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# CO-OPERATIVE DEVELOPMENT IN RURAL AND ABORIGINAL COMMUNITIES

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Saskatchewan's continuing prosperity depends upon innovation. While the focus of innovation is often on new technologies, business leaders and entrepreneurs know that new business practices, governance models, and organizational structures can be equally important because they affect people's incentives to work and take risks, and because they reflect different goals and values. Innovation is thus as critical in organizational structures and governance as it is in technology.

Recognizing this, Federated Co-operatives Limited (FCL) recently announced a \$1-million investment in co-operative development in rural and Aboriginal communities in Western Canada over the next two years. FCL's initiative is premised on the idea that co-operative structures and governance models create different incentives and embody distinct values that differ significantly from standard investor-owned corporate entities. These incentives and values result in different decisions and in different outcomes. FCL also recognizes that if the benefits of co-operatives are to be achieved, they must be adapted to the contemporary needs of rural and Aboriginal communities.

Although co-operatives have had a long history in rural communities across Western Canada, there is a need for new models to address what are, interestingly, old problems. Take, for instance, raising capital to finance investments in local businesses. A recurring problem – indeed, one that has been around since the arrival of European settlers – is that large financial institutions are often reluctant to make loans to small businesses in rural and remote areas. This reluctance stems from a lack of

awareness of the available business possibilities and because the return on such investments is often not immediate.

One of the innovations that FCL will be examining is the Unleashing Local Capital (ULC) project developed by the Alberta Community and Co-operative Association, which allows local investors to establish an Opportunity Development Co-operative (ODC) that then invests money in local businesses.

The ODC innovation provides a structure that links local investment money with local business opportunities. Local lenders are likely to have better knowledge of the investment opportunities in their community and are probably less likely than shareholders in large financial institutions to take their money elsewhere if the return is not instantaneous. However, one still needs an organizational structure to pool investment funds, reduce risk, and spread administrative costs. The ODC provides such a structure. While other organizational forms – for example, a business corporation created by local investors – could potentially provide the same benefits, the advantage of the ODC is that it changes incentives – its one-member, one-vote governance structure makes it more likely to pay attention to local business opportunities and to take a longer investment horizon.

Financing is also an issue in Aboriginal communities. As the Senate Committee on Aboriginal Peoples observed in 2007, "Access to capital has been, and continues to be, a primary issue for many Aboriginal communities and individuals seeking to start, expand, or acquire a new business." In other communities, treaty land entitlements and other developments such as

the duty to consult and accommodate have resulted in a pool of capital, but no governance structure for making decisions about how this money will be invested. There is also the day-to-day need in Aboriginal communities, as elsewhere, for access to basic financial services such as savings and chequing accounts, small loans, and so on.

Co-operatives and credit unions offer a solution to these problems, as they have done for countless other groups in various places over time. Because they are locally owned and are controlled through a one-member, one-vote mechanism, co-ops and credit unions are often able to see investment and lending opportunities that others miss, and are frequently willing to take a longer-term view of the investments and their payoff.

While the financial sector is an important area for co-operatives, the opportunities for the co-op model are not limited to this industry. In Aboriginal communities, co-operatives offer development possibilities in housing, the delivery of social services, arts and crafts, community stores, and resources. In rural communities, co-operatives offer possibilities in business-to-business services, environmental protection, energy provision, recreation,

prestigious Rochdale Pioneers Award by the International Co-operative Alliance. Plunkett offers an approach to co-operative development that has successfully created community-owned businesses throughout the UK, while the University of Saskatchewan (specifically the Centre for the Study of Co-operatives, the International Centre for Northern Governance and Development, the Edwards School of Business, and the Johnson-Shoyama Graduate School of Public Policy) offers experience and expertise in developing concepts and in assessing their impacts.

To make this partnership between academics and practitioners work, the project has had to pay attention to both structure and governance. Rather than leave control in the hands of either group, the project has established advisory bodies with representatives from both inside and outside the university. This arrangement has forced both academics and practitioners to not only better communicate what they do, but also to alter their approaches to solving problems to accomplish the larger goal.

While the project is still in its infancy, the key to success appears to be the ability of the co-op to meet needs that are

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housing, and social services. In all of these cases, the strength of the co-operative model is that it offers distinct values and creates different incentives, which in turn generate different outcomes.

While the co-operative model, with its unique ownership and governance structure, offers real possibilities for rural and Aboriginal communities, it cannot simply be transplanted into these communities in its current form. Although rural areas have long-term experience with co-operatives, it is dated in many instances and those with co-op development and organizational experience have not updated their thinking accordingly. And while there are reasons to believe that Aboriginal values such as sharing, consensus in decision making, and collectivism would be conducive to co-op formation, the hard work of adapting the co-op model to the specifics of Aboriginal culture remains to be done. This adaptation for contemporary conditions requires innovation.

The FCL project's approach in developing these innovative models is rooted not only in the need to find something that works, but also to understand why it works, and under what circumstances it may not work. To accomplish these goals the project has partnered with the University of Saskatchewan and the UK's Plunkett Foundation, which was recently awarded the

clearly identified by community residents; success does not occur when residents are simply told that a co-operative is a good idea. Moreover, the Plunkett experience suggests that co-op development requires the active leadership of people who are not quite at the centre of the dominant social and economic groups in the community.

Co-operative development clearly requires innovation. Those involved need to identify new incentives, determine new goals and perspectives, and discover new ways to adapt the co-operative model to the realities of the 21st century. If Saskatchewan is to prosper, this kind of innovation is every bit as important as the development of new technologies. This is the power of FCL's new undertaking. By its actions, FCL is challenging all of us – business leaders, academics, government officials at all levels, and citizens – to think about how we need to structure incentives and values to make Saskatchewan a better place. ■

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*The University of Saskatchewan is an investor in the Saskatchewan Institute, a Conference Board of Canada research initiative that helps private and public sector leaders sharpen their vision for Saskatchewan's future and find solutions to the challenges they need to address. For more information, visit: [www.conferenceboard.ca/SI](http://www.conferenceboard.ca/SI)*