Accelerating Co-operative Development in Alberta

White Paper

Approved by the board of the

Alberta Community and Co-operative Association

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Contents

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1. Background and Challenges for Co-op Development in Alberta

Co-operatives have played an essential role in the Alberta economic landscape and remain a vital part of the Alberta economy. Co-ops formed when farmers needed to bring fairness and balance to the market place, or needed to access supplies for a reasonable price. Times and needs have changed, so have the roles new co-ops play, the benefit they provide, and the ways to structure and capitalize these start-ups.

In more recent years, new co-ops in rural areas have played a significant role in staving off the loss of significant economic assets and promoting long term economic sustainability. Westlock Terminals, the Battle River Railway New Generation Co-operative and the Sangudo Opportunities Development Co-are three recent examples of how community members have made significant personal and collective investments in local business assets. Through their share offerings, Westlock Terminals have thus far raised $2.2 Million to support the purchase and expansion of a grain terminal; Battle River Railway raised $3.4 Million towards the purchase and operation of a 90km short rail line; and the Sangudo Opportunity Development Cooperative raised $220 000 to purchase a meat packing plan in their community.

Over one hundred years ago, cooperatives formed across Alberta to help address their common unmet economic needs, and they were very successful at it. Rural Alberta is now again facing a new host of unmet need. We are now rediscovering co-ops and there advantages are clear again when held up against the light of new economic realities.
Dave Felstad, Founding Chair
Westlock Terminals NGC

All three are excellent examples of communities taking charge of their own economic development, and retaining local autonomy with respect to investment decisions. Their success has been predicated on a very high degree of community participation in the business development process. They have demonstrated that communities can take and take responsibility for their own development and that it is communities, not government, must drive the process. Short case profiles of these three co-operatives cooperatives describe fundamental roles co-op they are playing in supporting rural economic development (see Appendix 1: Alberta Co-op Case Profiles).

Notwithstanding these few inspiring examples, there are relatively few new cooperatives forming in recent years, in part as co -ops face a number of barriers in their development processes, including:

1. Lack of appropriately scaled investment vehicles - While the capital raised by cooperatives can be impressive when compared to the size of the communities involved, they are often well below the minimum investment thresholds considered by brokers, investment bankers or venture capital funds. Though many of these cooperatives have paid, or intend to pay, share dividends - Westlock Terminals has paid out over 1.2 million in dividends in the last 7 years, and paid dividends even through the economic downturn - these are often significantly lower than what traditional investors would consider worthy. Investors in cooperatives tend to leave their shares in the coop over long periods of time and often consider dividends of 8– 15% a comfortable return, in part as they also enjoy more intangible returns - owning a part of a local

business vital to the community and knowing that they are contributing to the long term viability of the communities in which they live.

2. Co-ops take more time and effort to develop than privately held ventures - Given the democratic nature of co-ops; they require more conversations and more learning, to build the trust, confidence, and social capital to make it happen. It takes a certain kind of committed leadership from visionaries who can see the broader community benefits the co-op will bring without anticipating the personal financial rewards that they might receive by pursuing more closely held business models. Leaders in cooperative businesses must also undertake far more in-depth and lengthy consultation processes than other business models, ensuring their members, or prospective members fully understand the business they will own. Mainstream investors in more closely held and controlled corporation have relatively little patience for navigating the democratic decision making process and the ongoing need to involve and educate a broad ownership base.

3. Securities Restrictions – The current exemptions the Alberta Securities provides for cooperatives places a maximum of $10k per member for the first 18 months, after that, a maximum of $5k per year as long as the co-operative has less than 100 members. The Sangudo Opportunities Development Cooperative was able to leverage these exemptions for its capital needs, but is now constrained by these same exemptions as it considers larger investments in its community. Co-operatives with larger capital requirements, and whose business case is predicated on much broader community ownership than 100 members, need to develop a costly Memorandum of Offer or Prospectus. Most cooperative leaders do not have previous experience in developing these share offering documents, and with relatively few clear precedents of coop investment models available to them to, they are forced to secure often expensive outside legal expertise in preparing their offering documents.

4. Lack of understanding of the co-operative model – Each of the co-operatives described had various levels of support in developing their businesses from outside groups including government officials, consultants, economic development officers, etc. However, while many of these supporting organizations and individuals had sound business development knowledge, many lacked understanding of co-operative development fundamentals and regulations, and how cooperative principles and broad ownership might best be leveraged to support the success of the proposed business.

5. Access to debt financing and meeting standards of risk – Even if they are able to overcome the hurdles of raising local investment in the new venture, co-operatives face challenges in accessing debt financing to complete their start up capital needs and/or in securing financing to support initial operations. While they may have a sound business case, new co-operatives often find they are unable to meet the risk criteria laid out by financial institutions. Even when they have approached financial institutions for financing, with relatively low debt equity ratios as low

as 1:3, traditional financial institutions have been hesitant to work with co-ops. While a democratic ownership structure of co-operatives can be an advantage in leveraging adhesion and support for the business, and in raising local capital, the hesitancy can be summed in the phrase from one CEO of a major Alberta financial institution: “When it comes to co-operatives ownership structure, if trouble ensues, who do you sue?”

The remainder of this paper provides a suggested framework of would help address these barriers and help accelerate the potential use of these models throughout Alberta.

2. Background Research Data Collected for this Paper

This paper arose out of the following research and activities

- Findings from the three following research projects :
  - *Supporting Innovative Co-operative Development: The Case of the Nova Scotia Co-operative Development System, BC Alberta Alliance on the Social Economy (BALTA)*[1]
  - *The Nova Scotia Co-operative Development System Case Study – Phase Two: Application in BC and Alberta*[2]
  - *Westlock Terminals: A Case Study*[3]
- Conference call Discussion with Dianne Kelderman, Executive Director of the Nova Scotia Co-operative Council and key stakeholders in the Alberta Co-operative Sector, held April, 2010
- Strategy Session on Co-operative Capitalization, held November 9th, 2010 in Leduc
- Focus group with leaders from recently formed co-operatives including the Battle River Railway New Generation Co-operative, Sangudo Opportunity Development Co-operative, and Westlock Terminals New Generation Co-operative
- Individual discussions with representatives from Servus Credit Union and First Calgary Financial

The proposed strategy draws heavily on the success of the Nova Scotia Community Economic Development Investment Funds and the overall Cooperative Development System. A brief overview of the model in Nova Scotia is found in Appendix 2: The Nova Scotia Model

3. Our Proposal: A Made in Alberta Model

In order to accelerate the development of new cooperatives which can meet the challenges of rural economic development and revitalization, and enable Albertan’s charge of their own initiatives, and

[1] Downloadable at http://auspace.athabascau.ca:8080/dspace/handle/2149/2806

[2] Downloadable at http://auspace.athabascau.ca:8080/dspace/handle/2149/632

[3] Downloadable at http://www.acca.co-op/WestlockCaseStudy.pdf

retain local autonomy with respect to investment decisions, this paper proposes the development of a cooperative development system jointly supported by the cooperative sector, Government, private sector financial institution, and economic development organizations which would embody the following key components:

- Development of a joint government/private sector funded Co-op Venture Fund which could be used for direct investment to both new and expanding co-operatives
- Support for Albertans investing in Alberta Co-operatives and being able to have those investments RRSP eligible
- Development of an Alberta Provincial Tax Credit program which could be applied to co-operatives and other community based ventures
- Development of a Community Economic Development Investment Fund (CEDIF) process, similar to what is used in Nova Scotia, linked directly to the Tax Credit and Self Directed RRSP tools, and including the envelopment of a Simplified Offering Document
- Enhanced array of free or low cost co-op development support for new and existing co-operatives including the development of a network of mentors with key business experience relevant to new and developing co-operatives.

One key component of the Nova Scotia system that is not being suggested in this paper is the government backed loan guarantee. This has been excluded for consideration in the paper for the following reasons:

1. Initial feedback from higher government officials indicated that the concept of loan guarantees are in some ways anathema to the current government, in part linked to the memory of government investment scandals in the 1980's. These same offices felt that a tax credit model may have more potential of being supported.
2. A focus group with existing co-ops revealed that while they believed a loan guarantee would be useful, they perceived that support in developing self directed RRSPs and access to an investment tax credit would be more useful in the capital campaigns. Some felt that with these tools, they would have been able to raise the majority of their capital, achieving a much more attractive debt equity ratio for potential lenders.

Each of these components is further outlined below.

3.1 Co-operative Venture Fund

Interviews and focus groups conducted during *The Nova Scotia Co-operative Development System Case Study – Phase Two: Application in BC and Alberta,* revealed interest from the co-operative sector in a Co-operative Venture Fund.

With initial capital from investment by the co-op sector, credit unions, established co-ops, charitable foundations, and potentially individuals, this fund would be governed by a Board of Directors comprised of representatives from the fund's investors and independent from any other aspect of the proposed co-op development system to ensure objectivity in evaluating investments. Investment decisions would be made by the Board of Directors of the fund, or by an Investment Committee of the Board. These investments could be used to support cooperative investment in the following ways:

- Securitization of physical assets while a particular co-op project may be in development. For example, in the case of Westlock Terminals, making the initial purchase of the of the grain terminal. In another example, this fund could have potentially purchased the Battle River Rail line at the iron recycling price allowing the Battle River Rail Co-operative to pursue a more structured and less hurried development process. If the Battle River Rail would not be able to raise sufficient capital, the investment fund could sell the rail as scrap, allowing the fund to recoup its investment.
- High risk first entry investment –the venture fund may provide initial "first in" investment in any co-op project which it deemed sound, regardless if there is existing capital assets. With this initial backing from the investment fund, co-operative leaders would be able to raise the remainder of their capital needs from community members with more confidence. This initial investment could be withdrawn should the particular co-op raise sufficient capital locally. An example in this situation may be a seniors housing cooperative which required a down-payment on its construction costs. Once all of the units were sold to resident members, the investment fund would be repaid.
- Non-secured investment – In the case where a cooperative has raised a substantial percentage of its capital via investments, but still requires additional debt financing, this guarantee could be offered to backstop the last portion of financing should the business plan still fail to meet the risk criteria of financial institutions.

Based on interviews thus far, there appears to be potential for initial seed investment in such a fund from Credit Unions, and other large co-operatives. Commitment of investment and support by the co-op sector as a whole would make it easier to obtain government support for the process.

The following table outlines a conservative estimate of how this pool could be initially financed, with Government matching funds on a 1 to 1 basis.

Credit Unions	500,000
Established Co-operatives (UFA, Credit Unions, Utility Co-operatives	500,000
Government of Alberta Matching investment	1,000,000
Total Size of initial investment Fund	$2,000,000

While a relatively small initial pool such as this would necessarily be conservative, if it is able to achieve the returns, it could gradually assume greater risks in its investment decisions.

The intent would be for the fund to be self-sustaining, via returns on its investments, and would not require further injection of support from Government after its initial seed contributions.
In addition, as this pool could be established to qualify for both the Provincial Tax Credit and self Directed RRSP's described below, individual Albertans could invest in the fund, knowing that their investments will be used to support Alberta based ventures. Once it is established and has a strong initial track record, the fund could grow substantially, particularly if co-operatives throughout Alberta promote the opportunity to their membership.

3.2 Provincial Tax Credits

Alberta, NWT and Nunavut are currently the only jurisdictions in Canada without an investment tax credit program.[4] While many jurisdictions limit this credit to qualified Research and Development, some have expanded these to a much broader range of investments. British Columbia offers a 30% tax credit to encourage investors to make equity capital investments in British Columbia small businesses that will enhance and diversify the provincial economy.

Nova Scotia has been most successful in applying its 30% tax credit program, largely in conjunction with its Co-op development program. The Equity Tax Credit is calculated at 30% of the total investment made, to an annual maximum credit of $9,000 on a $30,000 investment. The tax credit allows equity investment in corporations, co-operatives or non-profits (with strict limits on share dividends in the case of non-profit investments). Its proportional uptake in the tax credit compared to BC may be directly related to the development supports, coaching, and mentoring supplied by the Nova Scotia Co-operative Council (NSCC).

The co-op sector in Alberta could ask the Government of Alberta to consider a trial investment tax credit program through this initiative. As in Nova Scotia and BC, this tax credit could be applied to any small business investment which could be accessed by all Albertans and supported by organizations outside the co-operative sector e.g. other venture funds, Community Futures, EDA, etc. and be applied to a wide range of investments. As an example, the tax credit policy may successfully be promoted as a compliment or alternative to the government's recent attempt to issue provincial bonds which could then be transferred to support the construction of seniors facilities in rural Alberta.

3.3 Self Directed RRSP process for Alberta Co-operatives

Approximately 70% of all the investment pools established by the NSCC arise from Self Directed RRSPs. Clearly, investors who use this tool are attracted to the idea of using their RRSPs to support local investments rather than more distant investments such as investment funds in New York.

According to Government of Canada statistics on tax filers, the median RRSP contribution by Albertans in 2008 was $3,210. By comparison, the median Canadian contribution in 2008 was $2,700.[5] No

[4] See http://www.therndteam.com/public/html2/provincial.htm

[5] Table 111-0039Registered Retirement Savings Plan (RRSP) contributions, by contributor characteristics, annual Retrieved from Statistics Canada http://www5.statcan.gc.ca, February 25th, 2011.

statistics could be found which indicate what percentages of these RRSPs are directed towards investments in Alberta.

Currently, any co-operative can access a self directed RRSP process through Concentra Financial. The Canadian Worker Co-op Federation also has an agreement with Concentra Financial whereby its members can access the same program for further reduced costs. The uses of these funds do come at a cost - Annual Associate Member Dues of $100 (paid by the co-op) and an annual fee of $50, for each contract holder (GST included). There are no costs for setting up a contract unless it is created by a Direct Transfer-In, for which there is a $50 fee (GST included).

Given the uptake of this program in Nova Scotia, it offers clear advantages around co-op investment. As the tool is currently available, what is lacking is the education and awareness raising about the tool, and ongoing assistance and support to co-ops wishing to use this instrument, which will be covered in the next section.

3.4 Community Economic Development Investment Funds (CEDIFs)

A Community Economic Development Investment Fund (CEDIF) is the central financing for co-operatives in the Alberta model - a pool of capital raised in a community through the sale of shares, which combines both the self directed RRSPS and Tax Credits into one package, which can significantly reduce the transactional costs for new co-operative ventures. The money generated from the sale of shares is then invested in new or existing local businesses. The CEDIF would allow co-operatives and other community businesses to more easily attract investment through community solicitation. A key addition to this package is the development of a Simplified Offering Document (SOD) (securities limitations, particularly the cost of developing Prospectus and Memorandum of Offers, were a major transactional cost for the co-ops identified). A Simplified Offering Document (SOD) would establish a case precedent and clear legal framework for community ventures to make a local share offering.

A CEDIF would be initiated and developed within the community in which it will operate. Involvement by a wide range of community groups/members is essential to the process and a high level of public involvement is needed for the CEDIF to be successful. One of the first steps to be undertaken by a group interested in a CEDIF is the preparation of a community economic development strategy. This strategy serves as a framework for the achievement of economic goals and objectives set out by the community and leads to a written plan of action referred to as a Community Economic Development Plan.

Prepared by the board of directors of a CEDIF, the SOD would be submitted (in conjunction with a full business plan, financial statements and various other required attachments) to Alberta Finance and Enterprise, and upon satisfactory review, sent to the Alberta Securities Commission for subsequent review and approval. The SOD would also carry the weight of automatic pre-approved holdings for self-directed RRSPs.

Once the public offering is made, any resident of Alberta age 18 or over would be eligible to invest in a CEDIF anywhere in the province. The investment money is used to purchase shares in a CEDIF. The fund then uses this capital to operate and invest in local businesses. The board of directors (selected by the shareholders) manages the fund. Returns on investment are determined solely by the performance of the businesses into which the funds are invested. As a requirement of the CEDIF, an annual auditor's report must be distributed to shareholders and an annual general meeting must be held (NSCC brochure, ND).

3.5 Co-op Development Program

In addition to the attractive array of financial instruments available to coops described above, there is also a need for free or low cost coop development supports in Alberta.

There is small coterie of coop development consultants in the province whose work is largely covered by grants that new or existing coops receive. The bulk of more recent funds have come from the Rural Alberta's Development Fund Project and grants from the Canadian Cooperative Association Coop Development Initiative. While these projects have certainly been of value (they did support the establishment of the SODC and the Battle River Railway NGC, Spruceview Family Farms), there are a whole host of potential coops who were unsuccessful in their grant applications, and others may not have even applied as they lacked the capacity/connections to make these applications, or they did not fit the criteria of being innovative as stipulated by many of the funds.

ACCA and coop stakeholders could consider initially supporting two full time salaried coop developers. Initially this team could be composes of 1 full time developer, and two or three part time developers with either regional focus (south, Central, Northern Alberta) or a sector specific focus (age coops, housing, etc). These individuals would be the first responders to requests for support in coop development.

The following draft budget outlines, how the development program might be funded, indicated a gradual decrease in dependency on government resources.

	Year 1	Year 2	Year 3
Fee for service ($300/Day	35,000	50,000	75,000
Development Membership dues *(volunteer addition to Regular ACCA membership dues)	10,000	15,000	20,000
Project specific revenues e.g. seniors housing co-op research	50,000	100,000	150,000
Government development services supported	200,000	200,000	200,000
Other	10,000	15,000	20,000

Miscellaneous	5,000	10,000	15,000
Total Revenue	300,000	390,000	480,000

The coop development teams' primary roles would be to assist in co-operative business development at the enterprise level. It would in turn coordinate with a network of economic development supports including the following:

a) Assist in co-operative business development, as follows: Business development services including prefeasibility studies, start-up assistance, and business planning. A key function would be to assist co-ops in preparing to access both the Co-operative Venture Fund and the Community Economic Development Investment Funds described above.

b) Provision of sector-relevant publications, research and information. This would include the development of case studies, sector based research that would draw on the existing sources in other parts of Canada and international, as well as Alberta based case studies of co-ops which would provide assistance to specific sectors where the co-op model might provide clear advantages (e.g. business succession planning, seniors housing co-ops, renewable energy co-ops, etc)

c) Legal advisory services. Legal experts who would help the co-op development team with legal advice based on precedents, and assist new or expanding co-ops in developing their basic legal structure. Basic co-ops undertaking businesses with minimal risk or adopting co-op models with clear legal precedence may need little or no further legal advice. Those co-ops with more complex legal needs and with higher risk business ventures would be referred to the legal expertise appropriate to their business.

d) Incorporation assistance, by-law development and updating service – as with general legal services, the development team will develop a set of precedents from existing co-ops in Alberta, nationally, and internationally which will allow co-operatives to model their incorporation and bylaw development based on known best practices. Those co-ops pursuing businesses with relatively small capital and using co-operatives based on clear successful precedence may need relatively little additional legal counsel. For those entertaining riskier ventures with substantial investments, legal support will still be necessary.

e) The management of a co-op mentorship program –the development team would develop a network of business mentors. This would entail a network of business expertise, largely composed of retired or semi retired business professionals, who can offer key expertise relevant to the needs of a particular co-op. Mentors would initially be asked to donate their time, thus receiving compensation initially from the Co-op Development Services for any out of pocket expenses. However, in some cases, the co-op may want to transition the mentoring role in to a paid consultant or staffed position, depending on the suitability of the relationships and the resources of the particular co-op. This network of mentors could be developed based on known needs of co-operatives, or in some cases, the development team may make directed efforts to recruit specific mentors relevant to the co-operatives needs. Examples: an individual with expertise in railway business in the case of Battle River Railway; expertise from the meat processing industry in the case of Sangudo Opportunities Development Co-operative's first investment in a meat packing facility; or an individual with grain handling expertise in the case of Westlock terminals.

f) Training and networking for new and existing co-ops to stimulate the effectiveness, growth and expansion of existing co-operatives – ACCA is already providing seminars and workshops on limited bases. These would be expanded to include training to other economic development professionals, more advanced workshops on co-op finance/governance, sector specific workshops based on known best practices, etc. Ideally this would build on the training being developed by the Canadian Worker Co-operative Federation[6.] These groups could be targets for this training, and also play a fundamental role in supporting the public policy changes that would be required to support an Alberta based CEDIF:

    i. Centre de Development Economic d'Alberta – this francophone economic development organization is taking an increasing interest in co-operative development and has recently empowered staff to dedicate their time directly on supporting new co-ops throughout the province.

    ii. Community Futures/Business Link – Community Futures are non-profit organizations supported primarily by Western Diversification funding which actively engages in helping develop and implement community-based economic development strategies with a focus on rural economic diversification. Business Link organizations are the urban counterpart of community futures. It should be noted that the Community Futures office in Westlock played a strong role in the initial development of Westlock Terminals.

    iii. Economic Developers Alberta (EDA) is an **economic development network in Alberta,** dedicated to advancing the economic development profession in the province of Alberta by providing an active network of communications, information, and education. Their membership is primarily composed of economic development officers in communities across Alberta.

    iv. Social Enterprise Fund - Launched in February 2008, the Social Enterprise Fund (SEF), an innovative made-in-Edmonton initiative, combines business expertise with

[6] See http://canadianworker.co-op/events/training/art-science-co-operative-business-development

flexible financing to help Edmonton not-for-profit organizations and co-operatives create or expand strong, sustainable business ventures, or social or affordable housing projects. While the SEF is currently only able to serve social enterprises in the Edmonton area, there is potential for it to expand its reach provincially. A similar organization is in the process of being launched in Calgary.

Initial advisory and support services, etc. would come at no cost to members of the Alberta Community and Co-operative Association, however, in order to remain financially viable, the ACCA would also provide more comprehensive professional services specific to the co-operative model on a fee-for-service basis, with the evaluation of whether to charge the fee or not being dependent on the known resources of the co-ops or groups requesting support.

While the full time developers will certainly help accelerate the development of new co-ops, they will not be able to meet all the demands. In fact, through their work and the gradual integration of financial tools described above, demand for co-op development services is likely to increase rapidly. As the development team achieves success and proves its capacity as a self-funded organization, it will be able increase the number of development staff.

4. Structure and Deal Flow

The following diagram outlines how new investments in co-operatives could be supported should all of the previously described supports and investment mechanisms be in place.

It should be made clear that in the climate of recent over-speculation experienced internationally in the last several years, the potential for an investment vehicle which on first appearance simplifies the investment processes may be a difficult sell. Further, there have been examples in Alberta where the co-op structure has been used to raise capital for highly speculative ventures and failed, leaving initial investors with thousands of dollars in losses e.g. the Acheson Meat Packing plant, pig processing plant near Barrhead. The potential for the abuse of CEDIFs would be curtailed by several levels of governance and oversight.

This model proposes 4 levels of scrutiny over these investments to the leaders of the local co-op: the Co-op development team; the Venture Capital fund; Alberta Finance and Enterprise; and finally the Alberta Securities Commission, providing multiple levels of due diligence uncommon in the investment world of today.

CEDIF GROUP (any size)

- Defines CEDIF opportunity
- Appoints Interim Board of Directors (6 members)
- Completed Documentation on behalf of CEDIF group (including Business Plan), Simplified Offering Document, etc)

ACCA / Community Futures / Economic Development Authority/Social Enterprise Fund

- Works with CEDIF board of directors to complete documents according to regulations
- Assisting agency (NSCC) will forward completed documents on to Alberta Finance and Enterprise

Alberta Co-operative Venture Fund

Reviews business plan for potential venture investment/loan guarantee

Investment/guarantee integrated into business plan

Alberta Finance and Enterprise

- Approves CEDIF for tax credit
- Processes and submits documents on behalf of CEDIF group to Alberta Securities Commission

Alberta Securities Commission

- Approval for public offering
- Approves as self-directed RRSP instrument

ACCA / Community Futures / Economic Development Authority/Social Enterprise Fund

- Continues to support CEDIF as appropriate

5. Benefits to the Parties of the Co-op Model

For the Government of Alberta

The loss of key economic infrastructure is one of the most devastating scourges to hit rural Alberta communities and the Government of Alberta has been searching for a variety of strategies to help mitigate the rural economic decline. The progressive loss of cornerstone businesses and economic infrastructure is a common phenomenon for rural communities everywhere.

This co-op has been a vehicle for our community. People are taking accountability for the success of their businesses and larger community. They are not blaming the government or anyone else, but stepping up to the plate and working together.
Dan Ohler, Chair
Sangudo Opportunities Development Co-operative

Consolidation in rural business services such as grain handling, meat packing and rail services into larger centres have significantly increased costs for many rural businesses, threatening their ongoing viability. The case studies demonstrate that community members are very willing to make significant investments toward community development and not just halting, but reversing rural economic decline.

The proposed model would require significant public policy changes, as well as a relatively small ongoing financial support. However, these changes would potentially unleash millions of dollars of Alberta investments towards Alberta based businesses. In Nova Scotia, there are now 48 CEDIFs in Nova Scotia that have successfully closed at least one offering. These Funds, through a total of 91 offerings, now manage over $32 million in assets. They would support economic sustainability, particularly for rural communities, an issue the government has been struggling to address successfully for years.

By supporting the strategies outlined in this paper, the Government of Alberta would help improve competitiveness, economic development, autonomous community owned enterprise, and community self-reliance.

For Credit Unions

Credit unions are natural fits for this model. The greater success in growth of current co-operatives and development of new ventures, the more business they will receive. In Nova Scotia, in addition to the $43 million in loans that went through to Credit Unions, there have been an additional 383 lines of credit, 228 additional term loans, ongoing banking needs of 434 new business start ups, and 177 business expanded. Co-ops supported by the proposed range of supports described in this paper would be encouraged to conduct all banking transactions through their nearest credit union. Those supported by the venture capital pool would be required to do so.

For Established Co-operatives

For established co-operatives, the proposed capital structures would allow them access to both the Investment Tax Credit and self Directed RRSPs as investors (e.g. a gas co-op may be able to establish a CEDIF which it could market to its members for an upgrade). Co-op retailers could use a CEDIF to support the establishment of new UFA hardware store in rural communities, or a co-op store. The local investment would ensure pride of ownership and a place for those involved.

6. Next Steps

The proposed model in this paper is complex and will require the requisite public policy changes proposed above. The key question is: What are the early wins that could be achieved to move the agenda forward toward a more comprehensive range of supports for cooperative development in the province?

Of critical importance is the willingness for public policy reforms implied by these models, particularly the investment tax credit and the Simplified Offering to document. Is there an appetite or desire to expand the core consultation to involved stakeholders outside the cooperative sector, including Community Futures, Economic Development Officers, Centre de Development Economic d'Alberta, and the Social Enterprise Fund? If so, what is the advantage of doing so?
Based on stakeholder feedback to date, four distinct phases have emerged. These are provided for consideration and discussion.

Phase	Estimated Time Frame
1. Self Directed RRSP designation and support – this program is already in place, finding methods for supporting its ease of use and access will be important. Working in conjunction with legal counsel and tax expertise in the co-op sector, this development work on researching the potential application of self directed RRSPs in current co-ops, including those outlined in the case profiles, might be the most immediate task which could provide wins in the short term.	6 -9 months
2. Development of the Co-operative Venture Fund in conjunction with key co-ops in Alberta - including how such a fund would integrate with the proposed national co-operative investment fund being investigated by the Canadian Co-operative Association. Only once broad buy-in and investment from the co-op sector is attained should there be any consideration to approach government for support.	1.5 years
3. Tax Credit – if the case can be made how a tax credit could support and benefit all sector movements, e.g. renewable energy sector, non-profit housing associations, social enterprise, etc., adoption may happen sooner, depending on the election cycle.	2 – 3 years
4. Simplified Offering Document – given the conservative environment around investing and that the Securities Commission are tightening up rather than relaxing investment regulation, the SOD component of the package may be the most difficult. On the other hand, given the default rates and the vigorous standards of public review being proposed above, these instruments may in fact be safer than many other public offering formats. Research on the Simplified Offering Document and how it has been applied successfully in Nova Scotia and other jurisdictions, with a particular focus on the due diligence issues, would convince the Alberta Securities Commission of its merits.	2- 3 years

Appendix 1a: Case profile: Battle River Railway NGC

As a result of the significant changes in the rail industry, short line rail services are disappearing in many communities across Alberta as the large carriers are not achieving sufficient returns to justify track maintenance.   For grain farmers in rural Alberta, the loss of local retail service often means significant increases in costs.

In response to a Canadian National Railways (CNR) threat to abandon the rail line from Camrose to Alliance 180 farmers formed the Battle River Producer Car Group and began loading producer cars in the fall of 2003. It operated as a group until 2008 when it became a registered not-for-profit society by the same name. In November of 2008, CN advertised line 43.03 for sale by tender so in February 2009, Rather than see their short rail line sold for scrap, in which case area farmers would had to truck their grain to much more distant urban centres, a core group local leaders spearheaded the establishment of the Battle River Railway New Generation Co-op. The group filed a letter for intent to purchase the rail line. In May 2009 the Battle River Producer Car Group became the Battle River Railway New Generation Co-operative (BRRNGC) and an application was submitted to purchase the line adhering to CN requirements. By early August of 2009, an agreement with CN was developed and signed to complete the purchase of the line with the final takeover by the BRR occurring in the summer of 2010.

A total of 350 individual investors (151 farmers) contributed 3.4 million for the purchase and operations of the abandoned track and an additional 1.4 million was raised in debt financing.

The business goals outlined in the Battle River Offering Documents included:

- Operate and maintain the rail on a profitable basis
- Run 700 hopper cars in its first year of operations, growing by 200 cars a year
- The business plan indicates a breakeven point of 600 cars per year.

At 800 cars a year, the co-op anticipates having sufficient financial reserves that they can begin to get more creative about how they use their rail for other business ventures. These include Expansion plans include getting into other commodities such as canola, pees, aggregate gravel as well as tourism oriented service

The real success of the BBR was the ability to sell the idea and sell shares to a conservative business community, in the middle of one of the worst recessions on record. According to those who were part of the process, it was not an easy task. Despite securities regulation restrictions on distributing the business plan, the group was able to raise 3.2 million to support the project. Recognizing the need for understanding all aspects of the business, the core group of leaders in BBR went through a steep learning curve. Despite having no experience themselves in operating the rail, leaders in BBR are taking on the challenge and are managing the rail line on their own. The group received minimal support from government agencies; in fact many were a hindrance, with government officials insisting on enforcing regulations which larger established rail operators had been exempted.

One of the key barriers facing the leadership in this co-op was securing appropriate expertise in the business and operational planning. Significant resources were dispensed on consultants and advisors. A key support from the proposed co-op development services would be to locate, screen, and link this initiative to the most appropriate advisors. Given that the co-op model is relatively unknown amongst the railway industry, co-op developers could work in conjunction with industry advisors on structural consideration for co-ops.

The costs for the share offering and development for this co-op were over $350, 000. In addition to the free or low cost services of a co-op development team, leaders indicated that if they had been able to integrate a Simplified Offering Document, it would have helped reduce their share offering costs. The leaders of the co-op were clear that if they had integrated a self directed RRSP and tax credit into their share offering, they would have been able to raise the entirety of the capital needs from investors without the need for debt financing.

Appendix 1b: Case profile: Sangudo Opportunity Development Co-operative

Sangudo is a small community of 350 households located off Highway 43, and picturesquely nestled in an elbow of the Pembina River. It is typical of many small rural towns in Alberta, and over the past several decades, there has been a steady loss of keystone businesses and services that are essential for the community's survival. In some cases, businesses have left for larger centres which might offer higher revenues. In other cases, businesses have simply closed their doors, because the owners had no succession plan as they approached retirement.

One advantage that Sangudo did possess was a group of dedicated leaders focused on maintaining the vibrancy and sustainability of their community. For several years, this core group had been at the lead of a number of community development projects that engaged a large sector of the population. These projects ranged from successfully advocating keeping the local school open, to financing and enhancing their sports grounds with playground, sandbox, Skateboard Park, beach volleyball court, walking trails along the river, and numerous other hamlet beautification projects. The group was fortunate to have been approved as pilot for a co-operative development project funded through the Rural Alberta Development Initiative.

The Sangudo Opportunity Development Co-operative is a first-of-its-kind investment co-operative, incorporated May 7, 2010, which leverages the significant financial capital available in rural communities from local area residents.

SODC's first investment was the purchase of a small meat packing plant in Sangudo, Alberta, from a retiring owner who had no buyer. The loss of the business would have been a significant economic impact to the local farming community. The land and building were subsequently leased to young entrepreneurs residing in the community who wished to continue running the business as a butcher shop, but did not have the necessary capital to buy the entire package.

In only 6 months from having taken over the meat packing business, gross revenues have more than doubles and staffing has more than tripled. This has resulted in a significant economic gain for the community.

While the SODC model could be applied to a range of rural economic development investments, it may be most effective vehicle for averting the loss of small businesses from rural communities due to a lack of succession planning. This model could be especially valuable where the business is an important employer in a community, a key service business in the community, or even if the successors are challenged by accessing capital to buy the business from the founders. Not only does the model provide access to local capital, it leverages the direct expertise and business support that already exists in the community.

Based on the success of their model, SODC is already investigating additional investments in their community, including the buyout and lease of the local veterinary business with similar succession issues, the re-establishment of a co-operative hardware store, establishment of a restaurant, and a senior's housing project.

However, a key barrier for SODC to pursue these new investments is the current restrictions placed on it by securities legislation as tied to co-ops[7], which places maximum of $10k per member for the first 18 months, after that, maximum of $5k per year as long as the co-operative has less than 100 members. In order to avoid the costs of issuing a prospectus, which would likely have been close to the their entire $220 000 capital raised, SODC structured the bulk of their investments as member loans in order to comply with securities legislation exemptions (1000 in membership shares are $1000, and members loans are $9000). Self Directed RRSPS would only apply to their member shares.

Current SODC members and other community members have the interest and capacity to make substantially higher investments, but may be in forced to go through the time and expense of forming a new co-op around each new investment.

[7] For a copy of these exemptions go to http://www.albertasecurities.com/securitiesLaw/Regulatory%20Instruments/4/45-511/3477957-v2-LOCAL_NOTICE_re_ASC_RULE_45-511-_FINAL.pdf

Appendix 1c: Case profile: Westlock Terminals New Generation Co-operative

Westlock Terminals (NGC) Ltd is an exciting new grain company incorporated on August 23, 2002 and began accepting grain on December 5, 2002. Westlock Terminals is an independently operated grain terminal located in the town of Westlock at the crossroads of highway 44 and highway 18, situated on a Contrail main line.

In 2002, when the community of Westlock found out that their grain terminal was going to be sold, they rallied together to raise more than $1.2 million from over 230 shareholders to purchase the terminal as a community owned venture. Westlock Terminals has utilized capital investment from the community to maintain a profitable operation in Westlock. Investment came from a broad range of individuals and organizations, including agriculture supply businesses, farmers, professionals and the broad community, all who had trust in the founding leaders of the co-op and recognized that the loss of the terminal would have significant negative economic impact on the community.

Since the beginning of its operations, the Co-op has paid healthy dividends on its shares to its members and investors every year and has continually expanded their grain handling capacity. While the group had significant difficulty in arranging financing at its outset, its success has allowed it to accelerate its planned expansion, being able to raise additional investment with ease from the local community. Having proven the viability of their model, the co-op has no problem securing financing.

Westlock Terminals was the first co-op incorporated under the newly established regulations for New Generation Co-operatives, which enabled a system of delivery rights and obligations to encourage business loyalty and provide a form of vertical integration. The New Generation Co-operative Structure is only available to those ventures involved in value-added agricultural processing and marketing.

The experience of Westlock Terminals has lessons to offer to any community faced with the loss of a major economic asset.

- Why the government should support co-ops like this.... The retention of the elevator in Westlock has enabled profitable, taxpaying businesses to continue in contrast to the outcome had the elevator left town. People in the community were willing to make significant investments in their future.
- Westlock Elevator was handling approximately 85,000 tonnes of grain annually at a profit to Agricore (which had originally assumed ownership of the terminal from the Alberta Wheat Pool). For the company, however, these returns were not sufficient particularly in light of its hefty capital investment in upgrading the terminal's antiquated wood construction.

- Over 2 millions in share capital have been raised by Westlock Terminals in the last 6 years via four separate share offerings which have supported infrastructure expansions. The co-op currently has 295 shareholders and has paid out 1.2 million in dividends, since it began operations.

- Agricore was moving to close down the operations and to divert the majority of its customers to its elevators in Edmonton some 100 km away, however a complaint to the Competition Bureau raised concerns that the Agricore merger had reduced the competitiveness of grain handling in the Edmonton and Peace River Regions. The CBA ruled that Agricore had to divest, rather than simply close down grain elevator. As agriculture businesses have consolidated across Canada, this move to close down smaller scale facilities in rural areas continues although there may be profits to be made by continuing, the profit margins are not at the level which satisfies corporate head office.

This is not to criticize consolidation and moves towards economies of scale – which are important to any business (as Westlock Terminals grows, it too is constantly searching to consolidate and achieve economies of scale, and is considering buying grain handling assets in other regions of the province). However, large scale consolidation has left gaps in business services throughout rural Alberta, with local ownership much more attuned to the needs and effects of a business, and is able to rally significant support and interest from the local businesses and population. It may be important to emphasize that all these co-ops are private enterprises but which have a particular sensitively and knowledge of local economic conditions and can recognize the additional social and economic returns on investment of locally owned business and can leverage local investment in a way that a larger corporation, located in a distant city, cannot. While co-ops must operate with positive bottom lines, the unique structure and ownership model does not always equate to the co-op seeking to make the most profit…however, they are usually designed to provide some benefit for their member owners, which may well be maximization of their owners' profit!

Appendix 2: The Nova Scotia Model

A key component of the success of coop development in Nova Scotia are the Community Economic Development Investment Funds, which is a pool of capital, formed through the sale of shares (or units), to persons within a defined community, created to operate or invest in local business. It cannot be charitable, non-taxable, or not-for-profit, and must have at least six directors elected from their defined community.

An investment fund is an entity that offers its shares or units to various investors so as to provide a cost-effective means of obtaining diversified investments. Income is earned primarily through interest, dividends and capital gains. In recent years, the growth of financial assets has skyrocketed. It is estimated that more than one-third of Canadian households now own mutual funds.

Unfortunately for Nova Scotia, these funds draw far more capital from the region than is ever re-invested locally. Statistics Canada data indicates that approximately $600 million was contributed to RRSPs by Nova Scotia taxpayers, however, less than two per cent of that is estimated to have been re-invested in the Province. This is a problem for communities in two ways: first, it is often difficult to attract venture capital to invest away from their home location, and second, each investment dollar spent in a community circulates through the economy creating a beneficial ripple effect. Most of our investment dollars are benefiting the Ontario economy (through the TSE).

Through the facilitation of the formation of CEDIFs, the Nova Scotia Co-operative Council aims to increase the amount of capital reinvested in Nova Scotia to 5% by the end of the year 2010. Having local capital available for investment will reduce the size of the financing hurdle for local entrepreneurs, thereby increasing the number of projects undertaken. Further, people within these communities will start to think more as entrepreneurs and may be more comfortable establishing a commercial venture.

This program is for economic development, and the project must have a measurable, financial return. It is not meant as an alternative to finance projects which are more accurately described as municipal infrastructure. For example, a community may want to develop a park facility which it feels will bring benefits to the local population. While this is a worthwhile endeavour it does not produce a revenue stream and is therefore not an eligible use of funds raised through a CEDIF.

A CEDIF must develop within the community. Any individual or group can form a working group to investigate the possibility of starting a CEDIF in their community. A CEDIF need not be large at its formation. A small initial offering followed by annual, or semi-annual offerings will quickly grow to be a substantial capital pool for local investments.

A sample of the range of CEDIFs that have been established in Nova Scotia include

- Just Us Fair Trade - coffee roasting facility (3 different offerings - all over sold - $1.5 million)

- Marigold Cultural Center (raised over $1 million)
- Several community Wind Energy projects (over $2 million)
- Tourism/RV park ($720,000)
- Several funds for renovations and expansion of Co-op retail stores (over $ 1 million)
- Seniors housing facility ($108,000)
- Farmers Markets (over $1 million)
- Performance Genomics ($230,000

In addition to the CEDIF, the Nova Scotia Cooperative Council has developed one of the most successful initiatives for supporting co-ops in the country and includes a comprehensive range of supports for co-operatives including:

- Small business lending
- Equity investment
- Immigrant Lending
- Micro Credit
- Community Investment Trust (VC Fund)
- Provincial investment in Credit Unions
- Community Economic Development Investment Funds (CEDIF)
- Self Directed RRSP Investments

In addition to these financial instruments, the Nova Scotia Development Council provides free or low cost business consulting services which includes training, marketing, development, technical assistance through all stages of the co-ops development.

The following table outlines the results of the Nova Scotia Co-operative Council's efforts over the last eight years:

Total Loans Approved	723
Total Value of all Loans Approved:	$ 35,199,195
Total Current Accounts in Arrears	6
Value of Accounts in Arrears	$365,000
Total Current Guarantee Amount Utilized	$15,791,437
Total Number of New Jobs Created	1,554
Total Number of Jobs Maintained	3,255
New Business Start-up:	489
Business Expansion:	234