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Community Investment Co-ops and Rural Economic Development:

A Primer on an Idea Whose Time has Come?

Alberta Centre for Sustainable Rural Communities
University of Alberta

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Introduction

Existing research into co-operatives and rural development routinely highlights the significant potential inherent in the co-operative model for spurring economic development and service delivery in rural communities.

Based on our desire to highlight new paths toward rural economic development that meet the needs of communities in ways that retain wealth and control locally, the Alberta Centre for Sustainable Communities (ACSRC) at the University of Alberta recently completed a large research project that had three overarching goals. To:

- 1 Identify co-operative models that are well positioned to generate economic growth, create and/or retain jobs and services, and support the commercial and residential real estate markets in rural Alberta communities.**
- 2 Identify the “best practices” associated with ensuring the success of these co-operatives.**
- 3 Identify ways by which governments, local, provincial, and federal, can best support the establishment and growth of these local co-operatives in ways that ensure they generate good jobs and enhance service delivery in rural communities.**

As the ACSRC’s Final Report, [“Innovative Uses of the Co-op Model and Rural Economic Development Opportunities in Alberta and Beyond”](#) demonstrates, there is legitimate potential inherent within different co-op models for rural development in rural Alberta and beyond. This in turn holds much potential for the residential and commercial real estate market in rural communities.

In this primer, we highlight one of the intriguing co-op models, drawn from our Final Report, that presents a unique opportunity for rural communities going forward.

Community-Investment or “Opportunity Development” Co-operatives

Community Investment Co-ops, often called Opportunity Development Co-ops (ODCs) in Alberta, have been in existence in Canada for over twenty years and are designed primarily as a mechanism to allow community members to invest in local business ventures in need of capital. In essence, these are legally incorporated co-ops that sell memberships to individuals and are collectively governed by a board of directors selected via election by the co-op membership like any traditional co-op. However, members will also generally make a monetary investment in the co-op, and the board then invests the capital accumulated through membership investments in any local venture they deem “investment worthy,” with the intent of both supporting the growth of the local business(es) and providing a modest return on investment to the membership. Ultimately, such co-ops are intended to act as a community economic development mechanism. The underlying logic of such co-ops are built atop two points:

1. It is becoming more difficult for entrepreneurs, especially in small and rural communities, to access investment capital from traditional sources, and
2. The annual contributions Canadians make to their Registered Retirement Savings Plans (RRSPs) often represent a large stream of capital regularly leaving their communities and ending up in the coffers of publicly traded companies thousands of miles away.

What if, advocates of Opportunity Development Co-ops frequently ask, there was a way to direct a fraction of that investment capital from the individual portfolios of rural and small-town citizens back into their communities by opening avenues for them to invest directly in the very local businesses that are finding it increasingly difficult to acquire necessary capital from banks?

This notion seems especially intriguing given the oft-cited statistics related to the number of small and medium sized businesses in Canada expected to transition ownership over the next decade. For rural communities in particular, this coming wave of transitions poses a significant problem given the difficulty owners of existing businesses can have in finding individuals that have access to the capital required to purchase the business – a result that may lead to the closure of a significant portion of existing businesses in small-town Canada. Opportunity Development Co-ops, supporters argue, are tailor-made for this situation. By providing access to capital to local entrepreneurs willing to buy an existing business, the Opportunity Development Co-op is playing a direct role in retaining jobs and wealth in their community while simultaneously avoiding yet another underused commercial space.

Sangudo Opportunity Development Co-op

The first of these co-ops to be incorporated in Canada was in the small rural community of Sangudo, Alberta in 2009, and it remains the preeminent example of what this model can achieve in a small community. The Sangudo Opportunity Development Co-op grew out of a broader organization of local people who were initially pulled together when the local school's future was in doubt, an experience that eventually led to a concrete desire to work together to support the local economy – “we wanted to figure out how we could be an incubator” for local businesses, noted one community leader.

At this point, the Alberta Community and Cooperative Association came on board and offered the support needed for the initial incorporation of the community investment co-op. The group considered several possible business investments before settling on the local butcher shop that had been for sale for some time and was in jeopardy of being permanently shuttered. After a successful capital raise in the community, the co-op purchased the butcher shop building before working out a business plan and lease agreement with local entrepreneurs that allowed them to take control of the business while simultaneously generating a return on investment to members of the Sangudo Opportunity Development Co-op. Sangudo Custom Meats is still in business and the co-op has helped finance additional upgrades to the operation.

Some time later, the Sangudo Opportunity Development Co-op responded to the news that the Legion Hall on Main Street was to be shut down by again raising the requisite capital locally to purchase the building before signing a lease with local entrepreneurs who opened a coffee shop, restaurant and community gathering place. This investment was also successful, allowing the co-op to transition toward a third project: local real estate development. Sangudo Opportunity Development Co-op raised the cash required to purchase three vacant lots in Sangudo, with the intent of building quality housing for local families. Although the real estate market moved into a downcycle and the group was only able to build one house, overall, the project did generate a healthy return for Sangudo Opportunity Development Co-op investors. Today, the group is again soliciting pitches from local entrepreneurs eager to borrow the capital required to open or expand their business, and group leaders anticipate making their next investment soon.

This was but a quick summary of the impressive work the Sangudo Opportunity Development Co-op has completed in its rural community, a summary that glosses over a number of small hurdles the group had to clear, and the enormous amount of volunteer work a dedicated group had to put into the co-op to ensure its successes. But, overall, the Sangudo Opportunity Development Co-op has made three major investments which contributed positively to the economic development of their community and simultaneously generated returns in the 5-7% range for their investors – results that are not to be dismissed lightly.

Vermilion Opportunity Development Co-op

A second key Opportunity Development Co-op success story emerged in 2021 when the Vermilion Opportunity Development Co-op was incorporated and quickly thereafter made a significant local investment leading to the relocation and expansion of a local artisan cheesery into the community's downtown. It did not happen overnight (in fact, all three founders strongly emphasised the incredible amount of work involved, in addition to significant start-up legal and accounting costs), but, with the help of the Alberta Community and Cooperative Association and Peavey Industries, the Vermilion Opportunity Development Co-op successfully incorporated and sought investments from community members that eventually allowed them to purchase a building and neighbouring lot. The building was then renovated for a retail storefront, before an additional structure was built on the neighbouring lot to serve as an onsite factory where the artisan cheese would be made. A lease was then signed with the cheesemaker ensuring him the opportunity to expand his operation (and eventually buy the property) while simultaneously providing the co-op members a 3-5% return on their investment. The Old School Cheesery celebrated its Grand Opening in its new location in the summer of 2022 and continues to enjoy strong sales to a large contingent of buyers (including tourist buses!) who regularly come from afar to purchase the artisan products.

In conversation with the key leaders of the Vermilion Opportunity Development Co-op, it was clear that for those community members who made the investments in the co-op necessary for this project, generating a very high personal return was not the priority. Rather, the co-op members understood that

“the more businesses you have in your community, the more people will come into town, and that additional activity will be good for all the other businesses in town as well. So the spirit of this was to bring more people into town for the good of the community as a whole, and I’m confident that we have succeeded in this.”

The co-op is, at this point, still undecided as to what the next steps are in terms of making additional investments but, in general, have bought into the Opportunity Development Co-op model and all agree that “if there is another venture that makes [business] sense, then it would be good to raise capital again and support it in this way.”

The Opportunities and Challenges Associated with Forming a Local Opportunity Development Co-op

There is little doubt that Opportunity Development Co-ops represent a very promising and innovative mechanism for rural economic development. By creating a formal avenue for community members to co-operatively invest in local business ventures that maintain and/or create jobs in the community, ensure more wealth remains in local circulation, the formation of Opportunity Development Co-ops is something that ought to be front of mind for most towns throughout Alberta. This is especially so given the fact that so many owners of existing small and medium-sized businesses throughout rural areas are nearing retirement and, without a local buyer, many of these businesses may simply be forced to close for good – something that would be a serious blow for many rural communities already facing considerable economic headwinds and stagnant populations.

Investment co-ops have the flexibility and local knowledge required to confidently make investments in local ventures that are denied financing from traditional lenders, making them all the more attractive. Add in the fact that individual investments in Opportunity Development Co-ops can be made “RRSP” eligible, and it seems like this concept should be a clear winner. Yet, the great potential in Opportunity Development Co-ops does not always translate into community level successes.

However, we still conclude that Opportunity Development Co-ops represent an important and innovative use of the co-op model that holds significant potential for rural economic development going forward. That said, care must be taken to ensure several factors are addressed to increase the likelihood of success.

As one long-time supporter of the Opportunity Development Co-op concept noted, **community investment co-ops are ultimately held back by a lack of awareness** of the model in rural areas, both on the part of community leaders in a position to take the lead in an Opportunity Development Co-op as well as the broader citizenry who have the chance to invest in the Opportunity Development Co-op. Building this awareness generally begins with the community leaders, and then must be communicated throughout the community in a way that can help ease some of the (quite understandable) hesitation that may exist among potential investors who are much more familiar investing in mutual funds or stocks via a traditional money manager. However, other avenues of awareness building must be investigated. This is a task that is already being undertaken by the Alberta Community and Cooperative Association and the Alberta Centre for Sustainable Rural Communities at the University of Alberta, but could also be done by the long-established co-operatives throughout rural Alberta, the provincial government’s rural development arm (housed within the Ministry of Agriculture and Irrigation), the Economic Developers of Alberta, Alberta Municipalities, Rural Municipalities of Alberta, other rural-based organizations in the province, and even individual municipalities across the province.

Ultimately, the goal of these efforts to raise awareness should be that an Opportunity Development Co-op is “part of the idea soup” for community leaders and Economic Development Officers tasked with addressing specific challenges in a community. Importantly, every single successful Opportunity Development Co-op we researched made clear that the **support of the co-op developers** working within the Alberta Community and Cooperative Association was instrumental in getting off the ground. Extensive effort and knowledge is required to incorporate an Opportunity Development Co-op, in addition to completing feasibility studies on business proposals, and navigation of the complex provincial security regulations that apply to investment co-ops. **Further resources are required to support additional co-op development in the province if more Opportunity Development Co-ops are to be launched across rural Alberta.**

The **federal government’s Ministry of Rural Economic Development** as well as **Alberta’s provincial rural development arm** are obvious institutions that could provide at least some of this support, although additional investment from existing co-ops operating in rural communities would be welcome as well. This is also an area where **rural municipalities** themselves could do more. Acknowledging that most municipal budgets are already stretched thin, several rural communities in Alberta have, nonetheless, made local economic development a priority, with several new posts recently created for Economic Development Officers across the province. We applaud these efforts but also suggest that the Economic Development Officers themselves ought to be made far more aware of the potential inherent in Opportunity Development Co-ops, but also should be introduced to some basic co-op development information, thereby equipping them to better assist citizens interested in launching a local Opportunity Development Co-op (or any other type of co-op for that matter). We suggest **Economic Developers Alberta**, the central support body for economic development practitioners in the province, have an important role to play in this regard.

In addition, several respondents were adamant that municipalities can play a key role by being aware of the Opportunity Development Co-op model, by being supportive of the local Opportunity Development Co-op (perhaps working with them on zoning or taxation issues to help facilitate the investment in the new business), and having a good understanding of which businesses in the community may be entering the early stages of seeking to transition to a new buyer and are therefore possible targets for an Opportunity Development Co-op to work with an entrepreneur to ensure this transition happens and the business continues to operate in the community.

One final avenue of support for Opportunity Development Co-ops that is key is **the creation of provincial tax incentives for investors in a local Opportunity Development Co-op**. Several provinces, with an eye to driving rural economic development in particular, already offer some form of tax credit to individuals who contribute to a Community Investment Fund.¹

¹ More details on the variety of provincial tax credits that exist in this regard can be found in: Alexander Petric and Ryan Gibson, “Embedding Rural Capital? Community Investment Funds in Canada and their Implications for Rural Communities,” *Community Development* 54:2, 167-186.

Alberta actually had a similar tax credit program, introduced in 2018 by the NDP government, that offered a 30 per cent tax credit to those who invested in an Opportunity Development Co-op.² However, the UCP government quickly ended the program upon their electoral victory in 2019 and have thus far refused the Alberta Community and Cooperative Association's request that it be re-instated in support of the government's rural economic development goals. We agree with the Alberta Community and Cooperative Association that a tax credit of this type, which has been demonstrated to help spur local investment in rural communities in other provinces across Canada,³ ought to be re-instated in Alberta to further incentivize local investing across the rural areas of the province.

Again, we see substantial but, as of yet, largely unrealized, potential in the Opportunity Development Co-op concept. Although a fit for a wide variety of ventures requiring capital, looking forward, we assert that the areas of existing business succession, housing co-ops and private real estate development, new small footprint agricultural operations, and renewable energy co-operatives all seem especially well-positioned to be supported through co-operative community investment in rural communities going forward.

To learn more, please download and read the full report, "Innovative Uses of the Co-op Model and Rural Economic Development Opportunities in Alberta and Beyond" [HERE](#) or contact the Alberta Centre for Sustainable Rural Communities.

2 See "Community Economic Development Corporation Tax Credit Program Information," Government of Alberta, available at: https://open.alberta.ca/dataset/976cd36c-7427-42d8-ae67-4da5617c9b77/resource/11767c0e-ebf2-4c0f-b7ce-33fe096f7dd2/download/cedc-information-for-cedcs_final.pdf

3 See: "The Economic Impact of the Nova Scotia Community Economic Development Investment Fund (CEDIF)," Co-operative Enterprise Council, March 2021, available at: <https://farmworkscoop.ca/wp-content/uploads/2021/04/Report-on-CEDIF-Economic-Impact-March-2021-2.pdf>



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