considers that there is no other support for co-operatives in the province, and therefore the task of developing new co-ops, or assisting existing co-ops with any issues or challenges they may have, becomes an onerous one. It has also undoubtedly hindered the development of the co-operative sector in Ontario, not allowing it to reach its full capacity.

General Conclusions

Many relevant conclusions can therefore be drawn from this very basic analysis:

1. The Ontario co-operative sector, in comparison to the other provinces in this analysis, has very little support in the form of funding, human resources and government, despite having the second largest co-op sector in the country.
2. This lack of recognition and support, has contributed, in large part, to the Ontario co-operative sector's inability to operate and develop to its *full* capacity.
3. All the provinces that have a government body that is dedicated to its co-op sector, or that enjoy some form of partnership with their respective governments, have been able to achieve significant recognition for and development of their co-op sectors.
4. Representation via provincial association and/or federation, while important, is simply not enough to meet the unique needs, objectives and challenges that face the co-operative sector.
5. The greater the co-op membership (with respect to a given population), the greater the overall support and dedication it seems is afforded to co-operatives within a province.
6. A little bit of government support can go a long way in helping the co-op sector achieve its goals of creating more sustainable economies - the provinces of Québec, Alberta, Manitoba, Nova Scotia and Newfoundland and Labrador are prime examples of this.

Aside: The statistical analysis is meant to provide as realistic and accurate portrait of the co-operative sector in Canada as possible, and focuses on six provinces in particular: Québec, Ontario, Nova Scotia, Newfoundland and Labrador, Manitoba and Alberta. The reason for this is due largely to the fact that these provinces were able to provide us with the most up-to-date information regarding their respective sectors. We felt that the provinces included here, ranging from east to west coast, covered much of the geographic territory that is Canada, contributing to a more realistic overall portrait of the co-op sector in general. All the sources used in this analysis are legitimate and have been confirmed. All statistics have been verified by certain individuals working at the respective provincial association/federation, to be true and as up-to-date as possible.

Summary of Challenges Limiting Co-operative Development in Ontario

OPENING REMARKS

While the current Ontario co-operative sector stands at 1,300 strong and has assets of over $30 billion, there are several challenges that are limiting the potential development of co-operatives in the province. The creation of a Co-operatives Secretariat would, as part of its mandate, help identify and address such challenges, mainly through its work with the various ministries, but could certainly not address all the issues facing the sector. It is mainly through a *collaborative partnership* between the public and co-op sectors that we envision successfully meeting these challenges, and not merely through the efforts of one or the other. Our recommendations, therefore, attempt to reflect this collaborative relationship.

Three key challenges have been identified by the co-op sector as requiring the most immediate attention, and we offer some recommendations for addressing each below. These are a few of many suggestions for dealing with the issues described herein. Finally, these challenges are somewhat interconnected and may appear, to some degree in more than one area. This interconnectedness also means that positive movement in one area may positively impact the other areas.

Challenge #1: Lack of public awareness of the co-operative model

Although the co-operative system in Ontario provides a number of economic and social benefits to the province, there is a general lack of awareness about the co-operative model, how it works and how it contributes to Ontario society. This lack of awareness can be attributed to a few key causes:

- A lack of curriculum on the co-operative model in high school and post-secondary school texts
- Insufficient information on the co-operative option being distributed through business support centres and resources (Small Business Enterprise Centres, Community Futures Development Corporations, online government resources for starting up businesses, etc.)
- A lack of media coverage about the success of the co-operative sector in Ontario

There are several initiatives that could be implemented which would address some or all of these points. With regard to the lack of curriculum in particular, the Ontario Co-operative Association (On Co-op) and its educational partners have been working towards the development of a post-secondary certificate in co-operatives that could be offered at a number of universities or through the credit union and co-operative learning system, CUSOURCE. Although this would assist in reaching a currently un-served audience with education about co-operatives, there is more that can be done. Curriculum that provides information for high-school students about co-operatives should be added to the high school curriculum for both the public and separate systems.

***<u>Recommendation</u>*: That the Ministry of Education work with representatives of the co-operative movement - convened by On Co-op and le Conseil de la coopération de l'Ontario (CCO) - to identify additional resources that could be introduced into the high school curriculum.**

Currently, individuals or groups that go to seek information from government sources, such as SBECs, on starting their own business venture are presented with information on the three 'private' options, but very little information is available on starting a co-operative, or even that the co-operative option exists as a viable choice for structuring a business. On Co-op and CCO have developed a number of co-operative development resources that can assist those interested in starting their own business, or that provide basic information on the model. These include a guide to the co-operative legislation, a series of factsheets, and a development wheel to guide the start-up process and many others. Although we have had some success in getting this information into a few CFDCs or into the hands of business advisors, there is no information available reliably throughout the entire system of SBECs and CFDCs. This information needs as wide an audience as other information provided on starting a business. In sum, there is no reason why the co-operative model should not be on an equal playing field when it comes to being supported and promoted as an option for setting up and conducting a viable business in Ontario.

***<u>Recommendation</u>*: That the provincial government should provide copies of our resources alongside the other material in all SBECs and other government agencies that provide business information. On Co-op and CCO would make electronic copies of these resources available to the government for use on the appropriate websites and would provide new and updated copies to the appropriate ministries as required.**

***<u>Recommendation</u>*: That staff of SBEC and other government agencies receive better education on how to support co-operatives, and that SBECs and like agencies seek employees that have a knowledge of supporting co-operatives.**

With regard to the lack of media coverage on the co-operative sector, this can be attributed, in part to two key factors: First, is the fragmented and highly dispersed nature of the co-operative sector in Ontario. Not only are co-ops spread all over the province, but their independent and autonomous nature often results in small bursts of information on distinct co-ops being released to local and alternative media sources. This does *not* contribute to accurate portrayals of the depth, scope and strength that is the Ontario co-operative sector, but *does* contribute to the public's misconceptions and lack of understanding of the sector as a whole.

Second is the lack of human and financial resources available within the sector - or lack of a central and dedicated body - which could provide a continuous stream of information via press releases to the mainstream and national media. Currently, On Co-op and the CCO each have a Communications Manager that write occasional press releases on the successes and challenges facing the sector, and then send them out to their media contacts. These pieces are rarely picked up by the mainstream media, which leads us to the obvious conclusion that they are ranked as having a low priority in the public mindset.

<u>Recommendation</u>: That through a public and co-operative partnership, there be a central body dedicated to increasing media coverage about the co-op sector in general, and to highlight its strengths and successes, as well as some of its challenges.

Challenge #2: Insufficient resources for capacity building and support

Lack of access to capital for Ontario's co-operatives is due, in part, to the nature of the current legislation, which was put in place several years ago and does not adequately account for the realities of the business climate in which co-operatives operate. Another factor is the public's common mindset, which largely supports profit-driven business enterprise. There are precious few resources available for early stage support and development of co-operatives, as there are for new small-medium enterprises - nor are there the subsidies and financial supports available as there are for large industry. Early stage support and financial incentives for co-operatives are essential in ensuring their ability to start up, begin operations, expand their operations or even to survive. There are a few small sources of funding support available to co-operatives, but no systemic support for growing the sector to its full capacity. On Co-op and CCO have been working with a number of partners on the development of a Social Economy Consortium to advocate for policy and financial tools for supporting the growth of co-ops, not-for-profits and social enterprises, but this is still only one part of the needed support. There are a number of resources that government supplies to various business sectors in Ontario in order to stimulate growth and support, such as low interest loans, funds and other financial supports for particular sectors (e.g., the Eastern Ontario Economic Development Fund, Forest Sector Prosperity Fund, direct investment in particular companies, etc.). Although co-operatives can sometimes take advantage of these opportunities, there has been no large scale support of the co-op sector as there has been for other business sectors. Considering the contributions that co-operatives make to the Ontario economy (see the Census summary provided for more details), concerted efforts to stimulate growth and support would certainly strengthen the sector.

<u>Recommendation</u>: Through a concerted research and development effort, identify favorable policies and financial instruments that are best practices for facilitating co-op development, and develop recommendations for implementation in the Ontario context.

Challenge #3: Co-op Regulatory Framework and Financial Incentives is Limiting

Co-operatives in Ontario are currently bound to a limited and partially outdated framework that doesn't adequately provide tools to allow co-ops to raise the needed capital in the current business climate. They are regulated by the Financial Services Commission of Ontario (FSCO), and are subject to the Ontario *Co-operative Corporations Act*, both of which lead to a number of limitations. First and foremost is the fact that FSCO is an agency of the Ministry of Finance - and regulates the sector from a financial mindset that is focused on risk aversion - and yet, 83 percent of Ontario's co-ops are non-financial in nature. In fact, and as per the recent changes to the *Credit Union and Caisses Populaires Act*, 1994, credit unions are now in the process of being regulated by the Deposit Insurance Corporation of Ontario (DICO), which means that even less than 17 percent of co-ops in the province truly fall into FSCO's mandate. Another limitation is related to capitalization efforts and taxation profiles, which can limit the ability of co-operatives to raise the needed funds and stimulate investment in their businesses. On Co-op and CCO have been working with FSCO to modernize the legislation and regulations related to capitalization and investment of co-ops, but there has been resistance from higher levels at Legislative Council and the Ministry of Finance. This has meant a long delay in getting changes made to the Act that would facilitate co-ops doing business in Ontario's marketplace. These changes are crucial if co-operatives are to remain competitive in the Ontario economy. Several other jurisdictions have also adopted tax incentives for co-operative businesses that facilitate investment. On Co-op has begun a process of developing a summary of the current taxation regime that exists for Ontario co-operatives, along with recommendations for changes and additions that would make investing in co-operative businesses more attractive.

Recommendation*: That the Ministry of Finance and Legislative Council accept the pending changes to the** **Co-operative Corporations Act** ***and adopt a more flexible approach to respond more positively to changes brought forward by the sector through FSCO.

***Recommendation*: That the Ministries of Finance and Economic Development and Trade receive the recommendations that the co-op sector provides on taxation and financial challenges, and consider addressing the recommendations with appropriate tax and investment incentives. And, that the said Ministries would consult with representatives of the co-op sector about additional measures that could be enacted to support the sector.**

CONCLUDING REMARKS

It is our opinion that through an active and collaborative partnership between the public and co-operative sectors, we can effectively and efficiently address and find solutions to the three key challenges facing the Ontario co-operative sector, as outlined in this summary.

Furthermore, by pooling together their resources and funds, co-operative development throughout rural and urban regions of the province could flourish. The province would also benefit from the body of expertise and experience that individuals from the co-operative sector would bring to this collaboration. For example, many of their long-standing public policy objectives could be met, such as job creation and growth, the alleviation of poverty among aboriginal, disadvantaged and immigrant communities, as well as many other local economic development goals. The results of meeting these goals cannot be undermined: enhancing the overall well-being of the people of Ontario.

The co-operative sector has already proven itself to be a strong contributor to the social and economic fabric that makes up Ontario's communities. However, the co-op model needs the support of the province - similar to the support afforded to other business models - if is going to remain competitive in the long term and survive the global economy. Not supporting and investing in a model that has historically proven benefits and advantages would be a great loss to the province.

Case Study 1
Financial Co-operatives in Ontario: Credit Unions and Caisses Populaires

A 2007 report prepared by Michael Andrews and Associates Limited for Credit Union Central of Ontario (now known as Central 1, as of July 1st, 2008), entitled: *Strengthening Ontario Communities: The Contribution of Credit Unions and Caisses Populaires to Economic and Social Development in Ontario,* provides the groundwork for this case study. The report provides an overview of the financial co-operative sector in Ontario, while demonstrating the economic and social contributions they make to their communities. This is particularly relevant as it highlights the commitment that Ontario's financial co-operatives have to community. A copy of this report is included for further reading, as only the key points relevant to our study have been extracted.

A Statistical Profile

- Ontario's 217 credit unions and caisses populaires serve 1.7 million people through 687 locations
- They contribute $410 million to the Ontario economy, three-quarters of which is generated outside of the GTA
- Credit unions provide employment for over 7,000 individuals - 80 percent of these jobs are outside of the GTA, which is a stark contrast to the rest of the financial sector where over two-thirds of jobs and corporate positions are located in the GTA
- Credit unions provide financing for over 31,000 small and medium-sized businesses in Ontario
- One in every 4 dollars on deposit at Ontario credit unions and caisses populaires is invested in financing small and medium-sized businesses and agriculture in the province
- Credit unions and caisses populaires provide financial services to 43 communities throughout Ontario, where no other financial institution exists
- They are the only local alternative to a single bank in 37 other communities
- Credit unions and caisses populaires have an on-going social commitment to the communities in which they are located: more than one percent, and often as high as five percent, of pre-tax profits are put towards various community initiatives - this is significant, as large financial institutions average about one percent contributions
- They contribute not only millions of dollars, but their employees volunteer thousands of hours to a variety of community activities, that are often reflective of the communities roots
- In addition to the volunteer hours they donate, employees of almost half of Ontario credit unions participate in community activities as part of their paid work

- Together, they contribute substantially to the economic and social development of communities across the province

A Comparison of Credit union Membership to Other Provinces

- Despite their strength and presence throughout Ontario communities, credit unions are more popular in some of the other provinces
- Québec has the highest rate, with roughly half of all residents conducting some type of business with a caisse populaire (e.g., Desjardins, a credit union, is the largest financial institution in the province)
- About 45 per cent of Saskatchewan's residents are members of a credit union
- About 35-40 per cent of B.C.'s population are members of a credit union
- In Ontario, only about 10 per cent of the province's 12+ million people use credit unions, a small portion by comparison
- Ontario Credit unions focus the bulk of their efforts in increasing membership in smaller communities outside of the GTA

Lack of Public Support for Ontario Credit unions and Caisses Populaires, in Comparison to Traditional Financial Institutions

- Despite all their successes and contributions, however, credit unions and caisses populaires are relatively unknown and under-appreciated by the provincial government
- One reason for this may be due to the fact that they have proportionately many more members and a much larger market share outside of the GTA - similarly, and consequently, the their contribution within the GTA is most-likely overshadowed by the larger financial institutions and banks with corporate head offices in the GTA, thereby making them less visible to policy makers
- Another possible reason can be attributed to the fact that credit unions focus on serving their local community, so much of their marketing and government relations efforts are not provincially focused - as s result, the efforts of 219 local organizations are more difficult to discern among provincial representatives and policy makers

Recent Merger of B.C. and Ontario Credit unions

- On July 1st, 2008, the merger of Credit Union Central of Ontario and Credit Union Central of British Columbia took place
- Merger of two credit unions, now known as Central 1, resulted in the combining of their assets of $8 billion
- Central 1 will be the umbrella organization for about 195 member credit unions in both provinces, that provides a range of financial services

<u>Case Study 2</u>
Midwestern United States: Rural Electric and Renewable Energy Generation Co-operatives

- Many mid-western US states have a history of using the co-operative structure in electricity distribution
- **Locally owned renewable energy projects generate a higher economic development benefit than private projects sited in the same community (Iowa Policy Project):**

    - Farmers owned the equipment rather than simply receiving a lease payment
    - Locally-owned projects are more likely to use local labour and companies
    - Also more likely to spend the dollars and profit locally

- Rural electric co-ops began to spread in the US after the introduction of the Rural Electricity Act in 1935 by President Rosevelt
- Rural electric co-ops are primarily consumer co-operatives that control the distribution utilities for electric power
- The goal is to provide electricity to a community as closely as cost as possible – these are not explicitly for profit generation, it is primarily a service function
- There are over 850 rural electric distribution co-ops which are part of the National Rural Electric Co-operative Association (NRECA)

- There is one similar example of an electricity distribution co-operative in Ontario – **Coopérative Hydro Embrun Inc.** in Embrun - where the community requested that when the municipal utility was privatized, that it was to be incorporated as a co-operative
- In recent years, the co-operative model has also been used for developing electricity generation and transmission services, including new renewable energy sources.
- NRECA has over 60 members involved in generation or transmission of electricity
- These members represent:

    - Over 40 million members in 47 states
    - Assets of over $100 billion
    - Maintain 42% (over 2.5 million miles) of the distribution lines in the US
    - Deliver 10% of the total kilwatt hours used in the US
    - Generate 5% of the total electricity produced in the US

- **Co-ops in the US currently either own or have purchased contracts for 1150MW in renewable energy**

- There are also additional co-operation alliances and federations representing additional co-operatives generation (e.g., Touchstone Energy)
- **The Rural Economic Development Loan and Grant Program provides support to electric co-operatives, because there is a recognition that they are a local economic development agent that creates jobs**
- There are a number of tax credits (federally, there is a Production Tax Credit) that support renewable energy development, but co-operatives are not eligible for them
- Clean Renewable Energy Bonds (CREBs) are the alternative financing vehicle for co-operatives – the equivalent of a low-interest load called a "tax credit bond"
- Wisconsin, Minnisota and Iowa are the leading US states with co-operative renewable energy projects - they are largely wind-based, but there are also ethanol and biodiesel initiatives

Sources:

1. National Rural Electric Co-operative Association at http://www.nreca.org/
2. Clean Renewable Energy Bonds Precis: http://www.nreca.org/Documents/PublicPolicy/CleanRenewableEnergyBonds.pdf
3. "Small Packages, Big Benefits" – Iowa Policy Project at: http://www.iowapolicyproject.org/2005docs/050405-wind.pdf

Case Study 3
European Farmer-Owned Renewable Energy Generation

Germany

- Germany is currently the number one producer of wind power (over 22,000 MW installed) and solar power in the world (over 930 MW installed)
- German feed-in tariffs have been critical to the success of the German renewable industry – provided a fixed price, long term contract and guaranteed access to the grid (Ontario's Standard Offer Contract program was originally inspired heavily by the German laws)
- It allowed the entry of a large range of players into the market, in particular, local farmers that came together to jointly own and finance generation projects
- **This led to a burgeoning manufacturing industry that further fed the development of more generation**
- Also resulted in maximizing the talents of unemployed and displaced manufacturing workers
- Farmer-based projects in Germany are co-operative based – they are usually financed through a series of limited partnership agreements that allow broad investment and partnership with experienced developers
- The limited partnership aspect allows the project to take advantage of advantageous tax benefits, and ensures that both control and profits remain in the hands of members
- The German manufacturing industry is one of the world's powerhouses:
    - Every third solar panel and every second wind rotor is made in Germany
    - Over 200,000 people work with the renewable energy sector in Germany
    - Nordex, Enercon, Repower (all wind) and SolarCon and Coenergy (solar) are all major RE manufacturers based in Germany

- The Val-Éo project in Quebec is exploring a hybrid co-operative model that is influenced by the financing advantages clearly evident in the German model
- In Ontario, several barriers including access to the grid, regulation and capitalization issues have greatly hindered the development of renewable energy co-operatives in the province, as well as that of other private energy companies; the challenges have therefore not come about as a result of the co-op nature of the business itself - This has been occurring despite the fact that the Ontario government has proven itself to be a leader in North America, by issuing standard offering contracts for the purchase of electricity in Ontario

Demark

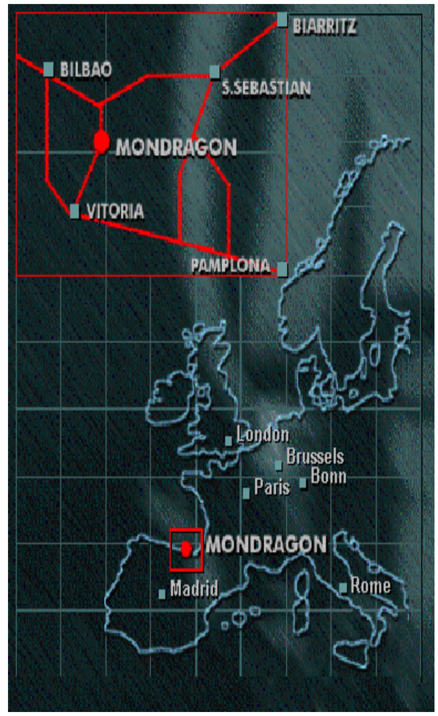
- Denmark is currently ranked 6th in the world in wind power generation, but was a pioneer in the technology and ownership models for renewable energy projects
- Denmark's manufacturing industry expanded rapidly with the increase in installed wind turbines
- Denmark's facilitated farmer and landowner ownership of wind farm projects through 'general partnerships' (effectively co-operatives adapted to work under the Danish Power Law) by providing tax incentives to these projects
- Vestas is a Danish wind turbine manufacturer that has been highly successful in the international market

Sources:

1. **http://features.csmonitor.com/environment/2008/08/21/in-germany-ruddy-cheeked-farmers-achieve-green-energy-independence/#**
2. Paderborn : **http://www.nreca.org/Documents/PublicPolicy/CleanRenewableEnergyBonds.pdf**
3. "Small Packages, Big Benefits" – Iowa Policy Project at: **http://www.iowapolicyproject.org/2005docs/050405-wind.pdf**
4. Community Wind Ownership Schemes in Europe and their Relevance to the United States: **http://eetd.lbl.gov/ea/EMS/reports/48357.pdf**

Case Study 4
Manufacturing, Retail, Financial and Education Co-ops in Italy

Mondragón Corporación Cooperativa (MCC)



- MCC began in the town of Mondragon in 1956, with a group of 5 young engineers who set up a co-operative to build paraffin cooking stoves
- Today, MCC is a business group based primarily in the Basque Country of Spain, yet extends throughout the country and abroad
- MCC is the Basque Country's largest corporation, and the seventh largest in Spain
- It is one of the world's largest worker co-op
- MCC constitutes 264 companies, covering manufacturing, retail, finance and educational sectors
- It has a workforce of 103,731 people, of which 55% work in distribution, 42% in industry, 3% in finance, and the remainder in corporate
- MCC has assets of approximately 33 million (euros), a large portion of which come from the finance, industrial and distribution sectors
- The sovereign body governing MCC is the 650-member Co-operative Congress, with delegates that are elected from across the individual co-operatives
- **MCC's mission combines the basic objectives of a business organization competing in the global market, with the application of a democratic organizational structure, and a focus on job creation and a commitment to the development of its social environment**
- Under the co-operative banner, MCC creates owner-employee jobs to expand the opportunities for people to participate in a relationship economy - it operates with the goal of achieving social success, involvement of the people and industrial democracy
- The MCC includes numerous community and employee-based programs, and their social systems comprise of health care, housing, social security, primary, secondary and post-secondary education, training, retraining and unemployment insurance
- The MCC views capital as only a means to an end - the ultimate goal is for a happy and productive work environment and capital is merely a tool to achieve that
- **Statistics have shown that the Mondragon co-operatives are twice as profitable as the average co-op in Spain, with employee productivity surpassing any other Spanish organization**
- The Mondragón and Alto Deba region in particular, both of which have a high level of co-operative activity, are at the top of the Spanish per capita income scale, and boast low unemployment rates

- In Guipuzcoa, where the most intensive co-operative activity is based, co-operatives provided 6.5% of all jobs in the regions, 31.4% of all industrial exports and 7.6% of the total GDP of this Basque province
- The Basque media has also revealed that “economic development is greater and the distribution of wealth fairer,” based on a report on the annual tax returns filed by the inhabitants of Guipuzcoa
- **The Basque government and the tax authorities of the Basque provinces have special measures in place to help co-operatives**
- One of the strongest points of the MCC is its ability to adapt to the changes taking place in the environment - in the beginning of the ‘90s, it intensified its presence on the international market by focusing on promoting exports and expanding its production activities abroad - international sales grew from 25% in the ‘90s to 57% by 2006
- MCC’s foreign companies are set up as public limited companies rather than co-operatives, due in part to the lack of co-operative laws governing the regions in which these companies exist - other reasons include: the fact that many of the new companies have been set up as part of a joint venture with other partners, and also because the creation of a co-operative requires the existence of co-operative members who are used to working within a co-operative culture
- The keys to success of the MCC are summed up in six points:

    - People are given priority over profits - results in a higher level of worker involvement in the organization, be it through direct participation in both the capital and management - this creates a positive atmosphere of consensus and collaboration
    - A business-like approach to the co-operative model - company profitability and management efficiency are seen as basic operating principles
    - The re-investment of practically all resources generated
    - The on-going adaptation to the changes taking place in the environment
    - The creation of efficient tools of “inter-co-operation” - in financial and social welfare streams, innovation, R&D, co-ordinated job management and crisis situations
    - The importance that is attached to training, both via formal education and in lifelong learning

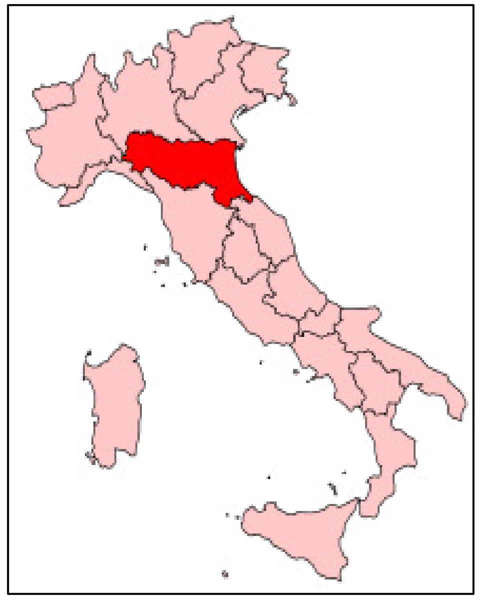
Sources:

1. “Mondragón Corporación Cooperativa: The History of an Experience” at: **http://www.mcc.es/ing/quienessomos/historiaMCC_ing.pdf**
2. MCC organization website at: **http://www.mcc.es/**
3. Info. on “Mondragón Corporación Cooperativa” at: **http://en.wikipedia.org/wiki/Mondrag%C3%B3n_Cooperative_Corporation**
4. http://www.iisd.org/50comm/commdb/list/c13.htm

Case Study 5
Manufacturing, Financial and Social Co-ops in Northern Italy

Emilia-Romagna

- Emilia-Romagna is one of Italy's 20 Regions and is comprised of the two historic regions of Emilia and Romagna
- It is divided into 9 distinct provinces, including: Bologna, Ferrara, Forli-Cesena, Modena, Parma, Piacenza, Ravenna, Reggio Emilia and Rimini
- E-R has approximately 4.2 million inhabitants and is the second richest region of Italy
- Agriculture and various industry thrive and together constitute significant economic activities in this region
- E-R is known for it's food (e.g., Parmalat), mechanical and automotive (Ferrari, Ducati Lamborghini and Maserati), ceramic and tourism industries



Emilia Romagna region of Northern Italy

- There are 90,000 manufacturing enterprises in E-R - more than triple that of New York City, and with only half the population
- E-R also enjoys a strong concentration of banks and insurance companies
- 470,000 businesses exist in total, which is more than one business per citizen
- **The region is uniquely characterized by thousands of co-operatives, where two of three people belong to a co-op**
- There are three national co-operative movements that constitute the E-R region: the Lega Group, which has over 1,000,000 members, 40,000 employees and a turnover of $8 billion; the Confcoop, which has 285,000 members, 40,000 employees and a turnover of $13.5 billion, and the Associazione, which has 75,000 members and a turnover of $2.2 billion - these movements, while always in competition, also work together occasionally to achieve similar goals
- There also exists a group of about 3,000 smaller and non-affiliated co-operatives
- The region of Bologna alone (popl: 375,000) has 8,000 co-operatives - it exemplifies the successful fostering of small and medium-sized entrepreneurialism by integrating both co-operative and private enterprise
- **Throughout E-R, private companies and co-operatives work in flexible networks that combine small firms in joint projects**
- Social co-operatives also exist, which deliver high quality services and work experience for people with disabilities - in Bologna, for example, 85 % of social services are provided by co-operatives
- E-R co-operatives make up over 40% of the GDP for the entire ER region - it is also ranked 11th of 122 regions in per capita GDP European economic zones - an incredible statistic given that it was one of the poorest regions in Italy after World War II

- **The co-operative nature of the E-R region's economy is considered to be responsible for the high standard of living enjoyed by its inhabitants** - in Bologna, the per capita income is 50% higher than the national average, the unemployment rate is less than 4% and 70% of the inhabitants are homeowners!
- In part, E-R's key to success can be attributed to its government passing on the role of providing key social services to lower-cost co-operatives
- The regional government also plays a very important role in creating sector-based service centres that assist smaller companies, including co-operatives
- Under Italian co-operative law, each co-op must contribute 3% of its annual surplus to a national fund for co-operative development which is *not* taxed - the co-operative sector is then responsible for directing the funds back into the region to help finance co-op development initiatives

Sources:

1. Info. on "Emilia-Romagna" at **http://en.wikipedia.org/wiki/Emilia-Romagna**
2. "Italian Co-op has lessons here at home" The Co-op Advantage, Fall 2008 edition
3. "Clustering Co-op Development," Cooperative Grocer, Nov/Dec. 2003 edition #109 at: **http://www.cooperativegrocer.coop/articles/index.php?id=483**

Summary of Report by the Ministry of Economic Development, Innovation and Export in Québec:

Survival Rate of Co-operatives in Québec, 2008 edition

General Portrait of Co-operatives versus Other Business Models in Québec

- An earlier study conducted in 1999, demonstrated that the survival rate of co-operatives was **64%** after five years and **46%** after 10 years
- A new study conducted in 2008 reveals that little has changed, with **62%** of co-ops surviving after 5 years and **44%** after 10 years
- This statistic is relevant once compared to the survival rate of other forms of Québec business enterprise, which are **35%** after 5 years and **20%** after 10 years
- This in noteworthy in that it clearly demonstrates that Québec businesses operating under the co-operative model, survive approximately **24%** longer than their traditional business model counterparts, after 10 years of operation
- Another way of looking at how revealing the statistics are, is to consider that **six** of every 10 co-ops survive after 5 years of operation, as compared to slightly less than **four** of 10 other business enterprises
- Similarly, **four** of 10 co-ops survived after 10 years of operation, as compared to **two** of 10 other business enterprises
- One table reveals that the survival rate of co-operatives surpasses other business enterprises by an average of **25%**, during the first 10 years of operation
- The same table also demonstrates that the survival rate of co-ops, when compared to other business models, is particularly notable within the first 5 years of operation – After the first year alone, only **6.7%** of co-ops closed their doors, compared to **24.6%** of other businesses
- It is possible to conclude, therefore, that the survival rate of co-operatives significantly surpasses that of other business enterprises in Quebec, after 1, 5 and 10 years of operation

7 Main Factors Contributing to the Higher Survival Rate of Co-operatives

- Four factors indicate that the higher survival rate is specifically due to the inherent structure of the co-op model:

    1. The focus on member service as oppose to profit, which has an impact on business decisions
    2. The central role of the member, who is both investor and consumer in the co-op
    3. The democratic nature, the return of profits to members and the open governance structure of co-ops
    4. The presence of a group of promoters rooted within the communities

- Three factors also indicate a historical advantage, as well as the business environment of co-ops:

    1. Strong representation in economic sectors that fulfill basic human needs, including agriculture, forestry, residential services, funeral services and education
    2. The majority of co-ops operating in both regional and sectoral networks
    3. Support of primary and secondary organizations, which favours improved project management of start-ups and in the development and presence of financial and fiscal tools and resources, which are adapted to the co-op model

Sector Specific Survival Rate of Co-ops after 5 Years of Operation

- Another table reveals that certain categories of co-operatives surpassed traditional business models after 5 years of operation, including: producer, consumer, solidarity, worker-shareholder and worker – In particular, producer and consumer co-ops have double the survival rate over other forms of business enterprise after 5 years of operation (i.e., **76.2%** and **75.6%** respectively, as compared to **35%**)

- Solidarity co-ops, which came into being after 1997, demonstrated a survival rate of **67.5%** after 5 years of operation, which is above average for all the co-operatives in the study, which stands at **62%**

Survival Rate of Co-ops after 10 Years of Operation

- When comparing the 2008 study on the survival rate of co-ops after 10 years to a similar one conducted in 1999, both the producer and worker co-operatives survival rate increased (from **58% to 65%** for producer co-ops, and from **26% to 29%** for worker co-ops) – It is believed that this is largely the result of producer co-ops' use of agricultural materials, which have a higher survival rate in general, as well as the existence of forestry and paramedic worker co-ops

- When looking at those sectors that demonstrated a lower rate than in the previous study, including consumer and worker-shareholder co-ops, factors such a strong consumer sector, as well as the difficulties inherent in the manufacturing sector in general, are named a contributors to the slightly lower survival rates as compared to the 1999 study

- The same 2008 study also reveals that co-operatives largely surpassed other types of business enterprise in the 10-year survival rate period

Survival Rate of Co-operatives Compared to their Non-Co-operative Counterparts, across 14 Key Economic Sectors

- In eight of the 14 sectors studied, the survival rate of the co-operatives was more than double that of their other business counterparts (including the following sectors: housing, telecommunications, individual and social services, hotel/restaurant services, education, agriculture, forestry, transport, consulting, and tourism/leisure services)

- In several cases, the survival rate of the co-ops far surpassed that of other business enterprises, particularly in the following sectors: housing (**94.2** versus **22.4**); telecommunications (**87.5** versus **16.5**); hotel and restaurant services (**56.5** versus **13.5**); education (**55** versus **18.3**); agriculture (**51.9** versus **22**) and forestry (**50** versus **22**)

- The only areas where this was not the case, were in the construction, manufacturing and finance sectors

- Possible reasons offered for the lower rate of survival of co-ops operating in these three sectors include: (1) the existence of very big chains, which often make it very difficult for smaller co-ops to compete; (2) many of the manufacturing businesses in this study were also experiencing difficulties and were using the co-op model as a last recourse for survival - both agricultural and agri-food co-ops had strong survival rates in the sector, but most of these co-ops were in operation long before the period covered in this study; (3) the construction sector presents a challenge to the co-op model, as it is characterized by a many start-ups and closures, which generally restricts the development of construction co-ops

Survival Rate of Co-ops from the 1st Year of Operation

- As the table reveals, the survival rate of co-operatives after their first year of operation, adds a new dimension to the notion of "survival rate," by greatly contributing to the overall percentage of business enterprises that survive the first year of operations

- The same study also demonstrates that the survival rate of co-operatives nets on average, higher than other forms of business enterprise in the first ten years of operation - this is particularly evident in the first 5 years of operation

- It is important to keep in mind that co-operatives do not have the same dynamic and "bottom-line" mindset than other forms of business enterprise - they are created first and foremost to offer goods and services to their members, while making profits are secondary, however necessary, in order to assure their survival and continuous development

- The study notes that while co-operatives operate with a very different business structure from other business enterprises, they are still at risk of closure, decentralization and being bought out

Starting Size does not Impact the Survival Rate of Co-operatives as much as that of Other Business Enterprises

- One study indicates that whether a co-op has less than or more than 5 employees, the survival rate does not vary greatly after 3 and 5 years of operation

- Among the co-ops employing less than 5 employees from start-up, the survival rate dropped from **73.9%** after 3 years, to **62.4%** after 5 years, and finally to **52.4%** after 10 years (a total of **21.5%** in 7 years)

- Similarly, among the other business enterprises employing less than 5 employees from start-up, the survival rate dropped from **47.1%** after 3 years, to **33.7%** after 5 years, and finally to **18.4%** after 10 years (a total of **28.7%** in 7 years)

- Among the co-ops employing 5 or more individuals from start-up, the survival rate dropped from **74.3%** after 3 years, to **63%** after 5 years, and finally to **38.2%** after 10 years (a total of **36.1%** in 7 years)

- Similarly, among the other business enterprises employing 5 or more individuals from start-up, the survival rate dropped from **60.2%** after 3 years, to **50.6%** after 5 years, and finally to **33.8%** after 10 years (a total of **26.4%** in 7 years)

- The table demonstrates that while the survival rate of other types of business enterprise diminished less in those employing 5 or more individuals than those of the co-operatives, the overall rate of survival of the co-operatives significantly surpassed that of the other business models in each of the categories (i.e., after 3 years, 5 years and 10 years)

- Of particular note also, is that the survival rate of co-ops employing less than 5 employees was *higher* than those employing 5 or more individuals - another distinguishing factor highlighting the advantage of the co-operative model, as compared to other types of business enterprise

10 Year Survival Rate of Co-operatives Based on Region

- The study indicates that the more urban the region (e.g., the cities of Montreal and Laval), the lower the survival rate of co-ops tends to be

- One reason provided for this distinction is the greater number of economic opportunities that exist in the urban centers - undoubtedly leading to more competition among business enterprises, and which would ultimately affect the survival rate of co-ops - It also notes that in certain regions, the fragile economy, and aging populations together play an important role in the durability of co-ops

Summary of Challenges Facing the Co-operative Sector and Recommendations for Better Understanding them

- The results of the study highlight that challenges do exist for key players in co-op development, with respect to maintaining and/or augmenting their survival rates

- The study also reveals that strategies are needed for both intervening and following up on the sectors with the weakest survival rates, as well as for those just starting out and which are already in existence

- The study recommends that greater support is needed for co-operative projects located in larger urban regions in and effort to raise the survival rate

- The study recommends creating necessary fields of research which are dedicated to studying survival rates

- The study also recommends the need to examine the performance rate of co-operatives with respect to durability, with the ultimate goal of favoring the co-op model when it comes to starting-up new businesses

Concluding Remarks

This brief has attempted to provide an overview of the co-operative model of business enterprise within Ontario.

It reveals that there is ample statistical evidence to support the strength of the sector (1,300 strong), and its social and economic contribution to the province (15,500 employees, $30 billion in assets…).

A provincial comparison of the support afforded to Ontario co-operatives, however, reveals that despite its scope and impact, however, there is no public support of this business model. Regardless of the consistent growth of the Ontario co-ops, this has resulted in several key challenges facing the sector, including: a lack of public awareness and recognition of its strengths and benefits, insufficient resources for capacity building and support of co-ops, and limitations in the regulatory framework and financial incentives governing co-ops. These challenges are undoubtedly hindering the continued growth of the Ontario co-op sector, and therefore their potential contribution to the social and economic fabric of the province. The provincial comparison also clearly demonstrates the positive impact that public support, be it through partnerships or provincial funding of programs aimed at co-op development, has had on the co-op sector within several provinces. Equal attention can and should be afforded to Ontario co-ops and the socio-economic benefits will become self-evident.

Several case studies demonstrating the application of the co-operative model of business enterprise in various sectors throughout the world also reveals the potential impact that this model, given adequate provincial support, could have on the province. Co-ops have had proven success and therefore a lot to offer, when it comes to new and innovative solutions to addressing and dealing with social, economic and environmental concerns - all top priorities of the province.

Finally, a recent Québec survey clearly shows that the co-operative model has a proven ability to outlive other forms of business enterprise after one, five and ten years of operation. This is significant, as it exemplifies not only that the co-op model works, but also that it is effective and sustainable in its very foundation and structure.

The main conclusion that can be drawn from the analysis and case studies provided in this brief, therefore, is that the co-operative model can help the province to achieve the long-term social and economic sustainability that is required in today's ever-changing and evolving world. It can also provide the kind of security and stability that we are looking for in times of crisis.

Creating public support for the co-operative model, and affording it an equal playing field to other forms of business enterprise, is the right thing to do and can only lead to a better Ontario. It's clearly a win-win situation for all.

Useful Websites for Information on Co-ops across Canada

National Associations/Organizations

- Federal Co-operatives Secretariat: www.coop.gc.ca
- Canadian Co-operative Association: www.coopscanada.coop
- Conseil Canadien de la Coopération: www.ccc.copp
- CoopZone: www.coopzone.coop

Provincial Associations (as outlined in the attached report)

- Ontario Co-operative Association: www.ontario.coop
- Conseil de la cooperation de l'Ontario: www.cco.coop
- Alberta Community and Co-operative Association: www.acca.coop
- Conseil de development économique de l'Alberta: www.lecdea.ca
- Manitoba Cooperative Association: www.manitoba.coop
- Conseil de Development Economique des Municipalités Bilingues du Manitoba: www.cdem.com
- Nova Scotia Co-operative Council: www.nsco-opcouncil.ca
- Newfoundland & Labrador Federation of Co-operatives: www.nlfc.coop
- Conseil Québecois de la coopération et de la mutualité: www.coopquebec.coop

Profiles and Statistical Information

- www.coopscanada.coop/aboutcoop/cancoopsectorprofiles
- www.coopzone.coop/en/statistics