SUMMATIVE EVALUATION OF INITIATIVES

Start-up and Succession and Business Support

Canada Economic Development for Quebec Regions
Développement économique Canada pour les régions du Québec

Canada

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Executive Summary

In 2009-2010, *Canada Economic Development for the Regions of Quebec* (CED) implemented two initiatives: *Start-up and Succession* and *Business Support*. A total of $22.6 million in repayable contributions was granted to CFDCs and BDCs to fund almost 200 loans. The initiatives had two objectives: creating and maintaining businesses and creating and maintaining jobs. The initiatives were covered by agreements between CED and the Community Futures Development Corporation (CFDC) and Business Development Corporation (BDC) Common Fund, which subsequently redistributed the contributions in the form of loans to CFDCs and BDCs to enable them to fund businesses.

In keeping with the Treasury Board Secretariat's *Policy on Evaluation*, the evaluation strategy focuses on five core issues: continued need for program, alignment with government priorities, alignment with federal roles and responsibilities, achievement of expected outcomes and performance (effectiveness, efficiency and economy). The evaluation is based on a variety of generally recognized data sources: literature review, analysis of administrative data, telephone survey, interviews and a comparative study conducted by Statistics Canada.

The main methodological limitation relates to the attribution of initiative results to the economy of the regions concerned, and to representativeness. The relatively small number of loans per region (eg, an average of 14 projects/region for the *Business Support* Initiative) spread out over all of Quebec does not allow for the measurement of final outcomes. However, the high response rate for the survey (80%) and the fact that a variety of data sources were used means that convincing evaluation findings were obtained.

Overall findings

The **needs which existed when the *Start-up and Succession* initiative was launched are still present**, especially as concerns entrepreneurial succession. **The need for the *Business Support* initiative has lessened somewhat**, given the easing of credit conditions. The initiatives were **aligned with government priorities**: the objectives and expected outcomes of the initiatives reflected the government's priorities at the time they were designed. In addition, business start-up and succession continue to be priorities for the government. **The roles and responsibilities of the federal government complement those of other stakeholders**, since few or no similar offers respond to the issues targeted by the two initiatives.

Most of the results targeted have been or are about to be met. According to data from a comparative study carried out by Statistics Canada, businesses which received assistance under the two initiatives generally performed better than those in their control group.

The two initiatives were economically and efficiently managed: modest administrative costs and interest charges of the *Start-up and Succession* initiative (3.4% of the amount of the contributions provided), losses under the *Business Support* initiative, which are, so far, below the anticipated loss rate, and high leverage effect. Overall, few issues were identified with regard to implementation of the two initiatives and the entrepreneurs said that they were satisfied with regard to the time frames for processing of their applications and management of their loans.

Recommendations

1. It is recommended that, in developing targeted programs and initiatives, CED makes sure to continue its analyses, so as to take into account the specific needs of communities with lower economic growth.
2. When designing initiatives that call for special expertise or familiarity with certain specific clienteles, CED could consider a third party.
3. To ensure the efficient use of public resources, CED must opt for repayable contributions when designing initiatives similar or comparable to the *Start-up and Succession* and *Business Support* initiatives.
4. CED should analyse the issue of the funding needs for entrepreneurial succession in the regions of Quebec in order to identify potential options for action.

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1. Profile of the two initiatives

In 2009-2010, CED implemented two initiatives[1]: 1) *Start-up and Succession* and 2) *Business Support*. These initiatives were covered by agreements between CED and the Capital Réseau[2] (hereinafter the Common Fund). The two initiatives totalled $22.6 million in contributions under the *Community Futures Program* (CFP).

1) The *Start-up and Succession* initiative was established to respond to the needs of entrepreneurs in regions where access to venture capital has been identified as an issue. These regions are generally characterized by an entrepreneurial deficit, limited sector diversification and dependence on volatile or depressed markets. Entrepreneurs in these regions must overcome obstacles to raise the funds they need to start up or transfer a business. The initiative was aimed mainly at the maintenance and creation of business that would create and maintain jobs. Two contribution agreements were entered into to fund this initiative. An initial agreement between the Common Fund and CED was signed on March 31, 2009. It provided for a repayable contribution of $7.188 million, that is, $6 million in repayable contributions (to which the Common Fund added an equivalent $6 million) and a non-repayable contribution of $1.188 million for costs related to management fees ($156,000) and interest ($1.032 million). Another agreement was signed with all participating CFDCs and BDCs. Under this agreement, $1.2 million in interim funding for potential losses was granted to the Common Fund, with the provision that the amount remaining after repayment of the losses would be divided among the organizations which had participated in the initiative.

Background of the *Start-up and Succession* initiative

Two pilot initiatives preceded the *Start-up and Succession* initiative between November 2006 and March 2008. A total of $13 million ($8 million for succession and $5 million for start-up) funded 39 loans. The pilot projects were followed by evaluation reports recommending that the initiatives be extended with some adjustments.

2) The *Business Support* Initiative (hereinafter *Business Support I*) was the subject of an initial agreement in February 2009. In July 2009, it was the subject of a second agreement (hereinafter *Business Support II*), intended to improve and extend the first. The *Business Support* Initiative (I and II) was created to supplement the services offered to small and medium-sized enterprises (SMEs) which were having difficulty borrowing from banks to keep their working capital at a level that allowed them to operate. During the 2008 financial crisis, the loan applications of many SMEs were turned down by financial institutions. The CFDCs and BDCs and the Common Fund did not have enough cash at the time to address the problem. The initiative was intended mainly to help businesses maintain job levels. The first agreement *(Business Support I)* between the Common Fund and CED for this initiative was signed on February 20, 2009, and provided for a repayable contribution of $9.6 million. The second agreement (*Business Support II*) provided for a repayable contribution of

[1] At the time they were launched, the initiatives were called the "Start-up and Succession Fund" and the "Business Support Fund". Since they were not funds, but, rather, further distribution agreements, the term "initiative" was used in the report.

[2] Prior to 2011, Capital Réseau was called the Fonds commun des SADC et CAE.

$7 million and was signed on July 7, 2009. Over and above these contributions, an amount of $3.32 million was provided for potential losses, corresponding to 20% of the contributions.

In total, for the period from September 2008 to March 2010, the two initiatives allowed for the approval of $22,6 million in loans paid out from CED’s contributions, for a total of 194 loans:

Table 1. Number of loans and contribution amounts

	Number of loans	**Amount of CED’s contribution**	**Cost eligibility date / Initiative end date**
Start-up and Succession Initiative			**From March 31, 2009 to March 31, 2011**
Start-up component	**9**	**$1,054,000**	
Succession component	**35**	**$4,946,000**	
TOTAL *Start-up and Succession*	44	$6,000,000	
Business Support Initiative			
Business Support I	**91**	**$9,600,000**	**From February 18, 2009 to March 31, 2009**
Business Support II	**59**	**$7,000,000**	**From June 30, 2009 to March 31, 2010**
TOTAL *Business Support*	150	$16,600,000	
GRAND TOTAL	**194**	**$22,600,000**	

Initiative terms and conditions

The terms and conditions of the initiatives were, in general, the same as those used for the *Community Futures Program*, with the exception of certain specific eligibility criteria (see p. 4) and exceptions related to the maximum amounts payable and the contributions paid[3]. The CFP is a national program focusing on the stability, growth and economic diversification of rural communities and on job creation. In Quebec, CED provides financial support for the Common fund, the Réseau des SADC et CAE du Québec, the Community Futures Development Corporations (CFDCs) and the Business Development Centres (BDCs). All CFDCs and BDCs have an investment fund that enables them to provide loans for the start-up, expansion or

[3] The exceptions to the CFP terms and conditions apply to the maximum amount payable and the contributions provided for the *Start-up and Succession* initiative. The maximum financial assistance that CFDCs and BDCs can provide for SMEs can exceed the $150,000 threshold provided for in the CFP terms and conditions, but does not normally exceed $500,000, and the loans are interest free.

stabilization of small and medium-sized enterprises in order to create and maintain jobs. The organizations are responsible for the proper management of their funds so as to ensure growth and sustainability.

The following organizations contributed to implementation of the *Start-up and Succession* and *Business Support* Initiatives:

- the Réseau des SADC et CAE du Québec: an association of CFDCs and BDCs which obtains services and tools to facilitate the development of the members. There is no reporting relationship between the CFDCs, the BDCs and the Network. The Network is administered by a Board of Directors made up of representatives of its members from the various regions of Quebec. It is funded mainly by CED;
- the Capital Réseau: a not-for-profit organization whose mission is to promote the economic development of Quebec CFDCs and BDCs through the pooling of their financial resources. The Common Fund has created a fund consisting of deposits from the surplus cash flow of its Quebec CFDC and BDC members. The Common Fund thus manages a portfolio of financial assets which totalled over $73 million as at March 31, 2010.
- Community Futures Development Corporations: community development assistance organizations normally located in rural areas. They provide funding and services for SMEs and also engage in local development activities;
- Business Development Centres: organizations which provide SMEs with funding complementary to that provided by traditional financial institutions and offer technical assistance for entrepreneurs.

As shown in the diagram below, CED's contributions[4] were paid into the Common Fund, which then loaned them to various CFDCs and BDCs so that these organizations could provide loans in line with the objectives and eligibility criteria established in the agreement with CED.

Entrepreneurs submitted applications for financial assistances to the various CFDCs and BDCs, which then sent them to the Common Fund, which had an Investment Committee made up of representatives of CED[5], the Common Fund and the CFDCs and BDCs. Following an analysis of the applications for financial assistance, the Investment Committee recommended their approval or rejection to the Common Fund Board of Directors, which made the decision to deny or approve the applications.

Loan eligibility criteria

Under Treasury Board's *Policy on Transfer Payments*, CED must set the parameters for further

[4] Conditionally repayable contribution under the *Business Support* initiative.

[5] At that point, CED was in the minority on the Investment Committee and had to judge compliance of the loans with the established criteria. The Investment Committee was not a decision-making body—loans were approved by the Common Fund Board of Directors.

distribution in the form of loans. The specific eligibility criteria for each of the two initiatives are shown in detail in the table below:

Table 2.Loan eligibility criteria

	Start-up and Succession Initiative	*Business Support* Initiative
Type of assistance offered to SMEs	interest free loan	loans
Start of repayment period	5-year repayment holiday after provision of the loan	2-year repayment holiday after provision of the loan
Repayability period	3 years after 5-year holiday	5 years* after 2-year holiday
Minimum/maximum amounts provided	$100,000 to $500,000	Minimum of $5,000 and maximum of $150,000, with exceptions
Repayment period	September 4, 2008 to September 30, 2010	February 18, 2009 to March 31, 2010 (including extension)
Interest rate	interest free, management costs not exceeding 2%	at the minimum financial institution prime rate + 2%
Funding	Minimum investment of $100,000 by the entrepreneur Initiative loan provides an amount equal to entrepreneur's investment ($100,000 to $500,000) Loan from regular fund of the participating CFDC/BDC equal to at least 20% of the amount of the initial loan A recognized venture capital corporation (VCC) funds at least double the amount provided by the Initiative Other financial partners may also participate in the financial arrangement.	proof of refusal by a financial institution required

** At the outset, the agreement provided for a repayability period of three years, which was amended at the request of the Common Fund's Board of Directors and approved by the Minister in May 2012.*

In general, eligible businesses were in the manufacturing, tourism, technology or strategic services sectors and had to be located in Quebec, excluding the Island of Montreal, the cities of Laval, Quebec and Lévis and the urban part of the City of Gatineau. For the *Business Support* Initiative, the business had to have received a notice from a financial institution indicating that its borrowing capacity had been exhausted. It had to be grappling with one-time operating fund needs but have a history of turning a profit.

In addition to the terms and conditions for loans, a number of conditions related to the granting and repayment of overall contributions between CED and the Common Fund, interest rates, management and monitoring, the cost of losses and governance were detailed in the agreements, so as to ensure compliance with program terms and conditions and the guidelines applicable to this type of initiative.

1.1 Expected results of the initiatives

The two initiatives were part of program activity 2) *Community Development*, more specifically the sub-sub activity of the ***Local and Regional Enterprises*** program in CED's Program Activity Architecture, in effect to March 2012 (see Appendix) and contributed to the same final outcomes as the CFP:

- economic stability, growth and job creation;
- diversified and competitive local economies;
- sustainable communities.

These results also had to harmonize with the immediate result of the CFP:

Improved access to capital and leveraged capital through loans, loan guarantees, and equity investments to SMEs and social economy enterprises, resulting in the creation and maintenance of jobs.

In addition, the targets of the immediate and intermediate results of these initiatives had been defined in the agreements with the Common Fund for each of the initiatives. The results attained are described in section 4, which presents findings on performance.

2. Evaluation strategy

2.1 Evaluation mandate

In designing the initiatives, CED undertook to conduct a summative evaluation which was to be integrated into the summative evaluation of the CFP. Since evaluation of the CFP is governed by a national evaluation framework and the initiatives target specific objectives with their own terms and conditions, a separate evaluation was carried out. In addition, the evaluation was provided for in CED's annual evaluation plan, which was approved by the Deputy Head and announced in CED's Report on Plans and Priorities for 2013-2014.

Requirements of evaluation policies

The evaluation addresses five core issues (see Appendix)[6] set out in the Directive on Evaluation in response to the Treasury Board Secretariat (TBS) Policy on Evaluation. They are divided up into issues related to relevance and those related to performance.

Table 3. Core issues of the TBS Directive on Evaluation

Issue: Relevance	
Issue 1: Continued Need for program	Assessment of the extent to which the program continues to address a demonstrable need and is responsive to the needs of Canadians
Issue 2: Alignment with Government Priorities	Assessment of the linkages between program objectives and (i) federal government priorities and (ii) departmental strategic outcomes
Issue 3: Alignment with Federal Roles and Responsibilities	Assessment of the role and responsibilities for the federal government in delivering the program
Issue: Performance (effectiveness, efficiency and economy)	
Issue 4: Achievement of Expected Outcomes	Assessment of progress toward expected outcomes (including immediate, intermediate and ultimate outcomes) with reference to performance targets and program reach, program design, including the linkage and contribution of outputs to outcomes
Issue 5: Demonstration of Efficiency and Economy	Assessment of resource utilization in relation to the production of outputs and progress toward expected outcomes

2.2 Evaluation strategy

The scope of the evaluation was calibrated, taking various factors into account, including the size of the initiatives ($22.6 million in contributions), the short lead time after the businesses receive the business funding (loans)[7], the resources required for evaluation and its time frame. The strategy also took into account the low level of risk related to these initiatives, which were

[6] Each of the five core issues is presented in relation to the various indicators and evaluation criteria, together with the methods and data sources used.

[7] This period of time is necessary to observe the anticipated results of the initiatives.

implemented using the same terms and conditions and with the same delivery partners as the CFP, which has been the subject of previous evaluations attesting to its performance.

The reference period for the evaluation covered all loans approved between February 18, 2009 and March 31, 2011. Data collection began in January 2013 and ended in February 2014.

2.2.1 Evaluation Monitoring Committee

In accordance with the *Standard on Evaluation for the Government of Canada*, an Evaluation Monitoring Committee was established to conduct the evaluation[8]. The mandate of the Committee was to comment on the various deliverables (evaluation framework, interview guides, list of persons to be interviewed, preliminary results, interim report and final report), facilitate access to data on the initiatives and provide advice and direction at every stage of the evaluation process in order to make the evaluation as useful as possible for CED.

The Committee, which reports to the Planning and Evaluation Directorate, is made up of representatives of CED's Operations and Policy and Communications sectors.

2.2.2 Scope and limits of the evaluation

Scope of the evaluation

The scope of the evaluation covers the 194 loans approved under the *Start-up and Succession* and *Business Support* initiatives. In terms of effectiveness (outcomes), the results of the 39 loans provided under the two pilot initiatives (see description of these initiatives in the box on page 1) were updated. While these 39 loans were not part of the two initiatives evaluated, they targeted the same results as the *Start-up and Succession* Initiative and their terms and conditions were similar. Since these loans were provided between 2006 and 2008, their maturity in terms of time provides an overview of results over a longer time frame.

Limits of the evaluation

The evaluation focused more on immediate and intermediate than on long-term results. The two initiatives were limited in size. The total amount of the envelope for the two initiatives was $22.6 million, and fewer than 200 loans were provided. The scope of the initiatives was thus limited, which made it difficult to access their results on the economy of the regions. However, it was possible to evaluate the extent to which the results allowed for attainment of the targets established for each of the initiatives. The low number of loans (a total of 194, broken down over a large area) also created a methodological limit in terms of representativeness. A sufficient number of observations must be gathered to ensure the reliability of the information collated. Fortunately, the high response rate for the survey of proponents (80%), combined with a small margin of error of +/- 3.9%, 19 times out of 20, the high match rate of Statistics Canada's study and the variety of individuals interviewed allowed for the gathering of quality data. Thus, for each evaluation question, data from different sources were compared (triangulation of

[8] Pursuant to section 6.1 of the *Policy on Evaluation*, peer review, advisory or steering committee groups *are to be set up. These groups or committees, directed by the head of evaluation,* contribute to planning and evaluation procedures, as well as to the review of evaluation products to improve their quality.

information) to ensure that convincing findings were obtained.

2.2.3 Data collection methods

A number of methods were used during the evaluation, which allowed for triangulation of the information collected. The methods were chosen taking into account the time frame, resources and data available. The following five methods were used: 1) analysis of administrative data, 2) literature review, 3) interviews, 4) survey, and, 5) comparative study conducted by Statistics Canada.

The administrative data used were mainly loan monitoring data provided by the Common Fund, including descriptive information on the businesses receiving assistance, such as the name of the business, region, name of the CFDC, municipality, sector of activity, amount of assistance and approval date.

The literature review was conducted using documents describing government priorities (the Budget Speech, the Speech from the Throne), studies and other documents related to the design of the initiatives and issues targeted by the initiatives, that is, start-up, succession and the financial crisis in Quebec and Canada.

A total of 12 semi-structured interviews were conducted by the CED evaluation team, between August and December 2013. The number of interviews was decided in part on the basis of the size of the initiatives and in part to make sure that diverse viewpoints were obtained. Three groups of respondents were questioned: six financial partners (CED, Common Fund and venture capital corporations), four CFDCs/BDCs which had participated in the initiatives and two CFDCs which had not participated in the initiatives. The organizations which participated in the initiatives were selected from among those receiving the most loans. The average duration of the interviews was 33 minutes. The interviews provided qualitative data on relevance, efficiency and cost effectiveness. They were conducted in person and/or by telephone, using interview guides developed in advance.

A telephone survey was conducted by a firm specializing in surveys. Between May and June 2013, they contacted the 174 SMEs which had benefited from the initiatives and were still in operation. A total of 137 firms completed the survey, which was about 12 minutes in length, for a response rate of 83.8%. Corrected using a factor taking into consideration the size of the population surveyed, the maximum margin of error for a sample of 137 enterprises out of 174 is +/- 3.9%, 19 times out of 20.

A comparative study carried out by Statistics Canada between January and March 2012, measured the net effect of the two initiatives (including the pilot projects which preceded the *Start-up and Succession* Initiative) on assisted SMEs with regard to the following indicators: change in sales, change in number of employees and survival rate. The database of businesses that were clients of the initiatives was processed by Statistics Canada, which compared it to its *Business Register*. The data on employment, revenue and survival rate for businesses that could be identified were taken from the Canada Revenue Agency's data (*General Index of Financial Information*[9], PD7 payroll deduction database). The study compared client businesses (those receiving funding under the initiative) with non-client businesses having similar features[10]. Statistics Canada compiled data on client businesses and on the control group, from the year before participation in the program until 2012. This quasi-experimental approach had some

[9] The General Index of Financial Information includes all information from the financial statements of the businesses.

[10] The following comparative variables were used to establish the control group: revenue, number of employees, operating margin, total assets, debt-to-equity ratio, NAICS (industry classification).

limitations, such as its inability to eliminate "selection bias"[11] and the small sample size of the pilot projects and the *Start-up and Succession* Initiative, which were reduced following the comparison with Statistics Canada's databases. The number of businesses analysed for these two groups dropped from 39 to 22 for the pilots and from 44 to 32 for the *Start-up and Succession* Initiative, meaning that a comprehensive picture of the results could not be obtained. Overall, the match rate between the database for the initiatives and that used by Statistics Canada to create the control group was 83%. This means that 194 of the 233 businesses included in the client business group were analysed.

[11] The methodology involved comparing the businesses' characteristics for the following variables: revenue, number of employees, operating margin, NAICS, etc. However, a bias respecting the "motivation" of businesses could not be controlled without using some type of experimental approach (randomization of recipients and non-recipients). Did businesses which had submitted an application for financial assistance under the two initiatives perform better than those which did not apply? Or did the businesses selected perform better ("cream skimming effect")?

3. Findings on the relevance of the initiatives

3.1 Continued need

Summary

3.1.1 To what extent did the *Start-up and Succession* Initiative meet needs and facilitate access to venture capital funding? To what extent did the *Business Support* Initiative meet funding needs in the context of the financial crisis?

The two initiatives met the funding needs of the various businesses which participated in them.

- Financial assistance from the *Start-up and Succession* Initiative was necessary for many businesses in order to carry out their projects:
  - nearly half of the proponents questioned (47% (n=17)) said that assistance under the initiative was necessary to carry out their start-up or succession project;
  - 44% (n=16) stated that they still would have started up or taken over their business even if they had not received funding. Of these 16 respondents, only 7 would have done so within the same time frame;
  - 9% (n=3) said they “did not know”.
- Data from the survey indicate that over one third of the businesses receiving assistance under the *Business Support* Initiative (37% (n=37)) would have closed without the financial assistance.
- As stipulated in the eligibility criteria, all proponents under the *Business Support* Initiative had been turned down by a financial institution, meaning that their borrowing capacity had reached its limit.
- For the *Start-up and Succession* Initiative, intervention targets were attained and surpassed and the target sectors respected.
- According to two of the respondents interviewed, some initiative eligibility criteria (target sectors, minimum investment required) limited participation in the initiatives in some regions.

3.1.2 Do the needs still exist?

The needs which existed in 2009, when the *Start-up and Succession* Initiative was launched, still exist, particularly with regard to succession. The need for the *Business Support* Initiative has lessened over time, with the easing of credit conditions.

- The entrepreneurial deficit remains a major issue in Quebec, which has an impact on business start-up and succession. In addition, most investment by venture capital corporations in 2012 was made in major urban centres.

  In 2014, the credit conditions which had prevailed during the financial crisis improved. Credit conditions began to ease in late 2009.

3.1.3 Have the needs changed, or are there other needs to be met with regard to the initiatives?

The needs have increased in terms of the succession issue and entrepreneurs still need funding.

- The main obstacle to business growth is a lack of funding.
- The current funding needs of businesses relate to capital costs, the purchase of equipment, working capital and innovation.
- The credit conditions which prevailed during the financial crisis have improved: credit conditions began to ease in late 2009.

Table 4. Breakdown of CED contributions for the *Start-up and Succession* Initiative, by region

Region	CED contribution amount ($ Thousands)				Number of loans		
	Start-up component	Succession component	TOTAL contributions for the two components	Percentage of contributions by region	Start-up component	Succession component	TOTAL LOANS
Abitibi-Témiscamingue	$175,000	$533,571	$708,571	12%	1	8	9
Bas St-Laurent	$100,000	$60,000	$160,000	3%	1	1	2
Chaudière-Appalaches	-	$650,000	$650,000	11%	-	3	3
Côte-Nord	$100,000	-	$100,000	2%	1	-	1
Estrie	$150,000	$50,000	$200,000	3%	1	1	2
Gaspésie	-	-	-	-	-	-	-
Laurentides / Lanaudière	-	$575,000	$575,000	10%	-	3	3
Mauricie / Centre-du-Québec	-	$786,763	$786,763	13%	-	5	5
Montérégie	$141,500	$950,000	$1,091,500	18%	2	5	7
Nord-du-Québec	-	-	-	-	-	-	-
Saguenay/Lac Saint-Jean	$387,500	$1,340,667	$1,728,167	29%	3	9	12
Grand total	**$1,054,000**	**$4,946,000**	**$6,000,000**	**100%**	**9**	**35**	**44**

3.3.1 To what extent did the Start-up and Succession Initiative meet needs and facilitate access to venture capital funding? To what extent did the Business Support Initiative meet funding needs in the context of the financial crisis?

The entire financial envelope allocated to the initiatives was invested and allowed loans to be provided in the various regions of Quebec. As stipulated in the initiative terms and conditions, the loans were provided in the areas covered by the CFDCs and BDCs[12] which operate mainly outside urban centres. Tables 4 and 5 show the financial assistance by region. Three regions participated less in the two initiatives: three projects were carried out in the Côte-Nord region, three in Gaspésie-Iles-de-la-Madeleine and none in the Nord-du-Québec.

During the interview, two directors general of organizations which did not participate in the initiatives explained that the initiatives did not respond to the needs in their regions when they were implemented, owing to the eligibility criteria. For example, the minimum investment of $100,000 required under the *Start-up and Succession* Initiative was too high and the manufacturing sector targeted by the *Business Support* Initiative was not very well developed in

[12] In accordance with the established terms and conditions, and since the CFDCs and BDCs do not cover the following areas, no loans were provided in urban areas—Montreal, Quebec City, Lévis, Sherbrooke and the urban areas of Gatineau and Saguenay.

their region. One of the respondents also mentioned that the limited number of loans for his organization (eg, two/three loans/year) could also explain the lack of participation in the initiatives.

Table 5. Breakdown of CED contributions for the *Business Support* Initiative

Region	CED contribution amount	% of contribution from CED	Number of loans
Abitibi-Témiscamingue	$1,966,600	12%	16
Bas St-Laurent	$1,640,000	10%	13
Chaudière-Appalaches	$3,415,000	21%	29
Côte-Nord	$225,000	1%	2
Estrie	$1,220,000	7%	11
Gaspésie / Iles-de-la-Madeleine	$334,000	2%	3
Laurentides / Lanaudière	$1,946,000	12%	21
Mauricie / Centre-du-Québec	$903,000	5%	8
Montérégie	$985,000	6%	9
Nord-du-Québec	0	0%	0
Saguenay/Lac Saint-Jean	$3,965,400	24%	38
Grand total	**$16,600,000**	**100%**	**150**

Alignment with proponent needs

The results of the telephone survey of entrepreneurs indicate that the financial assistance was necessary (47% of loans under the *Start-up and Succession* Initiative) to the start-up, succession and survival of some businesses (17/36 businesses questioned). Of those that would have started up or taken over a business just the same without the help of the initiative, 19% survey respondents (seven entrepreneurs) stated that they would have done so within the same time frame.

Table 6. Incentive nature of the *Start-up and Succession* Initiative: answers to the telephone survey

	Yes	No	Don't know	TOTAL
Without the funding that you received from the CFDC/BDC, would you have been able to start up / take over your business?	16 (44%)	17 (47%)	3 (8%)	36 (100%)
If so, could you have started up / taken over within the same time frame?	7 (19%)	8 (22%)	1 (3%)	

Source: Telephone survey with assisted SMEs, May-June 2013

For the *Business Support* Initiative, 37% (n=37) of proponents said that they would not have been able to maintain their business without the assistance received. Of the clients who would have been nevertheless able to maintain their businesses:

- 41% would have laid off employees
- 52% would have cut back on production
- 2% would have temporarily ceased operations
- 22% would have decreased their exports.

The information collected during interviews with financial partners and participating organizations corroborated the findings of the survey. To the question “Overall, to what extent did the initiatives meet your needs?”, all respondents (n=10) stated that the initiatives had met their needs. In addition, the majority of them mentioned that the *Business Support* Initiative had saved businesses.

Achievement of targets and priority sectors under the *Start-up and Succession* Initiative

Under the agreement with the Common fund, targets and priority sectors were identified for the *Start-up and Succession* Initiative. The targets provided for the division of loans under the initiatives in a proportion of 20%/80% between the s*tart-up* and *succession* components, that at least 75% would include the types of business eligible (manufacturing, tourism, technology and strategic services firms) and at least 60% would be related to the regional niches of CED’s business offices. According to Common Fund data, all these targets were attained or surpassed.

Table 7. Extent of achievement of targets for the *Start-up and Succession* Initiative

Criteria	Component	Number ofloans approved	Amount approved	Overall allocation	Actual percentage (amount approved / Total)	Target
Component	Start-up	9	$2,108,000	$2,400,000	18%	20%
	Succession	35	$9,892,000	$9,600,000	82%	80%
	Total	**44**	**$12,000,000**	**$12,000,000**	**100%**	**100%**

Type of business (start-up component)	Priority sectors	9	$2,108,000	$2,400,000	100%	75%
	Other sectors	0	0	0	0%	25%
Type of business (succession component)	Priority sectors	24	$7,518,193	$7,200,000	76%	75%
	Other sectors	11	$2,373,807	$2,400,000	24%	25%

Criteria	Component	Number of loans approved	Amount approved	Overall allocation	Actual percentage (amount approved / Total)	Target
CED's regional niches (start-up component)	yes	8	$1,983,000	$1,440,000	94%	60%
	no	1	$125,000	$850,000	6%	40%
CED's regional niches (succession component)	yes	19	$6,455,526	$5,760,000	65%	60%
	no	16	$3,436,474	$3,840,000	35%	40%

Source: *Bilan de l'année 2012*-2013 Capital Réseau

With regard to the choice of sectors targeted by the initiatives, the 12 individuals questioned during the interviews had the following mixed opinions:

- six respondents said that the sectors targeted were related to CED's needs and priorities, while two respondents from participating organizations said that CED's niches were a bit restrictive;
- the two respondents from venture capital corporations said that the initiatives needed to be less restrictive and have more flexibility in terms of the sectors targeted (eg, the fishing sector and the service sector were excluded);
- the two respondents from organizations which did not participate said that the sectors targeted did not correspond to businesses in their regions and that the minimum investment of $100,000 required under the *Start-up and Succession* Initiative was excessive.

3.1.2 Do the needs still exist?

With regard to issues related to business start-up and succession, the literature review demonstrates that the rural regions of Quebec are still facing challenges in terms of entrepreneurship and access to venture capital, which was corroborated by the interviews. However, the easing of credit has improved the financial viability of businesses since the crisis.

Entrepreneurship

The entrepreneurial deficit is an issue that is present all over Quebec and the issue is accentuated by difficulty in accessing funding. According to a survey by the Canadian Federation of Independent Business (CFIB, 2011), the main barrier to start-up for potential entrepreneurs is a lack of money (55.9%). Venture capital, the primary source of funding available for start-up, is less accessible in the regions: 79% of venture capital dollars invested in Quebec in 2008 were invested in Montreal and Quebec City (Réseau Capital/Thomson, 2008). The situation was somewhat better in 2012, but the fact remains that most investment—75%—continues to be concentrated in Montreal and Quebec City (Réseau Capital, 2012).

In addition, according to a study by the Institut de la statistique du Québec[13], the portion of the population 25 to 34 years of age and population growth are among the most important variables in the development of entrepreneurship. Data from the 2011 census indicates that the proportion of 25 to 34 year-olds is lower in the regions eligible for the *Start-up and Succession* Initiative (11.49%) than in ineligible regions[14] (14.51%).

With respect to entrepreneurial succession, a survey conducted by the Fondation de l'entrepreneurship indicates that the succession problem is a major issue in Quebec. It is estimated that, between 2010 and 2015, there will be a deficit of 22,000 business owners without potential successors. In addition, in 2005, the CFIB estimated that 41% of Canadian entrepreneurs were planning to retire within the next five years. In 2012, this figure stood at 38%, an indication that this is a persistent problem.

Business Support

According to the SECOR group, the funding of working capital was the main funding need sought by businesses during the slowdown of the Quebec economy. The crisis resulted in a decrease in sales by SMEs, so that they found themselves grappling with cash flow problems and some had difficulty funding their long-term debt (see box). In 2011, a study by the Fédération des chambres de commerce du Québec (FCCQ) indicated that, in the wake of the crisis, it was encouraging to see that Quebec businesses were more financially sound. Similarly, data from two surveys (one with loan officers and the other with businesses) presented by the Bank of Canada, show that loans to businesses began to rebound in late 2009[15], when credit began to ease.

The issues related to start-up and succession noted in the literature review were corroborated during the interviews. Most of those questioned said that needs related to access to venture capital in the regions continue to exist in terms of start-up and succession.

A major financial crisis

Characteristics of the crisis:

- *credit tightening by banks, resulting from the size of losses posted on their balance sheets and financial de-leveraging;*
- *the housing correction in the United States that has continued since 2006 and the decline in property values in many countries;*
- *significant losses for financial institutions, resulting from a steep rise in mortgage foreclosures in the United States and many other countries;*
- *plummeting stock markets resulting from the uncertainty caused by the factors mentioned above.*

Update on Quebec's Economic and Financial Situation, Finances Québec, Fall 2008, p. 25.

[13] Les déterminants de l'entrepreneuriat, Institut de la Statistique du Québec, 2013, p. 51.

[14] Urban area: Island of Montreal and in the cities of Laval, Quebec and Lévis, as well as the urban part of the City of Gatineau.

[15] Bank of Canada, Business Lending Conditions and the Availability of Credit, (http://credit.banqueducanada.ca/financial conditions), most recent update of February 3, 2014.

In terms of the current need for funding related to working capital, the replies during the interviews lead us to believe that, while credit conditions have eased, the need continues to exist, although to a lesser extent. During the interviews, ten respondents mentioned the issue of current need for working capital: six of them said that the need still exists, but to a lesser extent than during the financial crisis of 2008 and two said that the need no longer existed. In addition, 35% of survey respondents participating in the *Business Support* Initiative (Table 9, below), noted that they still had a financial need in terms of their working capital, which shows that the issue still exists.

In conclusion, the needs in terms of start-up and succession are still with us, while the funding of working capital remains a need for businesses, but to a lesser extent than during the crisis of 2008.

3.13 Have the needs changed, or are there other needs to be met with regard to the initiatives?

Survey respondents said that the biggest obstacle to the growth of their business was the lack of funding (Table 8) and their main needs (Table 9) related to capital funding, the purchase of equipment and working capital.

Table 8. Telephone survey response to the question: "Today, what is the biggest obstacle to the growth of your business?" (obstacles most often mentioned)

Loans approved under the…	Number of respondents	Lack of funding (%)	Economic situation (%)	Lack of labour (%)	Competition (%)
Start-up and Succession Initiative	36	19 (53%)	5 (14%)	N/A	6 (17%)
Business Support Initiative	101	27 (27%)	17 (17%)	21 (21%)	N/A
Total	137	46 (34%)	22 (16%)	21 (15%)	6 (4%)

Source: Telephone survey of assisted SMEs: May-June 2013

Table 96. Telephone survey answers to the question: "What are the two main funding needs of your business at the present time?"(needs most often mentioned)

Loans approved under the …	Capital funding and the purchase of equipment (%)	Working capital (%)
Start-up and Succession (n=36)	20 (53%)	13 (36%)
Business Support (n-101)	43 (27%)	35 (35%)
Total	63 (46%)	48 (35%)

A number of people questioned during the interviews felt that, while less serious than in 2008, the economic crisis was still with us, particularly in specific sectors such as the forest industry. In addition, the issue of funding for succession continues to exist and succession funding needs have increased because entrepreneurs have little capital. According to the respondents interviewed, transactions for the purchase of businesses involve ever-increasing amounts and buyers are taking on more debt. Funding for business start-up remains a major need, according to some respondents.

In terms of new funding needs, innovation was mentioned by some people questioned, as was funding for training and coaching for buyers heading up a business.

3.2 Compliance with government priorities

Summary

To what extent are the two initiatives aligned with government priorities?

- The objectives and expected results of the two initiatives were in line with government priorities at the time they were developed.
- The issues related to business start-up and succession remain a government priority.

The crisis situation led CED to take action to ensure the survival of businesses and support economic activity in their regions.

Projects funded under the two initiatives were in line with CED's *Program Activity Architecture*, in effect until March 2012 (see Appendix). More specifically, the targeted results were in line with the *Local and regional businesses* program sub-sub-activity, under the *Community Development* program. This program activity directly supports the *Community Vitality* strategic outcome, the expected result of which was "CED's Quebec community vitality activities allow the regions of Quebec to have a better socio-economic outlook and develop and maintain their economic activity base". In terms of immediate results, the expected results of the two initiatives were that SMEs developed and consolidated to maintain and create jobs.

In 2008-2009, when the *Start-up and Succession* Initiative was created, the issues of business start-up and succession were linked to entrepreneurship priorities, as stated in the *Speech from the Throne*, the *Budget Speech*, the *Budget Plan* and the *Economic Action Plan*[16]. In these documents, entrepreneurship, including the start-up and entrepreneurial succession components, was a recurrent theme and this continued to be the case in 2013. In the *2012 Budget Plan*, the issue of access to venture capital is specifically mentioned. Entrepreneurship was also one of CED's 2013 priorities[17] and the federal government officially declared 2011 as *the Year of the Entrepreneur*. However, it should be noted that, while start-up was mentioned in the documents on priorities, they did not specifically mention succession.

The priority documents contain a number of measures intended to stimulate the economy by funding businesses[18]. The *Business Support* Initiative was part of the government's efforts in response to the financial crisis. Like the *Start-up and Succession* and *Business Support* initiatives, various measures were implemented by CED as part of the federal government's *Economic Action Plan*, the *Community Adjustment Fund* (CAF), the *Recreational Infrastructure Canada* (RInC) program—related to investment in recreational infrastructure—and the Temporary *Initiative for the Strengthening of Quebec's Forest Economies* (TISQFE). This demonstrates that the government was concerned about maintaining jobs to soften the economic shock.

3.3 Roles and responsibilities of the federal government

Summary

1. To what extent do the initiatives complement available funding services? Is the government's role legitimate and necessary?

- The *Start-up and Succession* Initiative offsets a lack of funding, since little or no venture capital funding in the regions responded to the issues targeted by the initiative.
- Only 36% (n=8) of proponents had received funding from a financial institution prior to their application. Without more details on the amounts obtained by these proponents and the type of funding, it is difficult to know what share of the financial arrangements consists of amounts received prior to the application.
- The *Start-up and Succession* Initiative is based on cooperation among the various stakeholders participating in the financial arrangements.
- The *Business Support* Initiative targeted funding needs that few other funding offers met: the CFDCs/BDCs provided smaller loans, the Business Development Bank of Canada larger loans.

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[16] See the extracts on entrepreneurship taken from the priority documents, in the Appendix.

[17] Canada Economic Development, 2013-2014 Report on Plans and Priorities, Main Estimates, March 2013, p. 6 (http://www.dec-ced.gc.ca/eng/publications/agence/rpp/2013-2014/281/index.html)

[18] For example, the 2009 Speech from the Throne stated that the government would make available up to $200 billion in liquidity and financing "to keep our economy moving". In addition, the 2010 Budget Plan mentioned the "Extraordinary Financing Framework (EFF) introduced as part of Canada's Economic Action Plan to ensure that credit continued to be available in Canada throughout the financial crisis, allowing businesses to continue to grow and create jobs."

- During the interviews, most respondents were of the opinion that federal government assistance under the two initiatives was legitimate and necessary.
- The interest rates and repayment holiday for the two (0% interest and five-year repayment holiday) were better than those offered by venture capital corporations and other funding sources.

2. How do the initiatives measure up against the CFDC/BDC investment fund? How do they compare to direct assistance from CED?

- The two initiatives have a better interest rate and repayment holiday than the CFDC/BDC investment fund.
- The CFDC/BDC's lack of liquidity and limited financial capacity did not allow for the funding of loans for initiatives, although some people feel that the investment fund could have been / could be improved instead of having specific initiatives, especially in the case of the *Start-up and Succession* Initiative.

The initiatives were implemented by the CFDC/BDC Common Fund. According to some of the interview respondents, this was an effective way of doing things, given the significant presence of the CFDCs/BDCs in the field and their ability and expertise in funding working capital. Again, according to some respondents, these characteristics meant that the CFDC/BDC Common fund was best placed to implement the initiatives.

3.3.1 To what extent do the initiatives complement available funding services? Is the role of the federal government legitimate and necessary?

When the *Start-up and Succession* Initiative was implemented, venture capital in the regions, which was an important source of funding for start-up and succession projects, was difficult to obtain and few investors provided it. In addition, each investor had its own investment policies related to the development stage of the business and/or the industry sector of target businesses, which limited the funding available. For example, *BDC Venture Capital*, a division of the Business Development Bank of Canada, gives preference to loans to businesses with a strong technology component, starting at the business pre-start-up stage. As a result, not enough funding was available for start-up and succession loans.

> *Federal funding was an important and valuable spark plug in the Start-up and Succession Initiative*
>
> **Interview with the DG of a CFDC**

Percentage of proponents who were turned down for funding by other sources prior to their application

Among proponents of the *Start-up and Succession* Initiative, 50% (18/36) tried to obtain funding from other sources (mainly financial institutions) prior to their application. Of these, 72% (13/18) were able to obtain funding, while 28% (5/18) were not able to do so. In other words, only 36% of the overall sample (13/36) had obtained funding from other sources prior to submitting an application for funding under the *Start-up and Succession* Initiative.

Under the *Business Support* Initiative, all proponents had to have been turned down by a financial institution, certifying that their borrowing capacity had reached its limit. This was an eligibility criteria for the initiative.

During the interviews, the persons questioned said that, when the two initiatives were created, there was little or no similar funding available to respond to the two target issues, that is, access to venture capital in the regions for start-up and succession loans in more traditional sectors and funding for working capital. Questioned during the survey, 13 respondents (36%) said that they had obtained funding prior to their application. In most cases (n=8), this funding had come from a financial institution.

The *Start-up and Succession* Initiative was based on collaboration by a number of players which participated in the financial arrangements: CED, the Common Fund, the CFDC/BDCs and various venture capital corporations. Each partner could thus not only provide funding, but also specific expertise, so that the assistance was coordinated in a complementary way. This also allowed for the sharing of risk among the partners.

One effect of the 2008 financial crisis was the tightening of credit by the banks (see box in section 3.1.2), and businesses facing a shortage of cash had few alternatives in terms of obtaining funding. During the interviews, the persons questioned confirmed that, with the exception of the Business Development Bank of Canada (BDBC), few players were funding working capital at the time when the *Business Support* Initiative was developed: the CFDCs/BDCs provided funding for working capital, but the amounts were below those of the *Business Support* Initiative. The BDBC was investing mainly in large scale projects, while the *Business Support* Initiative was used for loans which, except under special circumstances, could not exceed $150,000. The *Business Support* Initiative thus allowed for the provision of loans that were larger than the working capital loans funded by the CFDCs/BDCs, but smaller than those provided by the BDBC.

As previously mentioned (section 3.1.2 Do the needs still exist?), the issue of funding for working capital for SMEs was important when the financial institutions significantly tightened credit conditions at the time of the 2008 crisis. In addition, as required by the terms and conditions of the *Business Support* Initiative, proponents had to have received a letter from a financial institution certifying that their credit limit had been attained, demonstrating at the same time that funding could not be obtained from a financial institution. This condition, in and of itself, eliminated any possibility of duplication between the funding offered by the initiative and that offered by the banks.

During the interviews, the majority (10/12) of those questioned said that the government's role was legitimate and necessary for the two initiatives. Some respondents mentioned that federal funding under the *Start-up and Succession* Initiative created a lever effect that brought venture capital corporations to the table because the risks were shared. Lastly, according to two of the respondents interviewed, the federal government received a major return on its investment, owing to the lever effect created (see section 5.1) and the spinoff generated (job creation, salaries, etc).

The credit conditions for the *Start-up and Succession* Initiative (0% interest rate and five-year repayment holiday) set it apart from other sources of funding in a positive way, according to proponents. During the survey, 72% (n=26) of proponents mentioned the lower and more advantageous interest rates of the *Start-up and Succession* Initiative, compared to those of venture capital corporations and other sources of funding. In addition, 48% (17/36) said that what set the assistance received from the initiative apart from that provided by venture capital corporations was the longer, and thus more advantageous, repayment holiday.

3.3.2. How do the initiatives compare with the CFDC/BDC investment fund? How do the initiatives compare with assistance from CED?

Under the agreements between CED and the CFDCs/BDCs, the upper limit for loans from their investment fund was $150,000. At the time the programs were developed, this limit was insufficient to meet temporary funding needs during a crisis, a fact that was confirmed during the interviews. Exemptions from the terms and conditions of the CFP had to be implemented to adjust the funding for the *Start-up and Succession* Initiative. This included increasing the maximum funding that could be provided by the CFDCs/BDCs from $150,000 to $500,000. Lastly, CED's contribution to the Common Fund was repayable, unlike the other contributions made under the CFP.

According to the answers obtained during the interviews, going through the Fund rather than using regular CFDC/BDC assistance allowed larger, higher risk projects to be funded under more favourable conditions:

- 4/10 respondents said that two of the aspects that made the Fund stand out from regular CFDC/BDC assistance were the low interest rate and the repayment holiday;
- 4/10 respondents mentioned the lack of liquidity and the limited funding capacity of the CFDCs/BDCs, which meant that they did not have the financial capacity to fund this type of project;
- 2/10 respondents stated that the project risk level was higher with the Fund than with the CFDC/BDC investment fund.

However, three respondents suggested that it would be better to increase the general fund rather than to use specific funds. One of them said that, for his region, a general fund would provide a better response to needs, another stated that an initiative such as the *Start-up and Succession* Initiative could be delivered right from the investment fund and a third suggested that there should be a general fund with specific, more long-term, targets.

The initiatives were implemented by the Common Fund and the CFDCs and BDCs. According to some of the respondents interviewed, this way of doing things was considered effective, given the strong CFDC and BDC presence in the field. These organizations cover small areas and are more numerous than CED's offices—there are 57 CFDCs and 10 BDCs, while CED has 12 business offices. This presence in the field, effective administrative procedures that allow them to act quickly and their expertise in succession issues are major assets. In terms of the *Business Support* Initiative, the CFDCs and BDCs had the capacity to fund working capital. For these reasons, it proved effective to go through the network in implementing the initiatives.

4. Findings on the effectiveness of the initiatives

Attainment of results

Summary

4.1 To what extent did the initiatives contribute to attainment of immediate results?

- The entire $22.6 million in contributions was paid out to fund 194 businesses.
- The anticipated number of loans varied slightly compared to the targets identified.

4.2 To what extent did the initiatives contribute to attainment of intermediate results?

- *Start-up and Succession* Initiative: the results of the Statistics Canada and Common Fund study indicate that the targets in terms of results will be partially or completely attained. Compared to the performance of the control group, the businesses receiving assistance under the initiative performed better during the first year after the funding, which indicates some statistically significant results. However, one of the assisted businesses declared bankruptcy, while there were no bankruptcies in the control group.
- *Business Support* Initiative: the results obtained so far from the Statistics Canada and Common Fund study indicate that the targets in terms of results were attained. Compared to the control group, the businesses receiving assistance from the initiative performed better (statistically significant difference) for the first two years after the funding. In addition, the survival rate for businesses assisted by the initiative exceeds that of the control group—96% as compared to 93%.

The results of the pilot projects from the Statistics Canada study are positive; in terms of revenue, the results are 22.1 percentage points above the results of the control group (statistically significant variance). Four years after their initial participation in the initiatives, the businesses receiving assistance have created and maintained more than 1,000 jobs and 20/22 are still in operation.

4.1 To what extent have the initiatives contributed to the attainment of immediate results?

The *Start-up and Succession* Initiative targeted the start-up and transfer of businesses and the creation and maintenance of jobs. All of the $6 million was paid out to the CFDCs and BDCs, which redistributed it as loans to 44 businesses. Repayment of the loans began in July 2014 and will be spread out over a three-year period.

For the *Business Support* Initiative, all of the planned $16.6 million was paid out to the CFDCs and BDCs, which redistributed it as loans to 150 businesses. Of this $16.6 million, $10.2 million had been repaid as of January 10, 2014, and the repayment period will continue until 2017. In addition, although all the contributions were paid out, the number of loans varied slightly compared to the targets identified.

Table 10. Activity indicators (outputs)

Initiatives	Indicators	Targets	Results
Start-up and Succession	Number of businesses started up	Funding support for 12 start-up businesses	9 businesses
	Number of business successions supported	Funding support for 23 business successions	35 businesses
	Number of loans provided	35 loans provided by participating CFDCs and BDCs	44 loans
Business Support	Number of loans provided	190 loans provided by participating CFDCs and BDCs	150 loans

Fewer loans than anticipated were funded under the *Business Support* Initiative. According to Capital Réseau[19], the average loan to businesses had been underestimated, so that fewer loans than planned could be provided.

Results of pilot initiatives

Statistics Canada's study provided results on businesses which benefitted from the pilot initiatives which preceded the *Start-up and Succession* Initiative. A sample of 22 of the 39 businesses receiving assistance was compared with a group of 22 similar businesses which did not receive assistance. In terms of employment, there was no statistically significant difference between the two groups. The 22 loans from the pilot initiatives created 114 jobs and maintained 896 jobs between 2006 and 2012, a total of more than 1,000 jobs. In terms of revenue, four years after benefitting from the pilot initiatives, the revenues of the businesses receiving assistance are 22.1 percentage points above the revenues of the control group (statistically significant variance). In terms of survival, 20/22 (90.9%) of pilot project businesses were still in operation four years after their funding year, compared to 21/22 for those in the control group (95.5%).

4.2 To what extent did the initiatives contribute to attainment of intermediate results?

Analysis of the intermediate results focused on the creation and maintenance of jobs, changes in revenue and survival rate. The analysis was based on a Statistics Canada study which measured changes in employment and revenues of client businesses between the initial situation, that is before the intervention, and the current situation, in 2012[20]. The database of client businesses was used by Statistics Canada, which compared it with its *Business Register*. For the compared businesses, various data on jobs, revenues and survival rate were taken from Canada Revenue Agency data (*General Index of Financial Information*[21]*, PD7 payroll deduction database)*. The study also compared the performance of client businesses with that of a control group of non-client businesses.

[19] 2012-2013 Annual Report, p. 3.

[20] The change rate was calculated using information from the year prior to the contribution agreement with the client (T-1) compared with the situation observed in 2012 (T+3, +4, +5 or +6).

[21] The General Index of Financial Information includes all information from the financial statements of the businesses.

Intermediate results: Start-up and Succession Initiative

The targets for intermediate results defined in the agreement with the Common Fund ended on March 31, 2013 and were aimed at the following results:

- Creation of 240 jobs
- Maintenance of 1,070 jobs
- Positive change in revenues

First of all, it is important to take into account the fact that the data provided by Statistics Canada on the results represent only 73% of client businesses and 32 of the 44 business supported. In addition, these data come from files covering 2012 (fiscal years vary from one business to another) while the due date for results targets was March 31, 2013. The Common Fund also provided data on results which present data on the same indicators, but over a longer period (until March 31, 2013) and using a different methodology (statement from businesses). In general, the results indicate that performance targets were partially or totally attained:

- According to Statistics Canada's data, 139 jobs were created (32 businesses) out of a targeted 240 jobs (44 businesses). In the *Annual Report* provided by Capital Réseau, the number of jobs created was 324;
- 685 jobs maintained (32 businesses) out of a target of 1,070 jobs maintained (44 businesses). According to the Réseau, 1,110 jobs had been maintained as of March 31, 2013;
- The revenues of the 32 businesses sampled by Statistics Canada had increased. The combined changes in revenues was 28%, or a total of $202 million in revenues in 2012, as compared to $157 million the previous fiscal year, either in 2008 or 2009. This positive result is corroborated by data from Capital Réseau, although they are higher: "30 businesses confirmed an increase in their revenues, an average of 47% (…) only one of the 44 businesses targeted by the initiative declared bankruptcy".

Comparison results between businesses in the *Start-up and Succession* Initiative and those in the control group

According to the Statistics Canada study, in the year following the funding year (T+1), there was, on average a statistically significant difference between the growth of initiative clients and that of businesses in the control group with regard to jobs and revenues[22]:

- after the first year of intervention, clients of the initiative experienced, on average, an increase in the number of jobs 44% higher than that of the control group;
- after the first year of intervention, clients of the initiative experienced, on average, an increase in revenues 21% higher than that of the control group.

For the next two years, that is, two and three years after having received the funding (T+2 and T+3), the difference in performance between clients and non-clients was not significant. In terms of the survival rate, two years after having received the funding, one of the assisted clients had

[22] The differences between results for the sample of businesses receiving assistance and those in the control group are expressed in percentage points.

declared bankruptcy (survival rate of 97%) and none of the control group businesses had declared bankruptcy (survival rate of 100%). The survival rate is highly positive and the difference between the assisted clients and those in the control group is very small.

Overall, eight of the nine respondents interviewed who answered the question on results stated that the initiative had created and maintained jobs. Four respondents said that the revenues of businesses receiving assistance had increased and two respondents added that the succession loans had allowed businesses to stay in the region.

Intermediate results: *Business Support* Initiative

The targets for intermediate results defined in the agreement with the Common Fund ended on March 31, 2013 and were aimed at the following results:

- Maintenance and creation of 2,800 jobs;
- Positive change in revenues.

In the case of succession loans, the businesses were all taken over by employees. Without the initiative, these businesses would likely have been taken over by people from outside the region, or even outside Canada.

Interview with the DG of a CFDC

First of all, it is important to take into account the fact that the results provided by Statistics Canada represent only 93% of the total population, that is, 140 out of 150 businesses. In addition, these data relate to the period ending in 2012 (fiscal years vary from one business to another) while the due date for results targets was March 31, 2013. The Common Fund also provided data on results which present data on the same indicators, but over a longer period (until March 31, 2013) and using a different methodology (statement from businesses). In general, the results indicate that performance targets were attained:

- According to Statistics Canada's data, 3,666 jobs were created or maintained (140 businesses), compared to a target of 2,800 jobs created and maintained (150 businesses). In the *Annual Report* provided by Capital Réseau, the number of jobs created and maintained was 4,286 (122 businesses);
- On average, the revenues of the 140 businesses sampled by Statistics Canada had increased. The combined change in revenues was +11%, or a total of $474.5 million in 2012, as compared to $460.8 million prior to participation in the initiative, either in 2008 or 2009. Data from Capital Réseau indicate that "82 businesses of the 120 projects under way noted an increase in their revenues and 78 of them reported an average increase of 42%. For the 33 businesses (22%) whose revenues fell, the average loss was 20%".

Comparison results between businesses in the *Business Support* Initiative and those in the control group

The study conducted by Statistics Canada compared the performance of a sample of 140 businesses which received assistance under the initiative with that of 140 comparable businesses (control group). During the first two years following the funding year (T+1), initiative clients experienced higher growth (statistically significant) in terms of jobs and revenues than businesses in the control group[23]:

- after the first year of intervention, clients of the initiative experienced an increase in the number of jobs that was 10.9% higher than that of the control group. After two years of intervention, initiative clients experienced an increase in the number of jobs 10.1% higher than that of the control group;
- after the first year of intervention, clients of the initiative experienced an increase in revenues that was 11.1% higher than that of the control group. After two years of intervention, initiative clients experienced an increase in revenues that was 7.8% higher than that of the control group.

For the third year after the funding year (T+3), the difference in performance between clients and non-clients was not significant. Three years after receiving the funding, the survival rate of the 140 businesses sampled was as follows: 12 businesses, among the assisted clients, declared bankruptcy (survival rate of 96%), compared to 16 businesses in the control group (survival rate of 93%).

During the interviews, five respondents provided explanations with regard to loans in default:

- Two respondents explained that some loans were high risk from the outset;
- Two respondents said that it was the economic situation that caused the default with regard to some loans;
- Two respondents suggested that the lack of monitoring could have caused the defaults.

Compared to the loss of 20% anticipated at the start of the initiative, it was expected that $2,090,763, or 12.6% of the total envelope would potentially be lost, given the 18 loans in default (see section 5.1).

[23] The differences between the results of the sample of assisted businesses and those in the control group are expressed in percentage points.

5. Findings on the efficiency of the initiatives

Demonstration of efficiency and value for money

Summary

5.1 To what extent were the initiatives managed with a view to efficiency and economy?
Costs related to management expenses and interest accounted for 3.4% of total contributions for the *Start-up and Succession* Initiative and no monies were required for management of the *Business Support* Initiative. This testifies to economical management. In addition, the choice of funding terms and conditions by means of repayable contributions enables government to recover the amounts paid out.

- 75% of contributions under the *Business Support* Initiative have been paid back so far. Given the 18 loans in default under the initiative, a loss of 12.6%[24] of the total envelope is anticipated, which is less that the 20% loss rate estimated in the Agreement with the Common Fund.
- The lever effect of the *Start-up and Succession* Initiative is high: every dollar invested by CED generates $17.83 in investments.
- A minimum of 75% of the amounts invested in the initiatives will be recovered by the CRF.

5.2 Were there any problems during implementation of the two initiatives? What is the level of satisfaction with regard to their implementation?

- In general, few issues were identified with regard to the implementation phase of the two initiatives. During the interviews, three (3) persons said that the loans could have been more closely monitored by the CFDCs and the BDCs, particularly for higher risk projects. In addition, some people found the three-tiered structure (CED, Common Fund, CFDC/BDC) resulted in the initiatives being less closely tailored to the needs of their community.
- Components 1 and 2 of the *Business Support* Initiative were implemented quickly—two months for component 1 and eight months for component 2.
- Proponents participating in the initiatives were satisfied with the time frame for processing their applications and the management of their loans.

5.3 What lessons were learned from implementation of the two initiatives?

During the interviews, the individuals questioned mentioned some positive aspects: prompt implementation and the cooperation among and professionalism of the various stakeholders. Four respondents said that the *Start-up and Succession* Initiative should be relaunched.

[24] It should be noted that the percentage could increase, since the repayment period has not yet ended.

5.1 To what extent were the initiatives managed with a view to efficiency and economy?

Repayable contributions

The expenditures related to the initiatives were all disbursed as planned:

- $22.6 million dollars in repayable contributions for the two initiatives;
- $1.032 million for interest-related costs and $156,000 in management costs for the *Start-up and Succession* Initiative.

For the *Start-up and Succession* Initiative, management costs account for $156,000, to which was added $49,105[25] in surplus from the $1.2 million capitalization account provided from the Common Fund as a reserve for potential losses. Management costs and interest thus totalled $205,105, or 3.4% of the $6 million paid in contributions. For the *Business Support* Initiative, no management costs were allocated, since these had been assumed by the CFDCs and BDCs under existing CFP contribution agreements. To cover these costs, the Common Fund charged the CFDCs and BDCs 0.3% on the amount of each loan. In short, CED covered the management costs for the *Business Support* Initiative, since it funds the Common Fund and the operating costs of the CFDCs and the BDCs under the CFP. The fact that no additional amount was required to manage the *Business Support* Initiative constitutes value for money.

The contributions provided under the two initiatives were repayable. After a repayment holiday (five years for the *Start-up and Succession* Initiative and two years for the *Business Support* Initiative), the businesses undertook to repay all of the monies received. At the time the report was prepared, the repayment period had not yet begun for the *Start-up and Succession* Initiative, with the first repayment to CED by the Common Fund planned for September 30, 2014. For the *Business Support* Initiative, 75% of the monies had been repaid by October 15, 2014, that is, $12.4 million of the $16.6 million provided. 2,09 million dollars, or 12.6% of the total envelope will go to cover potential losses, given the 18 loans in default. So far, the 12.6% in losses incurred is below the 20% loss rate anticipated in the Agreement with the Common Fund. The repayment period for the *Business Support* Initiative continues until 2017, which explains why not all of the contributions have been repaid yet.

The anticipated maximum net cost for CED for the two initiatives is $5.708 million, that is:

- $1.188 million in management and interest-related costs for the *Start-up and Succession* Initiative;
- $1.2 million in reserve for potential losses for the *Start-up and Succession* Initiative;
- $3.32 million in reserve for potential losses for the *Business Support* Initiative.

The maximum net cost for CED represents 25% of the total amount of contributions paid: $5.708 million out of the $22.6 million, meaning that 75% of the amounts invested will be recovered by the CRF. The fact that the initiatives provided repayable contributions demonstrates efficient management of public monies, which CED should plan to use for similar initiatives in the future.

[25] Capital Réseau data for the 2013-2014 fiscal year.

Lever effect of the Start-up and Succession Initiative

The lever effect is the ratio between the number of dollars invested by CED and the number of invested dollars from other sources. Under the two initiatives, only the *Start-up and Succession* Initiative created a lever effect, since the *Business Support* Initiative was intended to meet cash flow problems. Overall, the lever effect of the *Start-up and Succession* Initiative was high. Every dollar invested by CED generated an investment of 17.83[26]. CED's initial contribution of $6 million generated a total investment of $113 million.

In addition, since the operating costs of the CFDCs/BDCs are funded by the CFDCs and BDCs as part of contribution agreements under the CFP, which is a CED program, the lever effect of the *Start-up and Succession* Initiative may be calculated on the basis of the total contribution by CED and the CFDCs/BDCs, that is, $12 million. Thus, from the standpoint of the CFP, the lever effect then becomes $8.41 for every dollar invested by CED[27].

5.2 Were there any problems during implementation of the two initiatives? What is the level of satisfaction with the implementation?

In general, the respondents interviewed noted few issues with regard to implementation of the two initiatives:

- three people said that the participating CFDCs and BDCs could have monitored "higher risk" businesses more closely, especially in the first months after the loans were provided;
- two people mentioned that the three-tiered structure (Common Fund, CFDC/BDC and CED) meant that the initiatives were not as closely tailored to the needs of their community. However, one of these two people said that the Common Fund had nevertheless done a good job.

Lastly, more than half of those questioned during the interviews said that everything had gone well under the initiatives and some of them mentioned how quickly the initiatives were implemented. The two components of the *Business Support* Initiative were implemented quickly: $22.6 million in loans was issues within two months (March to May 2009) for component 1 and within eight months (July 2009 to March 2010) for component 2. This is corroborated by the opinion of practically all the proponents (98%) of the *Business Support* Initiative, who said they were satisfied with the time frame for the processing of their application. Lastly, in terms of the management of their loan, proponents of the two initiatives were completely satisfied: 100% (n=36) in the case of the *Start-up and Succession* Initiative and 97% (n=98) in the case of the *Business Support* Initiative.

5.3 What lessons were learned from implementation of the two initiatives?

The persons questioned during the interviews spoke of the speed, cooperation and professionalism with which the initiatives were implemented. Four people said that the *Start-up and Succession* Initiative should be relaunched, since the needs still existed. Echoing the

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26 The lever effect is calculated using the following formula: ($113M in total investments - $6M in CED contributions) / $6M in CED contributions. The data on the $113M in total investments comes from the Bilan de l'année 2012-2013, Capital Réseau/*Start-up and Succession* Initiative and is based on the application for funding submitted by the proponents. During the survey, respondents participating in the Start-up and Succession Initiative (n=26) stated that the funding received enabled them to obtain additional funding of $49.9M.

27 The lever effect is calculated using the following formula: (($113M in total investments - $12M in CED and CFDC/BDC contributions combined) / $12M contribution from CED and the CFDC/BDC.

monitoring issues mentioned in section 5.2, three people said that better monitoring should be planned, especially in the early months following loan approval.

Action Plan

Recommendation	Responsibility centre	Management response	End date
1. It is recommended that, in developing programs and targeted initiatives, CED makes sure to continue the analysis so that the specific needs of low-growth communities are taken into account.	PRPB	CED will continue to pay special attention to regions with low economic growth and those where opportunities for productive employment are inadequate, as provided for in its mission. To this end, consultations are systematically held with the CED business offices concerned to take specific needs and changes in these regions into account. In addition, in 2012, CED developed an *Economic Development Index* (EDI) which allows it to compare economic growth potential in Quebec's 104 regional county municipalities (MRCs). Using this index, the economic development of a region is carried out on the basis of its advantages and its ability to make use of them. The index, made up of indicators related to human capital, the physical environment and economic organization, makes it possible to better capture the specific economic situation in these regions. Using this index, a list of 68 MRCs with low economic growth was generated. The index, updated after five years, enables us to take community needs more into account in developing and implementing targeted initiatives.	N/A
2. When designing initiatives calling for special expertise or proximity to specific clients, CED could consider a third party.	PRPB	CED will continue to consider all program delivery models (including an agreement with a third party for a contribution to be subsequently redistributed) in order to identify the best tool to attain the target objectives and results and so as to comply with the Policy on Transfer Payments.	N/A
3. To ensure the efficient use of public funds, CED should use repayable contributions when designing initiatives similar to the *Start-up and Succession* and *Business Support* initiatives.	PRPB	CED will continue to ensure that the appropriate type of contribution is used, based on the type of project and in line with the targeted results, in compliance with the *Policy and Directive on Transfer Payments*.	N/A
4. CED should analyse the issue of funding needs for entrepreneurial succession in the the regions of Quebec in order to identify options.	PRPB	CED recognizes the importance of entrepreneurial succession in Quebec businesses and plans to continue taking action in this regard. CED will continue to analyse changes in entrepreneurial succession in Quebec and the needs of businesses going through a transfer process, in order to support them based on its priorities and the resources available.	N/A

APPENDICES

Matrix of methods used for each evaluation question

EVALUATION QUESTIONs	Analysis of loan monitoring data	Analysis of financial arrange-ment data	Literature review	Program expert interviews (CED/Réseau)	CFDC interviews	SME survey	Statistics Canada study
Q1 – Continued need							
To what extent do the initiatives: • facilitate access to venture capital funding? • respond to funding needs (for working capital of businesses) during the financial crisis?	X	X	X	X	X	X	
Have the needs changed? / New needs?			X	X	X	X	
Does the need still exist?			X	X	X	X	
Q2 – Compliance with government priorities							
To what extent are the two initiatives in line with government priorities?			X	X			
Q3 – Roles and responsibilities of the federal government							
To what extent do the two initiatives complement the funding services available for working capital/venture capital?		X	X	X			
Relevance of investing in a specific initiative as compared to a more general initiative?				X			
Q4 – Demonstration of effectiveness							
To what extent do the two initiatives contribute to attainment of immediate/intermediate outcomes?	X		X	X	X	X	X
Q5 – Demonstration of efficiency and economy							
To what extent were the two initiatives economically and efficiently managed?	X	X		X	X	X	

Logic Model

Program Activity Architecture for all CED programs[28]

Strategic outcomes	Program activities	Program sub-activities
Community Vitality Dynamic and revitalized communities that have a better socio-economic outlook and are developing their economic activity base	*Community Development*	*Community Mobilization* *Community development (program sub-sub-activity: **Local and regional businesses**)* *Attractive communities*
	Infrastructure	*Water Quality* *Roads and Public Transportation* *Urban or Regional Projects* *Special programs dedicated to infrastructure*
	Special intervention measures	*Community adjustment to economic shocks* *Community Adjustment to Natural Disaster*
Presence of conditions conducive to sustainable growth and the competitive positioning of SMEs and regions	*Competitiveness of enterprises (SMEs)*	*Enterprise Capacity Building* *Strategic Enterprises*
	Competitive positioning of sectors and regions	*Competitiveness poles* *International Promotion of the Region*
Policies, programs and cooperative actions that strengthen the economy of Quebec regions	*Policies, programs and initiatives*	*Analysis and Research* *Policy and Programs* *Advocacy and Influence* *Cooperation and Collaboration*

[28] Source: 2008-2009 DPR. See note 4.

Extracts from official documents that reflect the government's entrepreneurship priorities

Budget Plan 2009

Supporting Small Business

Entrepreneurs and small businesses contribute to Canada's economic success by creating jobs and generating economic activity in Canadian communities.

Budget Plan 2011

Supporting Small Business and Entrepreneurs

Through innovation and ingenuity, small business owners and entrepreneurs create jobs and generate wealth in communities across Canada. The government (…) has taken decisive action to address barriers faced by entrepreneurs, including by reducing taxes and red tape, improving access to business financing.

Budget Plan 2012

Helping high-potential firms access venture capital

Young knowledge-based firms often have difficulty in accessing capital from traditional financial institutions because they have few tangible assets beyond their ideas (…).The government recognizes the crucial role played by private sector risk capital in driving business growth and innovation, and has taken important steps to strengthen its availability, including through the Business Development Bank of Canada and by removing impediments to foreign venture capital investments.