Canadian Heritage Patrimoine canadien

Summative Evaluation of the Loan Loss Reserve Fund (LLRF)

Evaluation Services
Corporate Review Branch
Department of Canadian Heritage

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ACRONYMS AND ABBREVIATIONS

BDC	Business Development Bank of Canada
BPIDP	Book Publishing Industry Development Program (PCH)
CED	Canada Economic Development for Quebec Regions
CIDF	Cultural Industries Development Fund (BDC, PCH)
FedNor	Federal Economic Development Initiative in Northern Ontario
LIFP	Loan Investment Fund Program (CED)
LLRF	Loan Loss Reserve Fund (PCH)
LPBP	Loan Program for Book Publishers (PCH)
PCH	Department of Canadian Heritage
RBC	Royal Bank of Canada
WD	Department of Western Economic Diversification

EXECUTIVE SUMMARY

Introduction

The purpose of this report is to present the findings of a summative evaluation of the Loan Loss Reserve Fund (LLRF).

The LLRF is a program of the Department of Canadian Heritage (PCH), set up in 1998 to help Canadian cultural industries cope with the problem of inadequate financial resources.

Created under the reorganization of the Cultural Industries Development Fund (CIDF), in 1998 the LLRF was viewed as an effective way to give cultural industries access to capital funding with a minimum of investment by the federal government, through partnerships with commercial financial institutions.

PCH planned to implement its program through a pilot project for the publishing industry, the Loan Program for Book Publishers (LPBP).

The purpose of this evaluation is to assess the results, effectiveness and relevance of the LLRF, in order to provide input for decisions about whether to renew the Fund. Under the circumstances, given that the LLRF was in fact implemented in the form of the LPBP pilot project, much of the evaluation is an assessment of the LPBP.

This evaluation is based on research conducted by Étude Economique Conseil Inc. for the Evaluation Services Directorate of the PCH Corporate Review Branch. The report was produced with the assistance of the Consortia Development Group.

Methodology

This summative evaluation is based on two main information sources: a literature review and interviews with key informants.

Findings and Conclusions

Relevance

The main facts revealed by the literature review and the interviews show that there is still a real need for the LLRF.

The facts also indicate that the LLRF program is still consistent with the mandate and priorities of the federal government and PCH. This study has shown, in particular, that the LLRF seems to meet the four Expenditure Review Committee tests that directly concern relevance: public interest, role of government, federalism and partnership.

Moreover, the information collected for this evaluation supports the conclusion that the LLRF does not really duplicate or overlap with other federal programs. The LLRF complements the existing program offerings of PCH and other government organizations, although some programs might have competed with it indirectly.

Success

The interviews and the literature review show that the pilot project met with mixed success since the volume of credit generated was below expectations. It is evident, however, that beneficiaries have had access to LPBP loans and the program has had a positive impact on the availability of financing.

It may also be concluded that the impact on the expansion and diversification of the cultural industries sector was limited because of the narrow scope of the LPBP and the limited number of publishers benefiting from the program. Nonetheless, the program had a positive impact on the group of beneficiaries.

Given its narrow scope and the small number of beneficiaries, the LPBP also had limited success in leveraging private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspect of cultural industries. Despite this, after several years the Royal Bank of Canada continues to do business with most of the program beneficiaries, which have retained their access to incremental sources of capital.

Cost-effectiveness

On the basis of the information gathered for this evaluation, the mixed results of the LPBP experiment are largely attributable to problems in the design of the pilot project itself — that is, as a specific model for implementing the LLRF framework. From this standpoint, the LPBP experiment is instructive for what it indicates about the design and delivery of LLRF initiatives, but it does not basically cast doubt on the appropriateness of this type of action.

With changes, the LLRF is a model that may help PCH achieve its objectives efficiently and effectively. Under this model, government contributions can be used to leverage financing for cultural-sector firms. This was shown only on a small scale with the LPBP, but it has been demonstrated more broadly by the Loan Investment Fund Program of the Department of Western Economic Diversification.

The study does not find convincing arguments in favour of a specific alternative. No other organization appears to meet all the criteria required to be the partner acting as an umbrella or APEX organization. Nevertheless, an agreement with an umbrella organization such as the Business Development Bank of Canada could be an appropriate partnership option if it makes it possible to fill a new niche of financing requirements (i.e. offer a broader range of products) and helps to significantly increase the availability of financing for the cultural sector. In any event, to fully play its role, PCH must be able to devote sufficient skilled resources in order to properly administer the agreements. Moreover, making use of a number of institutions/partnerships to deliver the LLRF is an approach that seems justified.

Recommendations and Management Response

Should the Department wish to increase access to capital for cultural businesses so that they can achieve their cultural objectives:

Recommendation 1 — The LLRF could be maintained. It is an adequate and unique tool because of its mode of delivery in partnership with the commercial financial sector and because of the leveraging it provides.

The LLRF helps to meet the financing needs of cultural businesses, most of which remain poorly served by the operating modes and methods of commercial financial institutions, and are in a weaker position than previously as a result of constantly changing economic, financial and technological conditions. Designed to leverage private-sector funds, the LLRF is an instrument that facilitates support for cultural businesses at minimal cost.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, it will proceed with its renewal. The discussions already initiated with other cultural sectors will help better identify the needs for a renewed LLRF that is coherent with departmental objectives.

Completion date: March 2006

Recommendation 2 — Broaden the program's target clientele, and review and adapt its terms of reference in light of the needs expressed by the various cultural industries.

The lessons learned from the pilot experiment clearly show that, as far as the program's terms of reference allow, the eligible target clientele should be expanded to include various cultural industries and SMEs (and possibly arts organizations), taking a more comprehensive approach. They also show that the criteria for accessing the program should be reviewed and adjusted in light of the expressed or identified needs of various industries; this could ensure a large enough volume of financing applications and portfolios to limit the intrinsic risk of financial partners and create a leveraging effect on the supply of capital.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, the program will expand its target audience and go further with ongoing discussions with other cultural sectors that could eventually participate in the program. Reviewing the criteria according to the needs of the different participating cultural industries will be done should the program be renewed.

Completion date: Before March 2006

<u>Recommendation 3</u> — The delivery mode of the LLRF should be based on a number of institutions/partnerships.

Although the study did not find convincing arguments in favour of a specific alternative, the LLRF appears well positioned to ensure, as far as possible, that potential beneficiaries can easily initiate and maintain business contacts with one of the participating financial institutions in various parts of the country.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, it commits to exploring several options, including a partnership with the Business Development Bank of Canada, should the program be renewed.

Completion date: Before March 2006

<u>Recommendation 4</u> — In the event that the LLRF program continues with the proposed new strategic approach and the necessary funding, the Department should take steps to increase its level of commitment and to improve the way it manages the program.

This evaluation has shown that the Department's level of commitment and the way it has managed the program have been factors limiting the success of the LPBP. Although PCH made efforts to contribute as specified to promoting and managing the program, results would undoubtedly have been better with resources dedicated exclusively to the program. One possibility to consider would be assigning a senior manager from the upper ranks of the Department, mandated to ensure monitoring of the tasks required for fine-tuning the program, and to promote and establish partnerships. The management committee provided for under the program should also be activated.

Management Response: Accepted.

Should the program be expanded to other cultural industries with the necessary funding, the Department commits to staffing a head manager position and to create the management committee.

Completion date: Before March 2006

<u>Recommendation 5</u> — If the LLRF is renewed, the statement of program objectives and management framework should clearly show the link to the Department's general objective of "creating Canadian content."

This evaluation has shown that it is possible to make a logical link between the objective of the LLRF and "the creation of Canadian content and performance excellence." The program's management framework should therefore make this link more clearly and explicitly. Any new statement of objectives or management framework should include a definition of activities helping to measure the program's performance in regard to "creation of Canadian content."

Management Response: Accepted.

Should the program be renewed, the program management framework will be reviewed and linked to departmental objectives.

Completion date: Before March 2006

1.0 INTRODUCTION

The purpose of this report is to present the findings of a summative evaluation of the Loan Loss Reserve Fund (LLRF).

The LLRF is a program of the Department of Canadian Heritage (PCH), established to help Canadian cultural industries cope with the problem of inadequate financial resources.

The report is divided into five sections. Following this introduction, the second section of the report provides a profile of the program. The third section describes the evaluation purpose, the questions examined and the methodology. The report then presents the evaluation findings on the three major issues examined: relevance, success and cost-effectiveness. The conclusion summarizes the findings. The report concludes with recommendations. These suggest improvements or note issues needing follow-up.

This evaluation is based on research conducted by Étude Economique Conseil Inc. for the Evaluation Services Directorate of the PCH Corporate Review Branch. The report was produced with the assistance of the Consortia Development Group.

2.0 Profile of Program

2.1 Background

In June 1990, the Government of Canada established the Cultural Industries Development Fund (CIDF) to remedy the financing shortage faced by Canada's cultural industries.

Administered by the Business Development Bank of Canada (BDC), the program provides working capital loans to businesses in five cultural sectors: book publishing, magazine publishing, sound recording, film and video, and multimedia.

During the 1990s, although the CIDF's balance sheet was in the black, new approaches were studied to find a better way to leverage private-sector investment.

In 1998, PCH developed a plan to set up the Loan Loss Reserve Fund (LLRF). Created under a reorganization of the CIDF, the LLRF was viewed as an effective way to give cultural industries access to capital funding with a minimum of investment by the federal government, through partnerships with commercial financial institutions.[1]

PCH set out the general terms of reference for the LLRF and planned to implement it through a pilot project for the publishing industry, the Loan Program for Book Publishers (LPBP). Book publishing was identified at the time as a sector in which there was an obvious shortage of financing. PCH launched the LPBP in late 1998 jointly with the Royal Bank of Canada (RBC).

In late 2001, RBC declared its intention to end its participation in the LPBP. It explained by saying that the volume of loans was too low and the risks were too high. In January 2002, the LPBP stopped accepting new applications. However, the program remains active for previously approved lines of credit. In September 2004, 10 publishers still had an active approved line of credit with RBC under the LPBP.

The following sections describe the general terms of reference of the LLRF, and the specific terms and conditions of the LPBP pilot project.

2.2 Objectives

The LLRF objectives are:

- to increase access to capital for targeted industries (e.g. book and/or magazine publishers, and sound recording, film and video, and multimedia producers);

[1] PCH also noted that regional federal agencies had used this type of partnership, which made it possible to leverage private-sector funds for small enterprises working in strong growth sectors or knowledge-based sectors, such as biotechnology and health sciences.

- to assist in the expansion and diversification of Canadian-owned and -controlled cultural industries through the provision of incremental sources of capital to companies operating in these sectors; and

- to strategically invest public funds in a manner that significantly leverages private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries.[2]

2.3 Operations

Under the terms of the program, the federal government provided funds to commercial financial institutions in the form of repayable contributions (loan loss reserve).

The repayable contributions helped build the loan reserve fund, the pool of capital available for loan to the cultural industries targeted. The purpose of the repayable contributions was therefore to partly cover losses incurred by the loan reserve fund and to leverage investment from the partner commercial financial institution.

Repayable contributions were not to exceed 20% of the financial institution's loan loss reserve fund, or a maximum of $5 million.[3]

Each fund offered loans to eligible companies across Canada through the commercial financial institution's branches.

In making loans under the loan loss reserve fund system, the commercial financial institution followed its normal administrative practices and applied the normal management principles of a prudent financial institution.

The businesses targeted by the LLRF were small Canadian-owned and -controlled companies working in a specific cultural industry (or a specific group), with a track record of professionalism as well as management and financial skills. Companies at the start-up stage or lacking a viable financial structure were not in principle eligible for the LLRF; an exception was made in the case of companies for which the principal applicant could demonstrate substantial experience in cultural industries.

[2] *Loan Loss Reserve Fund (LLRF) Evaluation Framework*, Corporate Review Branch, March 1999, Executive Summary, p. iii. In connection with this third point, PCH noted at the time that these partnerships between the public and private sectors would also give the banks an opportunity to acquire a better understanding of the cultural industries and to customize their financial products to meet the specific needs of this sector.

[3] One point should be noted concerning the changing expectations of the federal government with respect to the volume of loans and the ratio of capital leveraging. With a contribution of approximately $2 million, Canadian Heritage initially expected commercial financial institutions to loan a total of between $10 and $40 million (with the ratio varying from 5:1 to 20:1). However, when the contribution ceiling was subsequently raised from $2 million to $5 million, the volume of loans expected from the commercial financial institutions ought in principle to have increased from between $10 and $40 million to between $25 and $100 million.

In the event of a defaulted loan payment, the commercial financial institution could recover up to 90% of its net losses (after taking reasonable action to recover its collateral). PCH was thus responsible for up to 90% of net losses. This PCH liability could not, however, exceed the maximum contribution set out in each agreement, for the whole loans portfolio. Upon dissolution, the contributions repayable to the federal government would amount to the funds advanced less the agreed portion of losses on the portfolio of loans.

The agreements with the commercial financial institutions terminated after no later than 10 years or when the maximum amount of the government contribution had been disbursed.

The program had provided for establishment of a management committee to monitor the overall fund approach. However, the committee was never activated.

PCH identified and screened eligible clients from targeted cultural industries, and referred them to the commercial financial institutions. It also provided follow-up support and advice to the clients (e.g. in developing applicants' business plans). In cooperation with the commercial financial institution, PCH promoted the fund and communications activities to make target clients aware of the program.

2.4 Pilot Project

As mentioned earlier, the LLRF was implemented in the form of a pilot project for the publishing industry, the Loan Program for Book Publishers.[4] This was launched in late 1998, with the Royal Bank of Canada as partner.

The main features of the LPBP were as follows:

- The program was delivered under an agreement with a commercial financial institution, RBC, to offer lines of credit or term loans to book publishers.
- The maximum contribution was $2 million to cover a percentage of the losses under the agreement.
- A loan loss reserve was funded and maintained to an amount equivalent to 10% of the total amount of loans approved, or a maximum of $2 million.

The following chart summarizes how the LPBP operated:

[4] Another LLRF initiative was a contribution agreement, with the Toronto Dominion Bank as a subordinate lender, to provide virtual equity in the financing of lines of credit by a third-party organization (Bank of Nova Scotia); the leveraging ratio was 4:1. The agreement with Toronto Dominion was not examined in this evaluation.

Types of financial products:
Operating line of credit

Credit conditions

Accounts receivable (120 days)………………………….. 75%
+
Inventory…………………………………………………. 50%
Author contracts………………………………………. 25%
(Personal securities limited to 25%)

Minimum amount
$50,000

Maximum amount
Sales < $3 million………. $250,000
Sales > $3 million………. $500,000

Cost of credit
Application fee…………………… Amount of loan granted x 0.5%
Interest rate…………………..…… RBC prime rate plus 2 to 4%

Eligible applicants with annual revenue below $3 million could receive up to $250,000 in the form of an operating line of credit; if their revenue was over $3 million, they could receive up to $500,000.

The amount available under the line of credit was calculated using the following formula: 75% of accounts receivable (120 days or less), 50% of publications inventory, and (where applicable) up to 25% of the value of contracts, including copyright.

The Royal Bank charged fees for the initial application equivalent to 0.5% of the value of the loan. It charged interest on loans at a rate of prime plus 2% to 4%.

The Royal Bank could secure loans through a first security against the applicants’ inventory of publications, accounts receivables and (in some instances) contracts. All of the partners’ securities together were to be limited to 25% of the value of the loan. RBC was not to take as security any individual holding covered by this personal guarantee.

The LPBP had 17 beneficiaries, and it helped generate $2.7 million in incremental loans (approved bank lines of credit). The total number of applications was 21.

3.0 EVALUATION PROFILE

3.1 Purpose of Evaluation

The purpose of this evaluation is to assess the results, effectiveness and relevance of the LLRF, in order to provide input for decisions about whether to renew the Fund.

Under the circumstances, given that the LLRF was in fact implemented in the form of the LPBP pilot project, much of the evaluation is an assessment of the LPBP.

3.2 Evaluation Questions

The evaluation focuses on the following questions:

- **Relevance —** Is the policy, program or initiative still consistent with the priorities of the Department and the government as a whole, and does it realistically address an actual need?
    - Does the need for the LLRF still exist (by book publishers / other cultural industries)?
    - Is the program consistent with the mandate and priorities of the federal government and the Department?
    - Does the LLRF complement, duplicate or overlap with any other program or service (including secured loan programs offered by Industry Canada or economic diversification agencies)?
- **Success —** Is the policy, program or initiative effective in meeting its objectives, within budget and without unwanted consequences?
    - To what extent did the LLRF (including the LPBP) achieve its objectives and expected results? Are these objectives/results achievable with current resources if the program continues?
- **Cost-effectiveness —** Are the most appropriate and effective means being used to achieve objectives, relative to other design and delivery appraoches?
    - Are there design and delivery aspects of the program that hindered or limited the achievement of objectives?
    - Is the LLRF/LPBP model an efficient and effective tool for meeting PCH objectives?

- If the program continues, is PCH the most appropriate organization to deliver it or would another federal, provincial or private-sector organization be preferable?

The study also necessarily gives consideration to the seven "tests" or criteria applicable for expenditure review, as announced by the Government of Canada in December 2003:

- **Public interest —** Does the program area or activity continue to serve the public interest?
- **Role of government —** Is there a legitimate and necessary role for government in this program area or activity?
- **Federalism —** Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?
- **Partnership —** What activities or programs should or could be transferred in whole or in part to the private/voluntary sector?
- **Value-for-money —** Are Canadians getting value for their tax dollars?
- **Efficiency —** If the program or activity continues, how could its efficiency be improved?
- **Affordability —** Is the resultant package of programs and activities affordable? If not, what programs or activities would be abandoned?

The study focuses as well on risk assessment, the Department's priorities, reporting requirements, government-wide priorities and lessons learned from the LPBP as an LLRF pilot project.

Diagram 1 presents the three main components of evaluation (relevance, success, cost-effectiveness) and how they relate to the federal government's seven tests/criteria for expenditure review.

Diagram 1 — Mandate and Evaluation Questions

3 main aspects and questions concerning mandate

RELEVANCE

- **Does the need for the LLRF still exist** (by publishers / other cultural industries)?
- **Is it consistent with the mandate and priorities of the government and PCH?**
- **Does it complement, duplicate or overlap with other programs (e.g. secured loan programs offered by Industry Canada or Western Economic Diversification)?**

SUCCESS

- **Were the objectives or expected results achieved?**
- **Are the objectives/results achievable with current program resources?**

COST-EFFECTIVENESS

- **Were there design/delivery problems that limited or hindered the achievement of objectives?**
- **Does the LLRF/LPBP model achieve objectives efficiently and cost-effectively?**
- **If the program continues, should delivering it be the responsibility of PCH or another federal, provincial or private-sector organization?**

7 government tests/criteria for expenditure review

Public interest served by the program area/activity?

Role of government legitimate and necessary in this program area/activity?

Federalism — Is the role of the federal government appropriate or should there be realignment with the provinces?

Partnership — Should the program or activities be transferred to the private sector?

Value-for-money — Are Canadians getting value for their tax dollars?

Efficiency — How could efficiency be improved if the program continues?

Affordability — If not affordable, what program activities should be abandoned?

3.3 Methodology

This summative evaluation is based on two main information sources: a **literature review** and **interviews** with key informants.

3.3.1 Literature Review

The study examined a range of documents: PCH administrative and research documents about the program; reports on various cultural sectors within the Department; the Book Publishing Industry Development Program (BPIDP) evaluation report; various sectoral study reports about the financial situation of publishers and the profile of cultural SMEs; LPBP financial and administrative records; and evaluation reports on similar funds established by federal agencies for other sectors. For the list of documents consulted, see Appendix A.

3.3.2 Interviews

To gauge whether cultural SMEs still face difficulty accessing commercial financing, the study collected the views of approximately 20 key informants from three major groups:

- PCH directors and directors general (involved with LLRF/LPBP or not);
- informants from other federal agencies (having agreements with financial institutions for secured loan funds, or directly providing a range of financing services);
- senior executives from Canadian cultural industry associations.

For the complete list of key informants, see Appendix B.

3.3.3 Limitations of the Evaluation

The LPBP pilot project used to implement the LLRF provided useful lessons, but it was also limited from the evaluation standpoint because of the following features:

- The LPBP covered only the publishing sector, and its delivery mechanism was limited to an agreement with a single financial institution (RBC) and to financing solely through lines of credit.
- The pilot project lasted only three years, not long enough to provide the same broad view and perspective for evaluation that would have resulted from the more usual five-year implementation period.
- Outside the publishing sector, the financial position, needs and financing deficiencies of cultural industry SMEs are poorly documented and analyzed in quantitative terms.

Despite these limitations, the literature review and the information gathered from interviews provided a sufficient and appropriate basis for a summative evaluation of the LLRF.

4.0 FINDINGS

This section presents the main findings of the evaluation. They are broken down by subject as well as questions asked in the evaluation, namely:

- the relevance of the LLRF
- the success of the LLRF
- the cost-effectiveness of the LLRF

4.1 Findings — Relevance of the LLRF

Once again, the questions examined in this section are as follows:

- Does the need for the LLRF still exist (by book publishers / other cultural industries)?

- Is the program consistent with the mandate and priorities of the federal government and the Department?

- Does the LLRF complement, duplicate or overlap with any other program or service (including secured loan programs offered by Industry Canada or economic diversification agencies)?

4.1.1 Does the need for the LLRF still exist (by book publishers / other cultural industries)?

The main factors identified in the literature review and the interviews show that there is indeed still a need for the LLRF.

From the interviews as well as the many sectoral studies consulted, it is apparent that, perhaps more than ever before, economic, financial and technological conditions weaken the position of SMEs in Canada's cultural sectors. The conditions include:

- greater market openness;
- lack of interest on the part of major financial institutions;
- far-reaching technological changes;
- the consolidation of major firms facing financial and organizational problems;
- the tightening up of major distribution networks;
- declining effective demand in certain segments;
- a desire for less direct, more effective government involvement based more on partnerships; and
- government assistance that is more likely to be criticized and challenged internationally.

The interviews with key informants from the cultural sector also revealed a broad consensus supporting the idea that, overall, Canadian SMEs in this sector have financing needs that are not met by the marketplace.

Concerning the unmet financing needs of Canadian cultural SMEs, there are many reasons why the financial sector is not always inclined to offer its products to cultural SMEs:

- the perceived risk involved in cultural activity;
- the lack of a secondary market for transactions with respect to intangible assets;
- the low level of specialization;
- the lack of information about resulting successful business paradigms;
- the small scale of the average financing transactions;
- the high administrative costs involved in granting and monitoring financing; and
- the assumed low volume of effective demand.

The LLRF appears to meet the four Expenditure Review Committee tests that relate directly to relevance: public interest, the role of government, federalism and partnership.

First, the cultural industries sector provides Canadian creators, artists and authors with opportunities to have their works produced and disseminated. The sector also gives the Canadian public opportunities to experience these works and become culturally enriched. From this standpoint, the LLRF, the aim of which is expansion and diversification of the sector, is a tool that serves the ***public interest***. To some extent, the public interest test is also met by the fact that the LLRF is consistent with the PCH mandate.

Second, the ***legitimate and necessary role of the federal government*** in the program sector is strongly demonstrated by certain findings mentioned earlier — in particular, that the financing needs of Canadian cultural SMEs are not adequately met by the supply and that the financial sector is not always inclined to make its products available to this sector. As for the ***federalism*** test, provincial governments have few or no mechanisms similar to the LLRF to meet the needs of cultural SMEs.

Last, concerning the relevance test for the federal government in terms of ***partnership***, the question to be asked is the following: “What activities or programs should or could be transferred in whole or in part to the private/voluntary sector?” The findings on this question are simple and straightforward: the LLRF model is necessarily based on the establishment of partnerships with commercial financial institutions to deliver services for targeted cultural industry clients.

Note that, although the financing needs of Canadian cultural enterprises appear to be well recognized generally, their scope and extent do not appear to have been accurately measured. Leaving aside the publishing sector, for SMEs in other cultural industries the financial situation, needs and financing gaps are relatively little documented or analyzed in quantitative terms. Further, many of the studies consulted base their findings largely on statements from respondents, rather than factual data and measurable indicators. Despite these limitations, the widespread perception that there is a need is relevant because without this perception, the real demand might never be expressed.

4.1.2 Is the program consistent with the mandate and priorities of the federal government and PCH?

The literature review and interviews show that the LLRF program is still consistent with the mandate and priorities of the federal government and PCH.

First of all, one of the main objectives of the LLRF program is to promote the expansion and diversification of Canadian-owned and -controlled firms working in the cultural industries sector by providing these firms with incremental sources of capital.

In addition to the objective of contributing to the expansion of Canadian-owned and -controlled firms in the cultural industries sector, the LLRF is intended to provide better access to financing for companies in this sector. It is through these roles that the LLRF fits into the PCH Program Activity Architecture, particularly (i) "creation of Canadian content and performance excellence" and (ii) "sustainability of cultural expression and participation."

But although it is possible to make a logical link between the objective of the LLRF and "creation of Canadian content and performance excellence," the PCH Program Activity Architecture appears not to do so. The program therefore does not seem to be required to produce and demonstrate results in terms of "creation of Canadian content." If the LLRF is realigned, it would be advisable to make the links between these two levels of objectives more explicit and clear.

4.1.3 Does the LLRF complement, duplicate or overlap with any other program or service (including secured loan programs offered by Industry Canada or economic diversification agencies)?

The information gathered for this evaluation shows that the LLRF does not really duplicate or overlap with other federal programs. It is rather a program that complements the existing program offerings of PCH and other government organizations, although some programs may have competed with it indirectly.

Most of the other PCH programs for cultural SMEs are of a different type from the LLRF. They are mainly contribution programs, whether repayable or otherwise, allocated by project or company, with the funds paid directly to cultural organizations.[5] Although there is no overlap or duplication, it is true that these programs may indirectly compete with the LLRF in the sense that they provide cultural industries with interest-free financing on a

[5] Contributions may also be paid indirectly in cases in which the Department provides funding through third parties or Crown corporations.

recurring, stable and predictable basis. The BPIDP is a good example of such a program.[6] Another example is the Canada Magazine Fund.

The Aid to Publishers component of the BPIDP offers repayable assistance directly to publishing firms. Repayment is required from beneficiaries that have received assistance of $100,000 or more, and have achieved a profit margin, excluding the BPIDP assistance, of 15% during the fiscal year. There have been no repayments under these criteria. Further, the BPIDP differs from the LLRF in that the repayable assistance goes directly to the publishers, not to partner commercial financial institutions in order to establish a loan loss reserve.

The Cultural Industries Development Fund, the administration of which was transferred by PCH to BDC in 1999, also makes loans to cultural enterprises (in the fields of book and magazine publishing, sound recording, film and video, and multimedia). For the years 2000 to 2004, BDC approved 668 loans to cultural enterprises across Canada; approximately 58% of the loans were for film and video production and distribution. However, the CIDF does not follow the LLRF model of a loan loss reserve fund program. The assistance transferred by PCH under the CIDF is also not tied to a predetermined ratio based on a level of expected risk.

Also of note are the earlier interdepartmental consultations on the reorganization of the CIDF, held in 1998. At the time, the loan program for publishers (which would become the LPBP) was described as a simple, innovative initiative offering short-term financing, complementing the long-term financing available under the CIDF. The complementary approach prompted the CIDF and the LPBP to serve different financing needs by providing different types of financing — to cultural enterprises in the case of the CIDF (with BDC), and to publishers in the case of the LPBP (with RBC).

As for the programs of other federal government organizations, first to be noted is the Canada Economic Development for Quebec Regions (CED) Loan Investment Fund Program (LIFP). Under its IDEA-SME program, starting from 1995 CED had signed partnership agreements with commercial financial institutions to make funds available to SMEs working in the new economy. The mechanism was similar to the LLRF, with repayable contributions to loan loss reserves. CED had also set this initiative in motion by means of a three-year pilot project involving five partnership agreements (with RBC, National Bank of Canada, Bank of Montreal, Fédération des caisses Desjardins and BDC); the project provided for repayable contributions to a maximum of $30 million, with the aim of generating financing of approximately $150 million for businesses. However, CED withdrew from these programs a few years ago. It would appear that administration of the agreements with some institutions involved a number of problems; in addition, the CED program may not have been sufficiently attractive to financial institutions in Quebec (compared, for example, to products made available by Investissement Québec).

[6] The objective of the Book Publishing Industry Development Program is to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad. The program seeks to achieve this objective by fostering a strong and viable Canadian book industry that publishes and promotes Canadian-authored books.

In Western Canada, the federal Department of Western Economic Diversification (WD) also reached a series of agreements, starting in 1995, with commercial financial institutions under its Loan Investment Fund Program. In 2002, WD signed approximately 40 agreements for a wide range of loan funds specific to a variety of sectors and types of activity, including biotechnology, health, tourism and environmental technology. Its partners were the major charter banks (CIBC, RBC, Toronto Dominion), BDC and the Farm Credit Corporation, as well as credit unions and the First Nations Bank for micro-credit funds. Funds were also established for Community Futures Development Corporations. In 2002, the total value of agreements for LIFP loans/investments was $292 million, with WD contributing $43 million. Approved financing totalled $145 million; WD contributed $69 million to a loan loss reserve.

Generally speaking, it can be seen that the reserve fund programs of these other federal organizations were or are chiefly for other target clients (sectoral/specialized funds) rather than cultural enterprises. In practice, these programs had no clients among businesses in the cultural sector. Further, the types of financing that they made available did not cover the niche of short-term or working capital financing.

4.2 Findings — Success of the LLRF

The general question examined in this section is:

- To what extent did the LLRF (including the LPBP) achieve its objectives and expected results? Are these objectives/results achievable with current resources if the program continues?

Also to be borne in mind are the LLRF’s three main objectives and expected outcomes. These relate to access to financing, the expansion and diversification of the sector, and the strategic investment of public funds. Three sub-questions thus follow from the general question:

- To what extent did the LPBP effectively help to *make financing more accessible* for the targeted industry (book publishing) and the types of enterprises targeted (SMEs)?

- To what extent did the LPBP effectively help to *promote expansion and diversification* by Canadian-owned and -controlled firms in the cultural industries sector by providing these firms with incremental sources of capital?

- To what extent was the LPBP an effective *strategic investment of public funds,* leveraging private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries?

Under the circumstances, since the LLRF in fact was implemented through its LPBP pilot project, the findings on the success and impact of the pilot project are used to determine the success and impact of the LLRF itself.

4.2.1 To what extent did the LPBP effectively help to make funds more accessible for the targeted industry (book publishing) and the types of enterprises targeted (SMEs)

The interviews and the literature review show that the results of the pilot project fell short of expectations in terms of the volume of credit generated. However, it is clear that beneficiaries had access to LPBP loans and that the program had a positive impact on the supply of capital.

The expected results were that the loan potential would be $20 million. After an encouraging start in the first year, demand for loans declined over the next two years. Out of a total of 21 applications, 17 lines of credit were ultimately approved, for a total amount of approximately $2.7 million.[7]

Although this outcome clearly fell short of expectations, it should be recalled that PCH and RBC agreed not to accept new applications beyond January 2002, after only three years of implementation. In explanation of its decision to stop participating in the program, RBC said that the volume of loans was too low and the risks were too high.

Despite the low volume of credit generated, the program had a positive impact on the supply of capital for LPBP beneficiaries. For example, the average indebtedness level for LPBP publishers declined from $100,000 in 1998 to $50,000 in 2000.[8] In comparison, the level of indebtedness for the BPIDP group of publishers remained stable at around $60,000 over the same period.

Another example: In 1998, future LPBP beneficiaries had an “accounts receivable to bank indebtedness” ratio of 3.1. This ratio improved significantly by 2000, to 2.2. In comparison, the BPIDP sectoral group experienced the reverse. Its ratio worsened slightly, from 2.5 in 1998 to 2.9 in 2000.

4.2.2 To what extent did the LPBP effectively help to promote expansion and diversification of Canadian-owned and -controlled firms in the cultural industries sector by providing these firms with incremental sources of capital?

The impact on expansion and diversification of the cultural industries sector was limited, given the small scale of the LPBP and the few publishers that benefited from the program. Nevertheless, there were positive impacts for beneficiaries.

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[7] See also *Examen du programme de prêts aux éditeurs de livres (PPÉL)*, Étude Économique Conseil Inc., October 2002, pp. 7-9.
[8] This is the “under $3 million” group,” including 15 of the 17 beneficiaries.

In terms of sales, the beneficiaries achieved satisfactory results during the period that the program was operational. Beneficiaries in the "under $3 million" subgroup were able to keep up the pace of net growth in average sales (16% from 1998 to 2000). These results compare favourably with results for the comparison BPIDP sectoral group (6% net average sales growth from 1998 to 2000).

The average level of accounts receivable for the "under $3 million" group of beneficiaries also increased sharply and the inventory increase was better dealt with than before.

Profitability fell for the sector as a whole between 1998 and 2000, but not for the LPBP group. During this period, the "net profit to net total income" ratio decreased from 5% to 2% for the comparison sectoral group, but it increased slightly (from 0% to 1%) for the LPBP group. Needless to say, the profitability of the LPBP group remained lower than that of the comparison sectoral group. However, insofar as the decline in profitability from 5% to 2% for the comparison sectoral group is indicative of unfavourable conditions for the industry, the LPBP group withstood those conditions better than the sector overall, and the gap in profit margins narrowed.

Last, note that for the subgroup of 14 beneficiaries in the "general literature" segment, there was a clear overall improvement in terms of sales growth and continued turnaround in profitability. The "educational-scholarly" segment subgroup did less well, particularly in terms of profitability and accounts receivable.

4.2.3 To what extent was the LPBP an effective strategic investment of public funds, leveraging private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries?

In view of the limited scope of the LPBP and the small number of beneficiaries, the program had limited success in leveraging private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries. Nonetheless, after several years RBC continues to do business with the majority of program beneficiaries, and they have retained their access to incremental sources of capital.

As mentioned earlier, in terms of loan volume, the LPBP results were below expectations. In comparison, the first series of partnership agreements between CED and five financial institutions had generated just over $30 million in loans for 105 projects, or 20% of the initial objective of $150 million (over three years).

Equally disappointing was the impact in terms of making financial institutions' officials aware of the unique features of Canada's publishing industry. Of course, the impact was bound to be limited by the scope of the LPBP pilot project. It should be recalled that the program was built on a single agreement with RBC — unlike the CED and WD pilot projects, with their loan loss reserve funds. However, after three years RBC no longer wished to offer new loans under the program; the LPBP thus did not really move the bank into higher-risk, less common financial aspects of cultural industries to any significant extent given the size of the sector.

Despite this, the LPBP did have some success in making financial institutions' officials aware of the unique features of Canada's publishing industry. In fall 2004, two and a half years after the LPBP had stopped accepting new applications, three quarters of the publishers who had received an LPBP loan (from 1999 to 2001) still had access to financing from RBC. Also in 2004, half of the LPBP beneficiaries (8) still had an LPBP line of credit, and a quarter (4) were still RBC clients with loans outside the LPBP. Thus, although the LPBP did not have many clients, it was successful in spurring the partner financial institution to provide ongoing financing for the vast majority of loan recipients. In this respect, the LPBP had a positive impact in achieving the strategic investment objective vis-à-vis the financial sector, if due allowance is made for the scale of the pilot project.

Last, a note about the WD Loan Investment Fund Program: The program's pilot project, launched in 1995, had approximately 40 funds in place by 2002, along with agreements with approximately 30 banks and credit unions; the total value of loan/investment agreements stood at $292 million. In its scope, results and longevity, the WD experiment tends to show that the reserve fund mechanism/model can indeed make it possible to strategically invest public funds in a manner that leverages private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries.

4.3 Findings — Cost-effectiveness of the LLRF

This section discusses the following general question: Are the most appropriate and effective means being used to achieve objectives, relative to other design and delivery approaches?

To present the evidence, the general question has been broken down into three sub-questions:

- Are there design and delivery aspects of the program that hindered or limited the achievement of objectives?
- Is the LLRF/LPBP model an efficient and effective tool for meeting PCH objectives?
- If the program continues, is PCH the most appropriate organization to deliver it or would another federal, provincial or private-sector organization be preferable?

4.3.1 Are there design and delivery aspects of the program that hindered or limited the achievement of its objectives?

On the basis of the information gathered for this evaluation, the mixed results of the LPBP pilot project are largely attributable to problems in the design of the pilot project itself — that is, as a specific model for implementing the LLRF framework. From this standpoint, the LPBP experiment is instructive for what it indicates about the design and delivery of LLRF initiatives, but it does not basically cast doubt on the appropriateness of this type of action.

The limited impact of the LPBP can be explained by the following factors.[9]

- The lack of flexibility in the eligibility conditions and financial criteria for the LPBP eliminated a number of publishers that would otherwise have been eligible for the program. For example, the pilot project's requirements in terms of profitability, net worth and long-term indebtedness meant that only a small segment of the originally targeted clientele could be reached. Of the 213 BPIDP beneficiaries who might have been able to qualify for the program, this lack of flexibility eliminated approximately 130 publishers.

- The loss coverage mechanism would have required rapid expansion of the portfolio to a level high enough to reduce the risks. The LPBP was delivered with the participation of only one financial partner, RBC. The expected results suggested that the loan potential would be $20 million. However, as was pointed out earlier, after an encouraging start in the first year, demand dropped rapidly. In view of the small size of the LPBP portfolio and the low average value of approved loans, the mechanism to fund the reserve at a level of 10% of each new approved line of credit (making the total reserve $272,000 for a fund of $2,720,000) was inadequate. It did not automatically secure the 85% coverage of net losses on loans that RBC could have incurred.

  In comparison, the CED fund mechanism was much less ambitious. The first series of CED partnership agreements with five financial institutions generated just over $30 million in loans, with $24 million in CED repayable contributions to loan loss reserves. The leveraging was only 1.25:1, well below the LPBP ratio of 10:1.

  The WD conditions are closer to those of the LPBP. In 2002, the WD commitment to the loan loss reserve was $43 million for agreements with banks and credit unions totalling $292 million (a ratio of approximately 7:1). Further, $145 million had been generated in approved loans, with a WD share of $21 million applied to the reserves, making the leveraging ratio the same (7:1). Thus the LPBP mechanism was significantly tighter (with a ratio of 10:1) than the mechanism for the WD fund and particularly that for the CED fund in terms of the proportion of financing covered by the government contribution to loan loss reserves.

- The sole commercial financial partner's level of commitment and management approach no doubt contributed to the mixed success of the LPBP. Clients were scattered geographically across the regions of Canada and RBC's business offices; there were differential costs and requirements to organize and operate in a management/administrative framework different from the financial institution's usual practices; and there were shortcomings in promotion and follow-up. As a result, the LPBP experience did not prove to be a worthwhile business opportunity for RBC.

[9] The diagnostic factors mentioned here concerning the LPBP are taken from the report *Examen du Programme de prêts aux éditeurs de livres (PPÉL)*, Étude Économique Conseil Inc. for PCH, October 2002.

- PCH's level of commitment and program management approach limited the success of the LPBP. PCH strove to make its planned contribution to promoting the program. However, the Department administered the program through one of its officers involved in managing the BPIDP program. The lack of a dedicated resource assigned by PCH was certainly a factor limiting the success of the LPBP; an innovative project of this type required greater and more sustained special efforts in terms of awareness, guidance, advice and follow-up for potential and actual clients, and also for the financial partner. Beneficiaries were generally positive about the LPBP concept, but would have liked to have had greater, more sustained involvement and assistance from PCH.

- The key informants mentioned a number of areas with which they were dissatisfied and suggested improvements with respect to: (i) delays in the processing of files; (ii) RBC services; (iii) the amount of credit offered; (iv) the loan interest rate; (v) the collateral security required to receive a loan; and (vi) the assessment of a firm's accounts receivable.[10]

- Other sources of government financing (particularly the BPIDP) may have limited the impact of the pilot project by diverting demand for the LPBP financial product. However, it is difficult to verify whether this was a limiting factor.

4.3.2 Is the LLRF/LPBP model an efficient and effective tool for meeting PCH objectives?

The LLRF is a model that may help PCH to achieve its objectives efficiently and effectively. Under this model, government contributions can be used to leverage financing for cultural-sector firms. This was shown only on a small scale with the LPBP, but it has been demonstrated more broadly by the WD Loan Investment Fund Program.

Altogether, government investment over six years cost a total of $69,432, which is the amount recovered by the financial institution to cover its effective losses on loans. In connection with this cost, the outcome of the program was to generate incremental ongoing financing of $2.3 million for publishers. This amount consisted of the $2.7 million in approved LPBP lines of credit, less the total amounts of lines of credit approved for two beneficiaries who are no longer RBC clients, whether under the LPBP or post-LPBP, as well as the amounts of lines of credit for two beneficiaries whose loans led to an RBC claim on the loan reserve.

The two beneficiaries who defaulted on their repayments accounted for 12% of the number of beneficiaries. The risks ended up being 2.5% of the total amount of approved lines of credit (i.e. the size of the reserve fund), or 25% of the amount of the reserve itself.

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[10] See also *Examen du programme de prêts aux éditeurs de livres (PPÉL),* Étude Économique Conseil Inc., October 2002, pp. 24-27.

The review of the LPBP also showed that the program neither exceeded costs nor had undesirable effects.

Following the 2002 evaluation of WD's Loan Investment Fund Program (an experiment that then had been operating for seven years on a much larger scale than the LPBP), 80% of the financial partners and two thirds of the WD managers preferred the LIFP as a mechanism for removing constraints on SMEs' access to debt financing. Moreover, 64% of the financing experts of SMEs consulted said that it was preferable for the Government of Canada to work on influencing financial institutions rather than giving loans directly to SMEs, since this approach allowed for greater leveraging in financing while utilizing their expertise.

The LLRF/LPBP appears to have no difficulty in meeting the Expenditure Review Committee tests for cost-effectiveness.

Establishing an economic base — with leveraging — worth far more than the government contribution is clearly a way to meet the **value-for-money** test.

The program also meets the **efficiency** test in that its leveraging is much more likely to provide value-for-money than the common form of funding under other programs that cannot offer leveraging. The LLRF/LPBP itself had a positive impact on the ratio between the net cost of losses to be covered and the increase in the amount of financing generated.

Last, with respect to **affordability**, the LLRF/LPBP is in fact a program based on a mechanism that requires government funds only to the extent that the losses for which it insures actually occur. In design terms it is affordable by definition, and in any event it is more affordable than any of the other programs that offer direct funding.

It would appear that the LPBP did not lead to some major impacts or achieve the expected volume because of a number of limitations having to do with the framework and parameters of the pilot project. In contrast, the WD and CED experiments showed that:

- it is possible to do business with a large number of financial institutions;
- doing so is not expensive in terms of human resources;
- this type of program requires careful management; and
- it requires an awareness of the distinctions and benefits of this type of instrument with regard to secured loan funds and similar mechanisms.

4.3.3 If the program continues, is PCH the most appropriate organization to deliver it or would another federal, provincial or private-sector organization be preferable?

The study does not find convincing arguments in favour of a specific alternative. No other organization appears to meet all the criteria required to be the partner acting as an umbrella or APEX organization. Nevertheless, an agreement with an umbrella organization such as BDC could be an appropriate partnership option if it makes it possible to fill a new niche of financing requirements (i.e. offer a broader range of products) and helps to significantly increase the supply of capital for the cultural sector. In any event, to fully play its role, PCH must be able to devote sufficient skilled resources to properly administer the agreements. Moreover, making use of a number of institutions/partnerships to deliver the LLRF is an approach that appears to be justified.

The 2002 *Exploratory Study of the Strategic Options Open to Canadian Heritage in Dealing with the Financial Sector*[11] — which examined the findings of the review of the LPBP pilot project — looked at the options for delivering a reserve fund for cultural SMEs, as well as delivery mechanisms. Among other things, the study considered the limitations of the LPBP model, which was restricted to an agreement with a single commercial financial lending institution.

The study raised the possibility that PCH might increase the number of financial institutions with which it had agreements.

Another possibility was to create an APEX agency by recruiting an organization that would act as the umbrella organization and be empowered to sign specific agreements with financial institutions to authorize extending the loss guarantee. The exploratory study mentioned that this umbrella organization could be of a different type. For example, it could take the form of an agreement with another federal organization meeting the following criteria: (a) major presence/representation across the country in financing enterprises; (b) experience in administering similar reserve fund programs for SMEs; and (c) prior knowledge and experience of the cultural industries sector.

Some at PCH have argued that administering a large number of agreements with many different financial institutions would be a complex task and should be delegated. According to others, this task should continue to be handled within PCH.

The federal organizations experienced in administering loan loss reserve funds basically are WD and perhaps the Federal Economic Development Initiative in Northern Ontario (FedNor). Canada Economic Development for Quebec Regions is no longer active in this type of program and now handles only more traditional mechanisms and types of loans (for reasons mentioned earlier). Thus, if it was decided to use the different regional federal economic development/diversification agencies because of their experience, expertise and effectiveness in delivering reserve fund programs, the result would be only partial coverage of the clientele across Canada. Accordingly, this is not a genuine option.

Another possibility, as stated in the 2002 *Exploratory Study*, would be an agreement with BDC. In view of its role in administering the CIDF, BDC offers the advantage of being familiar with the clientele targeted by the LLRF and with many cultural industries. It also has a Canada-wide network. This option could be considered if it meets a number of relevant criteria. The agreement would nevertheless require further clarification.

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[11] Prepared by Étude Économique Conseil Inc. for PCH, October 2002.

Last, an important lesson to be learned from the experience of WD and CED is that it takes one full-time equivalent plus 50% of the time of a manager to administer some 20 agreements on an ongoing basis.

5.0 CONCLUSION

This report has presented the findings of a summative evaluation of the Loan Loss Reserve Fund, a Canadian Heritage program established to help Canadian cultural industries cope with a shortage of financial resources.

This section summarizes what the evaluation found concerning the three main questions examined: relevance, success and cost-effectiveness.

Relevance

The main findings from the literature review and the interviews show that there is still a genuine need for the LLRF.

The findings also show that the LLRF program is still consistent with the mandate and priorities of the federal government and PCH. Among other things, the study demonstrated that the LLRF appears to meet the four Expenditure Review Committee tests related directly to relevance: public interest, the role of government, federalism and partnership.

The information gathered for this evaluation also showed that the LLRF does not really duplicate or overlap with other federal programs. It is rather a program that complements the existing program offerings of PCH and other government organizations, although some programs may have indirectly competed with it.

Success

The interviews and the literature review show that the success of the pilot project was mixed since the results fell short of expectations in terms of the volume of credit generated. However, it is clear that beneficiaries had access to LPBP loans and that the program had a positive impact on the availability of financing.

Another conclusion is that the impact on expansion and diversification of the cultural industries sector was limited, given the narrow scale of the LPBP and the few publishers that benefited from the program. Nevertheless, there were positive impacts for beneficiaries.

In view of the limited scope of the LPBP and the small number of beneficiaries, the program had limited success in leveraging private-sector funds by moving commercial financial institutions into higher-risk, less common financial aspects of cultural industries. Despite this, after several years RBC continues to do business with the majority of program beneficiaries, and they have retained their access to incremental sources of capital.

Cost-effectiveness

On the basis of the information gathered for this evaluation, the mixed results of the LPBP experiment are largely attributable to problems in the design of the pilot project itself — that is, as a specific model for implementing the LLRF framework. From this standpoint, the LPBP experiment is instructive for what it indicates about the design and delivery of LLRF initiatives, but it does not basically cast doubt on the appropriateness of this type of action.

With changes, the LLRF is a model that may help PCH to achieve its objectives efficiently and effectively. Under this model, government contributions can be used to leverage financing for cultural-sector firms. This was shown only on a small scale with the LPBP, but it has been demonstrated more broadly by the WD Loan Investment Fund Program.

The study does not find convincing arguments in favour of a specific alternative. No other organization appears to meet all the criteria required to be the partner acting as an umbrella or APEX organization. Nevertheless, an agreement with an umbrella organization such as BDC could be an appropriate partnership option if it makes it possible to fill a new niche of financing requirements (i.e. offer a broader range of products) and helps to significantly increase the supply of capital for the cultural sector. In any event, to fully play its role, PCH must be able to devote sufficient skilled resources to properly administer the agreements. Moreover, making use of a number of institutions/partnerships to deliver the LLRF is an approach that appears to be justified.

6.0 RECOMMENDATIONS AND MANAGEMENT RESPONSE

Regarding this study's findings on relevance, success and cost-effectiveness, the recommendations are as follows.

Should the Department wish to increase access to capital for cultural businesses so that they can achieve their cultural objectives:

<u>Recommendation 1</u> — The LLRF could be maintained. It is an adequate and unique tool because of its mode of delivery in partnership with the commercial financial sector and because of the leveraging it provides.

The LLRF helps to meet the financing needs of cultural businesses, most of which remain poorly served by the operating modes and methods of commercial financial institutions, and are in a weaker position than previously as a result of constantly changing economic, financial and technological conditions. Designed to leverage private-sector funds, the LLRF is an instrument that facilitates support for cultural businesses at minimal cost.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, it will proceed with its renewal. The discussions already initiated with other cultural sectors will help better identify the needs for a renewed LLRF that is coherent with departmental objectives.

Completion Date: March 2006

<u>Recommendation 2</u> — Broaden the program's target clientele, and review and adapt its terms of reference in light of the needs expressed by the various cultural industries.

The lessons learned from the pilot experiment clearly show that, as far as the program's terms of reference allow, the eligible target clientele should be expanded to include various cultural industries and SMEs (and possibly arts organizations), taking a more comprehensive approach. They also show that the criteria for accessing the program should be reviewed and adjusted in light of the expressed or identified needs of various industries; this could ensure a large enough volume of financing applications and portfolios to limit the intrinsic risk of financial partners and create a leveraging effect on the supply of capital.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, the program will expand its target audience and go further with ongoing discussions with other cultural sectors that could eventually participate in the program. Reviewing the criteria according to the needs of the different participating cultural industries will be done should the program be renewed.

Completion Date: Before March 2006

Recommendation 3 — The delivery mode of the LLRF should be based on a number of institutions/partnerships.

Although the study did not find convincing arguments in favour of a specific alternative, the LLRF appears well positioned to ensure, as far as possible, that potential beneficiaries can easily initiate and maintain business contacts with one of the participating financial institutions in various parts of the country.

Management Response: Accepted.

Should the Department decide to promote the use of this mechanism for funding cultural industries, it commits to exploring several options, including a partnership with the Business Development Bank of Canada, should the program be renewed.

Completion Date: Before March 2006

Recommendation 4 — In the event that the LLRF program continues with the proposed new strategic approach and the necessary funding, the Department should take steps to increase its level of commitment and to improve the way it manages the program.

This evaluation has shown that the Department's level of commitment and the way it has managed the program have been factors limiting the success of the LPBP. Although PCH made efforts to contribute as specified to promoting and managing the program, results would undoubtedly have been better with resources dedicated exclusively to the program. One possibility to consider would be assigning a senior manager from the upper ranks of the Department, mandated to ensure monitoring of the tasks required for fine-tuning the program, and to promote and establish partnerships. The management committee provided for under the program should also be activated.

Management Response: Accepted.

Should the program be expanded to other cultural industries with the necessary funding, the Department commits to staffing a head manager position and to create the management committee.

Completion Date: Before March 2006

Recommendation 5 — If the LLRF is renewed, the statement of program objectives and management framework should clearly show the link to the Department's general objective of "creating Canadian content."

This evaluation has shown that it is possible to make a logical link between the objective of the LLRF and "the creation of Canadian content and performance excellence." The program's management framework should therefore make this link more clearly and explicitly. Any new statement of objectives or management framework should include a definition of activities helping to measure the program's performance in regard to "creation of Canadian content."

Management Response: Accepted.

Should the program be renewed, the program management framework will be reviewed and linked to departmental objectives.

Completion Date: Before March 2006

APPENDIX A — DOCUMENTS CONSULTED

- Documents on the LLRF and the LPBP

Loan Loss Reserve Fund (LLRF) Evaluation Framework, Corporate Review Branch, Department of Canadian Heritage, March 1999.

Examen du Programme de prêts aux éditeurs de livres, Étude Économique Conseil Inc. (EEC) , October 2002. Report based on survey of beneficiaries, non-beneficiaries and Royal Bank of Canada employees, and on an analysis of the financial profiles of Canadian publishers (profiles taken from their financial statements over a number of years).

Examen du "projet pilote" PPÉL établi dans le cadre du FRP — Cadre méthodologique, repérage documentaire et préparation des outils de collecte et d'analyse, EEC, March 2002.

Exploratory Study of the Strategic Options Open to Canadian Heritage in Dealing with the Financial Sector: Final Report, EEC, October 2002. Analyzes the Department's various options for using the LLRF tool with financial institutions.

- Sectoral studies on cultural industries

Financial Needs Analysis of the Canadian Book Publishing Industry, EEC, October 2002. Report based entirely on analysis of publishers' financial statements over a lengthy period.

Update on the Financial Needs of the Canadian Book Publishing Industry, EEC, May 2004. Report based on Canadian publishers' financial statements over a lengthy period. Special focus on financial data pertaining specifically to LPBP beneficiaries, with and without their access to the program.

Survey on Succession Planning of Owners of Publishing Companies, EEC, March 2003.

Preparing the Future of Publishing: An Inventory of Resources Available to Support Succession Planning in the Publishing Sector, EEC, December 2003.

Profile of Small and Medium-sized Enterprises in the Canadian Cultural Industries, Nordicity Group Ltd., March 2004.

Summative Evaluation of the Book Publishing Industry Development Program (BPIDP): Final Report, Corporate Review Branch, Canadian Heritage, June 2004.

Music Entrepreneur Program Next Generation Study: Final Report, Connectus Consulting Inc., September 2004.

Making New Medias Work for Canadians: An Industry Survey and Assessment of the Canada New Media Fund, David Ellis (principal investigator), Paul Johnston (research associate), Mark Czarnecki (editorial consultant), Omnia Communications, February 2003.

"Subsidy Management and Magazine Publishing," Stephen Osborne, *Subsidy Management*, June 2004.

Numbers and Issues: Annual Report 2003-2004, Canadian Heritage, 2004.

Other federal institutions and funds similar to the LLRF

Evaluation of the Loan Investment Fund Program, Ference Weicker & Company, Western Economic Diversification Canada, July 2002.

Développement économique Canada; évaluation des cinq ententes de partenariats signées avec les institutions financières dans le cadre du programme IDÉE-PME, PriceWaterhouseCoopers, June 1999.

Business Development Bank of Canada, *2003 Annual Report.*

APPENDIX B — KEY INFORMANTS

Three main categories of informants:

- ⇨ PCH directors or directors general (involved in LLRF/LPBP or not)
- ⇨ informants from other federal agencies (having agreements with financial institutions for secured loan funds or directly offering a range of financing services)
- ⇨ executives from Canadian cultural industry associations

❑ PCH

Cultural Industries

Canadian Culture Online
Ted Bairstow, Director General
Ruth Bacon, Director, Content Policy and Programs

Publishing Policies and Programs
Gordon Platt, Director General
Nadia Laham, Director, Research, Analysis and Industry Development
Annie Carruthers, Acting Director, Book Publishing Policy and Programs
William Fizet, Director, Periodical Publishing Policy and Programs

Film, Video and Sound Recording
Jean-François Bernier, Director General
Jean-Pierre Gauthier, Director, Film and Video Policy and Programs
Pierre Lalonde, Director, Sound Recording Policy and Programs

❑ OTHER GOVERNMENT AGENCIES

Business Development Bank of Canada
Sylvie Ratté, Director, Alliances and Markets
Guy Beaudry, First Vice-President, Corporate Affairs, and Chief of Planning

Canada Economic Development for Quebec Regions
Daniel Marchan, Evaluation Advisor
Lise Moras, Manager, Interregional Interventions and Partnerships

Department of Western Economic Diversification
Ron Sellen, Manager, Service Delivery Partnerships

❑ CULTURAL INDUSTRIES

Book Publishing
Association of Canadian Publishers
Association nationale des éditeurs de livres

Magazine Publishing
Canadian Magazine Publishers Association
Association québécoise des éditeurs de magazines

Film and Television
Canadian Film and Television Production Association

Sound Recording
Canadian Independent Record Production Association

APPENDIX C — INTERVIEW GUIDES

❑ PCH Directors or Directors General

- ⇨ Knowledge of circumstances behind creation/implementation of LLRF?
- ⇨ What is your understanding of how this program operates?
- ⇨ How might circumstances be different today?
- ⇨ How can the relevance of this type of initiative be maintained, strengthened or negated?
- ⇨ What are your existing programs, and how would you describe and position the LLRF with respect to these programs?
- ⇨ More specifically, is there one or another of the existing programs that fulfills the function/objectives of the LLRF?
- ⇨ What are the characteristics of their structure and delivery mechanisms?
- ⇨ Is there a role for PCH in financing?
    - short-term debt
    - long-term debt
    - equity
    - guarantees
    - or only contributions (repayable or otherwise)
- ⇨ Can PCH work together with:
    - non-government financial institutions?
    - government financial institutions?
    - the private sector or the volunteer sector?
- ⇨ What conditions are required for this to work? Why?
- ⇨ What are the hazards? Why?
- ⇨ Is there a definition or preferred manner (narrow/broad?) for dealing with this type of support?
    - by sector?
    - by financial product?
    - by purpose?

- ### Informants from other federal agencies

Chosen for their experience (in agreements with financial institutions or as a financial institution) and what has been learned from it.

CED — WD

- ⇨ What agreements have been established with which commercial financial institutions?
- ⇨ How many agreements? With which institutions? Since when?
- ⇨ Size of funds
- ⇨ Single agreement or several types — variants? Different reasons and methods?
- ⇨ Features of agreements (term, allocation of roles, targets, instruments, etc.)?
- ⇨ How does it work (management and delivery model)?
- ⇨ Development and performance of the funds established?
- ⇨ What is the level or nature of factors for success or failure? Clear conditions for success or failure factors? Issues, questions and risks?

BDC

Overview of the range of financing services available to cultural enterprises (whether by sector or otherwise) and how they are structured in relation to the financial needs of cultural enterprises.

Description of characteristics/development of cultural enterprise clients.

Demand potential.

Loan performance and risk assessment.

Positioning and complementarity with respect to products available in the private financial sector.

Cultural Industry Associations

Knowledge of the program and similar programs? (For LPBP, what were the causes for the problems encountered?) Needs.