

The Vancity logo is written in a bold, black, sans-serif font. The letter 'V' is significantly larger than the other letters, and the 'i' has a dot. The logo is positioned in the upper left corner of the page.

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Co-operative Opportunities in British Columbia

**A Discussion Paper by Vancity
For the Business Council of British Columbia
Opportunity BC 2020 Project**

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Introduction and context

This paper is in response to the Business Council of British Columbia's (BCBC) *Opportunity BC 2020* project to help shape a vision and agenda for the province's economic future. It is a pragmatic outline of options for business in BC to use the advantages of the co-operative business model to drive wealth creation and compete globally.

There is a distinction between businesses that are run as co-operatives and businesses that cooperate. The paper does not suggest that the co-operative business model is better than an investor-owned model. Rather, it examines the most advantageous aspects of co-operatives and presents options to apply them to the issues BC businesses are facing. A co-operative framework can serve as one tool for businesses to alter their business model and increase their competitive advantage; in essence, cooperating better to compete better.

Co-operative principles can be applied in any business model. The model is highly flexible and covers a spectrum from simple cooperation with suppliers, customers and competitors, to membership in co-operatives as part of an organization's supply or distribution chain, through to integration directly into a co-operative business or association.

In an effort to be as practical as possible, this paper focuses on where the model can be used to support or fill in gaps in existing business models and industry structures in BC:

- Creating economies of scale for small- to medium-size business (SME)
- Adding value to resources and access export markets
- Serving emerging collaborative marketplaces
- Supporting social development

To address these outcomes we have examined where a co-operative business model has supported the economy. In other words, in what areas does the model excel? How can the model be used to support or fill in gaps in our existing business models and industry structures in B.?

Throughout their history founders of businesses that followed a co-operative business model have demonstrated entrepreneurship, creativity and innovation by serving a market need that was not being met, or by correcting a market imbalance. They are under the same market pressures as other forms of enterprise and therefore must be competitive and agile in responding to market changes.

The advantages of the co-operative business model that will be discussed in this paper are to:

- Provide economies of scale by distributing expenses across a number of businesses
- Support producers and suppliers working together to raise sufficient capital to jointly own and operate the resources required to compete globally
- Provide resiliency to organizations due to patient capital and a long-term outlook
- Allow people and communities without access to large amounts of capital and/or those facing economic hardship to participate in the market economy and be self-reliant
- Promote local ownership and control because they are guided by the interests of local stakeholders and focused on building local assets and retaining wealth within the community

Unfortunately, co-operatives have a branding problem. Although cooperation is a powerful force in the global economy, a number of stereotypes exist regarding co-operative ideology and business savvy.

There is a common misperception that co-operatives are less efficient than commercial businesses. A number of studies have been undertaken to test the relative performance of the two forms of organizations and little credible evidence exists to support the proposition that co-operatives are inefficient relative to investor-owned businesses.¹ European, Scandinavian, Asian and North American industries have successfully used co-operatives to create advantages relative to their global competitors.

It has been said that the biggest problem with co-operatives is that you have to cooperate, which is not a welcome addition to everyone's business model. The choice to work co-operatively must be made in the context of other models, by matching the associated advantages and disadvantages of all applicable models to the situation at hand.

Vancity Savings Credit Union is an example of a successful co-operative organization. It is the largest credit union in Canada with \$14.5 billion in assets and 62 years of history. In 2008, a year of financial upheaval in global markets, Vancity's net earnings were \$46.8 million, which represents 43% growth over the previous year. Members' deposits fund our members' loans, and Vancity was the first financial institution to transparently deal with our members who held Asset Backed Commercial Paper.

Vancity exists to serve its 400,000 members/joint owners. Since 1994 we have distributed over \$92 million to our members in dividends. Our accountability to our members has led to many firsts, including being the first financial institution to grant mortgages to women without a male co-signer and the first financial institution in Vancouver to issue mortgages east of Main Street. Our members want us to support the communities we live in, and since 1994 we have distributed over \$46 million in grants to communities. Vancity reached its size and scale through 53 mergers and partnerships over the past 62 years, thereby demonstrating growth, economies of scale and the benefits of cooperation.

Using this experience and expertise, Vancity exemplifies the strong role that co-operatives can play in the future of BC. In this paper we will share examples of areas where co-operatives and cooperation can further business development, success, social development, community development and liveability.

The co-op model is highly adaptable and flexible to almost any form of economic activity. A co-op can provide virtually any product or service, and can be either a non-profit or for-profit enterprise. Co-ops exist in every sector of the economy and can touch every aspect of our lives.

Overview of co-operatives

What are they?

At their core, co-operatives are an organizational model – a way for people to organize to fill a need, be it an economic, social, or environmental need, or any combination thereof. Co-operatives can be set up as for-profit businesses (to meet a commercial interest) or as not-for-profit organizations (to meet social needs). Regardless of their specific function, the distinctive features of a co-operative organization are:

¹ Hardesty, Shermain D. & Salgia, Vikas D., 2004. "Comparative Financial Performance of Agricultural Cooperatives and Investor-Owned Firms," 2004 Annual Meeting, November 2-3 31797, NCERA-194 Research on Cooperatives.

1. They exist to provide benefits to the people who use the products/services provided by the co-operative, who are typically the members of the co-operative
2. They are owned by the people who use the products/services
3. They are controlled by the people who use their products/services

2

For the benefit of members

The purpose of the co-operative is to provide products/services for the benefit of the people who have contributed capital, the members. The benefits to the members are both the products/services of the co-operative and, in the case of for-profit co-operatives, a share in the profits generated by the co-operative.

Ownership by members

People who use the co-operative also finance the organization's operations and are the principal investors. This is in contrast to other types of firms where those who finance the enterprise do not rely, and sometimes do not use, the services provided by the organization.

Controlled by the members

The people who use the products/services of the co-operative also control the enterprise through a democratic process, which is typically: one member=one vote. Therefore, all members have a say in how the enterprise is operated, regardless of the amount of capital they have invested. This ensures that the people

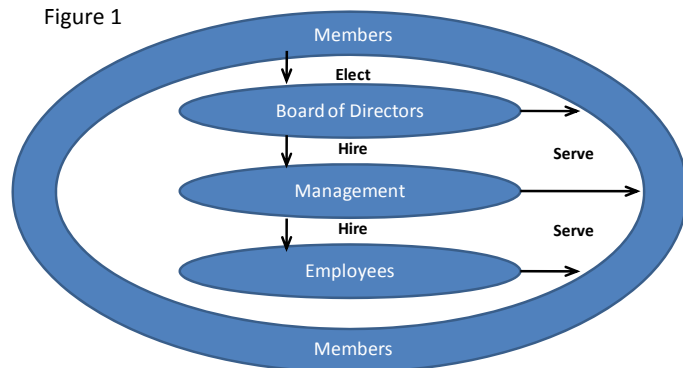
who use the products/services control the organization, rather than the owners of capital. It also provides an additional mechanism for co-operatives to ensure their products/services remain relevant and meet the changing needs of members. Figure 1 shows the basic structure of a co-operative; however, variations on this model are common.³

Co-operative Principles

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Cooperation among co-operatives
- Concern for community

International Co-operative Alliance,
<http://www.ica.coop/coop/principles>, accessed
 March 5, 2009

Figure 1



The model has allowed people and communities without access to large amounts of capital, and/or those facing economic hardship or disparity, to participate in the market economy and be self-reliant. Particularly in rural settings in BC, some communities have flourished by using a co-operative model where they may otherwise have failed (e.g., credit unions are the only financial services alternative in 41 BC communities).

² Co-operative Secretariat, Government of Canada, "How a Co-operative is Different"; available from http://www.agr.gc.ca/rcs-src/coop/index_e.php?s1=info_coop&page=diff; internet; accessed 3 February 2009.

³ Ibid

That said, like any other organizational model (e.g., for-profit partnership, limited company, not-for-profit charity), a solid business opportunity or unmet social need must clearly exist in order for the model to be successful. The choice to form a co-operative must therefore be made in the context of other models, by matching the associated advantages and disadvantages of all applicable models to the situation at hand. A comparison of co-operative and investor-owned organizations is available in Appendix 1.

Types of co-operatives

For-profit:

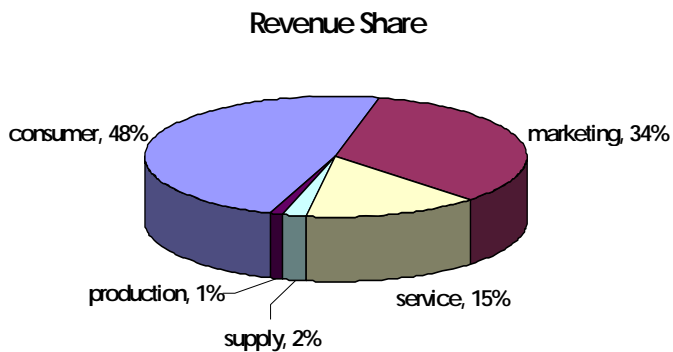
- Consumer co-operatives
- Financial co-operatives
- Marketing/producer co-operatives
- Worker co-operatives

Not-for-profit:

- Service co-operatives
- Housing co-operatives

Co-operatives in BC: Facts

There are more than 700 non-financial services co-operatives in BC, with approximately 13,000 employees, holding more than \$12 billion in assets.⁴ The chart below defines the non-financial co-operative group in term of relative revenue share.⁵ Consumer co-operatives account for almost half of all revenue generated, with marketing co-operatives accounting for one third.



In contrast to their non-financial counterparts, credit unions can be viewed as well-known entities in British Columbia. The establishment of credit unions was in response to the needs of returning war veterans in the 1940s who were establishing themselves in the period of post-war reconstruction.

BC's credit union system is the strongest in English-speaking Canada. At the end of 2008, there

were 47 independent credit unions with 373 branches in 140 communities across the province.⁶ Credit unions had over 1.6 million members, employed approximately 8,000 people, held over \$45 billion in assets and returned \$42 million to members in 2008.⁷

Estimating the total contribution of both non-financial co-operatives and credit unions to the provincial GDP is difficult given the gaps in the data. What is available suggests something on the scale of two to three percent.

Now that we've described the origins and development of co-operatives, we are going to show how this business model and the concept of cooperation can contribute to the future success of our economy.

⁴ Canadian Co-operative Association, *Co-ops in British Columbia* (June 2007)

⁵ Les McCagg (Ed.), *Co-operatives in Canada (2003 Data)* (Co-operatives Secretariat, Government of Canada, March 2006).

⁶ Central 1 Credit Union, Press Release, April 20, 2009.

⁷ Ibid

Cooperation as a driver of economic growth

Can cooperation bridge the gap between a small, open economy and a strong regional economy that attracts investment from sources both internal and external to BC? How do we support adding value to resources to maximize earning potential, rather than exporting raw resources? Many regions are pursuing the same goal. Globalization requires that BC companies not only demonstrate sustainable creativity and innovation, but be highly competitive and efficient service providers.

Alternative sources of economic growth are required to fill the void that will be created by challenges such as the softwood lumber dispute and the pine beetle devastation. The Opportunity BC 2020 project suggests the forestry industry accounts for one-fifth of BC's economic base and is predicted to shrink 30-40% over the next decade.

In examining where this growth might come from, we begin with a simplified model for business growth. To maximize wealth creation, there is typically a progression from attaining economies of scale to adding value to exporting. It is difficult to export without economies of scale, so to maximize wealth, adding value to resources before they are exported is a more sustainable business model than exporting raw resources. At a high level, companies may choose to:

1. Create economies of scale to fund growth and innovation
2. Add value to the product/service once they have achieved scale
3. Access export markets and sustain competitive advantage in global markets once they have achieved scale and value-add

Cooperation can play a role at each of these steps. Below we have outlined examples of how cooperation has worked for some organizations, and how those examples might be applied in BC.

Creating economies of scale

Small businesses are a dominant part of the BC economy; as of 2007, small businesses (those with fewer than 50 employees) accounted for 98% of all businesses in the province, employed 56% of private sector employees and produced 33% of the province's GDP.⁸ Per capita, BC has more small businesses than any other province.

Small businesses do not necessarily all want to grow; there are many advantages to owning a small business. But those that want to compete in global markets are faced with challenges in attaining the required scale. As the federal and provincial governments sponsor several very successful programs to support small businesses in BC, the options presented are complementary to efforts already being made.

An interesting comparison with BC is the Emilia Romagna region of Italy. There are strong similarities in population size and the economies between BC and Emilia Romagna; both have regional GDP at close to CDN \$200 billion (2006) and a population close to 4.4 million.⁹ However, 35% of the GDP in Emilia Romagna comes from the co-operative economy; as mentioned above, comparable data is not available for BC, but rough estimates put it at under 3%.

⁸ Western Economic Diversification Canada, Small Business Profile 2008, October 2008, page 2

⁹ Eurostat http://circa.europa.eu/irc/dsis/regportraits/info/data/en/itd5_eco.htm. Retrieved on March 13, 2009, and Statistics Canada <http://www.statcan.gc.ca/daily-quotidien/071219/dq071219b-eng.htm>, Retrieved on March 13, 2009

The Emilia Romagna region is home to a wide range of high-value-added industries, including industry-leading industrial engineering and advanced engineering, and emerging sectors such as multimedia, nanotech, and biotech. Emilia Romagna is considered to be one of the richest European regions and the third Italian region by GDP per capita¹⁰.

Why does this matter?

Cooperation through highly networked relationships has been the Emilia Romagna region's overall strategy. There is a broad level of cooperation between owner-investor firms, co-operatives, unions, civic government, universities and vocational schools. In some circumstances networking occurs organically through firms taking on specialized production within industrial districts, and the tendency of businesses to spin-off non-critical components of their business into new firms linked in a network. In other circumstances the regional government has played a large part in encouraging cooperation through legislation, programming and tax incentives. Both paths contribute to the region's overall productive potential.

One example of the regional government's role is its support of the service needs of small and very small businesses and the growing links between firms. The regional economic development agency established a network of real service centres. Business services that are typically difficult for small businesses to afford are provided at the service centres, including sales and marketing expertise, research and analysis, advanced research and testing, quality certification, and under/post-graduate and vocation education programs. The services are provided to groups of related businesses rather than single firms to create economies of scale and keep the services affordable.

All relevant stakeholders participated in establishing the centres, including business associations, chambers of commerce, local administrations, trade unions, and universities.

Given the dominance of small businesses in BC, there are opportunities to provide business services on a shared basis both within and across sectors. There are different models to create co-operatives of this nature including clustering within sectors or grassroots efforts. However, to achieve scale of service typically requires an external driver. Potential drivers include government, chambers of commerce, business associations and unions, working individually or together.

Adding value to resources and accessing export markets

Although BC's economy has become more diversified over the past decade, resources are clearly central to the success of our region's economy and will be for the foreseeable future. The resource sector

The regional government of Emilia Romagna has evolved its industrial support strategy to promote the coordination of the region's industrial capacity and cooperation within its small- and medium-size business sector.

The regional industrial policy is completed on a three-year cycle. The regional government develops a draft plan, which is then discussed and debated with labour unions and business associations.

The regional government, again in cooperation with labour and businesses, identifies priority areas where grants or other incentives are made available for capital expansion. If local businesses need to introduce a type of automation to be competitive, the government will provide grants, loan guarantees or low-interest loans to support this expansion.

¹⁰ Eurostat http://epp.eurostat.eu/pls/portal/docs/PAGE/YEAR_2008, retrieved March 13, 2009

(forestry, mining, natural gas, agriculture and fishing) accounts for 12% of BC's GDP¹¹ and 7.7% of total BC employment¹². Resources are particularly dominant in two areas:

1. Resources account for 77.2 % of all exports, only fractionally down from 77.7% a decade earlier¹³
2. Forty out of 60 municipalities outside the Greater Vancouver Regional District depend on a resource industry (primarily forestry and mining) to make the largest economic contribution to the local economy¹⁴

How do we transform BC's economy from the exporter of raw materials and resources to a greater proportion of value-added products and services? Many regions are pursuing the same goal. Global competition will require BC companies to not only demonstrate sustainable creativity and innovation, but also be highly competitive and efficient service providers.

The example of Bison ranchers in North America illustrates this point. Prior to 1993 a bison rancher typically sold bison in local markets as a commodity, and the path to growth was to raise more bison. The barriers to adding value were many; the capital to invest in processing machinery, research and development and quality control; the expertise required to understand regulations for meat processing in unfamiliar jurisdictions; and marketing and sales services to operate outside of commodity markets. In addition, supply of bison meat was inconsistent between producers so buyers were not enthusiastic about the product. The same problems are faced by many businesses across sectors in BC.

The Economic Development Office of North Dakota brought together a number of bison producers to discuss doing together what they could never do individually and ultimately they were very successful. They changed their operations from just ranching to selling packaged, graded bison as a sought-after specialty product to high-end food purveyors.

The North American Bison Co-operative (NABC) was formed in 1993 and operates a state-of-the-art harvest and processing facility in North Dakota. It partners with other meat producers to operate a new processing and distribution facility. NABC includes more than 330 member ranchers in the United States and Canada, having members in 19 of the United States and in six Canadian provinces.¹⁵

What is it about the co-operative business model that worked so well for North American bison ranchers?

- Owners' investment provides funds for research and development in production, processing, products, and markets
- Business structure supports producers working together to raise capital to jointly own and operate value-added processing enterprises
- Vertical integration from purchasing production inputs to marketing processed goods into retail markets allows for high quality, consistent products
- Owners' relationship with the producers helps ensure consistent quantity and quality of supply

These facilities are the only USDA- and EU-approved bison processing facilities in the United States. This is notable because the EU has tough regulations for importing meat products, which serves as a

¹¹ Statistics Canada, Provincial Economic Accounts

¹² Statistics Canada, Labour Force Survey

¹³ BC Stats, Exports (BC Origin), 1999-2008

¹⁴ BC Stats, Local Area Economic Dependencies: 2006, March, 2009

¹⁵ University of Manitoba website, http://www.umanitoba.ca/afs/agric_economics/ardi/nabc.html, Retrieved April 10, 2009

significant barrier to entry to the market. A key to this success is that the NABC works with its members to ensure quality in all of their products.

The NABC model has now been adapted and applied in other industries and states – a testament to its success. While other resource-based provinces have been encouraging the adoption of value-added co-operatives as a tool to enhance the viability of resource-dependent communities, BC has been slow to adopt this model. Given its applicability to a broad range of resource industries (fisheries, forestry, agriculture), there is opportunity for BC to grow in this area.

We have shown how co-operatives can play a role in all stages of an organization’s growth timeline. We will now explore some of the opportunities external to organizations that can support their development and how these organizations, in turn, will support the development of their communities and regions, improving their liveability and supporting further economic development.

Serving emerging collaborative marketplaces

Partners in Project Green: A Pearson Eco-Business Zone

Partners in Project Green is a growing community of businesses working together to green their bottom line by creating an internationally-recognized Eco-Business Zone around Toronto’s Pearson Airport. The government partners in this are Toronto and Region Conservation Authority, Greater Vancouver Airport Authority, Region of Peel, City of Brampton, City of Mississauga, and City of Toronto.

Through new forms of business-to-business collaboration, Partners in Project Green delivers programming that helps businesses reduce energy and resource costs, uncover new business opportunities, and address everyday operational challenges in a green and cost-effective manner.

The Pearson Eco-Business Zone includes an estimated 12,500 businesses, generating upwards of \$6,529,500,000 gross revenues annually, and providing employment for approximately 355,000 people.
(www.partnersinprojectgreen.com)

The fast pace and greater diversity of society is contributing to consumers disconnecting with families, friends and traditional social networks and moving to technology-based social networks such as Facebook. The rise of social networks, web 2.0, and mass collaborations is becoming mainstream and creating societal paradigm shift.

The population is beginning to expect that they play a part, or have influence in, the economy at a very grass-roots level. The governance structure of co-operatives is highly conducive to this social shift; indeed most co-operatives are leading examples of giving their members equal voice in their operations.

Technology is enabling businesses to interact with consumers in a deep and emotive way like never before. Businesses are beginning to transfer resources from traditional physical forms of advertising, marketing and sales activities to virtual methods via cell phones, social media, networks, and nethoods (people connecting through social network applications).

This collaboration with customers and tapping into their insights, dubbed *open innovation* in some circles, is giving rise to new business models, some of which resemble co-operatives in the principles they apply.

At the same time globalization and outsourcing are driving businesses to partner and extend their supply chain beyond provincial and national boundaries. Frequently

organizations are required to cooperate not only with suppliers and distributors, but also with former competitors as well, as they seek scale and capability to compete in a global marketplace. Communities of businesses in partnership (e.g., Pearson Eco-Business zone) are emerging across the country with

dozens already in place and proving the benefits of cooperation, including two in our region: Maplewood Eco-industrial Project in North Vancouver, and Tilbury Eco-industrial project in Delta.

As eco-industrial partnerships are demonstrating for business and the environment, the power of cooperation extends much further into our economic region than simply businesses partnering with consumers and other businesses.

Social entrepreneurs already gravitate to this model as they seek new ways of dealing with market failure resulting from government pulling back from former social services or from corporate support exiting non-profitable ventures. Clearly co-operative approaches hold enormous potential for successfully addressing 21st century social, economic, environmental, and global competitiveness challenges.

Role of government

Capital To Fund Growth

In the co-operative business model, only the members finance, control and receive the benefits of products/services and reap profits.

In publicly owned companies, the investors may only be investing for a profit, which often drives a short-term outlook on their capital. While this does provide a much larger capital stream, the capital only stays until there is an alternative for a higher return elsewhere.

The investors in a co-operative are looking for a return, but since they control the organization they are highly interested in creating the outputs that meet a need they could not afford to meet on their own. Typically, capital is patient for the long term because there are not any better alternatives to buy the same output elsewhere.

While the preceding discussions show that there is much that can be done by co-operatives on their own, access to capital remains an issue. Co-operatives are generally limited to increasing capital through either reinvesting profits or new membership growth.

Legislation prevents co-operatives from raising capital through share offerings, which can significantly slow their progress in achieving longer term strategies and goals.

Other jurisdictions have recognized this gap and have created a new class of organization that has the flexibility to be a co-operative and raise capital through share offerings. The United Kingdom has enabled the establishment of Community Interest Companies (CICs) that are not-for-profit organizations that can issue shares, but are taxed at business rates. In addition, they must keep their assets within the organization through an “asset lock” to protect the organization’s investment in community service.

In Vermont Low-Profit Limited Liability Companies (L3Cs) have been created, which can raise capital

through share offerings. Profits (surpluses) are not taxable; however, dividends paid to members are taxed as income in the members’ hands without the preferential treatment that other dividend income receives.

BC legislation regarding co-operatives is primarily administrative as opposed to enabling. Permitted organizational structures for co-operatives are outlined but the legislation does little to foster growth and development of these organizations. Governments at all levels can support co-operative enterprises by funding research and development, ensuring co-operatives have the same support as private companies, creating tax credits for investment in co-operatives and creating capital pools. Loan guarantees from provincial and municipal governments could also be used to support certain industries or geographic areas.

Tax Advantage of the Co-op Model

Patronage payments are taxed at the member level not at the co-operative level, reducing the co-

Co-operatives “... build local assets and keep wealth in the community by returning dividends to members while creating jobs and economic opportunities. Co-ops are rarely susceptible to pull-out or take-over since they are guided by the interests of local stakeholders, not outside investors.”

Government of Canada Co-operatives Secretariat, retrieved from http://www.agr.gc.ca/rsc-src/coop/index_e.php?s1=info_coop&page=ben-av, March 12, 2009

Some Canadian groups have recently proposed the establishment of a national Community Enterprise Act to accomplish similar outcomes that the CICs and L3Cs achieve. While the specific form of legislation and the right organizational structure require debate and design, we believe such enabling legislation would give co-operatives the funds required to invest in capital assets, expedite research and development and facilitate training and the development.

Nova Scotia has the most advanced co-operative structure in Anglophone Canada. The provincial government made the decision to retain its role as regulator for co-operatives, but empowered the Nova Scotia Co-operative Council (NSCC) to handle development and support for co-operatives in the province.

The NSCC also provides assistance to co-operative start-ups, training, legal services, and publications, and administers the Community Economic Development Investment Funds (CEDIF). These funds are capital pools generated through the sale of shares. The provincial government supports these funds by qualifying CEDIF investments for the provincial Equity Tax Credit (30% of the investment), partially guaranteeing these funds, and making them eligible for RRSP investments. Finally, a joint venture between the NSCC, Credit Union Central of Nova Scotia and the provincial government provides loan guarantees for eligible businesses, including co-operatives. The extent of this provincial infrastructure is inspirational in demonstrating possibilities in BC.

How might the model be applied in BC?

To illustrate the opportunities created through cooperation, consider the technology industry in BC. It is one of the fastest-growing sectors in BC and is dominated by small businesses. As of 2007, 96% of technology companies in BC were small businesses.¹⁶ According to the BC Technology Industries Association (BCTIA) many BC technology start-ups sell out before reaching critical mass, in part because they do not have the senior-level marketing and management expertise required and in part because they cannot find capital for later-stage funding.

The domestic market does not have sufficient volume to achieve the economies of scale required to remain competitive in global markets.¹⁷ In some products, BC manufacturers do not produce enough to satisfy demand and this, coupled with currency fluctuations, resulted in a trade deficit of \$3.5 billion in 2007.¹⁸ This shows that most BC technology businesses are unable to export their products and services, limiting the growth opportunities within BC.

“While BC has an enviable record for creating new start-ups over the past ten years, there is a trend for these companies to be acquired at a relatively early stage in their life-cycle by larger players, often from outside the country. As a result, the intellectual property, R&D and jobs associated with these start-ups usually leave BC in the months following the acquisition.”

British Columbia Technology Industries Association, Tax Incentives for Scientific Research and Experimental Development, November 30, 2007, p. 3

¹⁶ BC Stats, Profile of the British Columbia High Technology Sector, 2008 Edition, p. 32

¹⁷ Ibid, p. 2

¹⁸ Ibid, p. 9

One of the keys to success for the sector will be moving from service-oriented unique solutions to products that can be sold on a mass scale. Cash-starved technology companies do not have the resources to invest in market research, intellectual property registration and other important steps in the commercialization process, which makes them less sustainable.

How can the technology sector be supported in research, commercialization and marketing? The benefits of working cooperatively are exemplified by the Emilia Romagna region. To meet the challenges of globalization, the regional government abandoned its district-centric view of the economy and the whole region was reconsidered as a broad, multi-sector district distinguished by a diversified industrial base and a strong mechanical sector. Given the increasing importance of high technology to this system, the region passed legislation supporting innovation and technology transfer to encourage partnerships between businesses, universities and public research bodies.

The Technology Transfer Network (TTN) is a recent initiative that links the science departments of universities and almost 300 certified research laboratories and institutes with businesses and entrepreneurs to generate patents, develop human resources and a broad knowledge community capable of contributing to a quickly globalizing regional economy. Not simply a research and development investment exercise, the TTN encourages the full process from research to commercialization, with spin-off enterprises supported by venture capital. Cooperation here is promoted through funding based on partnerships; single enterprises need not apply.

Although there are similar networks in Canada (e.g., Mathematics of Information Technology and Complex Systems – MITACS) they typically focus on only part of the process of going from research to business. BC could benefit from a model that encourages cooperation through the later part of the process, from prototype to commercialization.

If the BC technology sector were to develop as in these other areas, it could generate more exposure within BC and for export opportunities across Canada and internationally. This would allow it to grow within BC and have more capacity to attract and retain critical knowledge workers in BC communities.

The opportunities for cooperation within the technology sector is clear, but is there opportunity for cooperation across sectors?

“Another dimension to consider is the interconnection between the knowledge-based economy and the province’s resource industries. The resource industries are heavy users of advanced technology. Today’s sawmills are highly automated and sophisticated operations. Similarly, mining companies make use of advanced imaging technologies to explore for minerals. Indeed the line between the technology sector and all other industries is becoming blurred as all companies increasingly use technology, data, information management and related services and advanced machinery in their operations.”¹⁹

SACMI, a co-operative in the Emilia Romagna region, started with the technology component of an industry rather than the more common impetuses of production or distribution. SACMI was created by mechanics in the ceramic industry who saw an opportunity to expand their expertise in technology across several industries.

Ninety years after it was founded SACMI is the recognized world leader in the design, manufacture, and marketing of machines and systems for the Ceramics, Plastics, Beverage & Packaging, and Food Processing industries. SACMI consists of a network of over 60 companies worldwide with a turnover of more than \$1.5 billion. SACMI credits its success to a strong commitment to research and the

¹⁹ Summary Points – Economic Importance of Resources in the BC Economy, Business Council of British Columbia, p.3

application of innovative technology, a coherent diversification strategy and high standards of quality in customer offerings.

Is there is an opportunity for networks to develop between BC's technology companies and resource industries to become world leaders in an area where we already have demonstrated excellence such as green technologies? The experts in their respective fields have the answer to that question; however, if the opportunities are attractive, the co-operative model may be the answer to how to encourage the networks.

Opportunities for social development

Typically, western society has used a model where investor-owned businesses and individuals make profits and income and give back to their communities through taxes or philanthropy. BC has a thriving and responsive social economy, but if we only contribute to our communities as a by-product of our profit, our society will continue to drain resources and we will ultimately compromise our ability to grow. This is not a sustainable model; we are not a truly prosperous society if one in four children in BC lives in poverty.²⁰

The Potluck Café and Catering operates a low-threshold employment social enterprise café and catering company in Vancouver's downtown Eastside. The organization provides neighbourhood residents nutritious, free and affordable meals and nutrition education through community kitchens and employs up to 15 at-risk residents in their operations. Revenues from the café's business offset its program costs and sustain its operations.

Potluck has demonstrated innovation and a strong ability to manage contract deliverables and budgets, growing to become a sustainable \$1.2 million dollar operation.

The Vancity group of companies has worked with the Potluck by supporting efforts to develop, launch and sustain its social enterprise as well as related projects.

Social and economic development are interconnected. Communities without a strong economic base tend to offer very little to attract individuals. If there are not many business opportunities for employment, some people will leave, especially older, established, and wealthier people who seek more comfortable environments. Individuals who stay in the community may become disadvantaged, and without social development, they can be a deterrent to future development. However, if economies can grow, they can attract and retain talented individuals. These individuals stay in their communities and continue to develop them. This, in turn, fosters a strong social fabric in the area.

Many of our major social and environmental challenges, which sometimes impede growth and liveability in our region, cannot easily be solved by single organizations or through conventional service models. New forms of organization that include cooperation could serve BC to create a more sustainable and liveable province.

Co-operatives are committed to the concepts of self-reliance and community. This makes them natural tools for social and economic development, and provides significant additional benefits to communities and social systems.²¹

Co-operatives often provide social services where markets or governments have not had the impetus or resources to meet the needs of a community.

²⁰ Vancouver Foundation, Vital Signs For Metro Vancouver, 2008

²¹ The Co-operatives Secretariat, Government of Canada, Co-operatives and the Social Economy, March 2004, page 5

As extensions of community, co-operatives are predisposed to finding ways to create both economic and social value through what they do. Profitability is an important aspect in maintaining an adequate capital base and providing an engine for growth; however, the well-being of members and their communities is also an important consideration. In return, successful co-operatives can retain a high level of commitment and loyalty from the members who use their services and the communities in which they operate.

Over the past 150 years in BC, co-operatives have proven their ability to contribute as providers of both social and economic capital. They have played an important role in building the province we have today and are particularly important to the economies of rural communities. They make a significant contribution to the social needs of British Columbians in such areas as child care and affordable housing, as well as to more traditional areas of the economy, such as banking, insurance and agriculture.

The model has allowed people and communities without access to large amounts of capital and/or those facing economic hardship or disparity to participate in the market economy and be self-reliant. Particularly in rural settings in BC, some communities have flourished by using a co-operative model. Co-operatives have also succeeded in providing services where the risk of serving marginalized populations such as low-income or un-established people was too high relative to the return for many for-profit business models.

Today, BC co-operatives are showing leadership and growing in new areas, from promoting community economic development to maintaining valuable watersheds and forests, creating new enterprises while protecting the environment, and providing affordable health care and social services. Co-operatives have the potential to be viable adjuncts to our public health and social sector.

Our aging population and co-operative health care solutions

Our population is aging. As of 2007, 14.2% of the BC population is over 65 years of age and this is

Health care co-operatives

Across the Japanese archipelago a network of consumer co-operatives that manages and owns hospitals, clinics, and rehabilitation centres has been growing for more than 50 years.

Over 120 co-operatives representing nearly three million members act as a forum where citizens discuss problems of health and daily life and endeavour to resolve them through actions taken in collaboration with the caregivers and health professionals of these establishments.

expected to increase to 19.3% by 2020.²² This trend is driven by the aging baby boomer generation, increasing life expectancy, decreasing fertility rates, and a shrinking youth cohort. One-person households are growing faster than one-family households and currently account for 26% of the population, up from 20% since 1981.²³

Elderly seniors, a growing segment, are most likely to live alone (more than one third of people living alone are seniors). Challenges will likely be particularly acute for seniors in the future, as falling fertility rates mean a smaller support network of children to provide care and financial support.

²² Industry Canada, Consumer Trends Report: Industry Canada Research Paper, 2005, http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/h_ca02216.html, Misty Harris, Aging Baby Boomers to Shift Driving Trends, CanWest News Service, May 2008. And Andrew Ramlo and Ryan Berlin, A Perfect Storm: Sustaining Canada's Economy During Our Next Demographic Transformation, Urban Futures 2006. And Portrait of the Canadian Population in 2006, 2006 Census, Statistics Canada 2006. And Doug Norris, An increasingly diverse marketplace: Summary of 2006 Census Results, Environics, 2008.

²³ Statistics Canada, Canadian Social Trends, Winter 2007. And Industry Canada, Consumer Trends Report: Industry Canada Research Paper, 2005, http://www.ic.gc.ca/eic/site/oca-bc.nsf/eng/h_ca02216.html.

Health care costs are projected to grow at double-digit rates in the foreseeable future.²⁴ Chronic health concerns account for about 75% of all health care costs in North America. This figure is expected to rise nearly a third to 97.5% within the next decade as the balance of the baby-boomer cohort enters retirement.²⁵ The number of Canadian taxpayers supporting each retired pensioner will fall from 3.6 in 1995 to 1.6 by 2030.²⁶ Spending on pension and health care as a percent of GDP will rise from 12.6% to 22.5% in the same period.²⁷

As these projections unfold, expected implications include a reduced workforce, stress on healthcare resources, increased poverty among seniors, and significant shifts in consumer behaviour driven not only by an aging population, but also by the generation left to care for them. Simply put, as the Institute for Research on Public Policy reported in 2004, the current Canadian health care system is not sustainable in the near term.

The principles of community ownership, control, governance, and engagement apply to the health care debate and future delivery considerations. A critically important alternative is the potential for *community ownership* of health care solutions and their implementation.

There are over one hundred health care co-ops operating in the country today, concentrated in Saskatchewan and Quebec.²⁸ The primary force that drives popular mobilization around a health co-operative project is the need to attract physicians to a community. However, the potential to use the co-op model to address broader health care challenges, as well as other social issues associated with our ageing population, is immense. Japan's co-operative health care network offers a glimpse into how community ownership of health care can be implemented on a mass scale.

City of Nelson: Co-operative success in a time of economic hardship

When the City of Nelson suffered significant economic hardship as a result of the downturn in the forest industry and the province's financial restraint program of seven years ago, the City lost its hospital, Court House, Regional Forest Management office, and college.

The community turned to co-operative solutions to turn itself around. Currently, 80 co-operatives and credit unions operate in the area, many in response to the severe challenges facing the region.

These include establishing the Community First Health Co-operative, which purchased a 30,000 square foot building to house a Wellness Centre serving 1,500 members. The building also provides a permanent home for the many social enterprises operating in the community, providing the health co-operative with an additional revenue stream for growth.

Further discussion in Appendix 5.

Developing the full economic participation of Aboriginal people

Another area where co-operatives can play a role in social development is within Aboriginal communities. In BC, Aboriginal leaders have expressed a preference for economic development that is participatory, takes into account local history, is collective, and meets cultural aspirations while diversifying their local economies. This approach is consistent with the BC First Nations Economic Development Action Plan and provides an alternative to business structures that are less reflective of traditional ways of conducting business and leveraging community-held assets. The co-operative model lends itself to the values and approach to economic development articulated by Aboriginal communities.

²⁴ Special edition (2007) *Community-controlled Health Care, Making waves*, Canada's community economic development magazine, vol. 18, no 3

²⁵ Ibid

²⁶ Ibid

²⁷ Ibid

²⁸ Ibid

There are 133 Aboriginal co-operatives in Canada making substantial economic contributions to the communities in which they operate, through local businesses and wholesalers that return surpluses to community members. Aboriginal co-operatives, particularly in the Arctic, have shown remarkable entrepreneurship by engaging in a wide range of economic activities. These co-operatives provide products and services that would not otherwise be available to community members, while providing social and economic returns locally.

Co-operatives in Aboriginal communities contribute to providing essential services, such as housing, physical infrastructure development, transportation and communications. Co-operatives have contributed significantly to the social capital of Aboriginal communities by enhancing educational programs, supporting business management skills and creating community ownership. Recent devolution agreements transferring government services to Aboriginal agencies have created additional opportunities for the co-operative model to be employed.

There are also opportunities for Aboriginal communities to actively participate in the management and control of the natural resources within their territories, through consultation and accommodation agreements with industry, and through treaty and non-treaty settlements with BC and Canada. While estimates vary as to how much money will eventually change hands, most experts believe the amount will climb into the billions of dollars over a ten- to fifteen-year period, representing one of the largest transfers of wealth in the history of the province.

The co-op model allows for Aboriginal communities to build the capacity necessary to manage this wealth transfer and fully realize and participate in the economic benefits offered by these settlements. The community can exercise democratic control over a venture while maximizing local employment and returning profits directly to the community. This impact on community livelihood encourages community members to participate in decision-making and allows for local community values to be brought into the operation of a co-operative. Engaging more support and opportunity for co-operatives at the federal, provincial and municipal levels will therefore help facilitate development of Aboriginal communities, capitalize on the economic potential of the assets and bring value to the province as a whole.

Conclusion

We are in the midst of unique economic times; there is a worldwide recession and loss of confidence in the banking systems of the world's largest economies. At the same time, emerging economies such as China, Korea and India are becoming bigger players in global markets. To face the challenges over the next decade people are looking for models to take advantage of new markets and compete globally.

This document has illustrated innovative uses of the co-operative model in addressing some difficult economic and social challenges. The co-operative business model can play a part in BC's success over the next decade, particularly in the areas of creating economies of scale and assisting businesses to understand and participate in markets outside Canada. Co-operatives can be used to fill in gaps and increase value in our already successful business community.

Rather than competing solely against each other, businesses in BC could work together to generate adequate scale and infrastructure to compete in economies outside BC. Given the flexibility of the co-operative model, the types of partnerships and infrastructure required depends on the problem to be solved. The model is broad and includes partnerships between any or all of businesses, trade

associations, economic development groups, government, co-operatives, social enterprises and non-profits.

If we are successful in establishing the necessary ingredients for cooperation, BC has the opportunity to become a world leader and global competitor in industries where we are currently small players. In addition, by creating better infrastructure to support community ownership of social development, communities can become more economically independent and improve the prosperity of the province as a whole.



Appendices

Appendix 1: The Co-operative Difference

Cooperative	Investor-owned
Ownership	
The share is listed in the member's name.	Generally, a share carries no name. Unless registered, it belongs to the bearer.
In general, a membership share may not increase in value. It can usually only be redeemed by the cooperative at its par value; some legislation allows for investment shares (non-par value) to members and/or non-members.	A common share may increase in value. A shareholder may sell his or her shares to another person at an agreed upon price.
Member's responsibility is limited to the amount of the shares he or she holds.	Shareholder's responsibility is limited to the value of the shares he or she holds.
Voting	
A member is entitled to only one vote at a general meeting, regardless of the number of shares he or she holds.	A shareholder is entitled to a number of votes, equivalent to the number of shares he or she holds in the company.
Some cooperatives with a large and dispersed membership have a delegate structure for representing members (e.g., one delegate represents multiple members from a geographic district).	
No proxy voting allowed.	A shareholder may obtain a proxy to vote for other shareholders.
Holders of investment shares have restricted voting rights.	
Sharing in the Surplus	
Cooperative legislation may limit or prohibit the payment of interest on share capital.	There is no limit on share dividend.
Surpluses may be paid into the reserve or to members in the form of patronage returns proportional to the business done by each member with the cooperative.	Profits may be distributed in the form of dividends according to the provisions for each class of shares, or reinvested in the company. The value of shares reflect the net value of the corporation.
Some legislation allows cooperatives that issue investment shares to allocate part of their surpluses as dividends on those shares.	
Some provincial legislation may stipulate that a cooperative's general reserve is indivisible, or divisible in whole or in part.	Shareholders may dispose of all of the assets of the business in accordance with certain legislative provisions.
Some cooperatives, such as housing, health and day-care cooperatives, are structured as non-profit entities. Surpluses are not distributed to members.	

Types of Co-operatives

Co-operative Businesses (For-Profit Co-operatives)

Co-operative businesses are similar to commercial enterprises in that they must respond to the same market forces of competition, supply and demand, economic upheavals and changing consumer preferences. They must adapt to changes in external conditions and continually meet the needs of their members. However, the difference in purpose and control structure can have important implications on the behaviour of co-operatives in comparison to other forms of enterprise.

As extensions of community, co-operatives are predisposed to finding ways to create both economic and social value through what they do. Profitability is an important aspect in maintaining an adequate capital base and providing an engine for growth, however the well-being of members and their communities is also an important consideration. In return, successful co-operatives can retain a high level of commitment and loyalty from the members who use their services and the communities they operate in.

The co-operative structure has been applied in a broad range of ways to serve many different business objectives and are often formed to meet an unmet need in the marketplace. Because the needs of their members are their primary concern, co-operatives are able to respond to business opportunities that do not generate the level of profits deemed acceptable under other forms of business models.

In fact, co-operatives have often excelled where the market economy has failed. For example, many co-operatives have successfully met the needs of remote or geographically dispersed communities (e.g., credit unions are the only financial services alternative in 41 communities in BC). Co-operatives have also succeeded in providing services where the risk of serving marginalized populations such as low-income or un-established people was too high relative to the return for many for-profit business models. For example, at one time women and low net worth immigrants were considered high risk and Vancity was the first co-operative in Vancouver to establish lending programs to meet their needs.

Some of the common types of for-profit co-operatives include:

- *Consumer co-operatives* – provide a wide range of goods, from sports equipment to petroleum, and are owned and controlled by the customers that purchase the products of the co-operative. They range in size from small purchasing groups to large super-stores such as Mountain Equipment Coop with \$240 million in sales (2007). Consumer co-operatives are a mainstay in almost every rural community across the Canadian prairies.
- *Financial co-operatives* – provide a full range of financial, trust and insurance services, and are owned and controlled by the customers of the co-operative. They range in size from small, serving a particular professional or cultural group, to large, such as Vancity, with \$14 billion in assets. Financial co-operatives that offer banking services are known as credit unions or caisses populaires in Canada.
- *Marketing co-operatives/producer co-operatives* – provide processing, marketing, supply and/or distribution of products typically in agriculture, artisanal crafts, fish and lumber. They are owned by the people who produce or harvest the products. In Canada, some of the largest agricultural enterprises are co-operatives, such as the Alberta Wheat Pool.
- *Worker co-operatives* – provide work for their members. These businesses are entirely owned and operated by the people who work for them. In a worker co-operative, capital serves the interests of labour (vs. publicly traded corporations where labour serves the interests of capital). Adrenalin Motorcycle Co-op is a worker co-op in Victoria that extends memberships customers for discounts on merchandise, labour, free mounting and balancing of tires, access to in-house members work area and

social lounge, and more. Vancouver Renewable Energy Co-op's mandate is to reduce greenhouse gas emissions, other pollution and non-renewable energy by installing affordable renewable energy systems.

The unique features of co-operatives, which can result in the benefits described above but can also pose challenges. Two key challenges often faced by co-operatives are slow decision making and overcoming member individualism.

- Running a democratic organization requires time and care – decisions are made based on what members want, requiring a collaborative and often slower process. To allow for efficient decision making, co-operatives must establish a strong governance and accountability framework so decision making authority is delegated to individuals or small groups rather than the membership.
- Members must recognize that co-operatives are run based on collective needs, not individual needs, and act accordingly. An example of this problem frequently manifests itself in agricultural marketing co-operatives. Some farmers are tempted to only patronize the co-operative when their product is inferior or they can't find a better price elsewhere. This can result in inconsistent quality and level of supply from the co-operative and therefore taxes the long term sustainability. In order to overcome individualism, many co-operatives develop education programs to increase awareness of the impacts of operating individually.

There is also a common misperception that co-operatives are less efficient than commercial businesses. A number of studies have been undertaken to test the relative performance of the two forms of organization, little credible evidence exists to support the proposition that co-operatives are inefficient relative to investor-owned businesses.²⁹

Not-for-Profit Co-operatives

Co-operatives are committed to the concepts of self-reliance and community. This makes them natural tools for social and economic development, and provides significant additional benefit to communities and social systems.³⁰ Co-operatives often provide social services where markets or governments have failed to meet the need of a community.

- *Service co-operatives* – provide a wide range of services, typically where users want more control. The co-operatives are owned by the people that use the services. Examples are child care, health care, community development and transportation co-ops. A local example is the Co-operative Auto Network – a co-operative formed to car share within BC's urban centres.
- *Housing co-operatives* – provides joint property ownership which is run as a non-profit. The members of the co-operative enjoy security of tenure and own and operate your homes co-operatively. There are more than 255 non-profit housing co-operatives comprising 14,300 units in British Columbia.³¹

While some of more common forms of co-operatives are outlined above, new applications of the co-operative model are being created and tried all the time. The flexibility and adaptability of the model to respond to both business opportunities and social needs is one reason why we believe co-operatives and the principles that guide them, can play an important role in addressing some of the issues likely to face BC in 2020.

²⁹ Hardesty, Shermain D. & Salgia, Vikas D., 2004. "Comparative Financial Performance of Agricultural Cooperatives and Investor-Owned Firms," 2004 Annual Meeting, November 2-3 31797, NCERA-194 Research on Cooperatives.

³⁰ The Co-operatives Secretariat, Government of Canada, Co-operatives and the Social Economy, March 2004, page 5

³¹ Co-operative Housing Federation of BC, <http://www.chf.bc.ca/pages/about.asp>, retrieved March 13, 2009

There are other models that combine economic and social output. Coops are part of a broader movement termed *the social economy* which is defined as follows:

“Separate from the private sector and government, the social economy includes co-operatives, foundations, credit unions, non-profit organizations, the voluntary sector, charities and social economy enterprises. Social economy enterprises are a component of the social economy that are run like businesses, producing goods and services for the market economy, but manage their operations and redirect their surpluses in pursuit of social and environmental goals.” - Western Economic Diversification Canada

Groups in the social economy typically work co-operatively and create networks of support across all types of organizations, including those outside of the social economy. Community development strategies are a good example of these networks as they bring together citizens, government, investor owned businesses and related associations as well as partners in the social economy. In this way they are able to solve problems that no one organization could manage alone.

As government support for social programs decreases, the activity of the social economy increases. In this way the participants in the social economy are an ally to government and in the long run will reduce overall costs of support as the services they provide are provided more efficiently and effectively.

In addition, as consumers increasingly understand the gap between profit motivations and the social context of their lives, the social economy becomes more relevant across all types of business. Consumers are starting to demand a blend of economic and social benefit in their consumption. The greening of business and increase in corporate social responsibility efforts is a response to this demand.

It is important to recognize the part of all the players in the social economy if co-operative models are going to be used to help solve social issues in BC. All players are important in creating holistic, community based solutions.

Appendix 2 - Cooperation in British Columbia

Organization

Co-operatives in British Columbia are structured by an intricate network of federal and provincial legislation and administration and national and provincial supporting organizations.

The federal government's Co-operatives Secretariat is dedicated to economic growth and social development of Canadian society through co-operative enterprise. The Secretariat's new Co-operative Development Initiative seeks to make co-operatives a more visible and viable option through both support for the development of co-operatives and research into innovative applications of the model. Federal administration of co-operatives is primarily focused on those that carrying on business in two or more provinces and have a fixed place of business in more than one province, as provided for in the *Canadian Co-operatives Act*.

There are a number of national organizations that support co-operatives. Of particular note is the Canadian Co-operative Association, a not-for-profit co-operative with membership from all sectors of the economy; the CCA seeks to promote, develop, and unite co-operatives and credit unions across the country.

Co-operatives in British Columbia are governed by several pieces of legislation: the *Credit Union Incorporation Act*, the *Financial Institutions Act*, and the *Co-operative Association Act*; all of these are administered by the province's Ministry of Finance.

The *Co-operative Association Act* is an omnibus bill that specifies the rules of co-operative association across a wide array of co-operative structures, from consumer to housing co-operatives. With respect to share capital, the Act allows for both membership shares and investment shares. With the passing of a number of amendments in 2007, the Act permits non-profit co-operatives to incorporate as "community service co-operatives", which have the same status in law as non-profit societies, including eligibility for charitable status where applicable.

There are a number of organizations that play a supporting role to co-operatives. A few of the most important include the following:

- The BC Co-operative Association is a member-supported, non-profit co-operative representing the provincial co-operative movement, including credit unions. Its main roles are: co-operative development and the delivery of advisory services through the federal Co-operative Development Initiative; co-operative education and training; youth programming &

BC's Co-operative Sector

Represents an estimated 2 to 3% of BC's GDP, including:

Non-financial Co-ops

- more than 700
- 264 housing co-ops
- 13,000 employees
- more than \$12 billion in assets
- includes MEC, BC Tree Fruits, and United Community Services Co-op

Financial Co-ops

- 47 credit unions with 373 branches in 140 communities
- \$45 billion in assets
- 1.6 million members
- 8,000 employees
- includes Vancity, Coast Capital, and The Co-operators

Key co-operative organizations

- BC Co-operative Association
- Central1
- Federated Co-operatives Limited
- Co-operative Housing Federation of BC
- The Canadian Worker Co-operative Federation

Excerpted from: *E. Del Bianco, British Columbia's Co-operative Sector, An Overview.*

leadership development; and, government relations.

- Central 1 Credit Union is the provincial trade association and central banker for the province's credit unions. Central's activities include: facilitating the development and integration of financial services; providing education and training; supporting member & public relations; and, conducting market research.
- Federated Co-operatives Limited provides wholesaling, processing, manufacturing and administrative services to retail co-operative members across Western Canada and North western Ontario. In BC, 27 co-operatives with 2,200 employees are members of Federated.
- The Co-operators Group Limited is the largest, wholly Canadian-owned multi-product insurance company, with assets of more than \$6.5 billion. In BC, The Co-operators support community and co-operative economic development initiatives.
- The Co-operative Housing Federation of BC provides support services to 225 housing co-operatives representing almost 12,000 units.
- The Canadian Worker Co-operative Federation seeks to develop and expand worker-owned or multi-stakeholder co-operatives and promote democracy in the work place. It owns and manages a worker co-operative development fund to finance new worker co-operatives and provide leverage to obtain conventional financing.
- The British Columbia Institute for Co-operative Studies at the University of Victoria provides courses on co-operative thought and practice and conducts research to understand how the co-operative model functions within different contexts, and to assess the contribution co-operatives make to empowering people and communities in meeting their economic and social needs.

Appendix 3 - A Brief History of Co-operatives in BC³²

A comprehensive history of co-operatives in British Columbia remains unwritten. However, there are some general trends in co-operative history. From the mid-1800s to the mid to late 1930s consumer/retail and resource-based co-operatives arose independently, in pockets across the province, including co-operatives for: fishing, wood products, dairy and agriculture. Hot spots of cooperation in these years included Vancouver Island and the Kootenays, where some of the earliest co-operatives were formed.

After legislation was passed in 1939, a surge of credit unions formed in remote areas along the coast and on smaller islands, usually by the fishermen that were involved in the establishment of fishing co-ops ten years earlier. The first of these credit unions was formed in Powell River and continues to this day. By as early as 1940, the system's first official trade association, the B.C. Credit Union League, was established.

Throughout the 1940s and 1950s community credit unions arose in virtually every region of the province. Although a number of these were based on common ancestry, employment or religious affiliation, many others founded during this time, including Vancity and Coast Capital, appealed to a broader community or regional base.

From the early 1960s on, a second wave of non-financial co-operatives began to manifest themselves in response to changing economic conditions and the specific needs of communities. This new wave saw the establishment of co-operatives serving: artists; organic & value-added food producers; community forestry & value-added wood producers; health & social services; and housing.

³² Unless otherwise specified, this historical overview of co-operatives and credit unions in British Columbia draws extensively from: BC Institute of Co-operative Studies, "The Galleria: Stories of the BC Co-op Movement", available from www.bcics.org/resources/galleria; internet; accessed 3 February 2009.

Appendix 4 – SME Succession Planning, The Co-operative Option

Another area where the co-operative model can excel is in succession planning. As demographics shift and the baby boomers retire, a significant portion of the 350,000 small businesses in BC will go to new owners. Estimates have said upwards of half of small businesses will be sold in the next 10 to 15 years. The group of people affected by succession planning is much broader than the owner. The employees, customers, suppliers, unions and communities of the business all have a stake in successful business succession.

Succession planning is a complex process and a very personal decision; establishing a co-operative of employees/managers to buy the business is an option worth exploring. Roynat Capital's experience is that only 30% of small/family businesses passed to the next family generation survive, 50% survive when sold to an outside buyer and 80% survive where there is an employee buyout supported by key managers. Research has shown that owner/workers demonstrate higher levels of efficiency and commitment, creating a competitive advantage for themselves. In our experience as a financial institution, the option is not often considered.

Appendix 5 - Non-Profit Organizations

A separate but distinct part of our provincial economy is the non-profit sector, which alone employs 7% of the provincial workforce – more than the forestry, fishing, mining and oil and gas industries combined. While some co-operatives are non-profit, all non-profits do share many of the co-operative principles and the following helps to describe their distinct nature.

Most social services in British Columbia are delivered by non-profit societies and associations. The non-profit designation frees these organizations from the obligation of income taxes, but carries certain governance and financial requirements, including the indivisibility of residual assets, the requirement for membership by citizens, and a non-paid board of directors.

Almost all of these non-profits are also registered as charitable organizations under the *Canada Revenue Act*, which allows them to provide a receipt to individual and company donors that can be used to acquire income tax exemptions. Charitable registration places additional requirements for conservative financial practices on these organizations.

Non-profits serve their communities in many ways: by inventing and promoting alternative forms of neighbourly assistance; by making needed services accessible to individuals, families and communities;

BC's Non-profit Sector

- \$9 billion in annual revenues, 6.9% of the provincial GDP;
- 49% of total revenue comes from all levels of government, 31% from earned income and 15% from donations;
- the majority (80%) are small organizations with annual revenues under \$250,000; only 6% have revenues greater than \$1 million;
- the sector employs 7% of the provincial workforce, more than forestry, fishing, mining and oil and gas industries combined
- 1.5 million volunteers support the sector;
- large NPs are the biggest employers (more than 108,000 full and part-time staff); smaller NPs employ less than 15,000;
- 62% of NP's operate locally, 20% serve regions, 9% are provincial and 9% serve several provinces or the country;
- 81% of NP's provide services directly to people and only a few serve other organizations.

(Excerpted from: V. Murray, *The Non-Profit & Voluntary Sector in British Columbia: Regional Highlights from the National Survey of Non-Profit & Voluntary Organizations* (Imagine Canada; Toronto, 2006)

by involving citizens in addressing local issues and problems; and, many other forms of civil society engagement. A large number of non-profits have become permanent and important fixtures in Canadian society through the high quality of their contributions.

One of the most compelling aspects of these organizations is the requirement that the Directors act as stewards and trustees of the assets of the non-profit. Both registrations require that members receive no benefits.

There are three important aspects of non-profits that set them apart from other forms of incorporation:

- Actual ownership of the non-profit society does not exist, as no investment is required by the founders or subsequent members: there are no shares, membership is typically based on a token annual payment, and there is a revolving group of members.
- Benefits cannot flow to members but must flow to others (non-members); residual surpluses and assets are indivisible and must be conserved to provide benefits to others at a later date.
- Directors, acting on behalf of the members, must be stewards and trustees of the organization's assets rather than having the obligations of ownership; because financial investment regulations specifically require directors to protect and conserve the assets of the organization, developing the asset base must always be accomplished through low risk investments and activities.

Appendix 6 - Co-operative Profiles: A Tale of Two Regions

In communities across the province co-operatives and cooperation make crucial contributions to civil and market economies. To better illustrate these contributions, the activities of co-operatives in two communities are briefly profiled.

Greater Vancouver

The full range of co-operative initiatives are evident in the Greater Vancouver, from small-scale social co-operatives, to a wide array of local and regional credit unions, to large-scale for-profit enterprises.

A concentration of co-operative ventures is apparent on Vancouver's Commercial Drive. Local co-operatives include the People's Co-operative bookstore (established in 1946), the Waterfront Consumers Co-operative, which provided five shared houses and a rape relief center, and a wide variety of food-oriented co-operatives, including the East End Food Co-operative, Uprisings Bakery, CRS Workers Co-operative, and Theresa's, a worker-owned and managed restaurant. Commercial Drive also supports the highest density of housing co-operatives in British Columbia, with over twenty within a five kilometre radius. The credit union presence in the neighbourhood includes a major Vancity branch as well as CCEC, a smaller financial co-operative focused on community development.

Arguably, "The Drive" is the Lower Mainland's most vibrant neighbourhood, a focal point for the Italian, Portuguese, Latino, Jamaican, First Nations, Horn of Africa and lesbian communities, amongst others, as well as social justice advocates and artists. The co-operatives in the neighbourhood have done much to contribute to this vitality by providing employment opportunities and access to affordable and diverse goods. Housing co-operatives in particular have done much to promote local affordable accommodation and retain the economic diversity of the neighbourhood in an era of property development and gentrification.

Looking beyond Commercial Drive, the region is home to several co-operatives have achieved significant scale and are making a substantial contribution to the economy and community; these include the following:

- Mountain Equipment Co-operative

Mountain Equipment Co-operative (MEC) was established in Vancouver in 1971 by a handful of UBC students, mountaineers unsatisfied with the inadequate clothing and gear that was available to them and others who enjoyed recreational wilderness activities.

The co-operative is now Canada's largest supplier of high-quality outdoor equipment and, with more than two million members, enjoys the largest membership of any of the Top 50 Non-Financial Co-operatives in Canada. MEC maintains 12 retail stores across Canada, including almost a full block on Broadway in Vancouver, a large office complex nearby, and a recently completed warehouse in Surrey that is state-of-the-art in regards to sustainability.

MEC takes its social responsibility very seriously, frequently testing their products and analyzing their supply chain to ensure that quality, environmental responsibility, working conditions and other social issues are balanced against cost and profitability. In addition, MEC allocates 0.4 per cent of its annual

sales to an Environment Fund committed to wilderness preservation and since 1987 has given in excess of \$9 million in grants to Canadian conservation projects; the most recent protective area acquired through this support were the Skaha Bluffs on Vaseaux Lake, important habitat for mountain sheep.

- Co-operative Auto Network

The Co-operative Auto Network (CAN) is a not-for-profit co-operative established in 1996 to foster car sharing as an alternative to privately owned automobiles.

Currently, CAN has a fleet of 228 vehicles located throughout Vancouver, the Lower Mainland, and on Vancouver Island. CAN's subsidiary, The Company Car, provides access to the co-operative's fleet to businesses as an alternative to taxis, a car service, reimbursing employees for personal car use, or a company fleet.

In a case study conducted by the Co-operatives Secretariat, CAN was highlighted for a number of innovations, including: a car-sharing pilot project for Whistler residents and a cross-use agreement with the Victoria Car Share Co-operative (subsequently expanded to include Nelson Carshare Co-operative and San Francisco's City Carshare); providing added value members through discounts on services such as health programs and other local transportation options; collaborating with a developer to make car-sharing available to the residents and tenants of a new residential development (a North American first); and, playing a significant role in shaping City of Vancouver policy to allow developers to reduce their parking ratios where car sharing is incorporated into building specifications.

CAN's stated goal is to encourage community solutions to environmental challenges, and promotes car sharing as a means of improving air quality and reducing stress on green space.

- Vancity

Vancity was pioneered by a handful of local and former prairie residents right after the Second World War, beginning off the corner of a desk in the Dominion Bank building at Victory Square. In a relatively short time, the credit union changed the nature of banking in Greater Vancouver: the first to loan to the post-war wave of immigrants to buy their first home, primarily Italians on Vancouver's Eastside; the first to lend to women without their husbands' signature; and, the first to employ new technology to provide daily interest. In more recent years Vancity has pioneered social responsibility and environmental sustainability, becoming the first carbon neutral organization in the province.

Vancity is the largest credit union in English Canada, with 58 branches in the Lower Mainland and Victoria, 380,000 members, 2,500 employees, and approximately \$14 billion in assets.

Each year, a third of Vancity's profits are cycled back into the community through dividends and grants, the latter supporting a wide-range of non-profit organizations as well as co-operatives; in particular, the credit union's subsidiary Vancity Capital Corporation, supported the expansion of Co-operative Auto Network's fleet and operations.

Nelson & District

As already noted, the Kootenays have a long history of co-operative activity, with early agricultural marketing, transportation, and retail co-operatives and credit unions.

When the City of Nelson suffered significant economic hardship that resulted from the downturn in the forest industry and the provinces' financial restraint program of seven years ago, in which the City lost its hospital, Court House, Regional Forest Management office, and its college, the community again turned to co-operative solutions. Currently, 80 co-operatives and credit unions operate in the area, many are a response to the severe challenges facing the region.

Doug Stoddart, the Manager of the Nelson & District Credit Union, returned from a five week Vancity-sponsored study tour of Emilia-Romagna's co-operative economy and began organizing his community to create co-operative alternatives. These included establishing the Community First Health Co-operative, which currently counts more than 1,500 members, and the purchase of a 30,000 square foot building to house a Wellness Centre, a venue for both traditional and alternative medical practices, and to provide a permanent physical home for the many social enterprises operating in the community, all the while providing the health co-operative with a revenue stream.

Near Nelson, on the south shore of the West Arm of Kootenay Lake, is the community of Harrop-Procter, a small community surrounded by mountains covered with pristine forest. As a result of an "inconsistent history of tenure rights" and the local resident's desire to protect their forests and watershed, very little harvesting had been conducted on Crown land. The community also suffers from a periods of high unemployment. The Harrop-Procter Community Co-operative brings local loggers and environmentalists together to harvest trees from 10,800 hectares of local forest land, the first community forest in the province to be certified under the Forest Stewardship Council's eco-friendly certification scheme. The co-operative owns two subsidiary companies, HP Forest Products and Sunshine Bay Botanicals, which produce ecologically responsible building materials, wood products, and herbal products.

October 2008 saw a significant development in the region's co-operatives through the establishment of the Upper Columbia Co-operative Council. With a mission to increase collaboration among the region's 80 incorporated co-operatives and credit unions, the Council will promote the co-operative model of business, assist new co-operatives to get started, and raise public awareness of the co-operative model's contribution to community's economic development and social well-being. Fifteen co-operatives and credit unions in the region have already provided support to the Council.

The Upper Columbia Co-operative Council is the first co-operative of its kind in British Columbia, and represents a potential model for other regions, particularly Greater Vancouver.

Appendix 7 - Cooperation in Canada

Co-operatives are one of Canada's great success stories. They have played an enormous role in building the country we have today and are an important part of the economies of both rural and urban communities. They make a significant contribution to the social needs of Canadians in such areas as child care and affordable housing, as well as to more traditional areas of the economy, such as banking, insurance and retail.

According to the Co-operatives Secretariat, there are more than 8,800 co-operatives in Canada directly employing 150,000 people, with an estimated 250,000 independent producers relying on marketing and production co-operatives. Approximately four of every ten Canadians are members of at least one co-operative. Canada's co-operatives hold more than \$210 billion in assets, with non-financial co-operatives undertaking nearly \$30 billion a year in business. At least seven co-operatives are listed amongst Canada's top 500 companies.

Co-operatives have a presence in every province; in some cases, such as financial services in Quebec and agricultural marketing in Saskatchewan, co-operatives have played a significant and visible role.

Although the lack of a formal definition of an "aboriginal co-operative" complicates collecting data on these organizations, a 2001 study conducted by the universities of Saskatchewan and Victoria found 133 co-operatives in Canada in which the membership is predominantly Aboriginal. The majority of these are found above the Arctic Circle, fall under the umbrella of the Arctic Co-operative federation, and primarily provide basic consumer needs, including access to food and dry goods, transportation, and cable, although co-operatives marketing artisan goods and providing housing are also evident. Southern aboriginal co-operatives are far less organized, but much more diverse and include fishing, agriculture, housing, and artisan, as well as consumer.

Greater consideration of these co-operative movements will be limited to a pair of examples of those that have evidenced a systematic approach to their support and growth.

Quebec

Co-operatives have played a significant role in Quebec's economic and social development, with both the province's first credit unions and agricultural co-operatives dating back to 1900. Between 1930 and 1945, co-operatives were established in fisheries, forestry, food consumption, school supply purchasing, and funeral services. In more recent years, "multi-stakeholder co-operatives" have proliferated, with clients, employees, and community partners coming together to provide health, leisure, cultural, tourism, new energy generation, and other services.

Quebec enjoys the largest and most dynamic co-operatives in the country. According to 2006 statistics, the province had 2,645 non-financial co-operatives and 555 financial services co-operatives for a total of 3,200; total revenue that year reached \$20 billion. These co-operatives employed 81,000 people and had assets of \$130 billion. Several of these co-operatives have achieved significant scale: Mouvement Desjardins is the sixth largest financial institution in Canada and Quebec's largest private employer, while agri-food co-operatives Agropur and Coop fédérée are the third- and fourth-largest co-operatives in Canada in terms of sales.

Certainly need –for affordable services and economies of scale- have spurred the establishment of these co-operatives. But the success of the model can also be attributed to its organization and support systems. Quebecois co-operatives do not operate in isolation. A variety of organizations represent the movement along geographic or sectoral lines, and all appear to take an active role in the continued maintenance and development of the co-operative model. For example, the Réseau des coopératives de développement régional (CDR) is a network of almost 1,100 co-operatives organized into 13 sector-based federations. Between 2004 and 2006, the CDR supported the establishment of 160 co-operatives.

Appendix 8 - Cooperation in Emilia-Romagna

The Emilia-Romagna region of north-central Italy is home to wide-range of high value-added industries: mature sectors such as textiles & clothing, footwear, and furniture; established sectors such as ceramics, construction, and value-added food products –including balsamic vinegar, prosciutto and Parmesan cheese; industry-leading “high mech” sectors, including automotive, industrial engineering, and advanced engineering; and, emerging sectors such as multimedia, nanotech, and biotech.

With regional GDP at €125 billion (2002), exports of €46 billion (2002), a per capita income of €18,548 (2002) –25% higher than the national average- and an unemployment rate of 3.7% (2004), Emilia-Romagna regularly places in the top ten of the European Union’s 122 regions in terms of economic performance.

This success is often –vaguely- attributed to Emilia-Romagna’s reputation as a “co-operative economy”, presumably the result of the presence and productive capacity of its co-operative enterprises.

Co-operatives do play a significant role. Supported by national legislation that provided, until very recently, significant tax breaks on their indivisible reserves, in excess of 4,000 co-operatives operate in the Emilia-Romagna, including consumer, agricultural, fishing, transportation, construction, manufacturing, financial, cultural, social and others, with 90% of these worker-owned. Ranging in size from modest enterprises to multi-national businesses with annual revenues exceeding a billion euros, co-operatives directly account for approximately 35% of the region’s GDP, and more if enterprises supplying co-operatives are included.

However, the region’s economy can also be considered in terms of the key role played by SMEs. At the end of 2004, more than 469,000 firms –including co-operatives- were registered in Emilia-Romagna. With a resident regional population of 4,080,000, this means there is one firm for every nine residents. More than half of manufacturing value added is realized by firms with fewer than 50 employees. At the other end of the scale, one of the largest companies in the region -Ducati, manufacturers of high performance motorcycles- employs a relatively modest 1,000 individuals.

But while small offers certain advantages, including a degree of nimbleness when faced with the need for technological upgrades or other efficiencies, it also poses a serious limitation on the scale and capacity needed to compete in modern and globalized markets.

Cooperation through highly networked relationships has been the region’s overall response to these challenges, and it is this broad level of cooperation between not only co-operatives but owner-investor firms, unions, civic government, university and vocational schools, and others that represents the true co-operative economy of Emilia-Romagna, a region that Harvard political scientist Robert Putnam concluded well be the most democratic economy in the world. What follows is a necessarily brief overview of the region’s approach in networking its productive capacity.

In some circumstances networking occurs organically through firms taking on specialized production within industrial districts, and the tendency of Emilian businesses to spin-off non-critical components into new firms linked in a network; both paths contribute to the region’s overall productive potential.

National organizations also play an active role in supporting networking and cooperation. Legacoop is one of three national bodies that provide support to member co-operatives. The Lega advocates on

behalf of its members, provides a wide range of services to support and grow their members' enterprises, promotes the establishment of new co-operatives through a co-operative development fund, and undertakes a variety of initiatives to strengthen the solidarity of its co-operative network.

The National Association of Artisans and Small- and Medium-sized Enterprises (CNA) provides comprehensive business and administrative support services for small, craft-oriented businesses – everything from automobile mechanics to hair stylists, to dry cleaners, to self-employed professionals – in order to improve the competitiveness of its members and encourage their cooperation and integration. The CNA advocates on behalf of its 350,000 members, provides strategic services such as training, planning and counselling, a broad range of “backroom services” including payroll, accounting, marketing, and insurance, and extended social service coverage, including pensions, workplace injury coverage, and maternity leave.

On this networking base, the regional government has evolved its industrial support strategy, which deliberately promotes the coordination of the region's industrial capacity and cooperation within its SME galaxy.

While Emilia-Romagna experienced exceptional SME growth in the 1970s, this growth was imbalanced, strengthening the strongest industrial bases by drawing off population and other resources from other, less developed communities. ERVET (the Emilia-Romagna Development Agency) was established in 1974 to support a more even economic development by promoting new enterprises in disadvantaged areas. Initially, this was addressed through conventional means, such as establishing industrial business parks and providing grants for reduced real estate and construction expenditures.

Despite some positive returns, this one-track approach did not take into account other important developments in the region, such as the growth of industrial districts and the links being made between firms in the same sector. Consequently, policy shifted to supporting the service needs of small and very small businesses and the growing links between firms. To this end, ERVET established a network of “real service centres”; with the participation of all relevant players, including business associations, chambers of commerce, local administrations, trade unions, universities, and others, services were provided to groups of related businesses, rather than single firms. These services included industry research and analysis, advanced research and testing, quality certification, and under/post graduate and vocation education programs.

In more recent years Emilia-Romagna has faced the challenge of the *filière*. Essentially an expression of globalized markets, the *filière* is value chain that often includes multinational companies and the international outsourcing of production; in short, a series challenge to the region's SME/industrial district-centric economy.

However, a co-operative approach was still the answer to these difficulties. First, the regional government abandoned its “silo” view of its economy in favour of a more horizontal approach; in place of industrial districts, the whole region was reconsidered as a broad, multi-sector district distinguished by a diversified industrial base and a strong mechanical sector. Given the increasing importance of high technology to this system, the region passed legislation supporting innovation and technology transfer to encourage partnerships between businesses, universities and public research bodies.

The Technology Transfer Network (TTN) is a recent initiative that links the science departments of universities and almost 300 certified research laboratories and institutes with businesses and entrepreneurs to generate patents, develop human resources and a broad knowledge community capable of contributing to a quickly globalizing regional economy. Not simply an R & D investment exercise, the TTN encourages “research to business”, with spin-off enterprises supported by venture

capital. Cooperation here is promoted through funding based on partnerships; single enterprises need not apply.

Although the focus here has been on the high level of cooperation that takes place in Emilia-Romagna, the role of co-operatives should not be understated. As democratic entities that practice reciprocity and generate trust, the region's many co-operatives are key hubs and supporters of the region's economic networks.

Social Co-operatives

Social co-operatives in Italy are governed by a national statute enacted in 1991; their goal is to pursue the general interests of the community by promoting human resources and the social integration of citizens by providing social/health and educational services (Type 'A'), and organizing agricultural, industrial, commercial or service activities that create employment for disadvantage workers (Type 'B').

In Emilia-Romagna this organizational model has been widely accepted as the primary means for citizens to become engaged and involved in civil society activities in their communities. To a great extent, Type 'A' social co-operatives in the region have replaced government delivered social programs, including care for the elderly, child daycare, housing and some health services. The popularity of this form of social service delivery stems from the high quality of the service provided, the direct result of the co-operative structure's ability to respond directly to the needs of its members.

In some cases these alternative forms of service delivery have experimented with vouchers. For example, in the area of seniors care, funding has shifted from supporting supply to supporting demand: seniors can individually contract with a local social co-operative for the provision of care and replace the provider within three months if they are unsatisfied. Such experiments have resulted in dramatic rises in satisfaction levels compared to government delivered services even as costs were significantly reduced.

Child care is a natural area for co-operative action. With the governance of the service in the joint hands of the parents and the providers, demand and supply "sit around the same table." The vast majority of child care services in Bologna are provided by co-operatives.

Type 'B' social co-operatives have achieved significant successes in providing meaningful work for the socially marginalized. Just a few examples include: Manutencoop, which employs immigrants –a

Addiction Rehabilitation - San Patrignano

In areas such as addiction rehabilitation, co-operative structures can work more effectively than state instruments. The San Patrignano Foundation in Italy was founded by a philanthropist after he concluded that government agencies were not capable of dealing with the extreme challenges associated with drug rehabilitation. He transferred his vineyard estate near Rimini to the San Patrignano Foundation and created two co-operatives to manage it.

Here, some 2,000 former addicts commit to a rigorous program of work and job training, with opportunities including carpentry, plumbing, artisan wine and cheese production, racing bicycle manufacture, ornamental iron work, hand-painted wall paper, and the raising of race horses that compete with the Aga Khan's. Its facilities are capable of rehabilitating the great paintings of Italy, and their state of the art print shop produces many of the colour magazines published in the country. Many former residents have gone on to university to become doctors, and many have returned to work at San Patrignano.

In order to maintain independence, all government funding was refused except for major capital projects. Currently, about 70% of San Patrignano's revenue is generated by the sale of estate produced wine and other products produced, with the balance coming from donations.

The results speak for themselves; while the stay for recovering addicts is lengthy (up to five years), the great majority of residents are rehabilitated and able to rejoin society with their new technical and social skills.

population traditionally relegated to the periphery of Italian society- in landscaping and building maintenance; Cooperativa Sociale Giovanni Religatori, which employs individuals with Downs Syndrome in archival services and stationary supply; and, Piazza Grande, which provides a wide-range of work for the homeless in Bologna. Many Type 'B' social co-operatives are prioritized for civic projects.



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