



Western Economic  
Diversification Canada

Diversification de l'économie  
de l'Ouest Canada

# **Evaluation of the Community Futures Program in Western Canada**

**WESTERN ECONOMIC DIVERSIFICATION CANADA**

**Audit, Evaluation & Disclosure Branch**

**November 2008**

## Executive Summary

This report presents the findings of an evaluation of the Community Futures (CF) program in Western Canada. An evaluation of the CF Program is required as part of the Department's responsibilities under the Treasury Board of Canada Evaluation Policy and the *Federal Accountability Act*.

The evaluation was conducted between November 2007 and August 2008. Findings from this evaluation will be combined with those from CF evaluations concurrently conducted in the other Regional Development Agencies (RDAs) in Atlantic Provinces; Quebec; and Ontario to produce a roll up national report on the evaluation of the national CF program.

The aim of Western Economic Diversification Canada's (WD) CF program is to:

- support local rural communities and small and medium-sized enterprises (SMEs) in meeting their economic needs;
- help rural communities to develop and implement long-term community strategic plans leading to the sustainable development of their local economies; and
- provide resources to local CF organizations to build community capacity to adapt to and manage change.

In Western Canada, the CF program is delivered through a network of 90 non-profit CF organizations (34 in British Columbia, 27 in Alberta, 13 in Saskatchewan and 16 in Manitoba) that are supported by four CF associations (one per province) and a Pan-West CF Network.

The CF program has received a total of \$158M in operating costs over the last 6 years to support CF operations, the CF Associations and WD administration of the program.

### Operating Costs of the CF Program (000s)

Fiscal Year	CFs	Associations	WD Admin	Total
2002-2003	\$21,303	\$840	\$1,827	\$23,970
2003-2004	\$20,435	\$840	\$1,827	\$23,102
2004-2005	\$23,390	\$840	\$1,827	\$26,057
2005-2006	\$24,711	\$850	\$1,840	\$27,401
2006-2007	\$25,202	\$1,227	\$1,840	\$28,269
2007-2008	\$26,313	\$1,244	\$1,840	\$29,397

The evaluation methodology integrates the use of multiple lines of evidence and complementary quantitative and qualitative research methods as a means to ensure the reliability of results being reported, and the validity of information and data collected. The research methods included: 1) document and literature review; 2) review and analysis of WD's administrative data; 3) interviews with WD senior managers, program managers, and a sample of managers and board members in the CFs, provincial association representatives and external stakeholders; 4) survey of representatives from all CFs; 5) survey of CF clients, including those who applied for and did not receive loans; 6) case studies; and 7) review and analysis of Statistics Canada labour market data for rural communities in the West.

The evaluation focused on four main areas: program relevance, design and delivery, program impact, and cost-effectiveness.

## ***Program Relevance***

The overall conclusions for the Relevance section are that:

- there is a continued need for the CF Program;
- there is a high degree of complementarity between the CF program and other programs; and
- the objectives and mandate of the Program remain relevant to Government responsibilities and priorities.

It was found that no organizations fully duplicate or overlap the CF Program. However, numerous complementary services are provided by various organizations. CF Organizations (CFs) are more aware of these organizations and the programs and services they provide than CF's clients are. The level and type of collaboration with these organizations varies from one CF to the other. All three core services of the CF Program services are needed under both strong and weak economic conditions.

The local CFs' objectives and activities were found to be consistent with the National CF Program. However, the emphasis placed on each of the core service areas differ from one CF to another. The local CF objectives and activities are generally aligned with WD's objectives. However, CF program managers will need to be mindful of a recent shift in departmental priorities and ensure that, going forward, the CF Program remains in alignment with these priorities.

There were two main recommendations related to the relevance section:

- WD should introduce one or two specific indicators to capture CFs' role in pursuing collaborative relationships with other organizations (i.e. informal arrangements, memorandums of understanding, etc.) and acting as a gateway to services for their clients (e.g. number of referrals).
- WD Program Managers need to review the recent shift in WD priorities to determine how the CF Program should respond in the future.

## ***Program Design and Delivery***

The overall conclusions for the Design and Delivery section are:

- the CF networks are working effectively primarily at the provincial and sub-provincial levels;
- overall, the investment fund is well managed but clarity around acceptable loan loss rates and cash on hand is needed;
- performance data is being collected and used but there is some room for improvement; and
- there is no consistent plan in place to increase CF awareness but CFs seem to be engaged in a variety of awareness building activities.

The value of investment fund has increased at a yearly average of 1.83%. The overall increase of cash on hand was strongly and significantly associated with the strong economic conditions in the western provinces in the last six years (2002/03 to 2007/08). Seventy percent of the observed decline in the number of loans issued was explained by variations in credit market conditions (i.e., easing of business loan conditions by traditional commercial lenders). Interviewees demonstrated inconsistencies in their interpretation of "appropriate loss rate", with some interviewees stating that a good rate is between 10-15%, recognizing that the CFs are high-risk lenders, while others state that the loss rate on loans should not surpass 4%.

The client survey, some case study participants and some interviewees expressed a need for a higher loan limit in certain instances. The higher loan limits would be consistent with WD's focus on supporting

larger projects. CF terms and conditions allow for some flexibility around the \$150K limit but it is not evident under which instances the limit can be surpassed.

The CFs are gathering performance data for evaluation and measurement purposes. Performance data is taken into consideration by the CFs and by WD during the decision-making process. However, the accuracy and integrity of data currently available in the administrative databases is questionable. A training program is currently underway that should resolve some of the issues, however further work will be required.

There were 2 main recommendations related to the design and delivery section:

- WD should take the necessary steps to further enhance the management of investment fund.
  - WD should determine acceptable performance measures such as loss rates, number of loans, and levels of cash on hand, taking into account local, regional, and provincial economic conditions. This decision should be clearly and consistently communicated to all CFs.
  - WD should clarify the CF terms and conditions surrounding when the \$150K loan limit can be surpassed. The decision should be clearly communicated to all CFs.
- WD should take the necessary steps to enhance the reliability and use of performance data.
  - WD should devise a strategy to resolve performance-reporting issues related to system inconsistencies and data definitions.
  - WD should review the continued relevance of elements currently collected through the TEA system.
  - In order to ensure the integrity of data, WD should implement and lead quality assurance practices (i.e. sample audits, etc.).

### ***Program Impact***

The overall conclusions of the program impact section are:

- the CFs are providing much needed information, referral and counselling to clients;
- clients are highly satisfied with the service and are applying what they learn from the CFs to their businesses;
- the CFs continue to provide highly needed loans to support both new and existing businesses;
- the CF program is serving clients in their language of choice;
- there is strong expressed need for community strategic planning and CED related activities;
- the CFs' level of involvement in CED varies from one CF to the next, highlighting one of the strengths of the program in terms of flexibility and response to community needs;
- there is evidence that CF activities support economic growth and diversification of communities and some evidence that CFs are strengthening community capacity; and
- the CFs' activities have moderately decreased in recent years due in a significant part to the economic conditions in Western Canada, on one hand; and to a variety of other factors inherent to the program on the other hand.

Clients are very satisfied with the services that they receive from CFs and they express a high level of need for all services. The CF program has issued over 8,500 loans from 2001/02 to 2007/08 worth more than \$328M, and which have resulted in the creation of nearly 28,000 jobs. Business services have led to the creation of a further 27,000 jobs over this same time period. There is evidence that clients are applying what they learn from the CFs to their businesses. CF-supported businesses are active in a wide variety of sectors suggesting that diversification is occurring. Diversification is further assisted by the 1-5 CED projects that CFs are supporting and by CF involvement in the strategic planning decisions occurring in communities. Over the period 1999/00 to 2005/06, CFs have led or coordinated 4,902 long-term and 5,803 short-term community economic development projects.

Long-term census data specific to each of the 90 CFs suggest that economic diversification has occurred, and CFs have contributed to reducing unemployment rate in the communities. It is reasonable to believe that the loans, advice and support provided to new and existing businesses is increasing their survival rate; however, the administrative data is lacking to corroborate this expectation.

There were two recommendations related to the impact section:

- WD needs to further define the indicators associated with the long-term outcomes of the program and ensure that data is being tracked against the established indicators.
- Subject to WD preparing a plan to implement the other recommendations in this report, WD should continue its support and long term commitment to the three services provided by the CF program.

### **Cost-Effectiveness**

The overall conclusion is that the CF Program is still cost-effective when the level of activity and return on investment (ROI) are compared to costs.

The extensive use of volunteers contributes to the overall program cost effectiveness. Over the period 1999/00 to 2007/08, each CF was able to generate an annual average of 268,983 volunteer hours.

We found that conservative estimates, have CF loan clients generating anywhere from \$6 to \$11 of gross revenue for every CF loan dollar issued. Loan clients are leveraging an additional 40% to 60% of additional funding. When cost and level of activity are observed over time, it is apparent that operating costs have been on the rise over the last few years and the level of activity has been declining. The decline has been gradual (e.g. average number of loans per CF has been decreasing by less than one (0.74%) per year over the last 6 years). Minimum performance measures have been put in place and this combined with a conversation on acceptable levels of risk should help to reverse the trends.

There was one recommendation related to the cost-effectiveness section:

- WD should continue to monitor the trends in level of activity relative to cost to ensure that the measures put in place are having the desired affect and reversing these trends.

Independent observers continue to strongly support the delivery model, calling it an outstanding/unequivocal success, innovative, and one of the few signs of the Federal Government in rural Canada. There is no major appetite to change the program, rather comments relate more to revitalizing the CFs and the program. Those involved with the Program offered suggestions on ways to further improve it. Some suggested improvements and lessons learned include

Improvements, as suggested by a variety of clients and stakeholders include:

- Review the number of CFs and/or the geographical divisions of the program
- Potential for the creation of satellite offices that would be supported by a central office that houses experts
- Ensure that there is more consistency in the way services are delivered by the various CFs

Lessons Learned, as indicated by CF and WD staff include:

- The CFs should be aware of their resources limitations, not over-commit, and be able to say “no” when necessary.
- CFs should document and clarify the roles and responsibilities before engaging in any partnership.

- WD and CF should keep communication channels open and spend time to build long-lasting partnership based on trust and clarity of roles and responsibilities.

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# 1. Introduction

This report presents the findings of an evaluation of the Community Futures program in Western Canada. This evaluation was conducted between November 2007 and August 2008 by Government Consulting Services (GCS) in collaboration with Western Economic Diversification Canada (WD) Audit, Evaluation and Disclosure Branch.

## 1.1 Background

The Community Futures (CF) Program was authorized in 1985 as part of the Canadian Jobs Strategy and the first community selection was announced in February 1986. The Program introduced a structure for the creation of, and support for, community-based development and/or adjustment initiatives in non-metropolitan areas of significant economic stress across Canada. The focus of the CF program has evolved over the years. The program transitioned from being housed in what is now called Human Resource and Social Development Canada (HRSDC), to being housed in WD. The program then took on integrated client service delivery focus, which then evolved into more of a social economic focus and currently has more of a business economic focus.<sup>1</sup>

The national CF Program is currently administered by four Regional Development Agencies (RDAs): the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Québec Regions (CED-Q), Western Economic Diversification Canada (WD), and the Federal Economic Development Initiative for Northern Ontario (FedNor) under Industry Canada (IC).

The national program's aim is to support local rural communities and small and medium-sized enterprises (SMEs) in meeting their economic needs, to help rural communities to develop and implement long-term community strategic plans leading to the sustainable development of their local economies, and to provide resources to local Community Futures organizations (CFs) to build community capacity to adapt to and manage change.

The purpose of the CF Program in Western Canada is to:

- support Community Economic Development (CED);
- diversify the economy;
- support the creation and expansion of SMEs;
- maintain and create new employment; and
- maintain the Minister's capacity to deliver business services to rural communities in Western Canada.

Financial support provided to the corporations under this Project is for:

- community economic development and strategic community planning;
- business advisory services including business planning, business information and entrepreneurship training to SMEs; and
- delivery of an investment fund.

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<sup>1</sup> Impact of WD's Mandate on CFDC Operations, Discussion Paper, March 2004

The key activities, outputs and outcomes of the CF program can be found in the logic model (see Appendix A).

In Western Canada, the CF program is delivered through a network of 90 non-profit CF organizations (34 in British Columbia (BC), 27 in Alberta (AB), 13 in Saskatchewan (SK) and 16 in Manitoba (MB) that are supported by four CF associations (one per province) and a Pan-West CF Network.

According to information provided by WD, the CF program has received a total of \$158M in operating costs over the last 6 fiscal years to support CF operations, the CF Associations and WD administration of the program. The breakdown per year can be found below.

**Table 1: Operating Costs of the CF Program (000s)**

Fiscal Year	CFs	Associations	WD Admin	Total
2002-2003	21,303	840	1,827	23,970
2003-2004	20,435	840	1,827	23,102
2004-2005	23,390	840	1,827	26,057
2005-2006	24,711	850	1,840	27,401
2006-2007	25,202	1,227	1,840	28,269
2007-2008	26,313	1,244	1,840	29,397

## 1.2 Evaluation Objectives

An evaluation of the CF Program is required as part of the Department’s responsibilities under the Treasury Board of Canada Evaluation Policy and the *Federal Accountability Act*. This evaluation was conducted across Canada in the four RDAs (ACOA, CED-Q, WD, and FedNor). The evaluation was conducted to ensure that the end product meets Treasury Board Secretariat standards for evaluations, as outlined in the current evaluation policy and the guide for the review of evaluation reports.

The outcomes and impacts of WD’s Community Futures program were considered as part of this evaluation. The remaining RDAs are covered in separate evaluations. A pan-Canadian evaluation rollup report will be written once all of the individual RDAs have completed their evaluations.

This evaluation covers the period of fiscal year 2002/03 to 2007/08. Case studies, however, covered the period of fiscal year 1999/00 to 2007/08, in order to better assess long-term outcomes and trends. The scope of the evaluation is to cover issues relating to CF Program relevance, design and delivery, program impact (short-term, medium-term and long-term), and cost-effectiveness/alternatives, as described in the CF program Result-based Management and Accountability Framework (RMAF).

### 1.3 Approach

The work undertaken by GCS was managed by the Evaluation Unit under the Audit, Evaluation and Disclosure Branch, WD. The work was overseen by an Advisory Committee, comprised of representatives from WD headquarters (program office and evaluation office), each of the four WD regions and each of the four CF associations.

A framework was developed for a pan-Canadian evaluation of the CF program in the fall of 2007. The pan-Canadian matrix outlined a set of common questions and indicators that all RDAs were to use as the basis for each of their evaluations. Since WD conducted its evaluation in tandem with the evaluations conducted in the other regions of the country, it was imperative that WD’s evaluation utilizes the same approach and methodology as the other evaluations to ensure validity and reliability of the pan-Canadian evaluation rollup report. WD supplemented the national questions with additional questions that addressed WD specific issues. The evaluation issues and questions are described in Table 2 below.

**Table 2: Summary of Evaluation Issues and Questions**

Evaluation Issue	Evaluation Question
<b>Relevance</b>	<ul style="list-style-type: none"> <li>• Is there a continued need for the Community Futures program?</li> <li>• Does the Program complement, duplicate or overlap other government programs? Other private sector services?</li> <li>• Are local CF objectives and activities consistent with the national CF Program?</li> <li>• Are CF program objectives consistent with departmental objectives?</li> </ul>
<b>Design and Delivery</b>	<ul style="list-style-type: none"> <li>• Are the CF networks (national, provincial, regional, and sub-regional) networks working effectively?</li> <li>• What factors impact or facilitate the achievement of program results?</li> <li>• Are the CF investment funds well managed? Are the number, level and loss rates of the loans meeting the needs?</li> <li>• Are the departments and CFs gathering the necessary data for evaluation and measurement purposes?</li> <li>• What is the level of awareness of the CF? What activities have been undertaken to increase awareness?</li> <li>• What strategies have been undertaken to recruit competent employees and board members?</li> </ul>
<b>Program Impact</b>	<p><b><u>Short Term</u></b></p> <ul style="list-style-type: none"> <li>• To what extent has the CF Program provided appropriate information, referrals and counselling to clients?</li> <li>• To what extent has the CF Program improved business knowledge and skills of clients?</li> <li>• To what extent has the CF Program created new business start-ups or strengthened existing businesses?</li> <li>• To what extent is the CF Program serving the needs of Official Languages Minority Communities (OLMCs)?</li> </ul> <p><b><u>Intermediate</u></b></p> <ul style="list-style-type: none"> <li>• Have CFs been involved in developing community strategic plans? To what</li> </ul>

Evaluation Issue	Evaluation Question
	<p>extent are CF activities linked to community plans?</p> <ul style="list-style-type: none"> <li>• To what extent has the CF Program: supported community economic development; assisted communities to develop and diversify their economies; and strengthened community capacity?</li> </ul> <p><b><u>Long-Term</u></b></p> <ul style="list-style-type: none"> <li>• To what extent has the CF Program contributed to long term goals – i.e., economic growth and stability, diversification and development of local rural communities, sustainable communities, and survival of business assisted by CFs.</li> <li>• Has the CF program produced unintended positive and/or negative outcomes?</li> </ul>
<b>Cost-effectiveness and Alternatives</b>	<ul style="list-style-type: none"> <li>• To what extent is the CF Program cost-effective?</li> <li>• Are there other more cost-effective/ efficient approaches or alternatives to be considered that would achieve CF Program objectives?</li> </ul>

## 1.4 Methodology

The evaluation was guided by the national evaluation matrix and was conducted in two phases: 1) methodological planning and 2) conduct of the evaluation. The methodological planning phase commenced in November 2007 and the Methodology Report, accompanied by a WD-specific evaluation matrix and data collection tools, was completed in February 2008. For a copy of the evaluation matrix see Appendix B

The evaluation methodology integrates the use of multiple lines of evidence and complementary quantitative and qualitative research methods as a means to ensure the reliability of results being reported and validity of information and data collected. The research methods are described in detail below.

### 1.4.1 Document and Literature Review

The review of documents was used primarily to assess program relevance, program design and delivery and program impact.

Three main types of documents were assessed and analyzed during the evaluation:

- General Background documentation (e.g. TB Submission, Business Case, documents that describe the program’s history, rationale, program theory, etc.)
- Program & Policy Documentation (e.g., Reports on Plans Priorities, Performance Reports, WD website, Terms of Reference, information on relevant committees, meeting minutes, guidelines, operational documents, manuals, etc.)
- Evaluations & Past Studies (e.g. previous evaluations, reports, surveys, research, etc.)

The document review was conducted using a customized template that facilitated extracting relevant information from the documents and organizing to indicators and evaluation questions. For a full list of documents reviewed see Appendix C.

### 1.4.2 Database Review and Analysis

Administrative data is stored in two WD databases. Quantitative data for fiscal year (FY) 2002/03 to FY 2005/06 inclusively is contained in a Lotus Notes database. A new web-based measurement tool was implemented for FY 2006/07. WD provided a cross walk table that showed which variables remained the same from the old database to the new database. Where possible, trends were analyzed over a 5-year period (2002/03 to 2006/07). Templates were developed to facilitate the gathering and analysis of the information according to the performance indicators and evaluation questions identified in the evaluation plan.

### 1.4.3 Interviews

Interviews served as an important source of information for the evaluation by providing qualitative input on relevance, design and delivery, program impact and cost-effectiveness/alternatives of the CF Program. A total of 50 interviews were completed during the course of the evaluation (see Table 3 below). Interviewees included:

- Senior Managers (RDAs) – a WD senior manager at HQ and in each of the four provinces
- CF Program Managers – a WD program manager at HQ and one in each of the four provinces
- CF Sample – a representative from each of the 4 provincial associations and a randomly selected sample of 15 CFs (5 in BC, 4 in AB, 3 in SK and 3 in MB). The number of CFs to be included in each province was chosen to be proportionate to the distribution of CFs per province.
- External Stakeholders and Experts – individuals in the community who are knowledgeable about CF activities but who do not have a direct link to a CF. The CF provincial association representatives each provided a list of potential contacts with a rationale for including them in the interviews. At least 2 stakeholders/experts per region were interviewed.

**Table 3: List of Interview Groups**

Interview Group	Number of Interviews Conducted
Senior Managers	5
CF Program Managers	5
<u>CF Sample</u>	
CF Chairpersons or Directors	12
CF Managers	15
Provincial Association Representatives	4
External Stakeholders/Experts	9
<b>Total</b>	<b>50</b>

All interviews were conducted via telephone. The interviews lasted between one to two hours. All interviewees were contacted in advance to schedule an appropriate interview time. An interview guide was provided to all persons in advance of the interview (for a list of interviewees see Appendix D, for the interview guides see Appendix E).

#### 1.4.4 Surveys

Web-based surveys were administered to two groups: CFs and CF clients. The results of these surveys provided input into the relevance and success of the Program.

*CF Survey* - All 90 CFs were invited to participate in a web-based survey. The survey was directed to the Managers of the CFs and the Chairs of their Boards of Directors. A total of 179 emails were sent and no bounce backs were received. The survey had a total of 118 respondents providing a 95% confidence interval of +/- 5.3%. The CF survey had representation from all provinces (for a breakdown of respondents see Table 4 and Table 5 below, the survey questions can be found in Appendix F).

**Table 4: CF Respondents**

	<b>Number of Respondents</b>
<b>Board Chair</b>	39
<b>Manager</b>	69
<b>Other</b>	10
<b>Total</b>	<b>118</b>

**Table 5: Percent of Respondents Located in Each Province**

	<b>% of Respondents</b>
<b>British Columbia</b>	34%
<b>Alberta</b>	32%
<b>Saskatchewan</b>	20%
<b>Manitoba</b>	14%
<b>Total</b>	<b>100%</b>

*Client Survey* - Clients that have used the services of a CF in the past five calendar years (i.e., January 2003 – December 2007) were invited to participate in the web-based survey. Due to privacy restrictions, each of the CFs sent an email to their clients requesting their participation and CFs were also responsible for sending 2 follow-up reminder emails to their clients. The survey questions can be found in Appendix F.

Three categories of clients were included in the survey:

- *Investment clients*: include those who applied to a CF for financial help (this includes both recipients and non-recipients of loans)
- *Business services clients*: include those who accessed the information services of a CF (e.g., counselling, advice, training)
- *Community Economic Development clients*: include those partners and organizations with which CFs may engage for the development and promotion of the CF service area, including the development of community strategic plans.

A total of 1,114 individuals responded to the survey. The CFs tracked the number of surveys that were sent out and the number of surveys that did not make it to intended recipients (email bounce backs). In total the survey was sent to 9,963 (5980 in BC, 2274 in AB, 866 in MB and 843 in SK) potential respondents. The 1,114 responses results in a 99% confidence interval of +/- 3.7. The client survey had a high proportion of respondents from BC. Therefore the survey's results were weighted to ensure that the proportion of respondents were reflective of the proportion of CFs in each region (BC 38%, AB 30%, SK 14%, MB 18%).

Clients were asked to identify which group they fell into. They were allowed to choose more than one answer. Table 6 (below) outlines the number of respondents who chose each group.

**Table 6: Type of Client Contact with CF**

	Number of Respondents
Applied for or received loans to start-up or expand a business	496
Received business counselling services; business training; or business information	520
Involved with a community economic development project that also had CF organization involvement	263

The respondents had businesses in a variety of sectors and their current annual gross revenues ranged from less than \$100K to more than \$10M. The highest proportion of clients was in the less than \$100K category (48%) followed by the \$100K to \$499K category (30%).

### 1.4.5 Case Studies

The case studies were completed by the evaluation group at WD and the findings were incorporated throughout the evaluation report.

While not statistically representative of the entire program, case studies in this context are intended to provide a context and vivid illustration of how the program is achieving or failing to achieve the intended outcomes and identify any best practices or lessons learned in order to enhance program effectiveness and cost efficiency.

WD Evaluation group worked with the evaluation advisory committee to first determine a total of 22 CFs, from which WD selected 10 critical case studies. The 10 case studies (i.e. 10 CFs) were selected to obtain a range of geographic locations, population size, success or lack of, and to some extent service focus (business vs. community economic development and planning). WD Evaluation group visited all 10 CFs.

Case studies involved a review of the relevant case-related documents provided by the CF and WD staff; administrative data including electronic WD database; interviews with the CF manager, the CF business analyst, the WD officer working directly with the CF (interview guides can be found in Appendix G); Statistics Canada socio-economic data specific to each of the selected CF generated through census data from 1996, 2001, and 2006; and one focus group in each CF (please refer to focus group guide in Appendix G) . In total, 89 people participated at the 10 focus groups, an average of 9 participants per focus group. Participants represented CF clients, community partners and stakeholders, municipality representatives, and some CF board chairs.

Information on the selected CFs is summarized in Table 7 below.

**Table 7: CFs Included in the Case Studies**

<b>Community Futures Development Organization</b>	<b>Province</b>	<b>City</b>	<b>Size of population*</b>	<b>Location</b>	<b>Date established</b>
Crowsnest Pass	AB	Blairmore	5665	South West	1986
East Parkland	AB	Mirror	103760	Central	1989
Grande Prairie & Region	AB	Grande Prairie	72605	Northwest	1988
Boundary Area	BC	Grand Forks	11995	South West Kootenay	1992
Cariboo - Chilcotin	BC	Williams Lake	41355	North East- Remote	1995
Okanagan - Similkameen	BC	Penticton	78480	South	1984
North Central	MB	Thompson	30230	Northern Remote	1997
North Red	MB	Selkirk	29405	South East	1990
Beaver River	SK	Meadow Lake	24970	North West-Remote	1989
Sagehill	SK	Bruno	52635	East Central	1987

\* Source: Statistics Canada: 2006 census data

Detailed case study write-ups are included in Appendix H. These write-ups were forwarded to the selected CF for verification of fact and accuracy.

#### **1.4.6 Labour Market Data**

Labour market data was available through WD, who engaged Statistics Canada to produce customized data profiles for each of the CF regions. This data, compiled from the 1996, 2001, and 2006 censuses, provided key information required for the evaluation, including; labour force participation rates, unemployment rates, average household income, and employment by industrial sector. This information was used primarily in the impact section.

### 1.4.7 Strengths and Limitations of the Methodology

- **Data Analysis:** Administrative data covered a five-year period (2002/03 to 2006/07). A new database to track ongoing performance information was implemented by WD in 2006/07. Discrepancies between the types and/or accuracy of data provided through the various data sources were identified. WD worked closely with GCS to determine the accuracy of the information and outline any limitations of the administrative data. Limitations are noted throughout the evaluation report, where appropriate.
- **Client Survey:** The evaluation advisory committee discussed at length, which mechanism would be used to conduct the client survey. A number of barriers were identified including privacy restrictions, access to email (particularly in remote areas), cost and time constraints. In the end, it was determined that a web-based survey was feasible and the CFs could distribute the survey to their clients thereby avoiding any privacy concerns. CFs were also asked to post a memo in their offices alerting clients that the survey was underway and providing them with a link to the survey. In some instances, clients who did not have access or difficulty accessing the internet, completed the survey at the CF's office. If the response to the survey was not deemed adequate and did not have responses from a variety of communities (e.g. northern, remote, large, small etc.) then mail based surveys would have been sent to underrepresented communities. The web survey did prove to have a high response rate and included respondents from a variety of communities. CF associations were provided a list of communities that responded to the survey. The associations felt comfortable that a wide breadth of communities were represented in the survey. It was, therefore, determined that a targeted mail based survey was not required.
- **Case Studies:** The case studies enable an in-depth analysis that would not be possible with more general approaches. Case studies are typically expensive and time consuming to carry out. As explained above it is not possible to analyse a statistically reliable sample and, consequently, it is not expected to make statistical generalization of the results. Case study should be looked at as only one line of evidence to complement the other lines of evidence. The list of participants at the focus group was provided by the CFs. It is likely that this process will introduce a selection bias that may influence the responses obtained. To partially address this limitation, we urged the CFs to include some participants who do not have a direct vested interest in the CF program.
- **Finally,** estimating the net impacts of the CF program ideally requires that comparisons be made between samples of recipients and non-recipients from similar populations to ensure that impacts can be attributed to the intervention (CF program) and not to differences between the groups. Identifying a comparison group proved to be very difficult. This challenge, coupled with the fact that the comparison group was not significantly appropriate, and a potentially lengthy and costly process for contracting a firm to run the survey, led us to eliminate the "non-client" survey as line of evidence. To address this weakness, we have included in our client survey sample those who have applied for and received loans from CFs as well as those who have applied for and did not receive loans (non-recipients). Furthermore, we have included in the interviews experts who did not have any stake in the

CF program. As well, the focus groups conducted as part of the case studies, included people who did not benefit from the CF program.

## 2. Program Relevance

The findings of the evaluation of the Community Futures Program in Western Canada on the issue of program relevance are presented in this section of the report. The evaluation questions which were considered in addressing the issue of relevance were as follows:

- Is there a continued need for the Community Futures Program?
- Does the CF Program compliment, duplicate or overlap other government programs? Other private sector services?
- Are local CFs objectives and activities consistent with the national CF Program? Are CF program objectives consistent with departmental objectives?

### 2.1 Findings

The overall findings for the Relevance section are that:

- there is a continued need for the CF Program;
- there is a high degree of complementarity between the CF program and other programs;
- CFs are more aware about these programs than CFs' clients are; and
- the objectives and mandate of the Program remain relevant to government responsibilities and priorities.

The following sections further elaborate on each of the findings.

#### 2.1.1 Continued Need for the Community Futures Program

**There is an on-going need for the CF Program and there is a growing demand for the three core services offered by the CFs. Recognizing that the CF Program is offered nationally, it is apparent that there is a continued need for Federal Government involvement. At this time, there is no evidence supporting a realignment of the program to the Provinces.**

Findings in this section are primarily based on a review of literature, survey results, and the analysis of interview and case study findings. A review of relevant documentation was conducted in order to determine the extent to which the CF Program is needed. Following are some of the key findings from the document review:

In the 2002 *Impact of the Community Futures Program in Western Canada* study, the following statement was made: "There is a strong perceived need for the CFDCs in the Communities. Community representatives and CFDC clients all indicated that there is a very strong need for CFDCs. On a scale of 1 to 5, where 1 is no need at all and 5 is a major need, the community representatives and CFDC clients provided average ratings of 4.6."

The June 2008 Senate Report, *Beyond Freefall: Halting Rural Poverty* clearly indicates a continued need for the program by stating: "The challenges of accessing credit in rural Canada have long been recognized at the federal level. Arguably the most successful program to help

address this concern has been the Community Futures program.” Furthermore the committee recommended that, “the federal government reaffirm its long-term commitment to the Community Futures program”.<sup>2</sup>

The continued need for the program was further supported by interviewees that formed part of the current evaluation, 96% of persons interviewed agree that there is a continued need for the CF Program. The remaining 4% of interviewees (a total of two individuals) recognized the continued need for the program, stating that the need is significantly less now than a decade ago since banks and credit unions are offering a larger degree of assistance to businesses. Although a variety of responses were provided, the top three reasons cited for a continued need for the program include:

- The importance of the program in supporting SMEs located in rural and remote communities; and
- The CF Program is important for initial loans on business start-ups as people can't get money from traditional lenders and would not exist without the CF Program.
- CFs are non partisan organizations with the ability to bring partners together to work collaboratively on issues and growth strategies related to the region/community.

The client survey results support the justifications provided during interviews. Of a total of 75.5% of respondents who sought business start-up funding from another financial source for a new business, only 23.1% were successful in obtaining their loan. The client survey further indicates that over 70% of respondents thought it is very or somewhat unlikely that they would have been able to start or maintain their business without CF funding.

Through the case study and survey results, further review was undertaken to determine the continued need for the three key program services (i.e. access to capital, business services and community economic development). All participants in the case study indicated a continued need for the three core program services and anticipate that, over the next five years, there will be an increase in demand for all three services. Case studies further indicate that there is a need for the program services under both strong and weak economic conditions.

Focus group participants and interviewees indicated that under economic downturns conditions, new business start-ups drive the need for both loans and business advisory services. Under economic downturns, CFs brings community partners together to develop strategies and plans to address the economic issues collectively.

Conversely, under strong economic conditions, there is a growing need for support to businesses that provide goods and services to the expanding economy. Evidence from the case studies suggests that in all four western provinces, the strong health of the economy is not equally beneficial to all regions within each province. Growth occurs in specific pockets of the province, thus creating an out-migration of the population from some rural communities and jeopardising the sustainability in certain rural communities. Under such circumstances, some rural

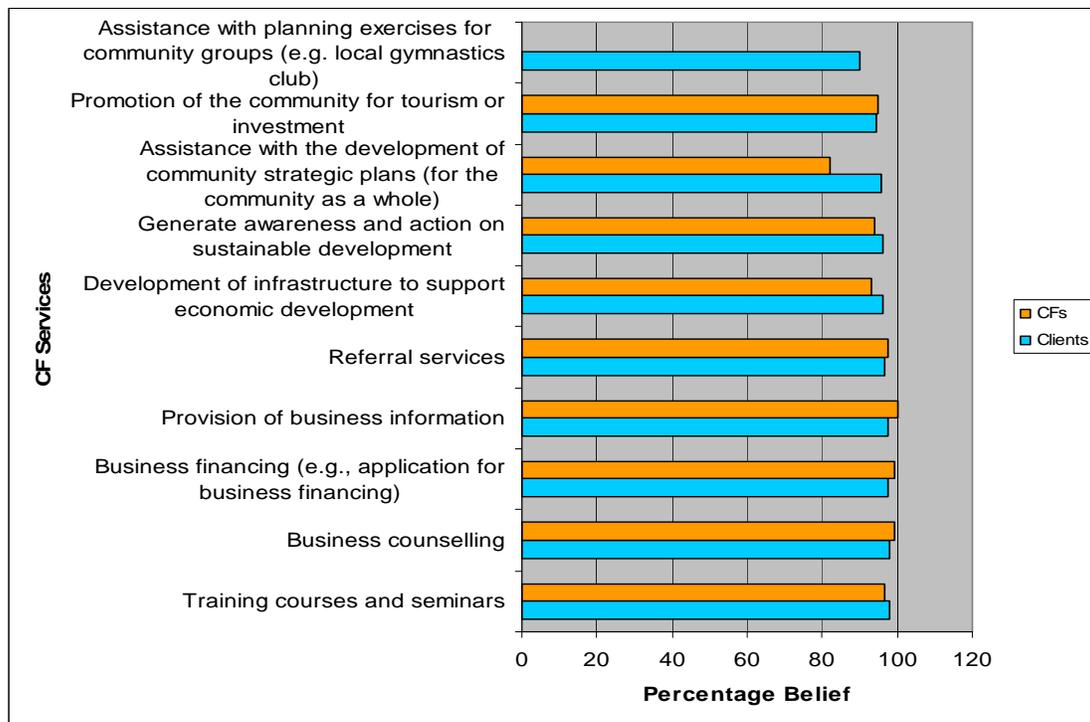
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<sup>2</sup> Beyond Freefall: Halting Rural Poverty, Final Report of the Standing Senate Committee on Agriculture and Forestry, Senate Canada, June 2008.

communities are actually negatively impacted by the strong economic growth and CFs are, therefore, needed to support the sustainability of the affected rural communities.

Trends in responses were noted when analyzing the results of both the CF and client survey responses. Results of the CF survey indicate that at least 80% of respondents indicated that there was some or great need for all of the services listed in the survey (Figure 1); comparable to 90% of client respondents. There is also an alignment between the CF and Client's perceived need for services. Both surveyed groups indicated a greatest need for business counselling (99% in the CF survey vs. 98% in the Client Survey). Figure 1 (below) illustrates the similarities in responses.

**Figure 1: Percentage of Survey Respondents Believing there is Some or Great Need for CF Services**



Interviews revealed that not only is there a continued need for the Program but there is a continued need for the Federal Government involvement in the Community Futures Program. The majority of the interviewees that commented on this subject (15 of 18 interviewees) indicated that there is a role for the federal government in the CF Program. The three most common justifications provided to reinforce this statement include:

- This is one of the few government programs aimed directly at assisting small rural communities.
- Rural economic development is a shared responsibility between provinces and the federal government.
- This is a way for the Federal Government to tap into the community pulse.

Interview results clearly indicate that the CF Program should not be realigned with the Provinces. Of the 19 interviewees who provided a response to this question, all agree that the Program should not be re-aligned with the Provinces. However, there is a common perception that increased cooperation (i.e. a collaborative approach) and increased communications with provincial governments and other economic delivery agents (i.e. municipalities, credit unions, etc.) should take place.

### **2.1.2 Degree of Complementarity/duplication with other Organizations**

**No organizations (i.e. government programs, private sector services, etc.) fully duplicate or overlap the CF Program. However, numerous complementary services are provided by various organizations. The level and type of collaboration with these organizations varies from one CF to the other. There is no standard approach to ways in which the CFs communicate and coordinate work with other organizations.**

Findings in this section are primarily based on the analysis of interview and case study findings, survey results and the review of documentation.

There is a general agreement among interviewees that coordinated efforts between the CFs and other departments/organizations are being made. The level of collaboration varies from minimal interactions to formalized agreements. Numerous complementary organizations were identified during interviews. The following is a list of the most commonly cited organizations providing complementary services:

- **Regional Economic Development Authority/ Corporations (REDA/ REDC/RDC).** These organizations assist in activities such as project development, facilitation, research, provision of information, etc. These “coordination bodies” are established by the Provincial Governments. The REDA/ REDC/RDC are not considered funding agencies and do not provide small business planning services.
- **Provincial Economic Development Associations:** These associations are dedicated to enhancing provincial economic growth through the following service pillars: Facilitation of Networks & Information Sharing Services, Communications & Collaboration, Development & Delivery of Educational Programs and Research, Development & Project Management.<sup>3</sup> These economic development (ED)-focused associations do not offer lending services. They are primarily professional development and networking organizations for CED practitioners.
- **Local Chambers of Commerce:** Are member driven organizations that focus on such things as: providing a voice for businesses in the community, a forum for debate on critical issues affecting the community, constructively influencing public policy to support a healthy private enterprise system, and relationship building.

Results of the case study concur with those of the interviews. Participants commonly agree that other existing programs complement the CF Program. Additionally, they agree that collaborative

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<sup>3</sup> [http://www.seda.sk.ca/about\\_mission.html](http://www.seda.sk.ca/about_mission.html)

efforts are deployed (i.e. leveraging resources, risk sharing, referrals, etc.) in order to jointly respond to client needs.

In the *Office of the Commissioner of Official Languages' Audit report*, a high-level analysis of the objectives of the Francophone Economic Development Organizations (FEDOs) was conducted. The report states that: "Although these organizations [FEDOs] are not CFDCs, many of their services are identical to those offered by CFDCs...Some managers of the federal institutions covered by our audit stated that there was an important difference between the mandate of a CFDC and that of a FEDO: the CFDC operates at the local level while the FEDO has a province-wide mandate."<sup>4</sup> Furthermore, FEDOs serve a specific target clientele (Francophone clients and communities") and only one FEDO (Manitoba) provides loans.

In the General Findings section of the *Impact of the Community Futures Program in Western Canada* study, it is stated that: "The services of the CFDC's complement and benefit those of organizations in the community."<sup>5</sup>

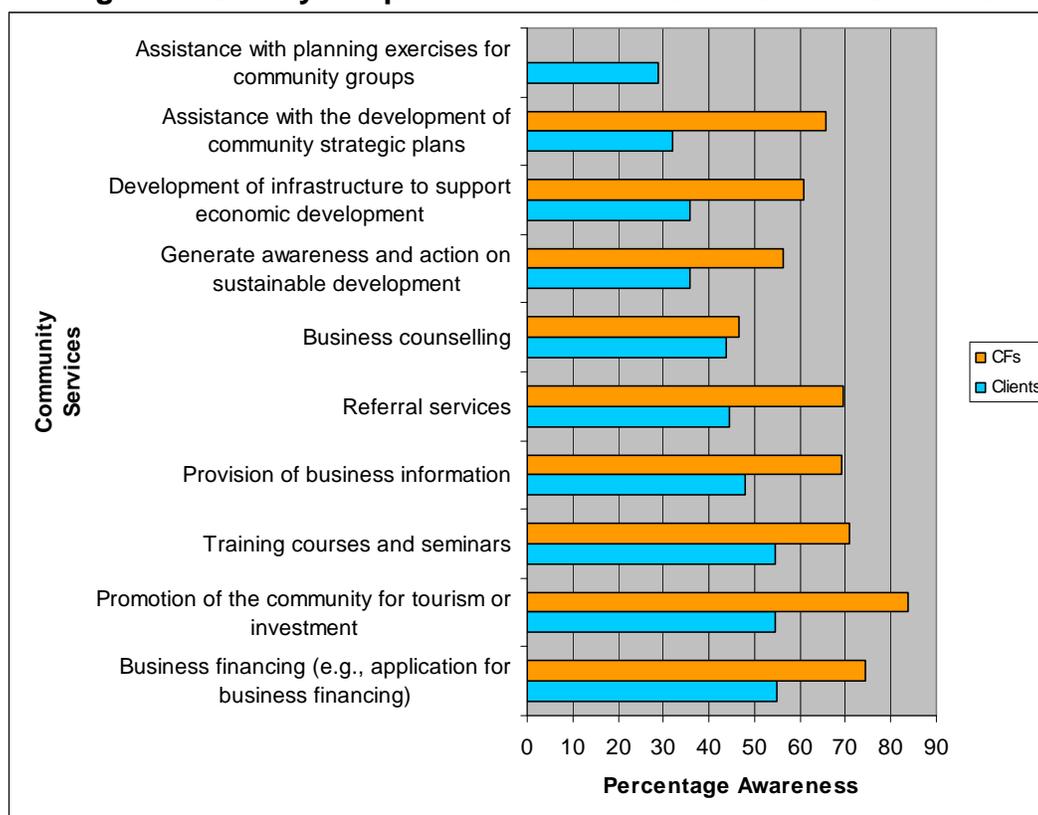
An assessment of the Client and CF surveys provided an indication as to the level of awareness, by survey respondents, of similar services offered by other organizations. Figure 2 (below) demonstrates that CF respondents have a higher level of awareness of other programs/organizations offering similar/complementary services than do clients, suggesting that clients are dependant on CFs to be a gateway to services.

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<sup>4</sup> Audit of the Community Futures Development Corporations and the Community Business Development Corporations, Office of the Commissioner of Official Languages, 2005.

<sup>5</sup> Impact of the Community Futures Program in Western Canada, Ference Weiker, April 2002

**Figure 2: Survey Respondents Awareness of Similar Services**



With such a large number of complimentary organizations and clients’ relative lack of awareness of organizations offering similar services, it is important for CFs to recognize their role as relationship builders and service gateways.

**RECOMMENDATION 1:**  
 WD should introduce one or two specific indicators to capture CFs’ role in pursuing collaborative relationships with other organizations (i.e. informal arrangements, memorandums of understanding, etc.) and acting as a gateway to services for their clients (e.g. number of referrals).

### 2.1.3 Consistency with the National CF Program and WD Objectives

**The local CFs objectives and activities are consistent with the National CF Program. However, the emphasis placed on each of the core service areas differs from one CF to another. The local CF’s objectives and activities are generally aligned with WD’s objectives. However, CF program managers will need to be mindful of a recent shift in departmental priorities and ensure that, going forward, the CF Program remains in alignment.**

The findings in this section are primarily based on documentation review and supported by interview and case study results.

## Consistency with the national CF Program

According to the CF Program *Terms and Conditions*<sup>6</sup>, the objectives of the National CF Program are to assist communities to successfully pursue:

- a. Economic stability, growth and job creation
- b. Diversified and competitive local rural economies
- c. Sustainable communities

In order to achieve program objectives, the CFs help communities to develop and diversify through the following activities:

- Strategic community planning - working with communities to assess local problems; establish objectives; plan and implement strategies to develop human, institutional, and physical infrastructures; and support entrepreneurialism, employment and the economy.
- Business services - delivering a range of business counseling and information services to small and medium sized enterprises.
- Access to capital - providing capital to assist existing businesses or to help entrepreneurs create new businesses.

Persons interviewed have a common understanding that the three core services provided by the CF Program are: Community Economic Development, Business Services and Access to Capital and that their services are directly aligned to these key services. However, through the analysis of interview findings, it is clear that the emphasis placed on each of these service areas varies from one CF to the other (i.e. some CFs invest a large portion of their time and effort in community economic development work whereas another CF is primarily involved in lending activities). Results from the case studies corroborate this finding; with the time spent by CF staff on CED activities ranging from 5% to 60%, on lending activities from 15% to 65%, and on business services activities from 5% to 50%. Variation is inherent in the Program's design. The CFs are independent organization whose activities are driven by local needs.

The previous CF Program evaluation conducted in 2003 also found that, "Although the manner in which strategic directions are translated into specific priorities, programming and service delivery varies among CFDCs, there remains a general consistency with the intent of the Program, WD and the Federal government."<sup>7</sup>

## Consistency with WD objectives

According to Western Economic Diversification Canada's website, the mandate of WD is to "promote the development and diversification of the economy of Western Canada and advance the interests of the West in national economic policy. This mandate is delivered primarily

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<sup>6</sup> *Terms and Conditions, The Government of Canada's Community Futures Program*, Industry Canada, October 2005.

<sup>7</sup> *Evaluation of the Community Futures Program*, Western Economic Diversification Canada, Grant Thornton, April 2003.

through grants and contributions programs, which enable the department to contribute strongly to the productivity and competitiveness of the West. This is achieved through collaboration with partners including the private sector, other levels of government, academic and financial institutions, as well as research centres, to maximize investment in Western Canada and to create alternative sources of funding for commercial ventures.” The CF program objectives, listed above, are very consistent with WD’s mandate (development and diversification of the economy) and methods (collaboration with private sector, other levels of government etc.). However, according to some interviewees, there could be room for more collaboration with financial institutions and more formalized arrangements with other levels of government.

A review of the department’s Report on Plans and Priorities for fiscal years 2006/07, 2007/08 and 2008/09 determined that the three following strategic outcomes for WD are identical during this time period:

1. A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system.
2. Economically viable communities in Western Canada with a high quality of life.
3. Policies and programs that support the development of Western Canada

The specifics are further elaborated in Table 8 below.

**Table 8: Overview of WD’s Strategic Outcomes**

	2006-07	2007-08	2008-09
<b><i>A competitive and expanded business sector in Western Canada and a strengthened western Canadian innovation system.</i></b>			
Business Development and Entrepreneurship	X	X	X
Innovation	X	X	X
<b><i>Economically viable communities in Western Canada with a high quality of life.</i></b>			
Community Economic Development Planning, Development and Adjustment	X	X	X
Infrastructure	X	X	X
<b><i>Policies and programs that support the development of Western Canada.</i></b>			
Collaboration and Coordination	X	X	X
Advocacy	X	X	X
Research and Analysis	X	X	X

In 2006, WD undertook a *Visioning Initiative* consisting of a series of roundtable discussions with western Canadian business, academic and community leaders across the West and in Ottawa to obtain their views on the role, activities and future directions of the Department.

This initiative confirmed the important economic challenges and opportunities facing Western Canada and the need for a renewed focus on economic priorities, and the economic growth and diversification objectives that form the core of WD's legislated mandate.<sup>8</sup>

<sup>8</sup> [http://www.wd.gc.ca/9618\\_ENG\\_ASP.asp](http://www.wd.gc.ca/9618_ENG_ASP.asp)

As a result of those discussions, the department re-defined its strategic framework and created a new vision. Those consultations also were instrumental in helping the department determine its priorities for the 2008/09 year. The four program priorities are:

1. Technology Commercialization;
2. Trade and Investment;
3. Business Productivity; and
4. Rural Diversification.

Through rural diversification, WD will “promote rural diversification by supporting projects that will increase the capacity in rural communities to undertake applied research and development and value-added processing and encourage new opportunities for skilled employment. In addition, the department will undertake research to identify opportunities to further diversify the rural western Canadian economy.”<sup>9</sup>

The type of rural diversification discussed seems to have more of an emphasis on supporting larger, more regional projects that have export potential. This sentiment was echoed in interviews with some of the WD Senior Managers. Out of the interviewees who presented their viewpoints regarding the level of alignment with WD priorities, 94% of respondents agree that the activities carried out by the CFs are directly aligned with the objectives of WD. The remaining 6% of respondents believe that there is no direct alignment with WD objectives due to the recent shifts in WD’s priorities. This 6% was made up of WD Senior Managers.

Further evidence of this shift in mind set was found in the 2008 Senate report *Beyond Freefall: Halting Rural Poverty*. The report states: “...Community Futures concept needs to expand beyond providing money only for start-up operations and to move toward supporting larger-scale operations.”<sup>10</sup> This reference reinforces the concerns expressed during interviews.

Evidence from the case studies indicates that CFs are not given clear directions and guidance on the new WD priorities and the drivers/trends behind them. Managers of six out of the 10 CFs selected for case studies, also indicate that there is no clear definition of expectations, and there is confusion about the meaning of some words such as “community innovation”, “Diversification” to the point that they do not know for sure which project(s) fall under which WD priority.

WD program managers need to reflect on how this shift in focus will impact the CF program and how the Program can respond to the shift. An inherent risk is that the shift in focus could discourage the issuance of smaller loans, an area that is reportedly not well served by traditional lenders. The opportunity is that CFs could be encouraged to work on a more regional basis to coordinate larger projects with multiples partners and financiers. The key will be for WD to decide if the CF Program can effectively operate at both levels or if efforts should be focused on a particular area. WD may not have to take on the sole responsibility for these efforts. The 2008 Senate report recommended that, “the proposed Department of Rural Affairs should also conduct

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<sup>9</sup> Idem

<sup>10</sup> *Beyond Freefall: Halting Rural Poverty*, Final Report of the Standing Senate Committee on Agriculture and Forestry, Senate Canada, June 2008.

a study of the program (CF program) to assess the potential of expanding the size of loans that the program makes available.”<sup>11</sup>

**RECOMMENDATION 2:**

WD Program Managers need to review the recent shift in WD priorities to determine how the CF Program should respond in the future.

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<sup>11</sup> Beyond Freefall: Halting Rural Poverty, Final Report of the Standing Senate Committee on Agriculture and Forestry, Senate Canada, June 2008.

### 3. Program Design and Delivery

The next evaluation question pertains to the Design and Delivery of the program. In order to assess the extent to which the current program design and the service delivery model meet the needs of the program, the following questions were identified in the WD Evaluation Framework:

- Are the CF networks (national, provincial, regional, and sub-regional) working effectively?
- Are CF investment funds well managed? Are the number, level and loss rates of the loans meeting the needs?
- Is the Department and CFs gathering the necessary data for evaluation and measurement purposes?
- What is the level of awareness of the CFs? What activities have been undertaken to increase awareness?
- What strategies have been undertaken to recruit competent employees and board members?
- What factors impact or facilitate the achievement of program results?

#### 3.1 Findings

The overall findings for the Design and Delivery section are:

- the CF networks are working effectively primarily at the provincial level;
- there are mixed views on whether or not the investment fund is well managed and CFs may be a little too risk averse;
- performance data is being collected and used but there is some room for improvement;
- there is no consistent plan in place to increase CF awareness but CFs seem to be engaged in a variety of awareness building activities;
- the focus on strategies to recruit of competent employees and board members varies from CF to CF with some CFs having no strategy and others placing a lot of emphasis on it; and
- there are certain recruitment practices in place that seem to be effective and that could be applied across the CF program.

The Design and Delivery findings are further elaborated in the following sections.

##### 3.1.1 CF Networks

**CF networks are working effectively and primarily at the provincial and sub-provincial levels.**

There are four levels of networks in place for the CF Program in the West: a pan-Canadian network that provides a framework for regular collaboration and sharing of best practices across the country; a pan-Western network that allows for collaboration and sharing across the West; provincial associations that focus on supporting the CFs in their province; and, some sub-provincial CF networks that enable sharing and collaboration of CFs with common interests in a particular region.

An assessment of interview and case study findings demonstrate that respondents agree that the networks that are currently in place are working effectively. There is a general perception that

the networks are more effective at the local (sub-provincial/provincial level) level due to the relevance of the work generated by these groups. As the networks move up to the national level, their effectiveness/appropriateness is increasingly difficult to assess due to the diversity of members and subjects discussed.

This notion of the networks being most effective at the local level is reinforced by results of the document review. Following are some examples:

- University of Guelph 2005 study, it is stated, “The Horizontal partnerships at the local level are the strength of the CF program.”<sup>12</sup>
- 2003 CF Program evaluation by Grant Thornton, it was revealed that while there were several functional networks in place, there was room for improvement within the “higher-level” networks. The report states that: “Improved communications over the role and contributions of CF related provincial and national associations, especially the Pan West association, were deemed to be warranted given the uncertainty expressed over mandates and services. In the case of the Pan West association, it may have reflected both the need for enhanced communications and that this institution is less mature in its development (i.e., this association was formed after its provincial counterparts.”<sup>13</sup>

The analysis of CF survey results also indicates that the Provincial networks are used most frequently and are rated as being the most effective. Figure 3 (below) provides a summary of CF survey findings related to the frequency of use and effectiveness of the various CF networks.

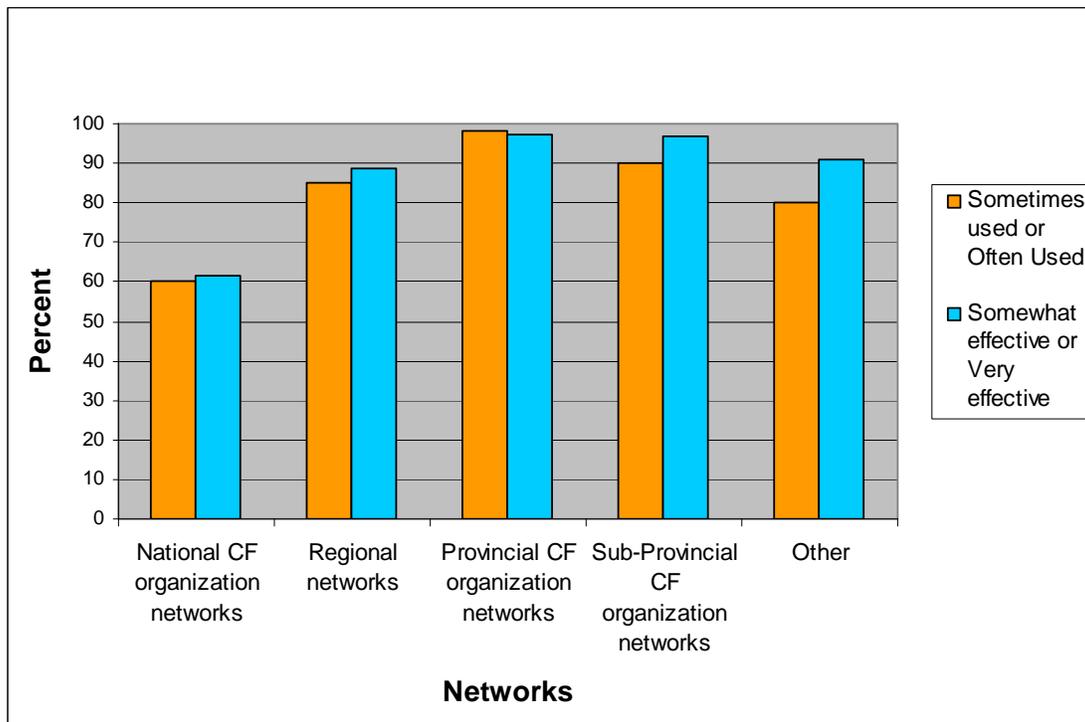
Evidence from the case studies indicates that the provincial CF associations are a great platform for networking and information sharing. Four out of the ten CFs assessed in the case studies suggested that the CF associations should do more promotion of CFs and facilitate more partnerships and access to provincial and federal programs.

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<sup>12</sup> Community Futures Program in Canada, Good Governance in Successful Rural Development Programming, University of Guelph, 2005.

<sup>13</sup> Evaluation of the Community Futures Program, Western Economic Diversification Canada, Grant Thornton, April 2003.

**Figure 3: CF Survey Respondents Opinion on Frequency of Use and Effectiveness of Networks**



When asked regarding the types and level of communication between networks, 94.7% of interview respondents believe that effective mechanisms exist and are applied in order to facilitate cooperation and information sharing between networks and to the CFs.

The following is a list of the most common ways in which information is shared, according to interviewees:

- Information is shared through regular/ quarterly meetings that are attended by either Board Members or CF Managers. The outputs of these meetings are made available to the CF community through the distribution of meeting minutes.
- Information is provided to CF personnel through regular e-mails.
- Information is obtained at the Annual General Meeting.
- Through dual/ triple memberships on various committees, information is funnelled down from the higher levels.

### 3.1.2 Management of the Investment Funds

**The investment fund is well managed but there is evidence of a growing proportion of investment fund maintained as cash on hand and a need for clarity around appropriate loss rates.**

In examining the management of investment funds, the evaluation aimed to assess whether CFs are sustaining their investment funds and whether or not they are reinvesting the investments back into the program.

With respect to the number of loans issued to clients, it has decreased on average 4.3% per year between 2002/03 and 2007/08 (Table 9). This amounts to a progressive average decrease of less than one loan (0.74) per year per CF. In looking at this data from a provincial perspective, all provinces have shown a decrease in the number of loans over this time period with Manitoba and Saskatchewan showing the greatest decrease. BC maintains the highest average number of loans issued per CF followed by SK.

**Table 9: Average Number of Loans Issued Per CF, Per Region (2002-2008)**

	<b>AB</b>	<b>BC</b>	<b>MB</b>	<b>SK</b>	<b>CF Average</b>
<b>2002-03</b>	15.8	22.2	13.4	17.2	18.0
<b>2003-04</b>	14.1	18.9	10.7	14.7	15.4
<b>2004-05</b>	15.0	18.7	10.4	19.4	16.2
<b>2005-06</b>	15.5	19.1	8.1	18.2	15.9
<b>2006-07</b>	13.3	18.0	9.6	15.5	14.7
<b>2007-08</b>	13.7	18.2	8.9	11.8	14.3
<b>Period Average</b>	<b>14.6</b>	<b>19.2</b>	<b>10.2</b>	<b>16.1</b>	<b>15.8</b>
<b>Average Annual % Change</b>	<b>-2.5%</b>	<b>-3.7%</b>	<b>-6.9%</b>	<b>-5.4%</b>	<b>-4.3%</b>

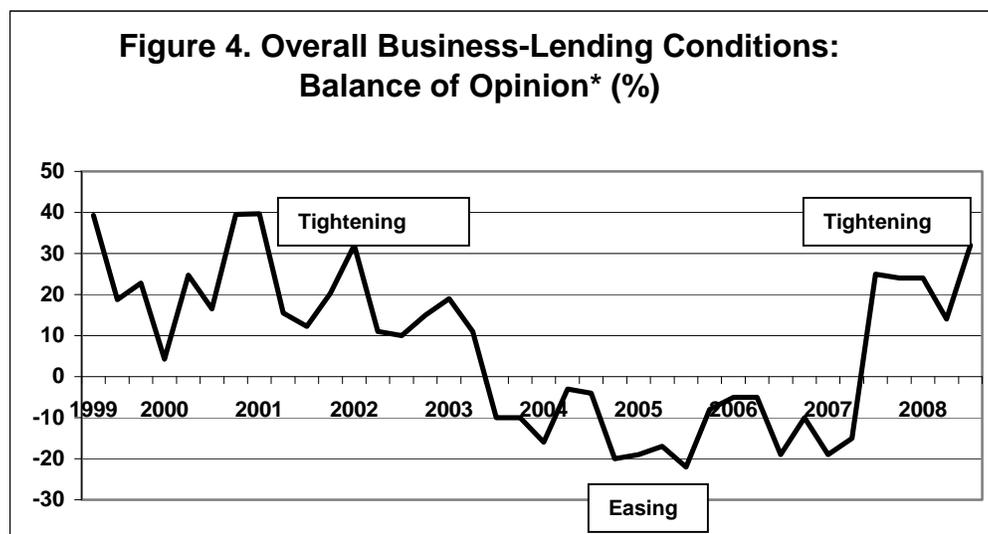
Evidence from case studies, interviews and document review attributed the decline to factors specific to each CF, to the strong state of the economy in the west, and to greater access to capital from traditional and alternate sources. The same sources also identify other factors that contributed to the observed decline in the number of loans, with most of these factors linking to the strong economy (e.g. difficulties in recruiting and retaining staff; raising operational costs; and inability to undertake more promotion for the program).

Regression analysis can further demonstrate the correlation between the number of loans and the state of the economy in each province and in the west overall. The analysis used two main indicators for the state of the economy (unemployment rate and Gross Domestic Product (GDP)). The analysis shows that the number of loans tended to decrease as unemployment rate decreases and as GDP increases. Overall, the decrease in employment rate and the increase in GDP explained 46% and 63% of the decline in the number of loans issued, respectively. The associations of number of loans with unemployment rate and with the GDP were significant (using a 95% confidence level); and corroborate the above-mentioned views collected through case studies and interviews.

These findings are further substantiated by a recent study conducted by Bank of Canada<sup>14</sup>, which investigated the changes in business lending practices between 1999 and 2008. The results of this study indicate that between 2003 and 2007, which represents the period of this CF program evaluation, overall business-lending conditions eased significantly; making it hard for CFs to

<sup>14</sup> Senior Loan Officer Survey on Business-Lending Practices in Canada. Results from third quarter 2008 survey. Vol. 1.1 10 October 2008. Available at <http://www.bankofcanada.ca/en/slos/index.html>. Retrieved Nov. 18, 2008.

compete with traditional financial institutions in issuing loans (Figure 4 below). CFs have traditionally been considered as funders of last resort, funding high risk projects at a lending rate of at least 2% higher than the prime lending rate of traditional financial institutions. Furthermore, the Bank of Canada study indicates that the business-lending activities have tightened towards the last quarter of 2007 and early in 2008. The recent data available on the CFs issued loan show that the number of loans issued by CFs during the first two quarters of 2008/09 has increased by 14.5% and the dollar value of loans by 38%, as compared to the number and value of loans issued during the same period in 2007-08. Using data from 1999/00 to 2007/08, a regression analysis indicates that 70% of the variation in the number of loans issued by CFs is explained by the variation in the overall business-lending conditions and that the relationship is highly significant. Hence, these findings support the argument that the decline in the number of loans is inversely associated with the overall business-lending conditions.



\* The balance of opinion is calculated as the weighted percentage of surveyed financial institutions reporting tightened credit conditions minus the weighted percentage reporting eased credit conditions. Thus, a positive balance of opinion implies a net tightening.

As the volume of loans has decreased, the average dollar value of loans that a CF has issued, in a given year, has increased on average 3.7% per year from 2002/03 to 2007/08. It is interesting to note that the average annual increase in the value of loans that a CF issued has increased less than the average annual decrease in number of loans. The overall number of loans has decreased 4.3% per year and the value of loans has increased 3.7% per year (see Table 9 and 10). BC, MB and AB all show an increase in the average value of loans issued by a CF. Saskatchewan has shown a decrease over this same time period.

**Table 10: Average Value of Loans Issued per CF, per Province (2002-2008)**

	AB	BC	MB	SK	CF Average
2002-03	\$561,979	\$717,363	\$310,824	\$596,208	\$580,974
2003-04	\$530,771	\$550,592	\$311,653	\$452,251	\$487,963
2004-05	\$633,491	\$675,548	\$255,226	\$771,146	\$602,016
2005-06	\$672,472	\$765,906	\$249,828	\$734,507	\$641,593
2006-07	\$633,389	\$814,669	\$391,144	\$668,826	\$663,926
2007-08	\$634,493	\$946,496	\$370,351	\$402,518	\$671,895
<b>Period Average</b>	<b>\$611,099</b>	<b>\$745,096</b>	<b>\$314,838</b>	<b>\$604,243</b>	<b>\$608,061</b>
<b>Average Annual % Change</b>	<b>2.9%</b>	<b>7.1%</b>	<b>6.3%</b>	<b>-1.4%</b>	<b>3.7%</b>

The CFs have not received any injections from WD into their investment funds during the 2002/03 to 2007/08 period. The growth of the investment funds is, therefore, a direct result of CF management of the funds. Overall the investment fund has grown over the years from \$249.2 M in 2002-03 to \$272.6 M in 2007/08 representing an average annual growth of 1.8% with the greatest amount of average annual growth being observed in BC and the least in MB (see Table 11).

**Table 11: Value of the Investment fund per Province and in Total**

	AB	BC	MB	SK	Total
2002-03	\$67,353,387	\$117,790,205	\$29,128,760	\$34,942,842	\$249,215,194
2003-04	\$67,940,719	\$120,821,794	\$27,891,797	\$34,079,259	\$250,733,569
2004-05	\$71,810,928	\$117,221,121	\$26,841,369	\$33,204,538	\$249,077,956
2005-06	\$72,337,032	\$120,567,103	\$28,348,862	\$35,806,441	\$257,059,438
2006-07	\$71,909,059	\$124,558,983	\$28,045,716	\$37,120,015	\$261,633,773
2007-08	\$74,158,724	\$130,252,554	\$30,611,754	\$37,583,240	\$272,606,272
<b>Period Average</b>	<b>\$70,918,308</b>	<b>\$121,868,627</b>	<b>\$28,478,043</b>	<b>\$35,456,056</b>	<b>\$256,721,034</b>
<b>Average Annual % Change</b>	<b>1.97%</b>	<b>2.07%</b>	<b>1.14%</b>	<b>1.54%</b>	<b>1.83%</b>

To further assess the management of loan portfolios, the evaluation examined the proportion of the CF loan portfolio that was invested in active loans. Administrative data shows that the percent of investment in active loans had been decreasing over the years in every province (see Table 12 below). This means that in each province the CFs are keeping a higher proportion of cash on hand rather than issuing it out in loans (see Table 13).

**Table 12: Percent of Investment Fund in Active Loans per Province**

	AB	BC	MB	SK	Total
2002-03	68%	75%	74%	70%	72%
2003-04	66%	69%	75%	70%	69%
2004-05	70%	65%	72%	67%	68%
2005-06	68%	65%	66%	65%	66%
2006-07	64%	57%	63%	62%	60%
2007-08	54%	59%	59%	57%	57%

<b>Period Average</b>	<b>65%</b>	<b>65%</b>	<b>68%</b>	<b>65%</b>	<b>65%</b>
<b>Average Annual %Change</b>	<b>-4.1</b>	<b>-4.6</b>	<b>-4.5%</b>	<b>-4.0%</b>	<b>-4.5%</b>

**Table 13: Cash on Hand**

	<b>AB</b>	<b>BC</b>	<b>MB</b>	<b>SK</b>	<b>Total</b>
<b>2002-03</b>	\$21,727,918	\$28,876,324	\$7,521,245	\$10,623,528	\$68,749,015
<b>2003-04</b>	\$23,329,666	\$37,272,033	\$6,885,947	\$10,158,279	\$77,645,925
<b>2004-05</b>	\$21,629,220	\$40,756,098	\$7,462,516	\$11,062,562	\$80,910,396
<b>2005-06</b>	\$22,837,024	\$42,305,073	\$9,527,848	\$12,508,910	\$87,178,855
<b>2006-07</b>	\$20,332,792	\$43,771,499	\$8,364,478	\$12,514,935	\$84,983,704
<b>2007-08</b>	\$27,687,749	\$47,254,576	\$8,026,785	\$14,596,705	\$97,565,815
<b>Period Average</b>	<b>\$22,924,062</b>	<b>\$40,039,267</b>	<b>\$7,964,803</b>	<b>\$11,910,820</b>	<b>\$82,838,952</b>
<b>Average Annual %Change</b>	<b>6.2%</b>	<b>10.7%</b>	<b>2.3%</b>	<b>6.9%</b>	<b>7.4%</b>

The decrease of the proportion of investment fund in active loans and the increase in cash on hand is partially due to the observed decrease in the number of loans issued. The increase of cash on hand was strongly and significantly associated with the strong economic conditions in the western provinces in the last six years (2002/03 to 2007/08). The statistical regression indicates that the decrease in employment rate and increase in GDP explained 30% ( $P=0.005$ ) and 63% ( $P=0.000004$ ) of the increase in cash on hand, respectively. This finding is in line with the views of some CF managers and WD managers regarding the decrease in number of loans and the increase in cash on hand.

Other interviewees indicated that some CFs have adopted conservative lending practices to protect their “limited” pool of investment fund, resulting in an issuance of loans only determined to be low risk. Those interviewees indicated that the adoption of conservative lending practices by some CFs is partially due to the fact that the last WD fund injection came with a clear message that the injection would be the last one; and that moving forward, CFs should manage their investment fund wisely. This was interpreted by some CFs that they should adopt conservative lending strategies to protect their pool of loan money.

The situation in Saskatchewan is somewhat different, as one CF in particular (Beaver River) issues about 45% of the number of CF loans in the province. Discussion with the CF Beaver River manager revealed that this CF has made a strategic decision to move away from investing in traditional sectors; hence probably the increase observed in loan loss rate (Table 15) and value of loan written off (Table 14).

In addition, when examining the CF program as a whole, there has been an average 10.4% annual decrease in the values of loans that have been written off (Table 14). In looking at this data from a provincial perspective, BC and AB provinces have, on average over the 2002/03 to 2006/07 period, shown a significant decrease in the values of loans that have been written off; while MB and SK provinces have shown a slight increase (Table 14).

**Table 14: Value of Loan that have Been Written-off per Province**

	<b>AB</b>	<b>BC</b>	<b>MB</b>	<b>SK</b>	<b>Total</b>
<b>2002-03</b>	\$1,659,138	\$3,826,837	\$1,144,252	\$1,053,491	\$7,683,718
<b>2003-04</b>	\$1,657,274	\$4,818,693	\$621,437	\$987,895	\$8,085,299
<b>2004-05</b>	\$1,237,653	\$1,646,443	\$919,702	\$714,439	\$4,518,237
<b>2005-06</b>	\$1,009,123	\$2,631,117	\$598,238	\$735,314	\$4,973,792
<b>2006-07</b>	\$1,211,293	\$1,101,521	\$887,508	\$1,135,599	\$4,335,921
<b>Period Average</b>	<b>\$1,354,896</b>	<b>\$2,804,922</b>	<b>\$834,227</b>	<b>\$925,348</b>	<b>\$5,919,393</b>
<b>Average Annual %Change</b>	<b>-6.0%</b>	<b>-9.6%</b>	<b>3.9%</b>	<b>5.9%</b>	<b>-10.4%</b>

The loss rates are calculated by dividing the value of loans that have been written off (bad debt expense) by the value of active loans in a given year (loans receivable). It should be noted that CFs are typically writing off debts for loans that have been issued 3-5 years ago. The calculation is, therefore, crude and may not reflect the actual level of risk that CFs are taking in a given year. When examining the CF program as a whole, there has been an average 7.4 % annual decrease in the loan loss rate (Table 15). In looking at this data from a provincial perspective, BC and AB provinces have, on average over the 2002/03 to 2006/07 period, shown a decrease in the loan loss rate; while MB and SK provinces have shown an increase (Table 15). Furthermore, it is important to notice that these values are relatively low; probably due in part to the formula used to calculate the loan loss rate. Data was not available, at the time of writing the report, to calculate the bad debt ratio since inception of the CF program. This ratio could have provided a good indication of the long-term performance of the CF loan program.

**Table 15: Loss Rates per Province**

	<b>AB</b>	<b>BC</b>	<b>MB</b>	<b>SK</b>	<b>Total</b>
<b>2002-03</b>	3.64%	4.30%	5.30%	4.33%	4.26%
<b>2003-04</b>	3.71%	5.77%	2.96%	4.13%	4.67%
<b>2004-05</b>	2.47%	2.15%	4.75%	3.23%	2.69%
<b>2005-06</b>	2.04%	3.36%	3.18%	3.16%	2.93%
<b>2006-07</b>	2.64%	1.56%	5.03%	4.95%	2.76%
<b>Period Average</b>	<b>2.90%</b>	<b>3.43%</b>	<b>4.24%</b>	<b>3.96%</b>	<b>3.46%</b>
<b>Average Annual %Change</b>	<b>-4.83%</b>	<b>-6.56%</b>	<b>10.40%</b>	<b>7.01%</b>	<b>-7.41%</b>

While the majority of interviewees that formed the CF interview group (26 of 31) believe that the investment fund is well managed, the remaining individuals think that CFs are somewhat risk averse and should be providing a larger number of loans to applicants.

WD senior managers and program managers raised mixed opinions regarding the investment funds. A total of four persons within this sub-group indicated that the funds were well managed. As for the six others, they stated that the management of investment funds varies significantly from one CF to the other. Interviewees demonstrated inconsistencies in their interpretation of “appropriate loss rate”. Some interviewees believe that a good rate is between 10-15%,

recognizing that the CFs are high-risk lenders while others believe that the loss rate on loans should not surpass 4%. CFs are looking to WD to define appropriate loss rates.

#### *Follow-up*

There is evidence that follow-up activities are being conducted with loan recipients. Follow-up mechanisms are not consistent across CFs. All CF interviewees and CF survey respondents indicated that they follow-up with loan clients, however, the case studies found that there is no consistency across CFs in terms of the frequency and the nature of the follow up. Six of the ten CFs receive monthly, quarterly or annual financial statements and based on the results a follow up (phone call, site visit, e-mail) occurs. The other CFs usually do not do frequent follow-ups; it is usually done in the form of phone call; e-mail; and occasionally a site visit. Almost all of the CFs agreed that they could do more follow-ups (aftercare) if they had more human and financial resources and time.

All client surveyed indicated that follow-up does occur. Follow-up frequency varied from weekly to annually. Follow-up methods included telephone, email, mail and in-person. The vast majority of clients (98%) thought the follow-up frequency was appropriate. Follow-up practices seem adequate and there is no strong evidence that more frequent follow-up is required.

#### *\$150K Limit*

Interviewees were asked whether or not they thought the \$150K limit on loans was appropriate. Interviewees had mixed responses regarding the maximum limit on loans. In total, 56% of respondents thought that the loan amount was appropriate, 17% of respondents did not provide a direct response to the question and 27% of respondents identified the need to increase the maximum value of loans.

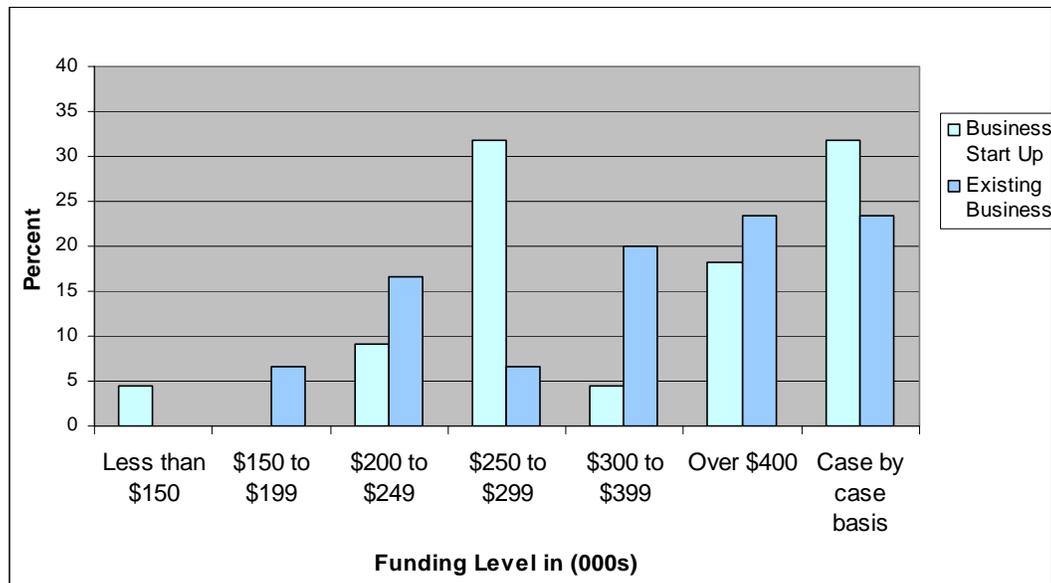
There is some concern among a few interviewees that the \$150K- \$500K group is not really serviced by anyone and that the current maximum limits the CFs' ability to participate in larger/higher impact endeavours. The other interviewees think that CFs can partner with other lenders or with each other to meet this demand.

Evidence from the case studies indicates that, depending on the population size and geographic area served by the CF, both micro-loans and larger loan (> \$150K) were advocated for. In large CFs such as CF Grande Prairie & Region; CF Okanagan Similkameen, CF East Parkland all advocated for larger loans; while in smaller CFs such as Boundary Area, micro-loans were considered a great success and were suggested as a best practice.

Case studies findings also indicate that some CFs are embracing the principle of partnerships and collaboration and have been successful in working together on larger loans (>\$150K) and larger regional economic developments initiatives.

A greater proportion of new business loan clients surveyed found the maximum loan amount appropriate (73.6%). Only 63.4% of existing businesses found the loan amount appropriate. Conversely, 26.4% of new businesses and 36.6% of existing businesses do not think that the \$150K limit is appropriate. Client that did not find the loan amount appropriate indicated that the loan limit should be anywhere from \$200K to over \$400K or that the limit should be reviewed on a case-by-case basis. For a distribution of suggested appropriate loans amounts see Figure 5 (below).

**Figure 5: Client Survey Suggestions on Acceptable Loan Limits**



The client survey, case studies and some interviewees are expressing a need for a higher loan limit in certain instances. The higher loan limits would be consistent with WD’s focus on supporting larger projects. CF terms and conditions allow for some flexibility around the \$150k limit but it is not evident in which instances the limit can be surpassed.

**RECOMMENDATION 3:**

- WD should take the necessary steps to further enhance the management of investment fund.
  - WD should determine acceptable performance measures such as acceptable loss rates, number of loans, and levels of cash on hand, taking into account local, regional, and provincial economic conditions. This decision should be clearly and consistently communicated to all CFs.
  - WD should clarify the CF terms and conditions surrounding when the \$150K loan limit can be surpassed. The decision should be clearly communicated to all CFs.

**3.1.3 Performance Data**

The CFs are gathering performance data for evaluation and measurement purposes. Performance data is considered by the CFs and by WD during the decision-making process. However, the accuracy and integrity of data currently available in the Lotus Note and TEA databases is questionable.

Findings are primarily based on interview and document review findings, a review of the administrative data, and case studies.

In the 2003 Audit Report, numerous references to monitoring practices were made. To begin, the report stated that: “WD and Treasury Board policy outlines the monitoring practices that should be carried out as part of the monitoring of the CFDCs. These practices are based on the documents that are filed with WD by each CFDC, which are essentially the same in all jurisdictions. However, there are regional differences in how these documents are utilized, and the extent of their examination.” In addition, the report explains that: “the purpose of and the information contained in the Quarterly Performance reports should be revisited. These reports appear to be underutilized for monitoring purposes, and many of the variables are not relevant. While these variables, however, may be relevant to reporting on the results of the CF Program, quarterly reporting on all of these variables may be too onerous on the CFDCs preparing them.”

Currently, according to interview findings, 98% of interviewees agree that reporting measures are in place. All persons stated that they are increasingly referring to their performance data during the decision-making process. In addition, there is an understanding that WD is now setting minimum performance targets and measuring the CFs against these established targets.

Evidence from the case studies, however, highlighted some issues associated with the lack of feedback from WD on individual CFs performance and the fact that WD does not acknowledge and reward best performers. Six out of ten CF managers included in the case studies regret the inexistence of incentives for CFs best performers; which according to some of them, result in the CFs feeling unmotivated. The six CF managers regret the fact that all CFs are treated approximately the same in terms of resource allocation.

CF performance data is currently captured in the TEA system application. Several respondents indicated that significant improvements to this database were required. The following is a list of the concerns identified during interviews and case studies:

- Too much data is being requested, which is labour intensive
- Definitions of data elements are subject to interpretation (i.e. CFs input data inconsistently within the system).
- Many data elements are not perceived as relevant for local decision-making
- Cannot relate TEA results to the annual operations plan
- Different versions of the TEA system which creates some glitches and mis-reporting / mis-communication between the CFs reporting systems and WD’s Reporting Performance Measurement system (RPM).

Although concerns regarding performance reporting are numerous, several persons indicated that there have been many improvements over the past years. In addition, all CFs will be required to participate in reporting definition training during the 2008/09 fiscal year. The training will ensure that those inputting data into the TEA system are aware of the definitions of the various data elements. The goal of this training is to help improve the quality of information that is tracked in the system.

**RECOMMENDATION 4:**

- WD should take the necessary steps to enhance the reliability and use of performance data.
  - WD should devise a strategy to resolve performance-reporting issues related to system inconsistencies and data definitions.
  - WD should review the continued relevance of elements currently collected through the TEA system.
  - In order to ensure the integrity of data, WD should implement and lead quality assurance practices (i.e. sample audits, etc.).

### **3.1.4 Level of Awareness**

**A variety of promotional and outreach activities have been applied in order to promote the CF Program in Western Canada.**

A review of interview findings indicates that promotional and outreach activities are numerous and vary between CFs. Each CF is responsible for marketing their services, in accordance with the marketing strategy that they identified within their operational plan. The most common outreach and promotional activities identified during interviews include:

- Publicity (i.e. in local newspapers, radio, TV, etc.)
- Board Member and staff involvement in community held events (i.e. trade shows, career fairs, partnership with schools, etc.) in order to promote the program
- Word of mouth (i.e. clients, staff, Board Members, etc.)

In order to improve the level of program awareness, a common branding strategy has been developed in Western Canada by the CFs through the associations. WD made a decision to not provide additional funding for the implementation of the strategy. CFs are therefore implementing the strategy at their own discretion and with existing resources.

Evidence from the case studies indicate that six out of the ten CFs visited believe that the level of awareness/promotion of the CFs should be enhanced; while the remaining four CFs believe that the level of awareness is adequate and there is no need for more promotion as the CFs are operating at capacity and resources are stretched to the limit.

### **3.1.5 Recruitment of Staff and Board Members**

**Renewal of staff and board members is a challenge for CFs. There is no standard approach and/or strategy to recruit staff and Board Members. Some recruitment and retention best practices have been developed by some CFs and/or Associations.**

At the time of the evaluation, numerous persons interviewed identified difficulties in recruiting and retaining both staff and Board Members. Several persons indicated that Board Member renewal is a constant challenge and recommended that the length of terms of Board Members be reviewed. Some respondents stated that they encounter difficulties in recruiting Board Members due to the level of commitment/time that is required of them. Also, Alberta representatives mentioned they have a lot of difficulty recruiting and retaining staff due to the Province's labour shortage. In order to retain the workforce, many incentives (i.e. flexible work hours, health training programs, benefits package, etc.) are required.

Even though recruitment and retention challenges are apparent, several best practices were identified during interviews and are presented in the following list:

- In Manitoba, a common salary scale for 3 to 4 different positions was developed by the Provincial Association. This document provides more structure and consistency in the establishment of salary by position throughout the CFs.
- As part of BC's Continuous Improvement Strategy, a peer training support system has been established. This "buddy system" allows one CF to seek assistance and guidance from another CF.
- The Pan West Association lead the development of the Community Futures Staff Development program, which is designed around the competencies required for each of the four main Community Futures positions: General Manager, Business Analyst, Community Economic Development Coordinator, and Administrative Coordinator.<sup>15</sup>

Recruitment and retention of staff is a key issue for CF managers. The efforts of the Pan West Association should address some of the issues with recruiting and retaining staff members. Continued attention needs to be paid to staff retention. CF associations should look to each other for best practices and strategies that can be applied across the West. Attention also needs to be paid to board membership.

### **3.1.6 Factors Impacting the Achievement of Program Results**

**There are numerous factors, both internal and external, that impact or facilitate the achievement of program results. Although a large majority of key issues/challenges identified at the community and regional levels can be addressed by the CFs and/or WD, most of the national challenges are external in nature, which limits the program's ability to address and resolve some of the identified challenges.**

The findings in this section are primarily based on interview and case study results, supported by information contained in the document review.

Interviewees and case study participants provided comments regarding a wide range of issues impacting the achievement of program results. Table 16 (below) contains a list of the most

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<sup>15</sup> <http://www.communityfutures.ca/provincial/pd/about.php>

common national, regional and community-level issues identified during interviews and the case study.

**Table 16: Challenge and Issues Impacting the Level of Success of the CF Program**

<b>National Challenges/ Issues</b>	
<b>Internal Factors</b> <i>(includes issues which are considered within the span of control of the CFs, the CF Program and/or WD)</i>	The current level of program visibility does not provide sufficient level of program awareness
<b>External Factors</b> <i>(includes issues which are considered outside the span of control of the CFs, the CF Program and/or WD)</i>	Changes in Government Direction/ Political Shifts create program uncertainty
	Five year program renewal generates difficulties in conducting long-term planning and in establishing long-term partnerships
	Apparent wavering of program commitment at the national level
<b>Regional Challenges/ Issues</b>	
<b>Internal Factors</b> <i>(includes issues which are considered within the span of control of the CFs, the CF Program and/or WD)</i>	The limited diversification of revenues does not allow the CFs to be self-sufficient
	The CFs do not have sufficient program autonomy/ decision-making authority (not a lot of delegation to the CFs by WD)
	Inadequate program accountabilities currently in place (i.e. procedures & guidelines, higher accountability for results, implementation of performance standards)
	There is no flexibility to leverage revenue-generating funds into operating dollars.
	There is a lack of operational funds.
	The TEA system is complex and information inputted and assessed is subject to interpretation
	Inconsistent level of cooperation/communication with WD and within WD (i.e. inconsistent information provided by different regions within WD)
	The absence of WD financial support of the Common Branding Strategy
	There is a lack of funds for community economic development work
<b>External Factors</b> <i>(includes issues which are considered outside the span of control of the CFs, the CF Program and/or WD)</i>	There is a lack of interest/collaboration from some provinces (i.e. BC)
	There are growing economic challenges (i.e. AB and BC)
	Increase in immigration (i.e. different client base, different types of businesses, etc.)

<b>Community Challenges/ Issues</b>	
<b>Internal Factors</b> <i>(includes issues which are considered within the span of control of the CFs, the CF Program and/or WD)</i>	The structure/composition of the CFs may not be appropriate (i.e. number of CFs, geographical distribution, number and size of portfolios, etc.)
	Recruiting and retaining staff with the right skill sets is difficult.
	Inadequate level of program visibility and awareness
	Board Member vitality needs to be increased
	150K maximum value of loans does not allow CFs to support large projects.
	Misunderstanding of the realities that are faced by First Nation Communities
	Succession planning initiatives have not been developed
<b>External Factors</b> <i>(includes issues which are considered outside the span of control of the CFs, the CF Program and/or WD)</i>	Unwillingness of some communities to collaborate

Respondents of the CF survey also raised numerous issues impacting the success of the CF Program. The following figures (Figure 6 below) illustrate the most common issues identified by CF representatives.

**Figure 6: CF Survey Respondents Identification of Issues Impacting their Success**

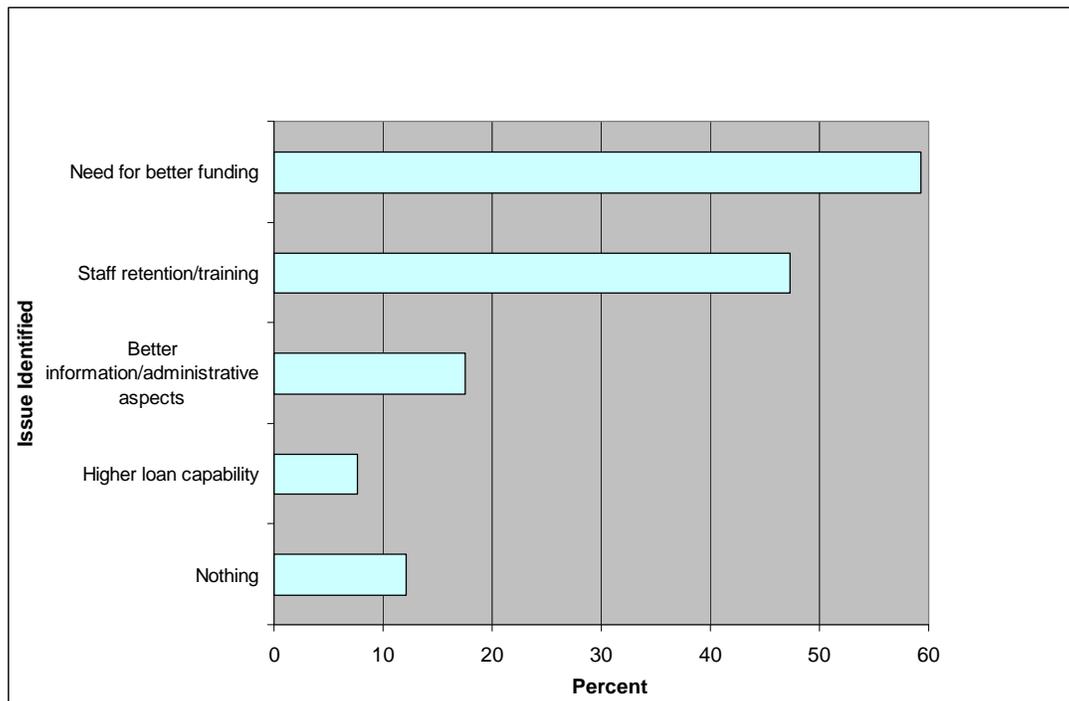


Figure 6 (above) demonstrates consistency with the results of the interviews and case study. In support of the above responses, previous evaluations and studies were reviewed to assess whether identified issues have consistently been identified over time. The following is a list of some of the key challenges included in prior reports and studies:

- Develop broad based community support (2003);
- Insufficiency of core funding (2003, 2004);
- Need for further refinement of performance measures (smaller set of metrics) (2003);
- Limited resources available for CED activities (2002);
- Size/geographical spread of regions serviced by CFs (2002); and
- CF low profile (2002).

In light of the challenges/issues identified in previous studies and the findings of this evaluation, it is fair to state that there is an alignment between past and current issues.

A majority of issues identified in this section pertain to elements that have been previously addressed in earlier sections of the evaluation. However, concerns regarding funding limitations are apparent and should be clarified.

Using triangulation techniques, we determined that the factors impacting the CF program success fall into two major categories: overarching factors common to most CFs; and other factors specific and variable from one CFs to another.

The top overarching factors include:

- Insufficient and short-term funding;
- Staff recruitment and retention;
- Insufficient visibility and, hence, awareness about the program;
- Inadequate program accountabilities and performance management currently in place;
- Strong economy in the west over the last 6 years which made it hard for the CFs to issue loans, recruit and retain competent staff; and engage in more promotion of the program as a result of rising operation cost; and
- Changing government priorities

The top unique factors include:

- Large geographic area;
- Low profile of the CF (low population size with limited human and natural resources pools);
- Geographic location (remoteness; out-migration of population to places with more economic opportunities); and
- Unwillingness and/or lack of interest of some communities to collaborate with CFs.

## 4. Program Impact

The findings of the evaluation of the Community Futures Program in Western Canada on the issue of program impact are presented in this section of the report. The evaluation questions, which were considered in addressing the issue of impact, were as follows:

- To what extent has the CF Program provided appropriate information, referrals and counselling to clients?
- To what extent has the CF Program improved business knowledge and skills of clients?
- To what extent has the CF Program created new business start-ups or strengthened existing businesses?
- To what extent is the CF Program serving the needs of Official Languages Minority Communities (OLMCs)?
- Have CFs been involved in developing community strategic plans? To what extent are CF activities linked to community plans?
- To what extent has the CF Program supported long term outcomes: community economic development; assisting communities to develop and diversify their economies; and strengthening community capacity?

### 4.1 Findings

The overall findings of the Program Impact section are:

- the CFs are providing much needed information, referral and counselling to clients;
- clients are applying what they learn from the CFs to their businesses;
- the CFs continue to support new businesses but seem to be providing less support to existing businesses;
- approximately 70% of new and existing businesses would have somewhat or very unlikely not been able to start and maintain/expand without the CF loans;
- the CF program is serving clients in their language of choice;
- there is strong expressed need for community strategic planning and CED related activities;
- CFs level of involvement in CED varies from one CF to the next; and
- there is some evidence that CF activities support diversification of communities and some evidence that CFs are strengthening community capacity.

The following sections further elaborate on each of these findings.

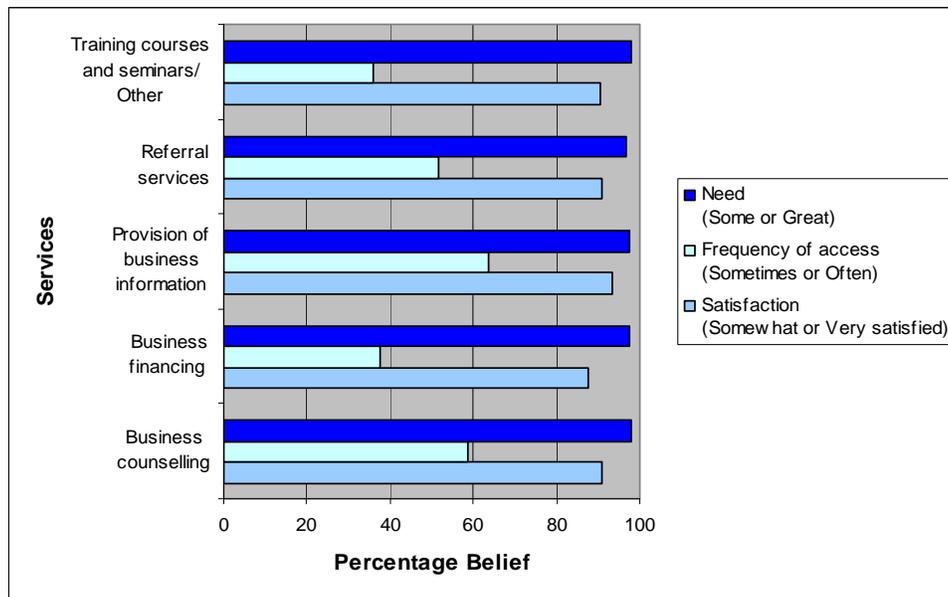
#### 4.1.1 Appropriateness of Information, Referral and Counselling Services to Clients

**Appropriate information, referral and counselling services are being offered and clients have a high level of satisfaction with the services. However, the volume of reported services has been declining over the last few years.**

Clients were provided a list of the various services provided by CFs and asked whether or not their was a continued need for the service (scale of 1 to 4 where 1 = no need and 4 = great need),

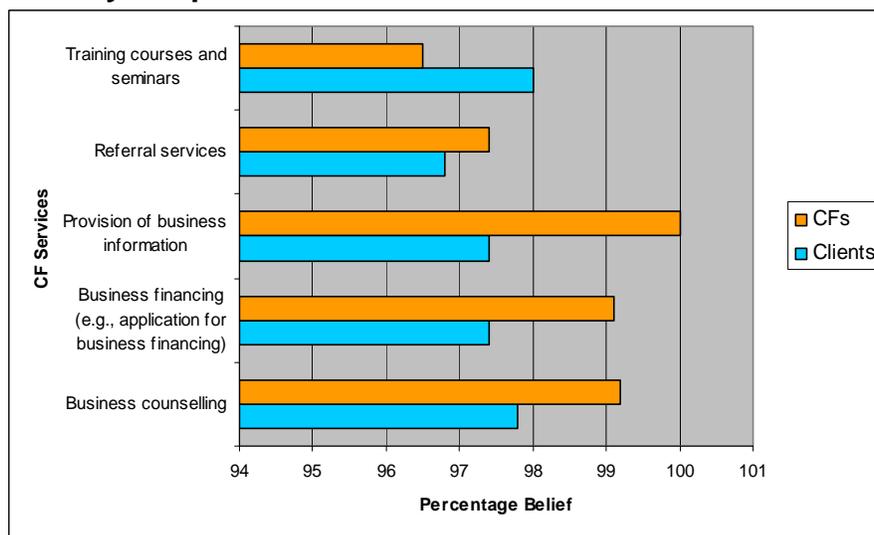
how often they access the services (scale of 1 to 4 where 1 = never and 4 = often), and their level of satisfaction with the services (scale of 1 to 4 where 1 = not at all satisfied and 4 = very satisfied). The majority of clients indicated a high level of need for the services (reported somewhat or great need) and a high level of satisfaction (reported being somewhat or very satisfied) for CF services. They more frequently used information, counselling and referral services than financing and training (see Figure 7 below).

**Figure 7: Clients Belief in Need, Use and Satisfaction of CF Services**



There is an alignment between CF and Client perceived need for services. Both groups indicate a high level of need for information, referral and counselling services (see Figure 8 below).

**Figure 8: Survey Respondents Belief in Some or Great Need for CF Services**

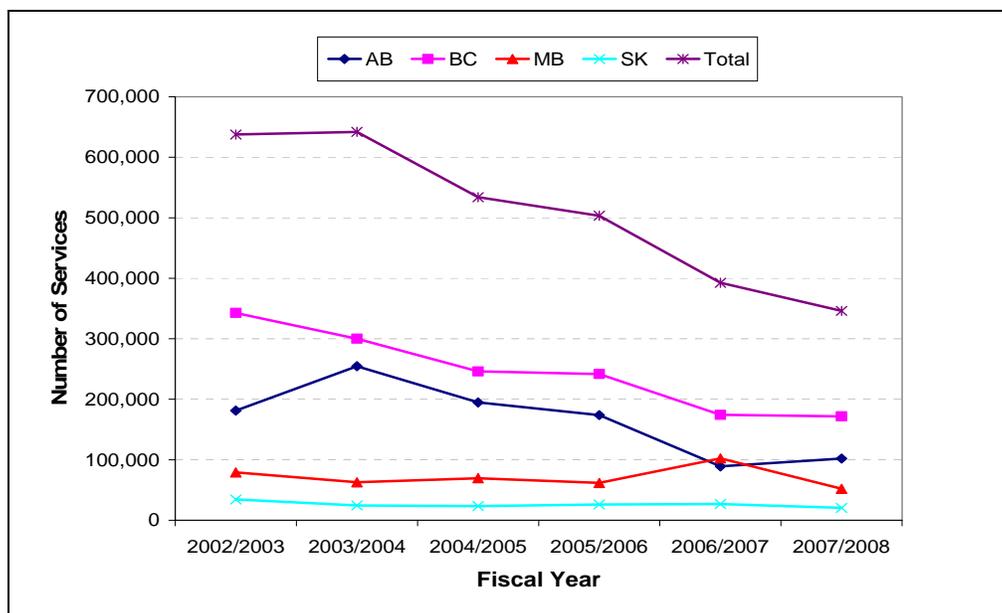


The administrative data demonstrates that the number of reported services being offered to clients has been declining over the last 6 years. WD program managers caution that this decline in reporting could be associated with enhanced scrutiny of data input rather than a decrease in the number of services being offered. Other factors, as indicated in section 3.1.6 could have contributed to this decline.

Certain CF managers mentioned that business services tend to decline when the economy is strong and tend to increase when the economy is weak. Using two indicators of the state of the economy (unemployment rate and GDP), regression analyses for each province and for all provinces combined corroborates the CF’s managers claims. When all the four provinces are combined, the associations between the number of business services provided with unemployment rate was significant. In fact, the analysis shows that the decrease in employment rate explained 62% of the variation in the number of business services provided. When analysing each province separately, the results indicate that the variation in business services is significantly associated with variation of unemployment rate and GDP, except for Saskatchewan where the association of business services and GDP was not significant.

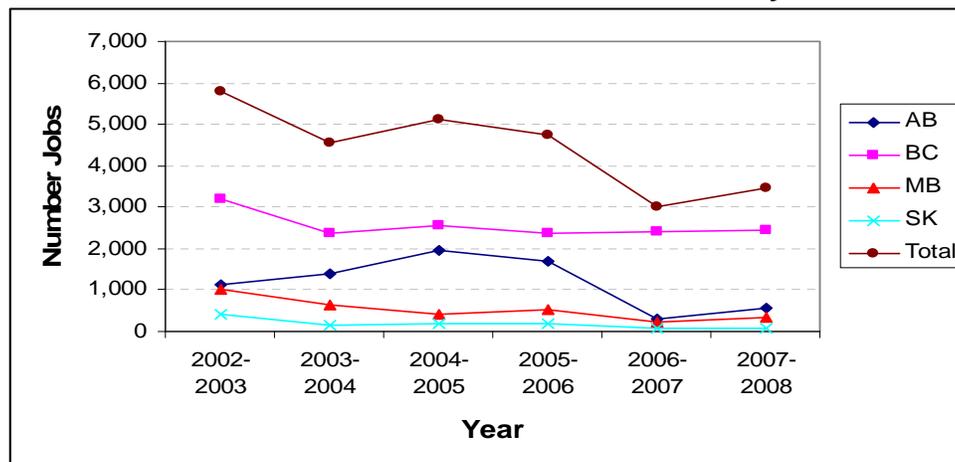
In summary, while a large variation of the decline in business services offered can be explained by the state of the economy in the west during the last 6 years, other factors as explained in the previous section (3.16) could have also contributed to the decline.

**Figure 9: Number of Services Provided per Province and in Total (services include advice, training and skill development)**



The administrative data also shows that the number of reported jobs being created through CF offered business services has been declining over the last few years (see Figure 10 below).

**Figure 10: Number of Jobs Created/Maintained as a Result of Business Services offered by CFs**



Clients were asked to identify business services that are needed in their community but that are not currently available. Roughly 25% of those surveyed provided suggestions for additional services. The services that were most frequently mentioned are listed below:

- Additional training and support for bookkeeping – mentioned most frequently as an area of need. The training is needed because new entrepreneurs cannot afford to pay for bookkeepers and often lack the skills to keep proper records;
- Additional training and support for marketing/advertising;
- Mentoring programs that provide new entrepreneurs with a sounding board for their ideas and challenges;
- Incubator facilities that have ongoing support and office space;
- Low cost networking opportunities with other entrepreneurs, financiers, customers (outside of immediate region);
- Training/assistance for expansion and growth particularly in relation to HR issues and exporting;
- Courses available on-line, in areas that are not immediately served by a CF, to enable entrepreneurs to complete courses at their leisure; and
- First Nations specific courses (e.g. training, networking, mentoring, financing, etc.).

Some of these services are offered by some CFs and are referred to in greater details in the “Noteworthy Practices” section of the case studies (see Appendix I).

#### **4.1.2 Impact on Business Knowledge and Skills of Clients**

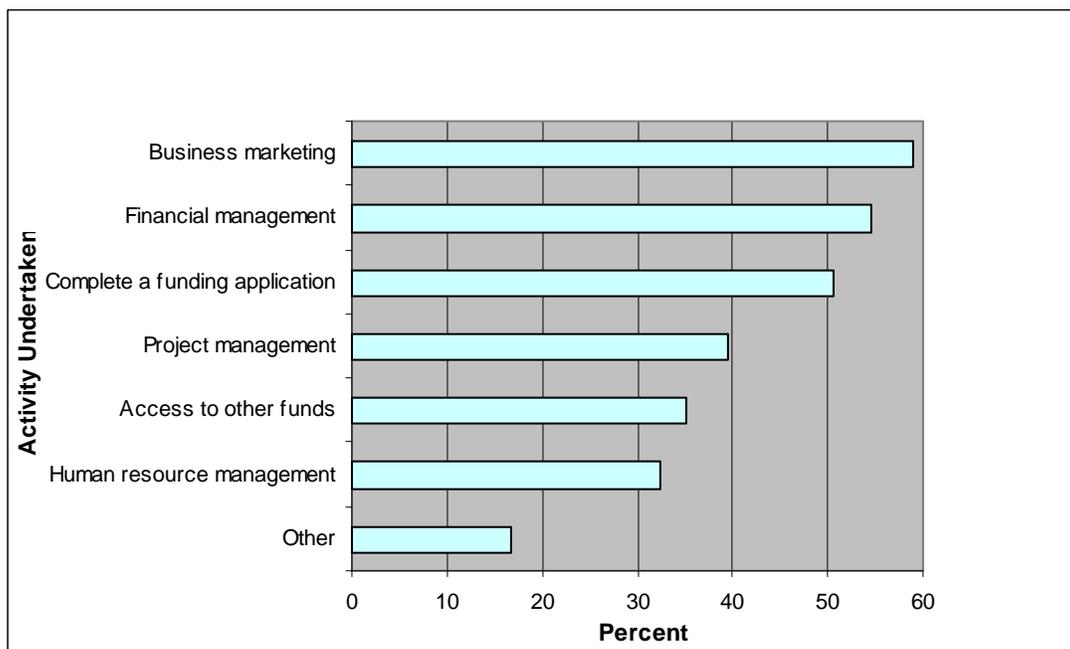
**CFs are having an impact when it comes to improving the business knowledge and skills of their clients.**

According to the CF Survey, 100% of respondents agree that the CF Program has contributed to the business knowledge and skills of its clients. Interviews with a sample of CFs further

corroborated this. Interviewees stated that CFs contribute to improvements by offering training/education, workshops, skill-set building and one-on-one coaching with clients.

The client survey revealed that 74.3% of respondents think that their local CF has been somewhat or very successful in improving business skills and knowledge of businesses. Only a small percentage indicated that their CF was not successful (7.5%) and the remainder did not know (17.6%). Clients primarily use CF imparted knowledge and skills for business marketing, for the financial management of their business and to complete funding applications (see Figure 11 below).

**Figure 11: Client use for CF Information/Advice**



#### 4.1.3 Impact on Creation and Strengthening of Businesses

**The CF Program continues to lead to the creation of new businesses and, to some extent, the strengthening of existing businesses.**

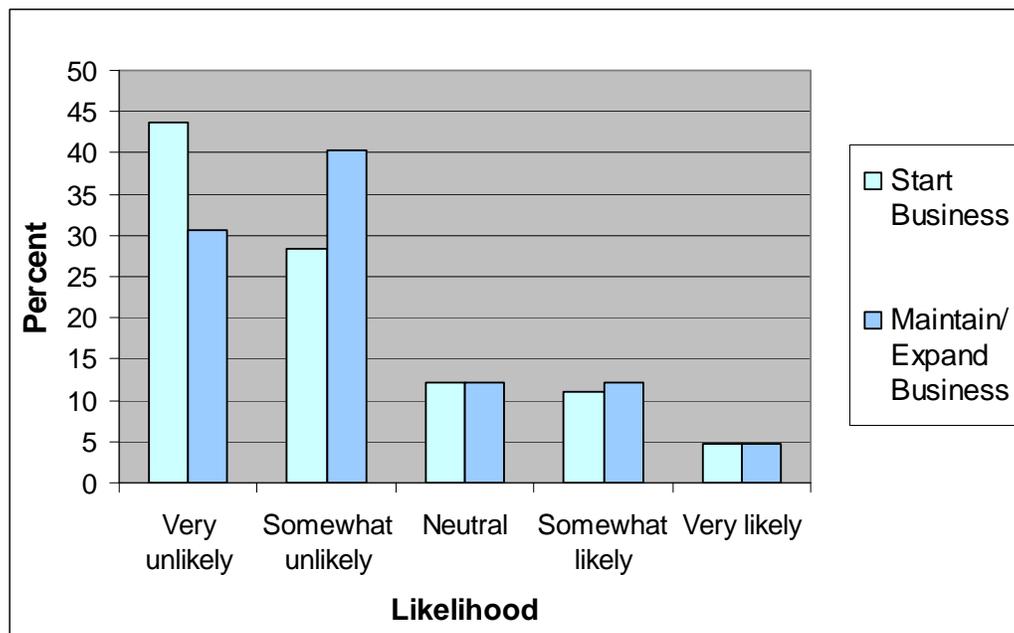
All interviewees (External Stakeholders, WD senior managers, WD program managers and the CF sample) agree that the CF Program has had a positive impact on the creation and/or the strengthening of SMEs. According to interviewees, evidence of positive contribution includes: the number of loans (access to capital), large number of businesses and jobs created, and the number of business counseling services offered.

According to the CF Survey, 100% of respondents agree that the CF Program has been somewhat or very successful in contributing to SME creation; 99.2% agree that the CF Program has been somewhat or very successful in contributing to SME maintenance.

The majority (72.3%) of respondents to the client survey agree that their local CF has been somewhat or very successful at creating businesses but fewer (64.8%) agree that their local CF has been somewhat or very successful in maintaining businesses in their community.

New business owners, for the most part, indicated that it would be very unlikely (44%) or somewhat unlikely (29%) that they would have been able to start their business without CF support. A smaller portion of existing business owners thought it would be very unlikely (31%) that they would have been able to maintain/expand their business without CF funding while more thought it would be somewhat unlikely (40%).

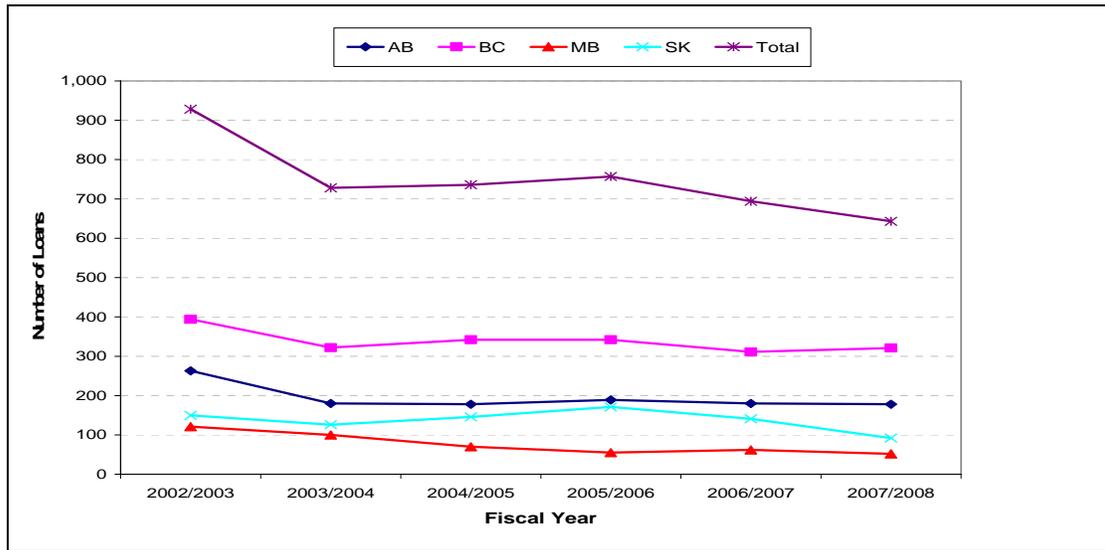
**Figure 12: Client Likelihood of Starting/Expanding Business without CF Funding**



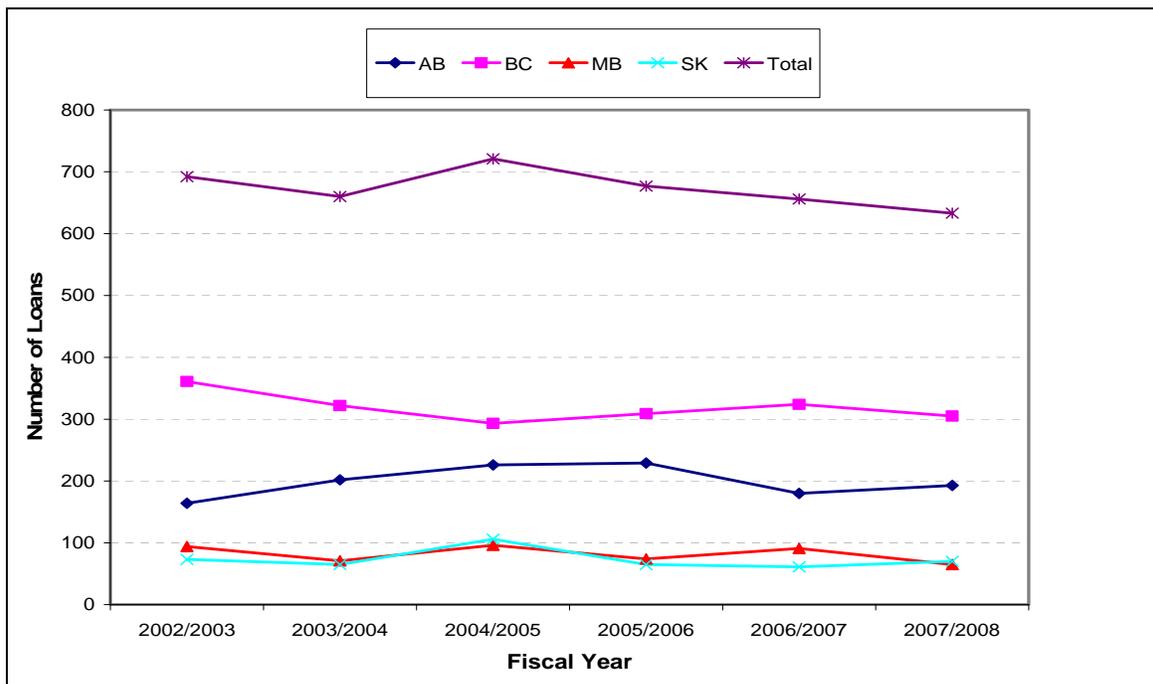
The suggestion that the program may be more relevant to new businesses than existing businesses is supported by the administrative data. The data shows that the number of loans to existing businesses has been declining over the years while the number of loans to new businesses has remained relatively stable (see Figure 13 and 14 below).

This decline is explained in a significant part by the state of the economy in the west in the last 6 years, as explained in the section 3.1.2, and to other factors, as explained in section 3.1.6.

**Figure 13: Number of Loans to Existing Businesses**

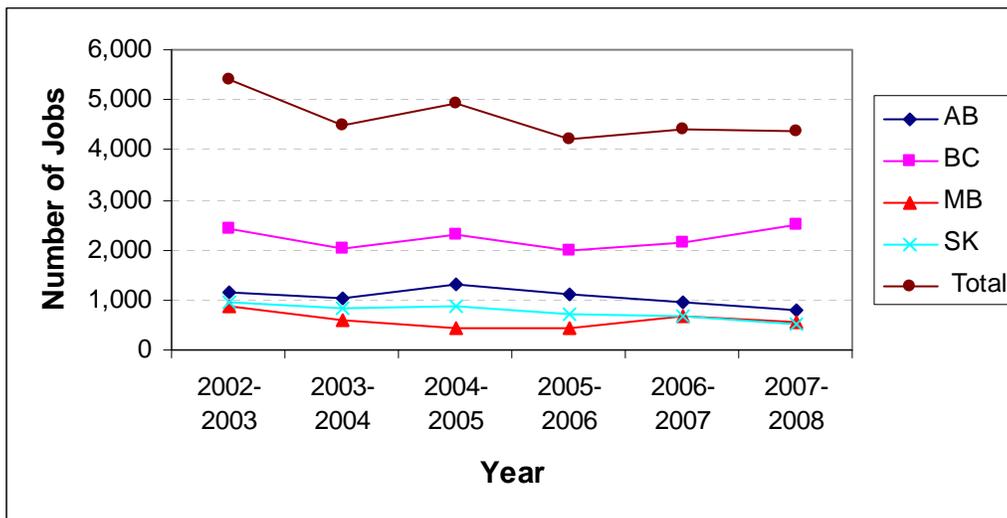


**Figure 14: Number of Loans to New Businesses**



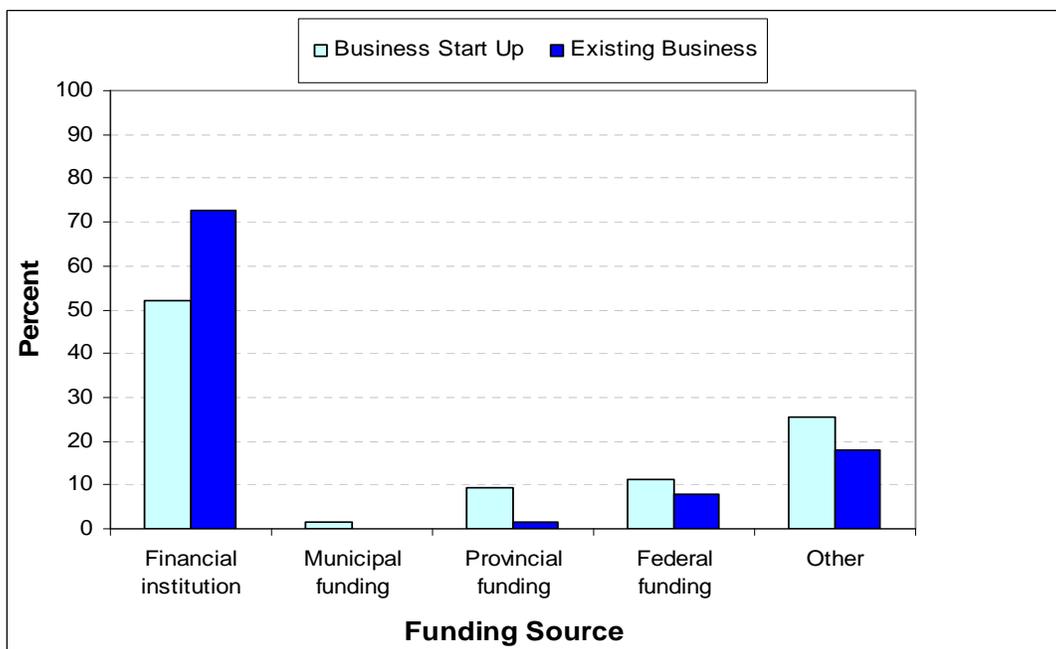
There are still a number of jobs being created out of loans (27,823 over the last 6 years) but the overall number of jobs created has declined from 2002/03 (5,402) to 2007/08 (4,369).

**Figure 15: Number of Jobs Created out of Loans**

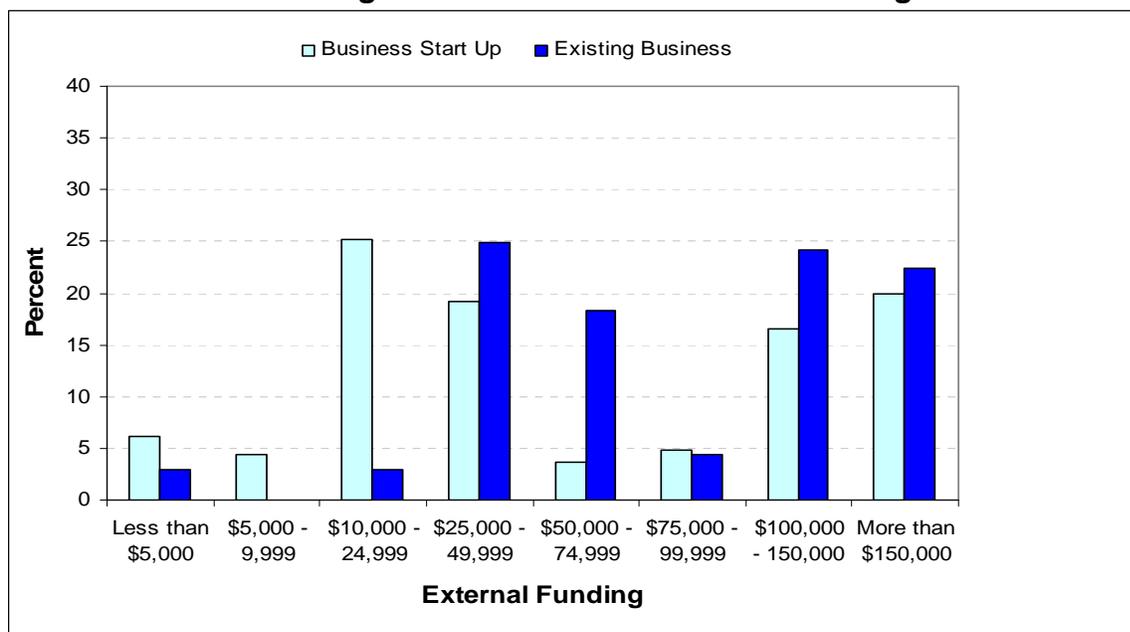


The impact on businesses can also be measured by examining the ability of businesses to leverage other funds. The administrative data on leveraging showed large variations from year to year with no consistent trends across provinces and years. On average, CFs were able to leverage \$1.34 from other sources (including owner’s equity) for each one dollar of their loans. The client survey revealed that 31% of new businesses and 27% of existing businesses were able to access additional funding to start up their business because of the loan they received from the CF program. Financial institutions were the primary providers of additional funds for both new and existing businesses (see Figure 16). Businesses were able to leverage funds ranging anywhere from less than \$5K to more than \$150K (see Figure 17).

**Figure 16: Sources of Additional Funding**



**Figure 17: Value of Additional Funding**



The case studies found evidence of positive contribution to the creation and/or expansion of SMEs as noted through market diversification, number of business start-ups, training opportunities, assessment of new market potential, etc.

#### 4.1.4 Program Impact Short-term: Language of Choice

**The CF Program is serving clients in their language of choice.**

The vast majority of clients (97.5%) stated that they were able to access services in their official language of choice. A small percentage (2.5%) said they were not. All interviewees agree that advice, service and support is delivered in both official languages, where required. Interviewees did not identify any challenges in providing services in French. CFs are in the practice of referring French speaking clients to the Francophone Economic Development Organizations (FEDOs). Interviewees stated that this was an effective system. The effectiveness of the system is further supported by the Office of the Commissioner of Official Languages in a 2005 Audit of the Community Futures Development Corporations and Community Business Development Corporations.<sup>16</sup>

#### 4.1.5 Program Impact Intermediate: Community Economic Development

**CFs continue to be involved in community economic development and there is a strong expressed need for CED related work. Some CFs have combined efforts to lead a trend towards broad regional economic development initiatives, using innovative economic development and planning tools.**

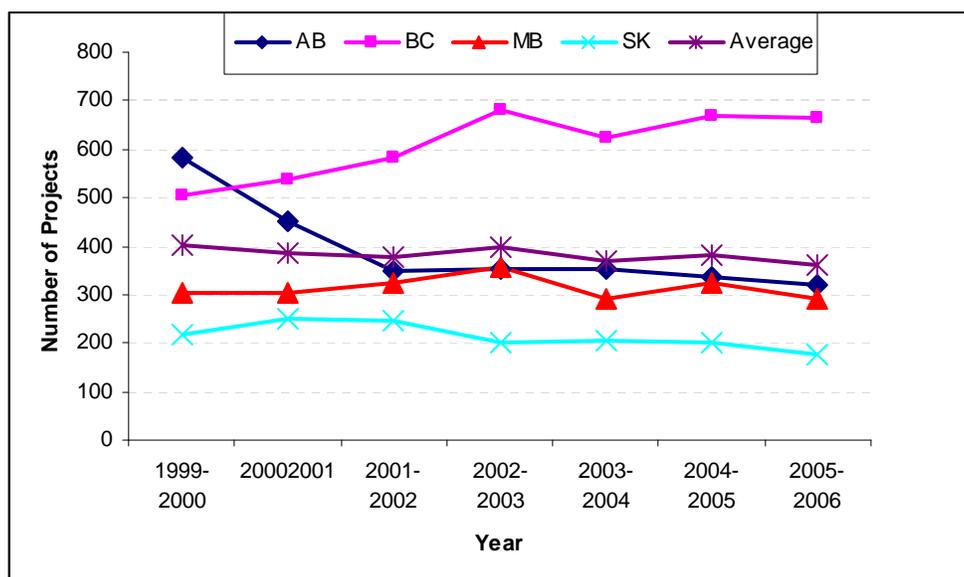
<sup>16</sup> Audit of the Community Futures Development Corporations and the Community Business Development Corporations, Office of the Commissioner of Official Languages, 2005

*Number and Type of CED Projects*

WD Program Managers and CF interviewees reported a wide range of numbers and types of CED activities. The number of CED projects they reported ranged from 2 to 25 exercises annually. There is a general perception that CED work is vital, essential and crucial. The perception among interviewees is that WD’s support for CED related work has varied over the last five years; reflecting to some extent the vision and priorities of the governing party of the day. At one point CFs could make a case for and apply to WD for additional funding to support specific CED projects. The perception is that this type of financial support is no longer being offered by WD. CFs are being encouraged to pay increasing attention to business financing and business services. As a result, interviewees from BC indicated that CED projects were undertaken much more in the past than at the current time. Regardless of WD’s current focus, representatives from MB still see CED as their primary focus, recognizing that it is a sub-set of Business Development.

The case studies comprised a review of administrative data from 1999/00 to 2006 of long-term (LT) and short-term (ST) CED projects. Data on LT and ST CED is not available for 2006/07 and 2007/08 due to the move to a new performance measurement system, which did not include the same indicators. The data reveals that during this time period on average the level of LT and ST CED projects has remained relatively stable. The level of CED activity in BC rose over this time period and declined in AB (see Figure 18 below). The decline in CED activities in Alberta could be a reflection of the strong economy in the province during that period. The regression analysis indicates that the decrease in unemployment rate and the increase in GDP explained 52% and 63% of the variation in the number of LT and ST CED projects. One CF manager revealed that the decline is also due to some communities not willing to collaborate on CED initiatives. Other factors, as explained in section 3.1.6 could have contributed to the decline of CED activities in Alberta.

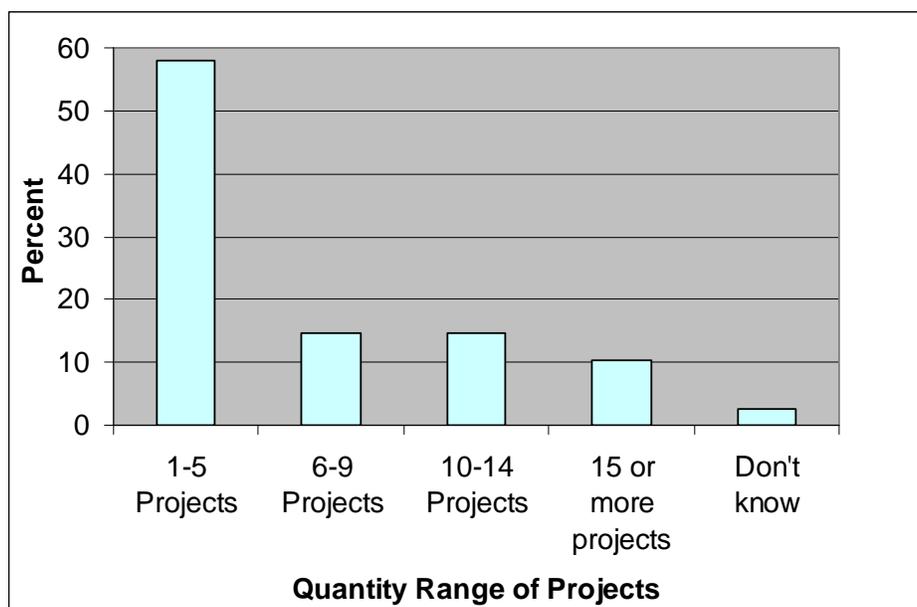
**Figure 18: Long-term (LT) and short term (ST) Community Economic Development Projects Initiated**



The level of reported involvement in CED project in the CF survey is not as high as that found in the administrative data. Administrative data would indicate that CFs are managing on average 17 CED projects per year. Almost all CF survey respondents (99.1%) indicated that they are very involved in community economic development. The majority of CFs reported being involved in 1-5 projects per year. The level of involvement in CED projects ranged from 1 to 5 per year to more than 15 per year (2 individuals reported 16 projects per year and one reported 20 projects per year) (see Figure 19 below). The case studies further corroborate this level of involvement. Case studies highlight some of the noteworthy CED initiatives in the 10 CFs assessed that show the diversity, the size, and the degree of success (Appendix H) of those initiatives.

Furthermore, the case studies indicate that some CFs are combining efforts to work with other level of governments on broader initiatives with regional scope. Some of these initiatives (Appendix H) were very successful in attracting businesses and tourists to the communities, hence contributing to economic growth and sustainability of the economy. Other CFs were very instrumental in leading strategic planning and visioning exercises to develop growth strategies in the areas they served. Furthermore, some CFs used external expertise to develop leading edge tools for community economic development planning. Examples of these tools include “Land Use Mapping” and “Asset Mapping” which are two tools that have been used by some CFs and their partners for economic development and planning. These tools are captured under the noteworthy practices section (Appendix I).

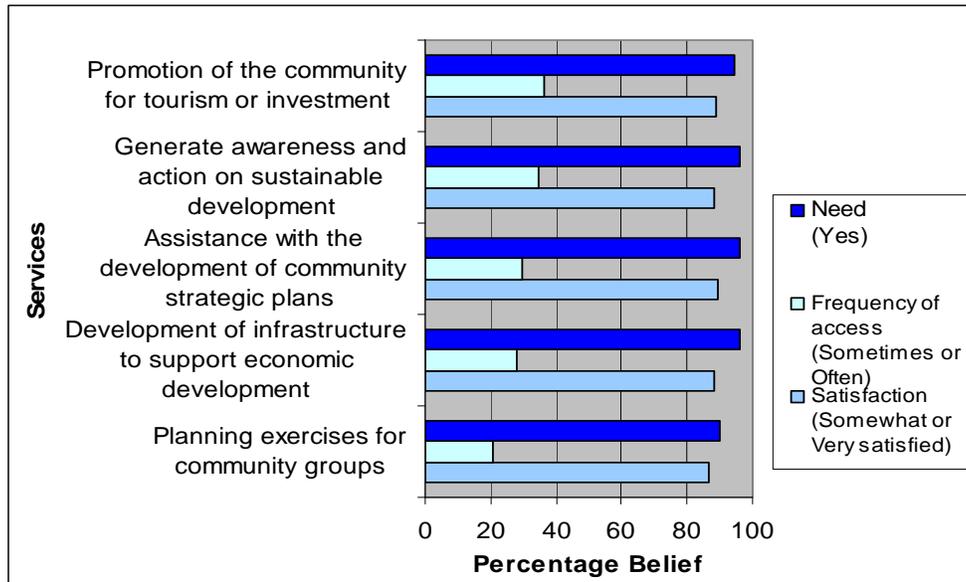
**Figure 19: Number of CED Projects Reported by CF Survey Respondents**



*Client’s Need, Use, and Satisfaction with CED activities undertaken by CFs*

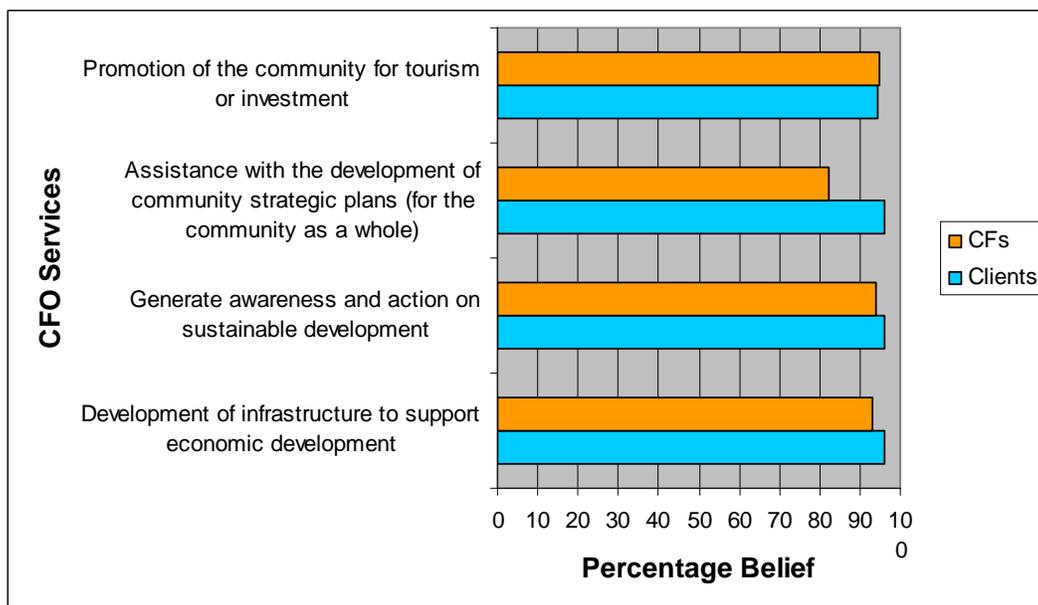
Clients report a high level of need for CED related activities and are satisfied with the CED related services that the CFs are providing. Clients more frequently access services related to the promotion of the community than planning exercises for the community (see Figure 20 below).

**Figure 20: Clients’ Belief in Need, Use and Satisfaction with CED Services**



CFs and Clients report a similar amount of need for CED related activities. However, more Clients report some or great need for assistance with development of community strategic plans than do CFs (See Figure 21 below).

**Figure 21: Survey Respondents Belief in Some or Great Need for CED Services**



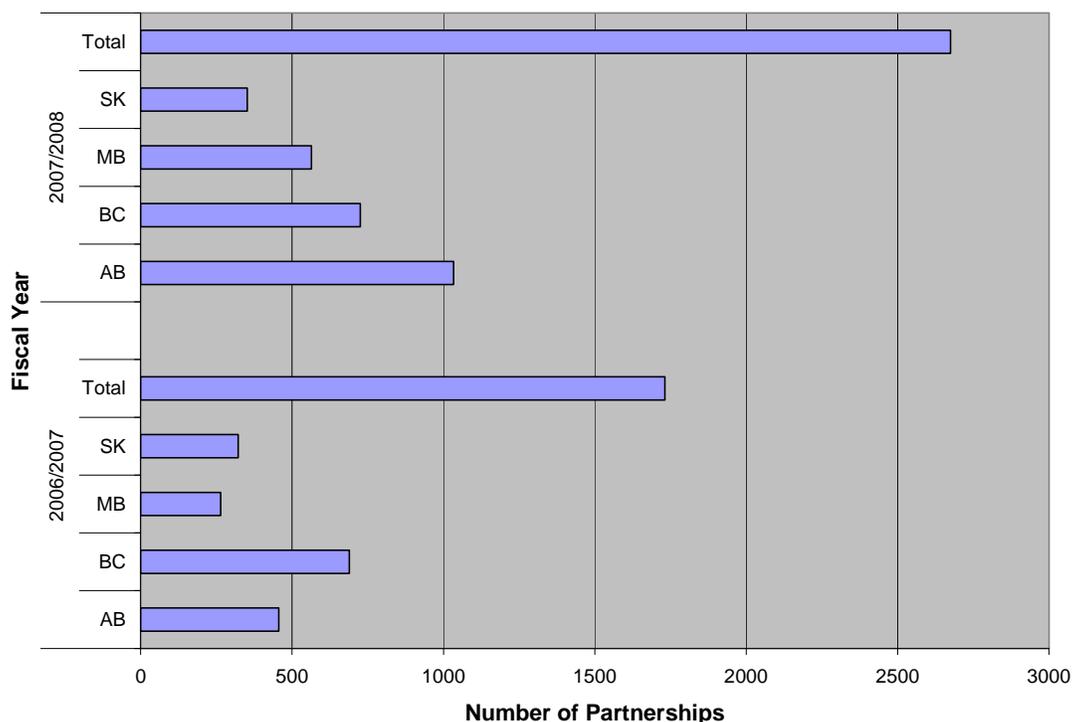
*Partnerships Development by CFs as a Result of CED activities*

All interviewees think that the efforts of the CFs have led to the development of partnerships, although several persons remarked that the number of partnerships varies from one CF to the next. Partnerships have been established with: Governments (Federal, Provincial, Municipal), private sector organizations, local businesses, high profile entrepreneurs, provincially-funded economic development corporations, Aboriginal groups/First Nation associations, local banks or credit unions, Chambers of Commerce, economic development officers/committees, Canadian Youth Business Foundation, education institutions, etc.

The case studies also found that the number and diversity of partnerships varies across CFs. The trend is towards partnerships with regional scope (beyond the boundaries of a particular CF).

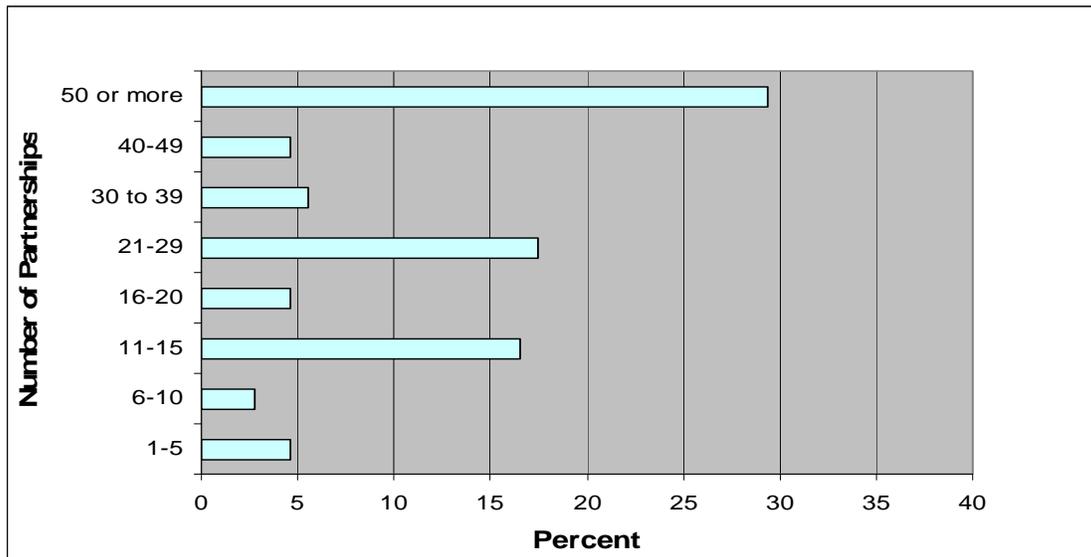
Based on recent administrative data, the total number of partnerships has increased from 1,731 partners in 2006/07 (average of 19 per CF) to 2,675 partners (average of 30 per CF) in 2007/08; an increase of 55%. Alberta has had the largest increase in partnerships for this period of time, going from 456 partnerships in 2006/07 to 1,034 partnerships in 2007/08 (see Figure 22 below).

**Figure 22: Number of Partnerships Reported in Administrative Data**



CF survey respondents indicated that they developed on average 24 partnerships per CF in the last 5 years. The number of new partnerships per CF ranged from 1-5 to 50 or more (see Figure 23 below). Evidence from the case studies indicate that over the last 2 fiscal years, the amount of money leveraged as a result of CF's CED activities ranged from \$ 0 to \$ 144, 454 per CF.

**Figure 23: Number of Partnerships Developed by CF Survey Respondents over the Last 5 Years**



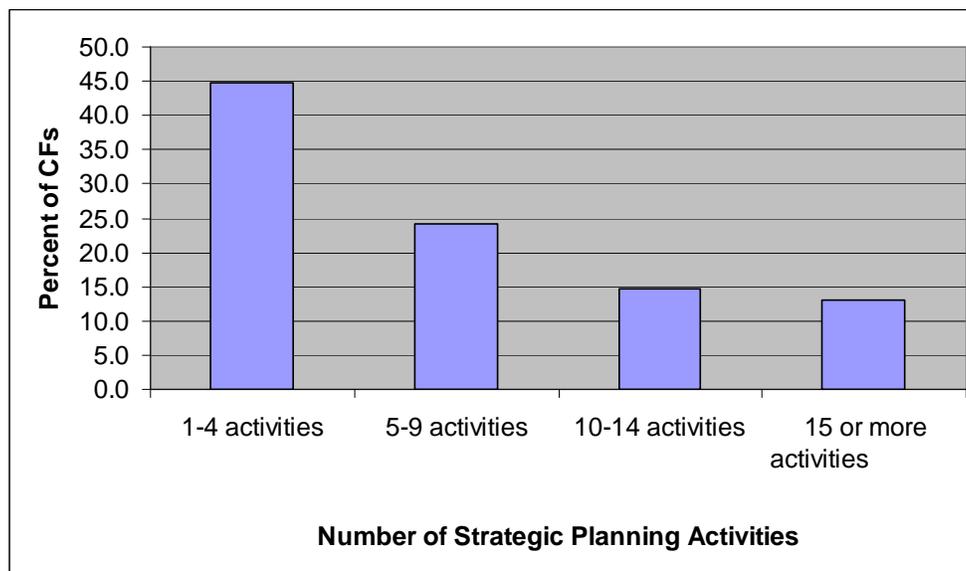
#### **4.1.6 Program Impact Medium-term: Assistance with Development and Diversification**

**To the extent that CF resources allow, CFs have been involved in assisting with the development of community strategic plans and there is evidence that CF assisted businesses are active in a diverse range of economic sectors.**

##### *Assistance with Development*

CF involvement in community strategic planning is meant to have an impact on development and diversification in the communities where CFs are active. CFs can either lead the planning or offer their advice and expertise to the planning process. All WD Program Managers and CF representatives interviewed agree that the CFs are involved (to some extent) in strategic planning activities within their communities. Through the case study, it was determined that the number of community planning events varies from one CF to the other. The case studies found that on average, CFs participate in 2 to 4 sessions annually. Interviewees reported that the level of involvement varies from one CF to the other and the role of the CF is dependant on the needs of the community. The CF survey demonstrates that the level of reported involvement does vary from CF to CF with the largest percentage (45%) of CFs reporting involvement in 1 to 4 activities over the last 5 years while others report being involved in more than 15 strategic planning activities over the same time period (see Figure 24 below).

**Figure 24: Percent of CFS who Reported Planning, Leading or Facilitating Strategic Planning Activities over the Past 5 Years**



91% of interviewees believe that the level of involvement of the CFs in community planning is appropriate given CF resources. Several individuals indicated that their CF was doing as much as they could with their current resource levels; more resources would result in greater involvement

Only a small percentage (14% = 155 respondents) of Client Survey respondents reported being knowledgeable about strategic planning in their community. They offered the following insights into CF involvement in strategic planning:

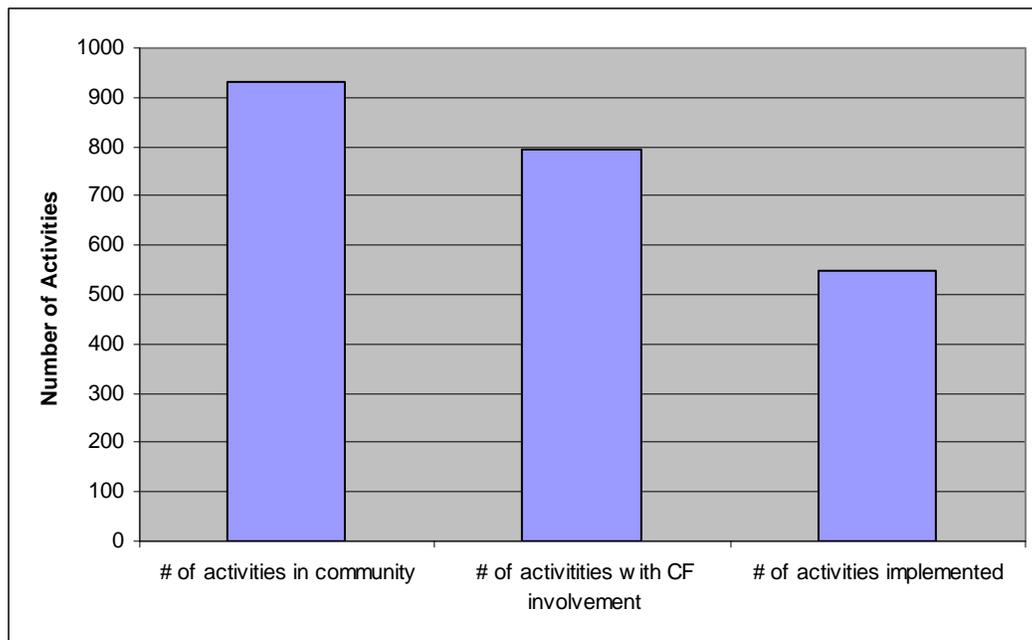
- 37% reported that their local CF was involved in the development of community strategic plans. 32% reported that the CF was not involved and 32% were unsure.
- 31% indicated that their local CF lead the development of the plan, 47% said the local CF did not lead the development and 22% were unsure.
- 58% thought the level of CF involvement in the development of strategic plans was appropriate, 23% thought it was not appropriate and 19% were unsure.

Based on the small number of clients who responded to this question, it is difficult to draw definitive conclusions but there is some indication that CFs are involved in strategic planning in some communities but not in others. When CFs are involved, they tend to lead the strategic planning and in the majority of instances (58%), the level of CF involvement is deemed appropriate. In some cases (23%), the level of involvement is not deemed appropriate but it is not clear from the survey whether more or less involvement would be appropriate.

The majority of WD program managers and CF representatives interviewed believe that there is a good level of implementation of the community development plans. However, several persons indicated that they were involved in the development of the plan but were not involved in the implementation phase; making it hard to assess the level of implementation.

84% of CFs surveyed indicated that they are sometimes or often involved in assisting with the development of community strategic plans. CFs reported being involved in 85% of the strategic planning activities that have occurred in their communities. CFs reported that 59% of the community strategic plans are implemented (see Figure 25 below). As part of the administrative data, WD tracks the number of planning activities where CFs are involved but does not track whether or not the plans have been implemented.

**Figure 25: CF Reported Level, Involvement and Implementation of Strategic Planning**



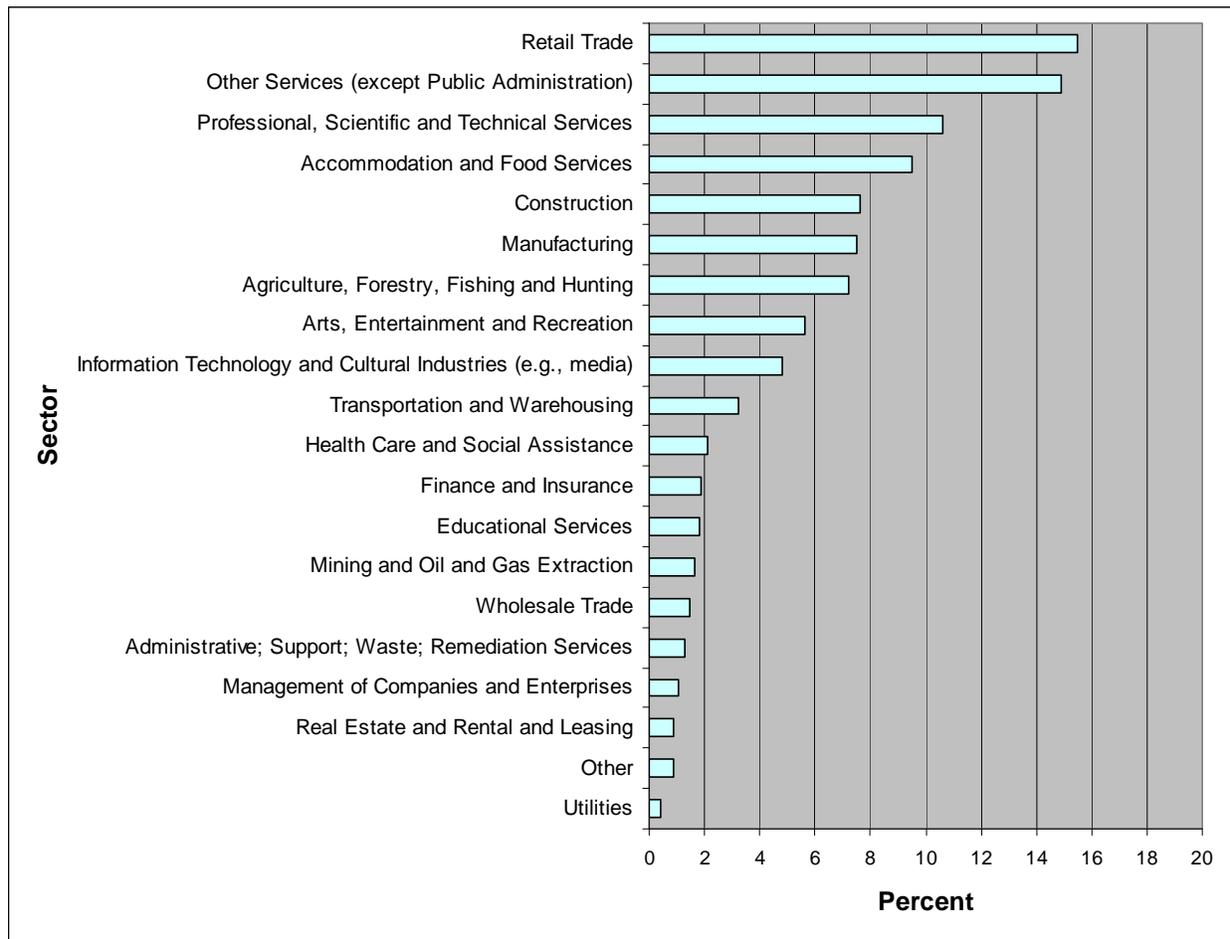
95% of CF survey respondents think that CF organization activities are aligned with their community’s strategic plans. 71% of Client Survey respondents think that their local CF activities support the community strategic plans. A small percentage (7%) of clients think that CF activities do not support the community strategic plan and 22% are unsure.

*Diversification*

Based on interviews and focus groups conducted, as part of the case studies, there is a general consensus that diversification occurred (i.e. number of industry sectors) as well as an increase in home businesses. Examples of new sectors include: alternative energy, film industry, information technology, pharmaceuticals, tourism and agri-tourism, and hospitality. However, the degree of contribution to economic diversification varied widely among CFs.

Client survey respondents reported being active in a diverse range of sectors. The highest concentration (15%) reported being involved in retail and trade and “other” services. The sectors in which businesses report being active range from accommodation and food services, to finance and insurance to oil and gas extraction (see Figure 26 below).

**Figure 26: Sectors in Which CF Supported Businesses are Operating**



When 2006 Statistic Canada percent participation rate for rural businesses by industry is compared to the percent of CF supported companies that are active in various industries, it is apparent that companies that have been involved with the CF program are more active in: retail trade, other services, professional/scientific and technical services, and accommodation and food services than other companies in rural areas of the West. Particularly noteworthy is the fact that 10.6% business that have been involved with the CF program are active in professional, scientific and technical services industry as compared to the Statistics Canada rural average of 4.14%. Having proportionately higher activity in this industry would suggest that the CF program is helping to support greater diversification and WD’s innovation mandate. Further support is the companies that have been involved with the CF program are proportionately more active in information and technology and cultural industry and proportionately less active in traditional industries such as agriculture, forestry, fishing and hunting; and mining, oil and gas extraction sectors.

**Table 17: Comparison of Client Survey and Stats Canada data Percent Participation per Industry**

	<b>Client Survey % Industries</b>	<b>Statistics Canada % participation*</b>
Retail Trade	15.5	10.94
Other Services (except Public Administration)	14.9	5.05
Professional, Scientific and Technical Services	10.6	4.14
Accommodation and Food Services	9.5	6.96
Construction	7.6	8.55
Manufacturing	7.5	7.86
Agriculture, Forestry, Fishing and Hunting	7.2	9.88
Arts, Entertainment and Recreation	5.6	1.82
Information Technology and Cultural Industries (e.g., media)	4.8	1.33
Transportation and Warehousing	3.2	5.02
Health Care and Social Assistance	2.1	9.8
Finance and Insurance	1.9	2.51
Educational Services	1.8	6.55
Mining and Oil and Gas Extraction	1.7	5.25
Wholesale Trade	1.5	3.37
Administrative; Support; Waste; Remediation Services	1.3	3.24
Management of Companies and Enterprises	1.1	0.09
Real Estate and Rental and Leasing	0.9	1.61
Other	0.9	
Utilities	0.4	0.83

\* Source: Statistics Canada- 2006 Census.

Long term census data, specific to the areas served by CFs in the four provinces, on labour force utilization by industry sector (Table 18 below) provides further indication that CFs may have contributed to economic diversification in their respective regions. For instance the percentage of labour force utilization in traditional sectors such as “agriculture and forestry”, “retail”, and to some extent “accommodation and food services” has been generally declining in all four provinces. This decline has occurred while the percentage of labour force utilization of the construction sector has been increasing in all the four provinces.

**Table 18: Labour Force- 15 Years and over- Utilization by Industry Sector (%) in the Areas Served by CFs in the four Western Canada Provinces\***

	MB CFs			SK CFs			AB CFs			BC CFs		
	1996	2001	2006	1996	2001	2006	1996	2001	2006	1996	2001	2006
11 Agriculture, forestry, fishing and hunting	17.1	14.8	13.5	25.3	22.8	18.8	13.1	10.6	8.3	9.0	7.9	6.9
21 Mining and oil and gas extraction	1.7	1.6	1.6	3.1	3.9	5.1	6.8	7.0	9.7	1.6	1.3	1.8
23 Construction	5.7	6.0	6.3	4.7	5.5	5.7	7.4	8.5	9.4	8.0	6.8	9.2
31-33 Manufacturing	8.4	9.3	9.2	5.2	5.1	5.1	6.7	7.2	6.4	11.4	10.6	9.7
41 Wholesale trade	4.1	3.5	3.2	4.2	3.5	3.3	4.4	3.8	3.8	3.5	2.8	3.0
44-45 Retail trade	10.5	9.7	9.9	10.5	9.7	10.2	11.7	10.4	10.3	12.8	11.9	11.8
48-49 Transportation and warehousing	5.1	5.3	5.4	4.3	4.7	4.7	4.9	5.3	5.0	4.5	5.1	4.9
52 Finance and insurance	2.1	2.5	2.4	2.3	2.7	2.7	2.0	2.3	2.3	2.1	2.5	2.5
72 Accommodation and food services	6.2	5.9	5.8	5.8	6.0	5.7	6.8	6.9	6.2	8.6	8.7	8.3
54 Professional, scientific and technical services	NA	2.1	2.3		1.9	2.5		4.2	4.7		4.0	4.6

\* Source: Statistics Canada 1996, 2001, and 2006 Censuses data specific to the areas served by CFs in the 4 provinces.

It is also important note that there are discrepancies in the definition and understanding of rural diversification by some CFs and by WD. According to some CFs, supporting any business to provide a service or a product that did not exist in the community before is considered diversification; while this may not be true according to WD vision of diversification (e.g. value-added industries; innovation, high technology etc.). In both situations, the above results indicate that CFs have, to some extent, contributed to economic diversification. However, the degree and nature of contribution differed from one CF to another.

#### 4.1.7 Program Impact Intermediate: Community Capacity

**CFs believe they are active in strengthening community capacity. There is some evidence to support this (increase in # of partnerships) but some evidence against (decrease in volunteer hours).**

99% of CF survey respondents agree that the CF Program helps strengthen community capacity. Over half of the clients surveyed (53%) believed that their local CF has been somewhat or very successful in strengthening community capacity; a number reported that they did not know (38%). The case studies reveal that the degree of involvement in community capacity building varies across the 10 CFs that were reviewed and that, generally speaking, CFs played a greater role in more rural and/or remote areas. Participants at the 10 focus groups indicated that CFs are the thread that ties the community together in both strong and weak economic conditions. The case studies also provides examples of initiatives where CFs helped enhance community capacity by partnering with several organisations, including educational institutions, to support and/or develop a variety of programs and training workshops.

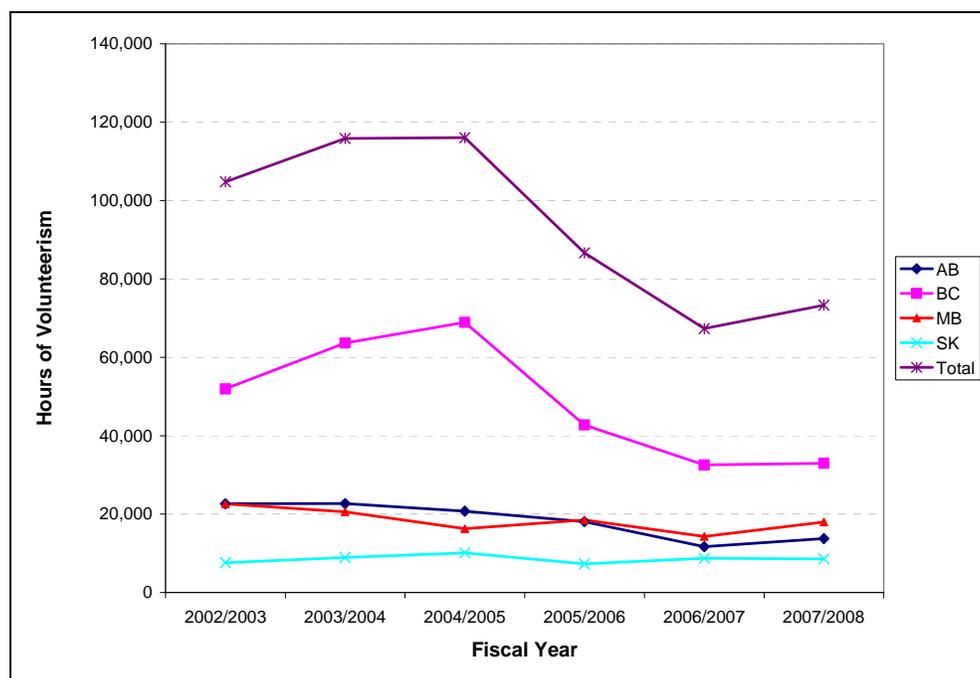
External Stakeholders, WD program managers and the CFs sample believe that CFs are active in strengthening community capacity. WD senior managers were less convinced. The following are stated as ways in which community capacity is strengthened:

- Through building successful partnerships with partners in the communities;
- Through assisting SMEs in many of their projects through loan and/or training;
- By supporting and planning a variety of development projects (i.e. strategic planning exercises; feasibility studies; marketing tools for the region for the purpose of business and tourists attractions); and
- By creating business plans that result in successful applications.

As noted in previous sections, there is evidence that: the CF program is helping to build partnerships with persons in the communities; CFs are assisting SMEs with loans, referral and counselling services that clients find useful; and, CFs are involved in supporting and planning a variety of development projects. Evidence is lacking to support the fact that CFs are assisting with business plans that result in successful application due to the fact that the CFs are not collecting this information in their performance measurement system.

The level of volunteerism was defined by the evaluation’s national advisory committee as a proxy indicator related to community capacity building. The degree of correlation between community capacity building and the number of volunteer hours has not been established. Volunteer hours are primarily a reflection of the amount of time board members and other partners from the community spend on CF related work. The administrative data reveals that the total number of volunteer hours has dropped from a peak in 2004/05 of 116,000 hours to 73,304 hours in 2007/08. BC has noted the most significant drop in reported volunteer hours over this period of time. WD believes that this decrease is associated with an increased level of scrutiny of administrative data rather than an actual decrease in number of volunteer hours. Although decline was observed before the new system was introduced (see Figure 27 below).

**Figure 27: Reported Number of Volunteer Hours in Administrative Data**



#### 4.1.8 Program Impact Long-term

**There is a general belief that the CF activities have had positive long-term outcomes on the clients and communities they serve; including having an impact on the survival rate of businesses and the viability of communities. There is limited data available to support this belief.**

In general, WD senior managers and program managers could express their opinion on the long-term impacts but were unable to refer to evidence to support their beliefs. Their impressions are as follows:

Survival of businesses assisted by CFs – Senior Managers all mentioned that survival rates of businesses are not tracked, making it difficult to determine the level of impact. Program Managers agree that it is not tracked but they do think this is an area where the Program is having an impact.

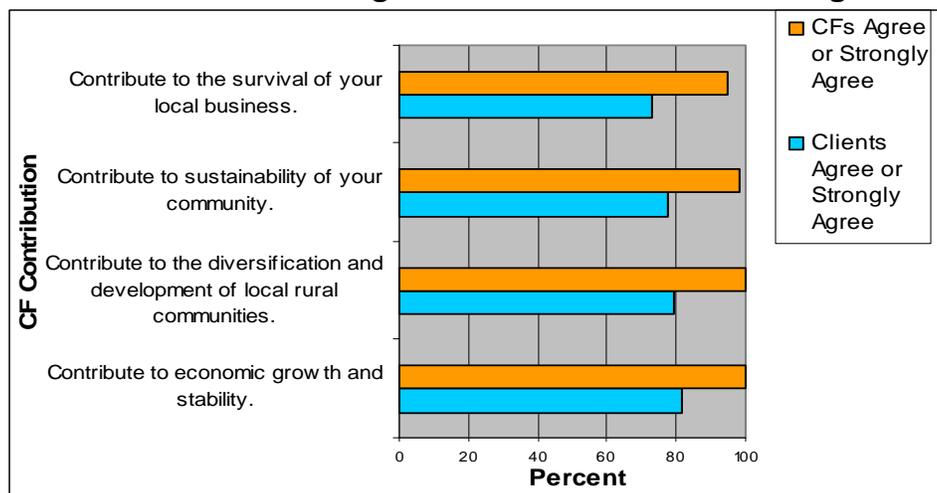
Sustainable communities – Senior Managers and Program managers all had varied interpretations of sustainability (some have an environmental view whereas others have a broader view). Inconsistent answers were provided because of this.

Diversification and development of local rural communities – Senior Managers are less convinced that the CF Program is having an impact in this area due to the size of the program. WD Program Managers believe the CF Program is having an impact in this area.

Economic growth and stability – Strongest agreement that this is an area where the CF Program is having an impact

Clients and CFs were asked, using a 5-point scale (where 1 = strongly disagree and 5 = strongly agree), to what extent they agree that the CF program is having an impact on the long-term outcomes of the CF program. CFs had a greater tendency to agree or strongly agree that the CF program was having an impact than did clients (see Figure 28 below).

**Figure 28: CF and Client Belief that CFs Contribute to the Long-term Outcomes of the CF Program**



Focus groups discussions conducted in 10 CFs further corroborate these findings. Participants at the 10 focus groups indicated that CFs have played a significant role in enhancing the sustainability of their communities as well as contributing to economic growth and diversification in local communities.

The evidence presented in the short-term and medium-term impact sections of this report would suggest that there is reason to believe that the CF program could be having an impact on the long-term outcomes; particularly as it relates to diversification of local communities (Figure 25 and tables 17 and 18)) and community economic development (Section 4.1.5). It is reasonable to believe that the loans, advice and support provided to new and existing businesses is increasing their survival rate but administrative data is lacking to corroborate this expectation.

An analysis of Statistics Canada labour market data reveals that on key economic indicators (rates of unemployment, labour participation rates, and average household income) rural communities continue to lag slightly behind provincial averages (Tables 19, 20, and 21). The exception is AB, where rural rates of unemployment are slightly lower (Tables 19), reflecting the booming of the oil and gas extraction industries in rural Alberta. Similar to the provincial average, unemployment rate in the rural areas served by CFs dropped significantly during the 1996-2006 period (Table 19).

In terms of participation rate, rural areas served by CFs followed similar trends to those of the province (i.e increase in MB, SK, and AB and decrease in BC during the 1996-2006 period).

Overall average household income in rural areas served by CFs is lower than that of the province average. However, the average increase over the 1996-2006 period is significantly higher in rural areas served by CFs than that of the province, except in Saskatchewan where the average increases are very comparable.

**Table 19: Rates of Unemployment 15 Years and Over**

<b>Rural*</b>	<b>MB</b>	<b>SK</b>	<b>AB</b>	<b>BC</b>
<b>1996</b>	7.5	6.9	6.7	11.2
<b>2001</b>	6.6	6.1	4.9	10.6
<b>2006</b>	5.9	5.8	4.1	7
<b>Period Average</b>	<b>6.7</b>	<b>6.3</b>	<b>5.2</b>	<b>9.6</b>
<b>Average % change</b>	<b>-11.3</b>	<b>-8.3</b>	<b>-21.6</b>	<b>-19.7</b>
<b>Province</b>	<b>MB</b>	<b>SK</b>	<b>AB</b>	<b>BC</b>
<b>1996</b>	7.9	7.2	7.2	9.6
<b>2001</b>	6.1	6.3	5.2	8.5
<b>2006</b>	5.5	5.6	4.3	6
<b>Period Average</b>	<b>6.5</b>	<b>6.4</b>	<b>5.6</b>	<b>8.0</b>
<b>Average % Change</b>	<b>-16.3</b>	<b>-11.8</b>	<b>-22.5</b>	<b>-20.4</b>

\* Rural means average for communities with a CF

**Table 20: Labour Participation Rates\***

Rural	MB	SK	AB	BC
1996	65.9	66.1	72.8	65.7
2001	66.2	66.7	73	64.2
2006	66.2	67.3	74	64.1
<b>Period Average</b>	<b>66.1</b>	<b>66.7</b>	<b>73.3</b>	<b>64.7</b>
<b>Average % Change</b>	<b>0.2</b>	<b>0.9</b>	<b>0.8</b>	<b>-1.1</b>
Province				
1996	66.3	67.3	72.4	66.4
2001	67.3	67.8	73.1	65.2
2006	67.3	68.4	74	65.6
<b>Period Average</b>	<b>67.0</b>	<b>67.8</b>	<b>73.2</b>	<b>65.7</b>
<b>Average % Change</b>	<b>0.8</b>	<b>0.8</b>	<b>1.1</b>	<b>-0.6</b>

\* Participation rate is (total in the labour force/total population 15 years and over) x 100

**Table 21: Average Household Income**

Rural	MB	SK	AB	BC
1996	\$40,632	\$40,310	\$49,787	\$46,879
2001	\$44,640	\$46,243	\$58,730	\$51,297
2006	\$55,356	\$55,145	\$81,997	\$60,943
<b>Period Average</b>	<b>\$46,876</b>	<b>\$47,233</b>	<b>\$63,505</b>	<b>\$53,040</b>
<b>Average % Change</b>	<b>16.9</b>	<b>17</b>	<b>28.8</b>	<b>14.1</b>
Province				
1996	\$50,943	\$42,685	\$58,165	\$58,738
2001	\$50,756	\$49,068	\$64,199	\$57,593
2006	\$60,242	\$59,455	\$84,368	\$67,675
<b>Period Average</b>	<b>\$53,980</b>	<b>\$50,403</b>	<b>\$68,911</b>	<b>\$61,335</b>
<b>Average % Change</b>	<b>9.2</b>	<b>18.1</b>	<b>20.9</b>	<b>7.8</b>

Any changes to these economic indicators cannot be directly attributed to the CF program particularly with so many complimentary organizations active in these rural communities. What the labour market data can reveal is whether in general rural communities are remaining economically viable, improving or declining. A sharp decline or increase in disparity between rural and provincial averages would suggest that the suite of programs being offered is not effective or having the desired impacts.

The labour market data does not indicate that there are any noteworthy differences between rural and provincial averages. It is therefore implied that the suite of programs active in rural communities is having the desired impact. In the needs section of this report, it was noted that CF program clients expressed a strong need for this program. The case studies found that the program is particularly useful in more rural and remote areas. On average rural communities are relatively viable. However, there are individual communities that are not. For example, there are some rural communities where the unemployment rates are above the provincial average and are as high as 29.5% in MB, 26.8% in AB, 17.7% in SK, and 15.6% in BC (2006 census data). Similarly, there are some rural communities where participation rates are as low as 36.4% in

MB, 51.8% in AB, 53.8% in SK, and 55.5% in BC (2006 census data). Average household incomes in some rural communities are as low as \$25,035 in MB, \$35,962 in AB, \$45,340 in SK, and \$47,645 in BC (2006 census data). It is probably in these communities where the CF program will continue to have the greatest impact.

It is also important to highlight that, as some CF managers interviewed indicated, the strong provincial economy does not benefit all CFs in the province equally. In fact, most of the growth occurs in cities (e.g., Calgary, Edmonton) and specific rural areas (e.g., Fort McMurray). The same source further indicates that, in some instances, strong economic growth is detrimental to some CFs due to out-migration from the community in search for higher paid-jobs. This trend creates a severe labour shortage and endangers the sustainability of the community as a whole. Hence, there is a need for CF services in these affected communities to support business and community economic development to create jobs, reduce out-migration and contribute to sustainability of the community.

#### **4.1.9 Program Impact Long-term - Unintended Benefits**

Persons interviewed were asked to explain whether anything unexpected has happened as a result of the CF program. A number of unintended benefits were described.

The following is a list of some of the positive outcomes:

- Great level of collaboration with partners, provinces, etc.;
- The positive degree of volunteer support;
- Positive response/great level of trust from the community;
- The level of success of businesses assisted by the CF Program;
- The increase of knowledge with regards to the Aboriginal world;
- The positive significant impacts on local tourism;
- The great impact on community leadership;
- The increase in "regionalization";
- The level of emotional impact that the program has on people;
- The level of impact on young professionals;
- The program has given the federal government the opportunity to develop working relationships with thousands of volunteers in rural communities. The program is a powerful window into rural Canada; and
- The continued relevance of the Program after 25 years.

Some of the unintended benefits identified in the case studies included:

- CF being contracted to deliver other federal programs and initiatives (i.e. Softwood Lumber; Pine Beetle; Service Canada programs);
- Large and diverse partnerships with the province, federal government, municipalities and in some instances with schools;

- High success rate of the businesses (start ups) funded through CF (about 90% success rate-quite high as compared to national average)<sup>17</sup>. As CFs are considered high risk lenders (high risk loans) the success rate speaks to the competence and knowledge of the local board and staff;
- Attraction of larger retail and departmental stores such as WalMart;
- Support of new sectors such as pharmaceuticals and high technology; and
- Changing the mindset of the communities with enhanced coordination and collaboration.

Unintended negative impacts mentioned in the case studies include: the reluctance of some communities to collaborate; and a rise in the cost of living in communities that experience economic growth that makes the community unaffordable for some residents.

**RECOMMENDATION 5:**

WD needs to further define the indicators associated with the long-term outcomes (particularly sustainable communities and survival of businesses assisted) of the program and ensure that data is being tracked against the established indicators.

**RECOMMENDATION 6:**

Subject to WD preparing a plan to implement the other recommendations in this report, WD should continue its support and long term commitment to the three services provided by the CF program

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<sup>17</sup> Note that WD does not track success rates of businesses but individual CFs may and therefore feel comfortable reporting 90% success rate.

## 5. Cost-Effectiveness

The findings of the evaluation of the Community Futures Program in Western Canada on the issue of cost-effectiveness are presented in this section of the report. The evaluation questions which were considered in addressing the issue of cost-effectiveness were as follows:

- To what extent is the CF Program cost-effective?
- Are there other more cost-effective/efficient approaches or alternatives to be considered that would achieve CF Program objectives?

### 5.1 Findings

The overall findings of the cost-effectiveness section are: the Program is still cost effective when the level of activity and return on investment are compared to costs; program costs have been on the rise and level of activity has been declining; the CF delivery model is considered sound and effective by numerous outside parties; those involved with the Program offered suggestions on ways to further improve it. These findings are further elaborated in the following sections.

#### 5.1.1 Cost-Effectiveness

**The CF Program is still cost-effective when the level of activity and return on investment (ROI) are compared to costs. However, operating costs have been on the rise over the last few years and the level of activity has been declining, due in part to economic context of the western provinces.**

Historically the Program has shown a significant ROI. A 2002 Impact Study (FERENCE WEICKER) found that the CF program was generating a significant Return on Investment. ROI was calculated by comparing impacts of the loan clients to the value of loans they received. The following is a list of some of the most significant findings:

- In 2001-02, an average loan-only client received \$51,215 in loans from Community Futures.
- Loans are generating about \$14.30 in accumulated revenues per dollar of loans provided to loan clients.
- Loans are generating one person year of employment for every \$2,987 in loans received by loan clients.
- Each dollar contributed by CFs (excluding loan capital) has leveraged \$84.00 in public and private sector project funding.
- Each dollar contributed or loaned to CED projects by the CFs has leveraged an additional \$15.72 in public and private sector project funding.

The client survey conducted as part of this evaluation has new business clients receiving on average \$63,605 in loans from Community Futures and existing businesses receiving on average

\$89,952. Clients were asked to provide their gross revenue within a range (e.g. \$100,000 to \$499,000; \$500,000 to \$999,999 etc.). Clients were also asked the likelihood (scale of 1 to 5 where 1 = very unlikely and 5 = very likely) that they would have been able to start-up or maintain their business without the CF loan. A conservative ROI was calculated by dividing the gross revenues (using the lowest number in the range) by CF loan amount (for only those loan clients who responded that it was very unlikely that they would have been able to start up or expand their business without the CF loan). A somewhat conservative calculation was also done using the higher number in the range of gross revenues for those clients who reported that it was very or somewhat unlikely that they would have been successful without the CF loan. The conservative estimate results in nearly \$6 (\$6.40 for a new business and \$5.48 for an existing business) in gross revenues being generated for every CF loan dollar. The more liberal estimate results in nearly \$11 (\$11.14 for a new business and \$10.56 for an existing business) in gross revenues being generated for every CF loan dollar. It is difficult to know the exact figure because it is impossible to determine whether or not the business would have been able to start-up or continue in the absence of the CF program and the survey did not ask respondents to clarify what percentage of their gross revenues they would attribute to the loan they received from the CF program.

**Table 22: Return on Investment data from Client Survey**

	<b>Conservative (lowest in gross revenues range and very unlikely)</b>	<b>Somewhat Conservative (highest in range and very/somewhat unlikely)</b>
<b>Gross Revenues</b>	\$89,260,000	\$291,299,684
<b>CF Loan value</b>	\$14,992,932	\$26,684,753
<b>ROI</b>	\$5.98	\$10.84

As part of the Client survey, CF loan clients were also asked to report the number of jobs that were created or maintained as a result of CF funding. When value of reported CF loans to businesses was compared to total jobs created, it took on average \$10,223 of CF loans to create a job for a new business and \$12,106 to create or maintain a job for an existing business.

Case studies further corroborate these results. Administrative data, used as part of the case studies, indicate that on average over the 1999/00 to 2007/08 period, the amount of CF loan dollar to create one job was \$8,004 in MB, \$10,247 in SK, \$11,720 in BC, and \$14,030 in AB. During the same period, this ratio tended to increase in all four provinces, with marked increase in AB, which is probably a reflection of both the labour shortage and the increase in average loan size in this province.

In the client survey, loan clients were asked to report the total dollar value of additional funding they were able to obtain as a result of the CF loan. 30% of new business loan clients and 20% of existing businesses reported being able to obtain additional funding. New businesses leveraged an additional \$13M, representing 60% of the total value of loans issued to new businesses and existing businesses leveraged an additional \$7M, representing 40% of the total value of loans issued to existing businesses (see Table 23 below).

**Table 23: Additional Funding Obtained by CF Loan Clients**

	<b>Total Value of CF Loans</b>	<b>Total Value of Additional Funding</b>	<b>Percent Leveraged</b>
<b>New Business</b>	\$20,953,936	\$13,065,614	62%
<b>Existing Business</b>	\$17,999,791	\$7,123,794	40%

Administrative data, used as part of the case studies, indicate that on average over the 1999/00 to 2007/08 period, CFs' loans recipients clients leveraged \$1.34 (including owner's equity) for every loan dollar issued by the CF program.

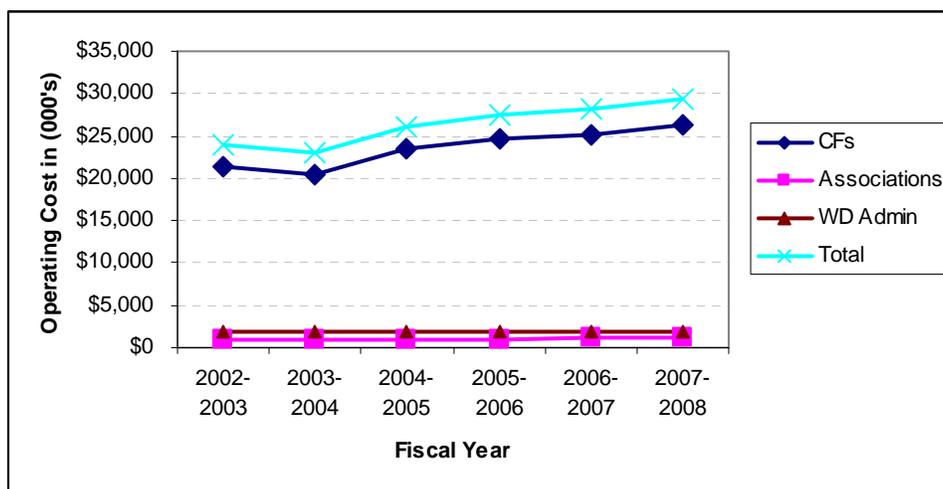
In addition the CFs benefit from a volunteer board of directors and the volunteer hours of many other partners in the community. The time and dedication of these community members helps to reduce the overall cost of the program. The direct link that these volunteers bring into the community helps to ensure that the CFs are focusing on issues that are relevant to the community.

The evidence demonstrates that historically and recently CF program returns surpass CF program costs. However, a trend analysis of administrative data over the last five years demonstrates that overall, the administration costs of the program are rising and the number of loans being issued and the number of jobs being created out of loans were declining. Hence, the investment (loan dollars) to create a job has risen overall with marked increases in MB, SK and AB. The rising operating costs and decrease of the number of loans issued are significantly associated with the strong economy in the western provinces in the last 6 fiscal years, as explained in sections 3.1.2 and 3.1.6.

The overall costs of the CF program have risen from 2002/03 (\$24.0M) to 2007/08 (\$29.4M) by 21% with an average annual increase of 4.3%. The CFs received what was considered a much needed injection of operating cash in 2004/05 after years of no increases and even decreases (e.g. 2003/04). The CFs were guaranteed a subsequent 2% increase per year. On average, from 2005/06 onward the CFs have received a 3.7% increase. The current funding level for a CF is on average \$292,000. These operating dollars typically support an office that has 3 to 4 personnel.

CF associations received a significant increase in funds (i.e. a 44% increase) in FY 2006/07 and otherwise have remained stable. WD administrative costs rose in 2004/05 from \$1.83M to \$1.84M and have remained stable since then. WD only tracks the overall administrative costs, not the break down by region. This is problematic because it makes it difficult to confirm the reported disparity of allocated resources in WD's regional offices (each of the four provinces).

**Figure 29: Operating Costs in (000's)**

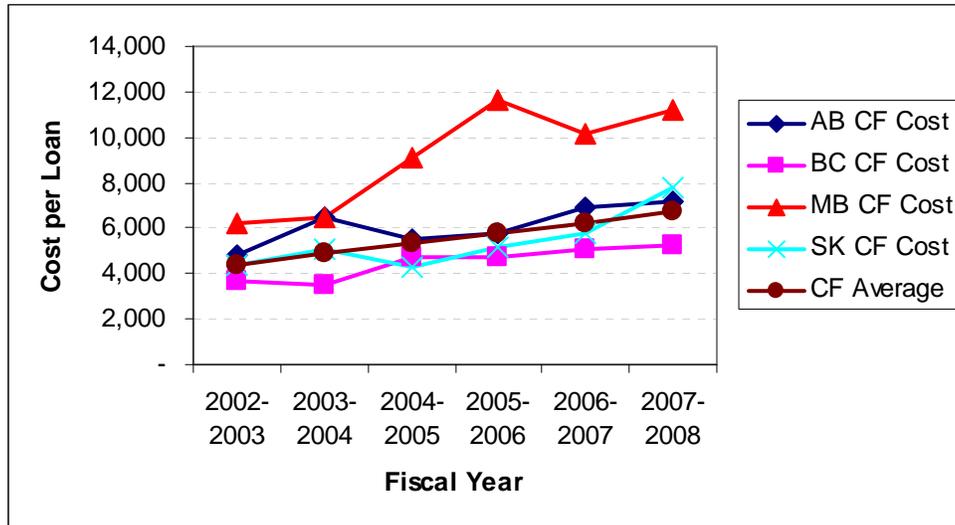


Fiscal Year	CFs	Associations	WD Admin	Total
2002-2003	\$21,303	\$840	\$1,827	\$23,970
2003-2004	\$20,435	\$840	\$1,827	\$23,102
2004-2005	\$23,390	\$840	\$1,827	\$26,057
2005-2006	\$24,711	\$850	\$1,840	\$27,401
2006-2007	\$25,202	\$1,227	\$1,840	\$28,269
2007-2008	\$26,313	\$1,244	\$1,840	\$29,397

CFs are active in three areas: issuing loans, offering business advice and participating in community economic development. WD provides CFs with a lump sum of money to conduct all three types of activities and WD does not keep track of the dollars that are spent in each of the above activity areas. However, evidence from the case studies confirmed that the amount of time spent on each of the three services varies considerably from one CF to another; and that on average CFs' staff spend one-third of their time on each of the three services. The administrative data that is considered most reliable is the number of loans issued. For yearly cost comparison purposes, the total administrative dollars (funds provided to CFs, CF associations and WD) were divided by three (loans represent one-third of CF activities) and compared to the number of loans issued.

The average administrative cost per loan funded has increased by 53% from 2002/03 (\$5K) to 2007/08 (\$7.5K) with an average annual increase of 9%. When the funds disbursed to CFs by province are compared to the number of loans by province, Manitoba and Saskatchewan demonstrate the greatest increase in cost per loan from 2002/03 to 2007/08 while BC demonstrates the smallest fluctuation in cost per loan (see Figure 30 below).

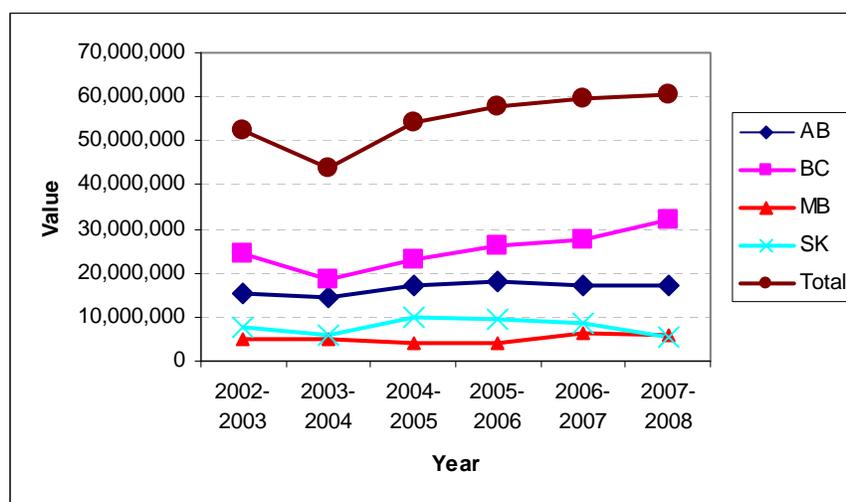
**Figure 30: Cost to Administer a Loan**



A possible explanation for the decrease in loan activities could be an increase in other activities. However, there is no evidence that there has been a marked increase in the other two activities areas (business services and CED) during this time period.

Another explanation could be that the number of loans has been decreasing but the total dollar value has been increasing. The administrative data does corroborate this. The total dollar value of loans has increased overall from 2002/03 to 2007/08 by 18.6%. All provinces have shown an increase (BC 35%, MB 31%, AB 14%) with the exception of SK that has had a 7% decrease in the value of their loans (see Figure 31 below).

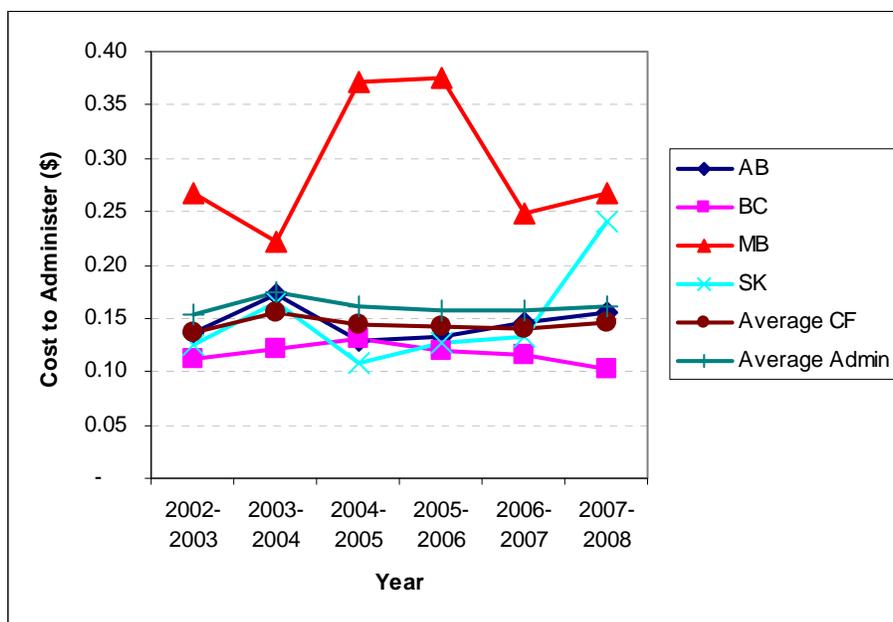
**Figure 31: Total Dollar Value of Loans Issued**



The average administrative cost (total operating dollars for WD, Associations and CFs divided by 3) to administer a dollar of loans has risen a total of 7.3% from 2002/03 to 2007/08 with an

average increase of 1.2% per year. The average CF cost to administer a loan has risen 7.8% from 2002/03 to 2007/08 with an average increase of 1.3% per year. The largest increase can be seen in SK followed by MB and AB. BC experienced an overall decrease over this time period. In Manitoba, the 2007/08 cost to administer a loan is equivalent to the 2003/04 cost but MB experienced relatively large increases in 2004/05 and 2005/06 as compared to other years and other provinces (see Figure 32 below).

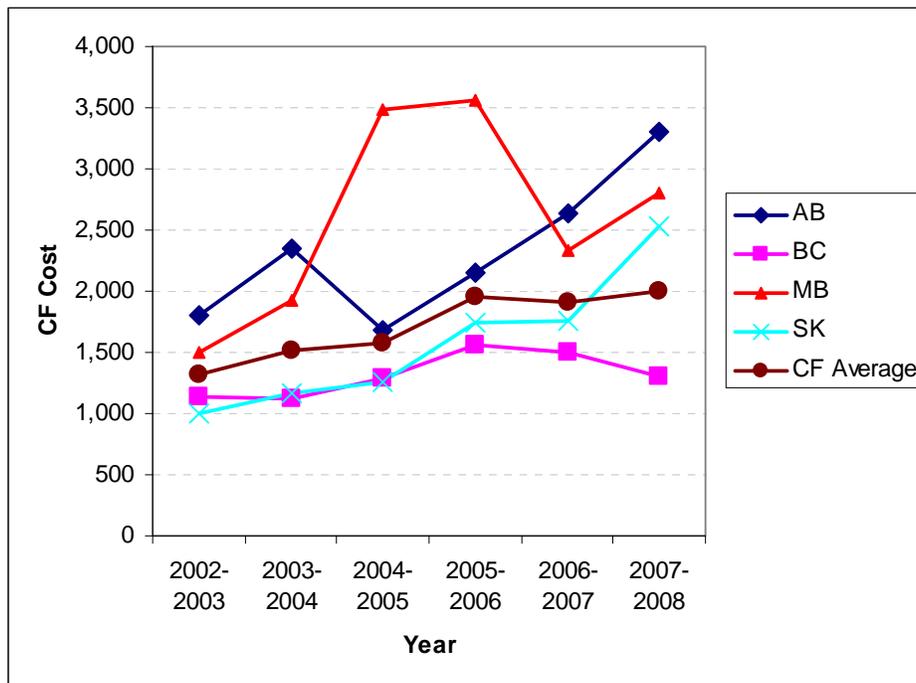
**Figure 32: Cost to Administer a Dollar of Loans**



	AB	BC	MB	SK	Average CF	Average Admin
2002-2003	\$0.14	\$0.11	\$0.27	\$0.13	\$0.14	\$0.15
2003-2004	\$0.17	\$0.12	\$0.22	\$0.16	\$0.16	\$0.18
2004-2005	\$0.13	\$0.13	\$0.37	\$0.11	\$0.14	\$0.16
2005-2006	\$0.13	\$0.12	\$0.37	\$0.13	\$0.14	\$0.16
2006-2007	\$0.15	\$0.12	\$0.25	\$0.13	\$0.14	\$0.16
2007-2008	\$0.16	\$0.10	\$0.27	\$0.24	\$0.15	\$0.16
period average	<b>\$0.15</b>	<b>\$0.12</b>	<b>\$0.29</b>	<b>\$0.15</b>	<b>\$0.14</b>	<b>\$0.16</b>
<b>Average Annual % Change</b>	4.2%	-1.7%	4.9%	20.0%	1.6%	1.5%

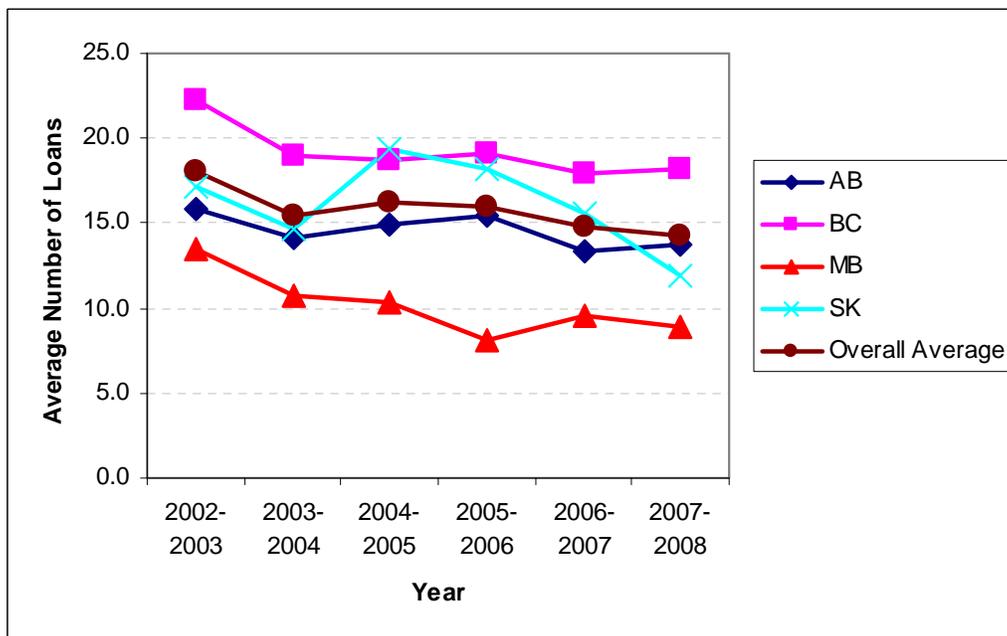
When CF operating costs are compared to the number of jobs created, the average cost per reported job created out of loans has risen from 2002/03 (\$1,315) to 2007/08 (\$2,008) by 39% with an average annual increase of 7.8%. The greatest increases are being seen in SK followed by MB and AB and BC (see Figure 33 below).

**Figure 33: CF Cost Relative to Number of Jobs Created out of Loans**



The cumulative effect of a decrease in loans and increase in costs results in seemingly dramatic changes in the cost per loan. However, on average there has been only a slight decrease in the average number of loans being issued per CF from 18 in 2002/03 to 14 in 2007/08 representing a decrease of less than one loan per year. BC consistently has the highest average number of loans per year and MB the lowest (see Figure 34 below).

**Figure 34: Average Number of Loans per Year per CF**



Average Number of Loans	AB	BC	MB	SK	CF Average
2002-2003	15.8	22.2	13.4	17.2	18.0
2003-2004	14.1	18.9	10.7	14.7	15.4
2004-2005	15.0	18.7	10.4	19.4	16.2
2005-2006	15.5	19.1	8.1	18.2	15.9
2006-2007	13.3	18.0	9.6	15.5	14.7
2007-2008	13.7	18.2	8.9	11.8	14.3
Period Average	14.6	19.2	10.2	16.1	15.8
Average Annual % Change	-2.5%	-3.7%	-6.9%	-5.4%	-4.3%

There is great disparity from CF to CF in terms of the number of loans that each issues from year to year. Table 24 (below) provides some examples that demonstrate this variation.

**Table 24: Sample of the Number of Loans Issued by CFs in each Province**

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
<b>Alberta</b>						
CF1	42	31	0	6	2	5
CF2	5	10	31	12	9	4
CF3	0	4	22	5	1	7
<b>BC</b>						
CF1	35	18	12	22	13	3
CF2	0	1	4	11	8	9
CF3	0	2	12	16	12	13
<b>Saskatchewan</b>						
CF1	4	1	0	3	2	1
CF2	15	11	6	12	3	6
CF3	9	7	14	9	3	1
<b>Manitoba</b>						
CF1	0	0	0	3	3	0
CF2	39	10	16	8	10	3
CF3	8	17	1	9	6	10

Several CFs did not issue any loans in some fiscal years; some issued very few loans on average (less than 2 per year); while other issued a significant number of loans. This is in part a reflection of the different challenges and opportunities, amongst CFs, within the CF program as explained in section 3.1.6. The potential reasons behind the potential decline of number of loans issued have been discussed fully in section 3.1.2, highlighting the potential association with the

economic conditions in the west, the overall business lending conditions, as well as the fact that some CFs have adopted some conservative lending practices to conserve their “finite” pool of funds.

There is also a chance that the demand for loans offered by CFs is decreasing. Evidence from the client survey does not seem to support a reduction in demands. The clients (both loan and non-loan clients) expressed a high need for all services (including loans) offered by the CFs.

The increase in dollar value of loans could be an indication that CFs are supporting larger projects. This would be in line with the change in direction at WD. The large loans could also be resulting in greater revenues but there is no evidence to support this. As previously noted, follow-up data on businesses is not collected (e.g. survival rate, revenues).

Some measures are being put in place that may help to reverse this downward trend. WD has put in place minimum performance standards for CFs to ensure the CFs are active to a certain level in all three program delivery areas (loans, business services and CED). These measures combined with a discussion around acceptable levels of risk (see recommendation 3) should help reverse this trend.

It is important to note that this section was mostly focused on loan services only due in part to the availability and reliability of the loan data as opposed to data on business services and CED activities. One of the great strengths of the CF program, which enhances its cost effectiveness, is the extensive use of volunteers. Over the period 1999/00 to 2007/08, each CF was able to generate an annual average of 268,983 volunteer hours.

Furthermore, it is also important to mention that while this section focuses on the jobs created as a result of loans, the reported administrative data revealed business services have led to the creation of a further 27,000 jobs over the period 2002/03 to 2007/08. Thus, this further enhances the overall program effectiveness.

**RECOMMENDATION 7:**

WD should continue to monitor the trends in level of activity relative to cost to ensure that the measures put in place are having the desired affect and reversing these trends.

### **5.1.2 Alternatives**

**The current service delivery model is viewed as a success; there is no major appetite to change models. Several studies and reviews have strongly supported the CF Program delivery model.**

In general, interview respondents supported the current delivery model and did not see a need for change. However, some interview respondents did offer suggestions to improve the efficiency/effectiveness of the program. The suggestions are outlined below:

- Review the number of CFs and/or the geographical divisions of the program;
- Potential for the creation of satellite offices that would be supported by a central office that houses experts;
- Long term funding;
- Improve reporting processes;
- Ensure that there is more consistency in the way services are delivered by the various CFs;
- The CF Program should be more user-friendly; which means way less bureaucratic (less forms to fill out/create on-line loan applications);
- CF Program should work more independently from WD;
- Increase the level of cooperation between Federal and Provincial Governments (i.e. on economic development, etc.); and
- Consider amalgamating the services of the CFs to a partnering organization (i.e. REDAs) to reduce overhead costs.

Based on the results of focus groups and interviews conducted, as part of the case studies, there is a general agreement that CFs need more operational funding. More immediate and long-term funding would enable CFs to: recruit and retain staff, be more visible, do more marketing of their services, and reach more areas/potential clients and communities. More specifically, remote areas of BC and AB mentioned the need for enhanced information technology capability (video conferencing) to expand and increase access to CF services to more people and more areas.

It was suggested by 6 out of 10 managers interviewed as part of the case studies that WD should consider incentives for good performers and allocation of funds based on performance. Business analysts expressed a need for more resources to be allocated to: increasing the visibility of the CFs and follow up (aftercare). There was also a suggestion for CFs' boundary review to reduce the number of CFs and potentially gain some economy of scale and maximize performance of the CF program as a whole.

Previous evaluations and reviews have strongly supported the delivery model, calling it an outstanding/unequivocal success, innovative, and one of the few signs of the federal government in rural Canada. Following are specific excerpts from some of the reports.

A study conducted by the University of Guelph in 2005 stated that:

*“the Canadian Community Futures Program is an outstanding success. It reflects the conscious crafting of a centrally supported program for endogenous development. It effectively joins state-to-community with a strong yet flexible governance model and is a good example of place-based policy”*<sup>18</sup>.

A 2008 Senate report entitled *Beyond Freefall: Halting Rural Poverty*<sup>19</sup> found that:

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<sup>18</sup> Community Futures Program in Canada, Good Governance in Successful Rural Development Programming, University of Guelph, 2005

<sup>19</sup> Beyond Freefall: Halting Rural Poverty - Final Report of the Standing Committee on Agriculture and Forestry, June 2008

*“The challenges of accessing credit in rural Canada have long been recognized at the federal level. Arguably the most successful program to help address this concern has been the Community Futures program, a federally funded but community-based and community-led initiative...”*

*“The program has been singled out by the OECD (Organisation for Economic Co-operation and Development) as one of the most innovative and successful rural-oriented policies anywhere in the world”*

*“The committee believes it is important for the federal government to reaffirm its long-term commitment to the Community Futures program, one of the few unequivocal success stories in federal rural policy and...one of the few visible signs of the federal government in rural Canada. The Community Futures program success is due in no small part to the fact that it is locally run and suited to local conditions...For these reasons, the committee also believes that the federal government should consider expanding the size of loans available under the program as well as the total financing envelope for the program”.*

### **5.1.3 Lessons Learned**

The case studies explored noteworthy practices and lessons learned, as well as areas for improvements that are detailed in Appendix I. Following are some of key lessons learned that were identified. For a complete list please see Appendix I.

From a CF perspective, there were two main lessons learned that emerged during discussion with CF managers and business analysts:

- Know the limitations of the CF – CF staff found that while it is good to stay flexible to work on a variety of projects, develop partnerships and stay connected to the community, it is also as important to know the limitation of the CF (time, money, human resources). Therefore, the CF should not over commit and should be able to say “no” when necessary. Otherwise, the result will more likely be under deliver and lose credibility in the community. It was mentioned in many occasions that building the trust with the community is not easy and takes time but losing that trust might be easy if the CF does not deliver. The CF should understand that it is a catalyst in the community, and it does not exist to do everything for everyone.
- Clarify roles and responsibilities – before engaging in any partnership, the CF should do its due diligence work about the potential partner(s) and document and clarify role and responsibilities.

WD’s regional officers interviewed as part of the case studies also noted some lessons learned. Following are some practices that WD staff have found useful:

- Relationship building with CFs – WD’s relationships with CFs are best when WD employees take time to know the CF manager and the board chair and spend more time in building trust for long-term sustainable and beneficial relationships.

- Keeping communication channels open – WD keeps the communication channels open and attends the CF's functions as frequently as possible.
- Clear roles and responsibilities – WD clarifies roles and responsibilities and does not send mixed messages.
- Respecting independence of CFs - WD sometimes seems to forget – at WD's own peril – that CFs are independent offices that answer to a local Board of Directors for good reason. They are effective eyes and ears for WD, but not branch offices.

For a more comprehensive list and discussion of noteworthy practices, lessons learned, and areas for improvement, please refer to Appendix I.

## 6. Conclusions

The CF program remains relevant and there is a continued expressed need for the program. WD objectives are changing and the CFs will need to be kept abreast of the changes and how the program needs to evolve to respond to the changes. The various networks that are in place to support the program are viewed as effective. Generally speaking, the investment fund is viewed as well managed but there has been recently a growing proportion of investment fund maintained as cash on hand, due in part to the economic context in the west, availability of other credit/capital, and some CFs adopting conservative lending practices. A conversation will need to occur between WD and CFs to determine appropriate loss rates on loans, acceptable levels of risk, and levels of loan activity. Performance measurement data is being collected and used for decision making purposes but some measures will need to be put in place to support the systems and human resources involved in performance measurement to ensure accuracy and quality of the data.

Clients are very satisfied with the services that they receive from CFs and they express a high level of need for all services (loans, business services, CED). The CF program has issued over 8,500 loans from 2001-02 to 2007-08 worth more than \$328M and that have resulted in nearly 28,000 jobs. Business services have led to the creation of a further 27,000 jobs over this same time period. There is evidence that clients are applying what they learn from the CFs to their businesses. CF supported businesses are active in a wide variety of sectors suggesting that diversification is occurring. Diversification is further assisted by the 1 to 5 CED projects that CFs are supporting per year and by CF involvement in the majority of strategic planning that is occurring in communities. Over the period of 1999/00 to 2005/06, CFs have led or coordinated 4,902 long-term and 5,803 short-term community economic development projects. There has recently been a trend towards regional CFs working together and with other level of governments on broader CED initiatives with regional scope. There is evidence that some of these initiatives resulted in business and investment attraction, as well as tourists attractions.

The evidence presented in the short-term and medium term impact sections of this report would suggest that the CF program is having an impact on the long-term outcomes of the program particularly as it relates to diversification of local communities and community economic development. It is reasonable to believe that the loans, advice and support provided the new and existing businesses is increasing their survival rate but administrative data is lacking to corroborate this expectation. Going forward, WD will need to work with the CFs through the associations to further define indicators associated with the long-term outcomes and ensure that data is being tracked against them.

The CF Program is still cost-effective when the level of activity and return on investment (ROI) are compared to costs. Conservative estimates have CF loan clients generating anywhere from \$6 to \$11 of gross revenue for every loan dollar issued and loan clients are leveraging an additional 40% to 60% of additional funding; not including their own equity. When cost and level of activity are observed over time, it is apparent that operating costs have been on the rise over the last few years and the level of activity has been declining. The decline has been gradual (e.g. average number of loans issued per CF has been decreasing by less than one per year over the last 6 years). The decline was associated, in a significant part, with the credit market conditions

(i.e., easing of the business-lending conditions by traditional commercial lenders). Minimum performance measures have been put in place and this combined with a conversation on acceptable levels of risk should help to reverse the trends. WD will need to monitor these trends closely over the next year and engage in discussion with CFs about their performance.

Independent observers continue to strongly support the delivery model, calling it an outstanding/unequivocal success, innovative, and one of the few signs of the federal government in rural Canada.

There are areas for improvement particularly when it comes to performance information and the trends in level of activity relative to the cost of the program. Recommendations to address the areas for improvement have been made throughout this report. The implementation of these recommendations combined with the measures already being put in place will ensure that the CF program remains, relevant, cost-effective and in a strong position to demonstrate the impact that the program is having on rural communities.