Evaluation of the Atlantic Canada Opportunities Agency Financing Continuum Program Sub-activity

Final Report

Evaluation Unit

Finance and Corporate Services

Atlantic Canada Opportunities Agency

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List of Acronyms

ACOA	Atlantic Canada Opportunities Agency
BDC	Business Development Bank of Canada
BDP	Business Development Program
CBDC	Community Business Development Corporation
CBoC	Conference Board of Canada
CSBF	Canada Small Business Financing
DG	Director General
ED	Enterprise Development
ESC	evaluation steering committee
FC	Financing Continuum
GDP	gross domestic product
PAA	Program Activity Architecture
QAccess	database to support project management from application to completion
SME	small and medium-sized enterprise
VC	venture capital

Executive Summary

Introduction

This report presents the findings, conclusions and recommendations from an evaluation of the Financing Continuum (FC) program sub-activity of the Atlantic Canada Opportunities Agency's (ACOA) Enterprise Development (ED) program activity covering the period from 2004-2005 to 2008-2009.

The FC sub-activity enables small and medium-sized enterprises (SMEs) to access financing for expansion and modernization by providing direct assistance to enterprises and business support organizations to fill gaps in specific areas such as start up, expansion and modernization through the Business Development Program (BDP) as well as stimulating the availability and breadth of financing sources in Atlantic Canada.

Direct funding for projects is provided in the form of interest-free, unsecured loans to SMEs to support the expansion or modernization of existing businesses and, to a lesser extent, the start-up of new businesses, planning and execution of domestic marketing activities. Non-commercial/not-for-profit organizations are also able to obtain non-repayable contributions for the provision of specialized services to strengthen the business capabilities of SME owners and to cover the capital costs needed to establish, expand or modernize facilities that provide business support services.

Evaluation objectives

The objective of this evaluation is to assess the relevance and performance of the FC sub-activity from 2004-2005 to 2008-2009.

Relevance – the extent to which the FC sub-activity addresses a demonstrable need and is relevant to ACOA's mandate, strategic objectives as well as government-wide priorities and strategies.

Performance – the extent to which the FC sub-activity is achieving value for money, specifically:

- Effectiveness – the extent to which program objectives have been achieved within the context of expected results and outcomes.

- Efficiency – the extent to which FC activities are undertaken in an affordable manner, taking into consideration the relationship between outputs and the resources used to produce them.

- Economy – the extent to which resources allocated to the FC sub-activity are well-utilized, taking into consideration alternative delivery mechanisms.

Evaluation Methodology

The methodology for the FC evaluation is based on triangulation of findings from multiple lines of evidence. Findings from each line of inquiry were compared to identify the extent to which findings are consistent with each evaluation issue and the implications of the findings for ACOA going forward. The following lines of inquiry were utilized:

- A total of 17 preliminary interviews with a cross-section of ACOA representatives and selected external partners and stakeholders from Newfoundland and Labrador (N.L.), Nova Scotia (N.S.), Cape Breton (C.B.), New Brunswick (N.B.) and Prince Edward Island (P.E.I.). These interviews validated the methodology to be used for the evaluation.

- A review of ACOA documentation related to the design, delivery and performance of the FC sub-activity.

- An analysis of QAccess summary data on ACOA-funded FC projects for 2004-2005 to 2008-2009.

- A search and review of published literature and research from Canada as well as other jurisdictions.

- Key informant interviews with relevant ACOA management and staff. A total of 38 ACOA representatives were interviewed.

- Interviews with 51 key informants representing partner organizations providing financial support/advice to SMEs and the FC clients as well as organizations involved in the provision of investor-readiness support and angel and venture capital (VC) funding for SMEs.

- An online survey of FC clients was sent to 604 individuals with a total of 165 completed questionnaires returned, for a response rate of 27.3%.

- Economic impact analysis to estimate the cumulative economic impact of FC projects on gross domestic product (GDP) in Atlantic Canada from 2004-2005 to 2009-2010.[1] The analysis, performed using Conference Board of Canada (CBoC) econometric models for each of the four Atlantic provinces, estimated the direct impacts of the project expenditures on value added and job creation, and the

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[1] ACOA, *Economic Impact Analysis of the ACOA Financing Continuum Sub-activity*, prepared by the Corporate Planning and Performance Management Division, Moncton (April 2010).

multiplier effects resulting from the indirect and induced impacts of these expenditures.

Summary of Key Evaluation Findings

Relevance

ACOA's participation in the provision of public funding for the expansion and modernization of SMEs in Atlantic Canada is predicated on the existence of a market imperfection whereby economic efficiency is diminished due to SMEs being less able to access financing compared to larger, better-established enterprises, leading to a less-than-optimal rate of economic growth. A large body of research conducted in Canada and elsewhere has found that SMEs do experience difficulties in accessing financing and that this financing gap is larger in Atlantic Canada than elsewhere.

A majority of key informants interviewed supported the view that there is a financing gap for SMEs in Atlantic Canada and that the gap is most pronounced for SMEs in rural areas and in knowledge-based industry sectors. They also supported ACOA's role in providing funding for SME expansion and modernization. This financing gap also includes an equity gap facing the sub-set of SMEs seeking to fund expansion activities using equity funding. The existence of this gap is a function of a limited availability of equity funding compared to that in other regions of Canada and a lack of suitably prepared and qualified SMEs that are investor-ready. Many key informants also saw a need for ACOA to clarify and strengthen its approach to facilitating growth in the availability of equity funding and developing investor readiness among SMEs in the wake of the Agency's decision to no longer provide investment funds for venture capital (VC) organizations (nor to fund their operating expenses).

The provision of support for SME expansion and modernization under the FC sub-activity is also directly aligned with the goal of the ED program activity – to improve the growth and competitiveness of Atlantic SMEs – and the Agency's target outcome, to enable the growth of a competitive Atlantic Canadian economy. More broadly, the FC sub-activity's outcomes are also aligned to one of the government's high level outcomes for all Canadians – strong economic growth – and contribute to enhanced support for small business, which is an area of focus in the federal government's Economic Action Plan.

SME financing is provided by a range of federal and provincial agencies in Atlantic Canada, including ACOA, the Business Development Bank of Canada (BDC), provincial ministries and agencies, and Community Business Development Corporations (CBDCs) (funded through ACOA's Community Development program) as well as private sector banks, credit unions and caisses populaires. Each of these different types of organizations occupies a distinct position in the market.

ACOA's role is most frequently seen to be complementary to other providers rather than duplicating effort and resources. In particular, ACOA is more willing to fund higher-risk expansion/modernization and related projects on more flexible terms than other lenders and is more active in rural areas than private lenders. ACOA is also unique in that funding from other lenders is often conditional on ACOA participation in a project, which complements the Agency's requirement for matching funding from clients and other lenders for commercial FC projects.

Effectiveness in achieving expected results

During the period from 2004-2005 to 2008-2009 the FC sub-activity achieved a notable level of success in meeting the expected results set in the Agency's Program Activity Architecture (PAA) – to enable SMEs to access funding to finance their expansion and modernization. A total of almost $166 million in direct funding was provided to 792 clients for 924 FC projects. Clients were able to leverage this funding to obtain an additional $441 million from a combination of personal investment and other sources (i.e. federal, provincial). The majority of these projects (92%) were with commercial business organizations, with the balance involving funding for non-commercial projects intended to provide support services to businesses. The majority of the commercial projects were for SME expansion or modernization (71%), or for the establishment of new business ventures (17%), with the remaining projects being mostly concerned with market and product development activities.

Large majorities of the FC clients considered their projects to be successful or, in the case of projects in progress, expected them to be successful. Measures of success used by these clients involved combinations of increases in sales and profitability; improvements to infrastructure, facilities and product/service quality; introduction of new products/services; and improvements in productivity. Taken together, these assessments of project success by the surveyed clients point to a substantial contribution to improved growth and competitiveness of Atlantic SMEs as a result of the FC sub-activity.

This finding is supported by the results of ACOA's economic analysis using the CBoC econometric models for each of the four Atlantic provinces. The analysis estimates that FC funding provided by ACOA and other lenders resulted in an additional $1.5 billion of Atlantic GDP (cumulative from 2004 to 2010) and approximately 18,600 additional direct, indirect and induced jobs.

Opportunities to improve the effectiveness of the FC program sub-activity were identified in two areas. First, the current definition and scope of the FC sub-activity does not appear to be consistent with the intended focus of the sub-activity in ACOA's current PAA, which is to enable SMEs to access funding for business expansion and modernization. This compares with a broader definition applied prior to 2007 that sought to foster the development of a range of SME funding structures across the continuum of needs faced by

SMEs. As such, it may no longer be appropriate to use FC as the title for the sub-activity. The logic model for the sub-activity is also outdated and does not accurately reflect the evolution in the scope and focus of FC.

Second, a proportion of the non-commercial projects funded under the sub-activity do not appear to be contributing to the provision of business support services to SMEs and other Atlantic businesses. In some instances these projects are "quasi-commercial," intended to enable non-profit organizations to develop their products and services and contribute to the social capital of the region. In other instances, they appear to involve funding for universities and colleges to strengthen their capabilities without necessarily providing reasonably direct benefits to businesses. These types of projects may be better categorized under other ED sub-activities or Community Development programs within the Agency's PAA, and the FC sub-activity restricted to non-commercial projects that clearly provide services and support to businesses.

Efficiency and economy

Funding allocated for the support of FC projects has been well-utilized. A high proportion of the FC projects – between 68% and 90% – were found to be incremental. That is, they would not have proceeded at the proposed location and/or within the proposed time frame and scope without financial assistance from ACOA. In addition, a high degree of leveraging was also achieved, with $2.70 of project funding invested for every dollar of ACOA support ($1.80 for each ACOA dollar after excluding four very large, atypical FC projects). This compares to a target of $2 in project funding from other sources for every dollar of ACOA support in the Agency's performance measurement framework. Finally, the rate of repayment of transfers to commercial FC projects is also strong, with almost a quarter (24%) of the funds disbursed between 2004-2005 and 2008-2009 already repaid and only 6.4% in default or written off. The balance outstanding relates to projects that have not yet entered the repayment phase or repayment is in process.

A high proportion of the clients for FC projects (over 80%) believed that most aspects of the project selection and management life cycle work well. Areas where opportunities for improvement were most frequently highlighted (by 10-20% of the surveyed clients) related to improving the timeliness of decision-making, expanding the types of projects supported, and expanding the knowledge and understanding of SMEs and industry sectors by ACOA staff. Comments by ACOA staff also tended to highlight challenges in these same areas as well as workload management issues. Potential opportunities exist to improve the design of the application process and form for FC projects including: introducing consistent service standards for the key steps; revising the allocation of tasks to account managers to enable more effective client outreach and project monitoring activities; and establishing a more formalized and consistent performance reporting system rather than relying on ad hoc approaches.

Conclusions and Recommendations

Relevance

The evaluation findings and conclusions show that the FC sub-activity is a relevant activity to the Agency, in that it:

- addresses the financing gap experienced by Atlantic SMEs by improving their access to financing for expansion and modernization projects in Atlantic Canada;
- is aligned with ACOA's mandate and contributes to the achievement of the federal government's policy goals for regional economic growth; and
- provides funding for higher risk projects that many other lenders are reluctant to support or will only support on the condition of ACOA's participation, offers flexible payment terms, and is more active in supporting rural SMEs seeking to expand or modernize.

Going forward, ACOA needs to clarify its position and approach to developing investor readiness among SMEs considering the use of equity funding and facilitating the expanded availability of angel and venture funding.

Recommendation 1: Define a framework and scope of services to support the development of equity financing for SMEs in Atlantic Canada, drawing on lessons learned with recent investor-readiness projects and communicate details of the updated approach to partners, SMEs and staff.

Performance: effectiveness

The FC sub-activity has been successful in enabling:

- SMEs to access funding for expansion and modernization, and achieve a high degree of leverage on funding provided for FC projects; and
- FC clients to achieve significant growth in sales, and improvements in the productivity of their operations. In turn, the success of these projects has created substantial economic benefits in the form of growth in regional GDP and employment.

FC projects also have a high degree of incrementality in that they would not have proceeded without support from ACOA, or would have proceeded over longer time frames and/or with smaller budgets.

In recent years the FC sub-activity has increased its emphasis on expansion and modernization projects. This narrower focus has not been reflected in the title of the sub-activity or its logic model. At the same time, a proportion of the non-commercial projects categorized as FC projects do not appear to provide business support services, as intended.

Recommendation 2: Clarify the scope of the FC sub-activity to focus on its primary role of enabling SMEs to access funding for expansion and modernization.

Recommendation 3: Revise the FC logic model to reflect the Agency's current priorities and expectations of the sub-activity.

Recommendation 4: Reinforce the need for non-commercial FC projects to have a clear linkage to business, including clarifying guidelines provided to prospective clients and guidelines used by ACOA staff to determine the fit of prospective non-commercial projects within the scope of the FC sub-activity.

Performance: efficiency and economy

ACOA`s funding of FC projects is considered to be efficient and economical in that it is highly incremental and enables clients to achieve a high degree of leveraging. While a majority of clients and program-delivery staff believe that the FC project selection and management life cycle work well, a number of opportunities to further improve the efficiency and economy of these processes were suggested. These opportunities relate to the functioning of the application process, the introduction of service standards and the introduction of a more formalized and consistent performance reporting system.

Recommendation 5: Review and redesign, as necessary, the process for managing projects through their life cycle, from initial inquiry and application to repayment, to more consistent and timely management of applications and projects, enabling account managers to maximize their involvement in value-added activities with clients.

1. Introduction

This report presents the findings, conclusions and recommendations from an evaluation of the Financing Continuum (FC) program sub-activity of the Atlantic Canada Opportunities Agency (ACOA) Enterprise Development (ED) program activity from 2004-2005 to 2008-2009.

The evaluation was led by an evaluation steering committee (ESC), co-chaired by the Vice-President Finance and Corporate Services and the Vice-President New Brunswick, and composed of representatives from ED as well as stakeholders.

1.1 Background

An extensive amount of research is available to support the existence of a gap in access to financing among Canadian small and medium-sized enterprises (SMEs) largely due to the higher risk associated with these types of businesses.[2] Firms that are higher risk with regard to their likely ability to repay loans have more difficulty obtaining financing from various sources than lower-risk firms. In Atlantic Canada, enterprises do not have access to as broad a range of financing products and institutions as exists in more developed, urban areas of Canada. In particular, there is a gap in equity funding in Atlantic Canada due to a lack of angel investors and venture capital (VC) companies.[3] Although debt financing represents a large share of capital accessed by SMEs across Canada, there is also a significant gap in debt financing for SMEs in Atlantic Canada.[4]

In association with public-sector and private-sector partners, ACOA intervenes by fostering the development of adequate debt financing from banks and credit unions, and equity capital from angel investors, VC firms and public markets. The Agency supports projects that deliver access to new capital for Atlantic enterprises, promote capital retention in the region and/or provide significant leveraging of funds from other sources.

ACOA provides direct assistance to enterprises and business-support organizations to fill gaps in specific areas, such as expansion and modernization. ACOA also supports initiatives that foster the development of financial providers such as angel investor networks and VC firms. By funding strategic projects such as GrowthWorks Atlantic, angel

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[2] Much of this research has been conducted by, or for, the SME Financing Data Initiative, led by Industry Canada and supported by Statistics Canada and Finance Canada, with the purpose of reporting on the supply and demand for SME financing. (More information is available at www.sme-fdi.gc.ca/eic/site/sme_fdi-prf_pme.nsf/eng/Home.)

[3] P.M., Desjardins and Y. Bourgeois, *SME Financing in Atlantic Canada: Assessing Gaps and New Avenues for Action*, Canadian Institute for Research on Public Policy and Public Administration, (September 2008).

[4] Ibid.

networks and microcredit initiatives, ACOA is fostering the development of financial markets in Atlantic Canada.

1.2 Financing Continuum

ACOA's mandate calls for it "… to increase opportunity for economic development in Atlantic Canada and, more particularly, to enhance the growth of earned incomes and employment opportunities in that region."[5] The Agency structures its activities in support of this mandate into three primary areas of program activity, targeting distinct client groups and outcomes. The FC sub-activity falls within the ED program activity, which provides assistance to business enterprises (with a particular emphasis on SMEs) plus partner organizations that enable research and development, commercialization and productivity improvement in Atlantic Canada.

The primary purpose of the FC program sub-activity is to provide SMEs in Atlantic Canada with funding for finance start-up, expansion and modernization[6] through two areas of activity:

- funding for up to 50% of eligible start-up costs, working capital and capital costs for an SME start-up, expansion or modernization project, and up to 75% of eligible costs of related activities such as marketing, training, productivity improvement and quality assurance; and

- stimulating the availability and breadth of financing sources accessible to SMEs in Atlantic Canada.

Non-commercial/non-profit organizations are also able to obtain non-repayable contributions for the provision of specialized services to strengthen the business capabilities of SME owners and to cover the capital costs to establish, expand or modernize facilities that provide business-support services. Retailers/wholesalers, real estate businesses, government services, and services of a personal or social nature are not eligible for support through the Business Development Program (BDP).

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[5] Part I of the *Government Organization Act, Atlantic Canada 1987*, R.S., c G-5-7, also known as the Atlantic Canada Opportunities Agency Act.

[6] The relative priority given to start-up projects was reduced during the period covered by the evaluation due to availability of such support from other sources, principally Community Business Development Corporations. However, start-up projects continue to be considered for funding under the FC Program Sub-Activity. Unless stated otherwise, references to expansion or modernization in the report should be viewed as also relating to support for applicable start-up projects.

The FC program sub-activity is intended to address weaknesses and gaps in the availability and diversity of financing for SMEs from private sources of funding such as commercial banks. Public intervention to close or narrow the funding gap created by this market imperfection is generally warranted on the grounds that it results in a higher rate of business growth, economic activity and wealth creation than would otherwise have been the case. It is also important to note that the FC program sub-activity of the ED program activity has only formally existed since 2007-2008 in ACOA's Program Activity Architecture (PAA). It represents a series of incremental changes to and the evolution of the Agency's strategic priorities and objectives. While the central focus on providing capital funding to SMEs has been a consistent theme, the degree of priority given to this area, and the criteria for selecting projects, has varied from year to year.

Table 1: Evolution of the Financing Continuum Program Sub-activity

Fiscal Year	Scope as Defined by the Applicable PAA	Expected Result(s)
2004-2005	**Program sub-activity:** **Other support to SMEs** – Provide assistance to support increased private sector investment, business planning and/or marketing for the domestic market, and to establish venture and seed capital funds.	Plans: Assist SMEs in Atlantic Canada to establish, expand or modernize by providing capital assistance. Target: Through the BDP, invest in approximately 400 Atlantic SMEs annually. Target: Enhance financial partners' awareness of ACOA's role in the area of access to capital and information.
2005-2006	**Program sub-activity:** Provide assistance to support increased private sector investment, business planning and/or marketing for the domestic market, and to establish venture and seed capital funds.	Expected Results: 1) Increased activity in SME establishment, expansion and modernization related to the domestic market. 2) Enhanced availability and utilization of risk capital in Atlantic Canada.
2006-2007	**Program sub-activity: Other support to SMEs** – Provide assistance for projects that cannot be attributed to other program sub-activities, that directly support increased private-sector investment, business planning and marketing for the domestic market, or that establish venture and seed capital funds.	Expected Results: 1) Increased activity in SME establishment, expansion and modernization related to the domestic market. 2) Enhanced availability and utilization of risk capital in Atlantic Canada.

Fiscal Year	Scope as Defined by the Applicable PAA	Expected Result(s)
2007-2008	**Program sub-activity: Financing Continuum** – The Agency's objective is to ensure the availability of a continuum of financing for Atlantic SMEs to ensure that all companies have reasonable access to the financing they require at all stages of their life cycle, thus supporting their successful growth to maturity. ACOA recognizes that entrepreneurs and Atlantic SMEs need access to adequate financing from institutions such as banks and credit unions as well as equity capital from angel investors, venture capital firms and public markets.	<u>Expected Results</u>: Developing the breadth and depth of financing options. Indicators include: 1) capital cost expenditures by SMEs in rural areas; 2) dollar amount raised by labour-sponsored funds; and 3) percentage of dollar amount leveraged on ACOA financing continuum projects.
2008-2009	**Program sub-activity: Financing Continuum –** The Agency's long-term objective is to ensure the availability of a continuum of financing for Atlantic Canada SMEs to ensure all companies have reasonable access to the financing they require at all stages of their life cycle.	<u>Expected Results</u>: Developing the breadth and depth of financing options; providing SMEs with access to funding for expansion/modernization projects. Indicators include: 1) the amount of venture-capital funds invested in the region,* and 2) the amount of funding leveraged per dollar invested by ACOA in expansion/modernization for the domestic market.

* As of 2009-2010, this indicator has been removed, to reflect ACOA's decision to no longer provide venture capital funding or support for the operating costs of venture capital funds.

The definitions of the FC program sub-activity from 2004-2005 to 2008-2009 are summarized in Table 1. Prior to 2004-2005, funding activities equivalent to the FC program sub-activity fell under ACOA's Access to Capital and Information Strategic Priority, which provided enhanced access to capital for SMEs as a means of fostering business start-ups and expansions, and generating employment growth.

Governance and management of the FC sub-activity is divided among ACOA's headquarters and each regional office. At headquarters, the Director Programs and Director General (DG) ED are responsible for program design and policies, while responsibility for delivery in each region rests with the regional ED directors. Direction and coordination for the overall implementation of programs (including the FC sub-activity), program policies and strategic direction is provided by the DG Programs/Operations Committee. This committee reports to the Agency's Executive Committee.[7]

[7] ACOA Governance Structure, (October 2007), page 16.

2. Evaluation Objectives and Methodology

2.1 Evaluation Objectives and Issues

The objective of this evaluation was to assess the relevance and performance of the FC program sub-activity from 2004-2005 to 2008-2009. The evaluation assessed:

- relevance – the extent to which the FC sub-activity addresses a demonstrable need and is relevant to ACOA's mandate and strategic objectives as well as government-wide priorities and strategies; and

- performance – the extent to which the FC sub-activity is achieving value for money, specifically:

    - effectiveness: The extent to which program objectives have been achieved within the context of expected results and outcomes;

    - efficiency: The extent to which FC activities are undertaken in an affordable manner, taking into consideration the relationship between outputs and the resources used to produce them; and

    - economy: The extent to which resources allocated to the FC sub-activity are well utilized, taking into consideration alternative delivery mechanisms.

Appendix A presents the evaluation question matrix developed for this purpose.

2.2 Methodology

The methodology for the FC evaluation is based on the triangulation of findings from multiple lines of evidence. Findings from each line of inquiry were compared to identify the extent to which findings are consistent with each evaluation issue and the implications of the findings for ACOA going forward. The following lines of inquiry were utilized:

- A total of 17 preliminary interviews were conducted with a cross-section of ACOA representatives at Head Office and in each of the five regions – New Brunswick (N.B.), Prince Edward Island (P.E.I), Nova Scotia (N.S.), Cape Breton (C.B.), where the Enterprise Cape Breton Corporation acts as ACOA's agent, and Newfoundland and Labrador (N.L.) – and selected external partners and stakeholders from each of the regions. These interviews validated the methodological approach to be undertaken for the evaluation.

- A review of ACOA documentation related to the design, delivery and performance of the FC sub-activity, and its positioning within the mix of sub-activities comprising ED.

- An analysis of summary data on the FC projects funded by ACOA from 2004-2005 to 2008-2009, extracted from the QAccess project database.

- A search for, and review of, published literature and research from Canada as well as other jurisdictions to identify approaches, and lessons learned, regarding the nature of financing gaps facing SMEs and responses to gaps in the availability of equity funding for SMEs.

- Key informant interviews with BDP directors and account managers in each of the regions and at Head Office as well as selected managers from the Community Development program activity. A total of 30 interviews were conducted involving 38 ACOA representatives using a combination of in-person and telephone interviews.

- Interviews with 51 key informants from the five regions, representing:

    - fourteen partner organizations involved in the provision of financial support and advice to SMEs, spanning other public-sector and private-sector providers of funding, provincial ministries/agencies with mandates to support the development of SMEs, and Community Business Development Corporations (CBDCs);

    - twenty-six clients: these interviews included questions relating to the success of selected projects that were undertaken or that were in progress; and

    - eleven organizations involved in the provision of investor-readiness support and angel and VC funding for SMEs, which included five clients who had received project funding in support of these types of activities.

- An online survey of FC clients was sent to 604 individuals, representing 924 projects. A total of 165 completed questionnaires were received, for a response rate of 27.3%. The key attributes of the survey responses are provided in Table 2.

Findings from each of the different groups of key informants were analyzed to identify common themes and issues, and this synthesis was used in the reporting of findings.

- An economic impact analysis to estimate the cumulative economic impact of FC projects on gross domestic product (GDP) in Atlantic Canada from 2004-2005 to 2009-2010.[8] The analysis, performed using Conference Board of Canada (CBoC) econometric models for each of the four Atlantic provinces, estimated the direct impacts of the project expenditures on value-added output and job creation, and the multiplier effects resulting from the indirect and induced impacts of these expenditures.

Additional details regarding each methodological approach can be found in **Appendix B**.

Table 2: Comparison of Survey Projects to the Total Population of Financing Continuum Projects

Attribute	Survey Results *(n=165)*	All FC Projects* *(n=924)*
Region		
New Brunswick	23%	27%
Prince Edward Island	15%	16%
Nova Scotia	30%	21%
Cape Breton	8%	10%
Newfoundland and Labrador	24%	25%
Head Office**	-	1%
	100%	**100%**
Year Commenced* **		
2004-2005	25%	31%
2005-2006	19%	23%
2006-2007	15%	17%
2007-2008	19%	15%
2008-2009	22%	14%
	100%	**100%**
Commercial/Non-commercial		
Commercial	92%	92%
Non-commercial	8%	8%
	100%	**100%**
Urban/Rural		
Rural	65%	73%
Urban	35%	27%
	100%	**100%**

*All projects from 2004-2005 to 2008-2009 completed or in progress, excluding those in recovery, in default, written off or cancelled.
**Head Office respondents accounted for 0.6% of total respondents.
***Year in which client accepted project funding from ACOA.

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[8] ACOA, *Economic Impact Analysis of the ACOA Financing Continuum Sub-activity*, prepared by the Corporate Planning and Performance Management Division, Moncton (April 2010).

2.3 Study Limitations

The evaluation employed both quantitative and qualitative methods to assess the relevance and performance of the FC sub-activity. The evaluation design was approved by the ESC, and both the design and implementation were considered appropriate given the nature of the program being examined and the extent to which existing information was available. Measures were taken to minimize risks associated with the limitations described below.

A number of limitations associated with the combination of data collection methodologies used for the evaluation need to be recognized when reviewing the approach to the study and its findings.

The first limitation was that the participants in the key informant interviews and surveys were either clients in good standing or representatives of organizations who were familiar with ACOA's programs and services. As such, it was not possible to investigate the views and experiences of SMEs that had not been successful in obtaining requested financing, including their understanding of the reasons for the refusal, or that had not approached ACOA in the first place.

A second limitation was imposed by the finite number of FC clients and projects that took place from 2004-2005 to 2008-2009. While the total number of responses to the client survey was relatively high and it was possible to conduct a rich analysis at the pan-Atlantic level, further analysis at finer levels of detail was limited by the small size of many of the sub-samples of interest.

Third, the demarcation between FC and other sub-activities within ED is not always clear. This is mainly due to the fact that many projects span multiple sub-activities and to classifications being inaccurate or out of date. In addition, clients typically see ACOA's support for SMEs as falling under a single heading, that of the BDP. This means that many responses to external interview and survey questions reflected the respondents' experiences with the BDP overall. Therefore, there are limitations to the attribution of evaluation findings to the FC sub-activity versus other BDP activities.

Finally, participating clients were asked a series of questions about their project outcomes on dimensions such as sales, profitability, job creation and maintenance and market awareness, all of which are difficult to separate from the effects of other business activities as well as market and competitive issues. Therefore, the data provided is composed of the clients' best estimates of impacts attributable to their projects but do not represent definitive measures. A similar qualification applies to their assessments of what they would have done had ACOA chosen not to provide funding.

3. Relevance

3.1 Rationale for the Financing Continuum

The rationale for the public provision of financial support to SMEs is predicated on the existence of a market imperfection, whereby economic efficiency is diminished due to SMEs being less able to access funding compared to larger, better-established businesses. In turn, this more limited access results in reduced rates of employment, wealth generation and GDP growth than would otherwise be the case. Public intervention can be used to address these types of imperfections and inefficiencies in the marketplace using tools such as direct funding, loan guarantees and advisory services for SMEs, leading to the achievement of positive externalities – namely, benefits to SMEs beyond the receipt of financing.

According to the published research/literature, the reasons such imperfections exist relate to:[9]

- an inability of SMEs to meet the collateral requirements of commercial lenders;
- the lack of a proven track record demonstrating that the business will be able to generate sufficient and timely returns to cover the financing received, particularly for early stage, innovative firms with uncertain likelihoods of success;
- information asymmetry, where the lender does not have a sound understanding of an SME's business opportunities, capabilities and risks compared to their knowledge of larger and better-established firms. As a result, lenders may treat all SMEs as being inherently high risk or be unable to distinguish reasonable risks from poor risks;
- the fact that SMEs are perceived as having higher failure rates, and thus all SMEs pose higher risks;

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[9] These points draw on a range of publications that examine the characteristics and determinants of the funding gap. Key documents of note were:
A. Green, *Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth?,*UNIDO Consultant, Small and Medium Enterprises Branch, Programme Development and Technical Co-operation Division (August 2003).
HM Treasury, *Bridging the Financing Gap: Next Steps in Improving Access to Growth Capital for Small Businesses*, Small Business Service (December 2003).
A. Lindstrom and L.A. Stevenson, *Entrepreneurship Policy: Theory and Practice. (*Springer Science+Business Media Inc., New York, N.Y., 2005).
A. Riding, *Working Capital Financing and the Canada Small Business Financing (CSBF) Program,* prepared for the Small Business Policy Branch, Industry Canada (May 2006).
S. Wang, *Financing Innovative Small and Medium-Sized Enterprises in Canada*, Working Paper, Small Business and Tourism Branch, Industry Canada (October 2009).

- the fact that loans to SMEs entail higher transaction costs compared to loans to larger enterprises that are typically seeking larger amounts of funding;

- the industry sector, with some sectors viewed by lenders as inherently more risky, such as, wholesale/retail outlets, rural-based firms, trucking businesses, professional services and knowledge-based firms. Knowledge-based firms, which typically have fewer tangible assets to use as security and less of a track record, are more likely to have lower approval rates from funding providers or higher interest on approved funding; and

- incomplete or inexperienced management teams.

National surveys on the financing of SMEs, such as those conducted by Statistics Canada in 2004 and 2007 (the results of which included breakouts of selected data for Atlantic Canada), provide insights into the experiences of SMEs in accessing financing but do not compare the SME experience to that of other firms. Review of the documentation for these surveys provides relevant national insights, including:

- In 2004, the percentage of SMEs that applied for financing and were turned down was 11.8% nationally and 12.8% in Atlantic Canada. In 2007, the percentage of SMEs that applied for financing and were turned down was 6% nationally and 7% in Atlantic Canada.

- Principal reasons for applications being denied were that start-up SMEs have limited collateral, poor credit history and/or insufficient sales or cash flow, and are more likely to be refused financing.

The Atlantic Canada breakout from Statistics Canada surveys and other research conducted by Industry Canada suggests the financing gap is greater in Atlantic Canada than in other regions in Canada. In particular:

- Atlantic SMEs are slightly more likely to be in the agriculture/primary (15% vs. 12%), wholesale/retail (17% vs. 15%), tourism (9% vs. 8%) and ‘other’ service sectors (45% vs. 42%) compared to the national average; all are industry sectors that are generally considered higher risk by private lenders. Conversely, the incidence of knowledge-based industry firms is lower (3% versus 6% nationally) in Atlantic Canada.

- Atlantic SMEs are more likely to rely on financial support from government sources. According to the 2007 Statistics Canada survey, 32% of Atlantic Canada SMEs had approached a government entity for a grant, subsidy, no-interest loan or non-repayable contribution within the last three years, compared to a national rate of 20%.

- Credit from government lending agencies or government grants was also more important as a source of financing during business start-up, with 12% of the Atlantic SME owners citing this source compared to 4% nationally.

- Owners of Atlantic SMEs are more likely to perceive access to financing as an obstacle to their growth. In 2004, 26% of Atlantic Canada SMEs surveyed cited this as an obstacle compared to 20% nationally (22% vs. 17% in 2007).[10]

Another study, by the CBoC in1999, found evidence of a more pronounced financing gap in Atlantic Canada. It noted that the SME debt market appears to be less developed in Atlantic Canada than in Canada as a whole, with fewer suppliers, less breadth and fewer choices.[11]

The Conference Board findings are also consistent with the findings from ACOA's 2003 evaluation of its BDP, which included the FC program sub-activity (then called Access to Capital). The evaluation concluded that access to capital is a more pronounced constraint on the rate of development of SME activity in Atlantic Canada and that the BDP "fills important gaps in the availability of conventional financing, especially with respect to start-ups, rural areas, soft costs high-risk sectors and SMEs moving into the growth stage of Modernization and Expansion."[12]

Within the overall funding gap, some SMEs encounter "equity gaps." This gap arises when businesses that are good candidates for early-stage equity funding are unable to access it. The significance of this segment of SMEs is difficult to measure due to both supply-side and demand-side issues, such as information asymmetries between firms and potential investors; the availability of funds from informal sources (friends, family, angels) and VC funds; difficulties encountered by both investors and firms in finding each other; and the extent to which firms are "investor ready."[13] As an indication of this problem, the 2007

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[10] The material presented in this section is drawn from: Industry Canada, *Financing Profiles: Small and Medium-Sized Enterprises in the Atlantic Provinces*, SME Financing Data Initiative (September 2007) and the 2004 and 2007 Statistics Canada *Survey on Financing Small and Medium Enterprises*.

[11] T. Shutt and P. Vanasse, *Sources of SME Business Debt Financing in Atlantic Canada*, Conference Board of Canada. (Ottawa: March 1999), p.6.

[12] ACOA, *Evaluation of ACOA's Business Development Program*, (February 2008), p.3.

[13] European Commission, *Best Practices of Public Support for Early-Stage Equity Finance: Final Report of the Expert Group*, DG Enterprise and Industry, Brussels (September 2005); and
Inno Grips, *Public Private Partnerships for Financing Innovative SMEs*, European Commission, EC Directorate General Enterprise and Industry (December 2009).

Statistics Canada survey on SME financing found that only 3% of Atlantic SMEs (and 3% of Canadian SMEs, overall) had sought equity financing in the previous 12 months (and only 5% in the previous three years), compared to 21% of Atlantic SMEs seeking any type of financing, including equity financing, in the last 12 months (and 35% in the previous three years). Of these requests for equity financing, 75% led to an investment.[14]

The findings of the literature review suggest that Canadian firms most likely to be candidates for equity investment are young, high-growth firms working in knowledge-based and technology-based fields and which face higher than average business risks.[15] An analysis of the 2007 Statistics Canada SME survey found that innovative SMEs (defined as those that spend more than 20% of their total investment expenditures on research and development), which account for an estimated 4.2% of all SMEs, were more likely to seek external financing. Innovative SMEs were much more likely to consider equity financing, with 4.9% indicating that they had requested equity financing versus 1.1% of non-innovative SMEs. Close to 26% of the innovative SMEs seeking equity finance were start-up companies in operation for one year or less.[16]

Angel investors more frequently invest in start-up and early stage firms than VC funds, which are more likely to consider later-stage opportunities requiring larger amounts of funding. A landmark study found that:

> "Most funding for technology development in the phase between invention and innovation comes from individual private-equity 'angel' investors, corporations and the federal government – not venture capitalists. Our findings support the view that markets for allocating risk capital to early-stage technology ventures are not efficient."[17]

On the supply side (that is, the supply or flow of firms seeking equity financing), many firms are unwilling to dilute their control by bringing in equity partners even if it means limiting their rate of growth. Setting aside this "equity aversion" factor, many firms that believe they are good candidates for equity financing may not, in fact, meet expectations of prospective investors relating to expected rates of return, quality of the management team, competitive advantages of products or services, underlying strengths of target markets, quality of the business strategy, and unrealistic expectations regarding the valuation of the

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[14] Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2007: Data Tables*, Small Business and Special Surveys Division (Ottawa, 2007), Tables 2, 17 and 19.

[15] S. Wang, *Financing Innovative Small and Medium-Sized Enterprises in Canada*.

[16] Ibid, p. 7.

[17] M. Branscomb, *Between Invention and Innovation: An Analysis of Funding for Early-Stage Technology Development*, prepared for the National Institute of Standards and Technology, Gaithersburg, Maryland, (November 2002), p. xii.

business.[18] Additionally, firms with "fundable" business propositions may fail when it comes to pitching their business case to prospective investors. The essence of this demand-side issue is succinctly summarized in one study as follows:

> "While many initiatives to bolster the supply of VC for early stage SME have been deployed, the firms seeking capital must first be worthy of it, be able to find it and also [be] willing to accept it in the form of equity."[19]

Strengthening "investor readiness" has been identified in a variety of studies as being a suitable avenue for public intervention and can provide a means of targeting support to firms most likely to benefit from it, often as a component of public support to facilitate the development and strengthening of angel networks.[20] Types of investor-readiness activities investigated in these studies included increasing owners' awareness and understanding of financing options available, providing general guidance on how to prepare a business case for equity funding, detailed analysis to help owners understand their equity requirements and mentoring to help prepare them for meetings with potential investors.

A further factor in the context of regional development is physical proximity to bank and other financial institutions' branches. This is a particular issue in Atlantic Canada, with its high incidence of rural-based SMEs, given that the large chartered banks have reduced the numbers of branches in smaller urban and rural communities. In this regard, a study commissioned by ACOA in 2002 found that the number of branches operated by the top five chartered banks in Atlantic Canada had fallen 16% over the ten-year period to 2002 (by 23% in N.L.)[21]

3.2 Extent to Which Clients Perceive a Funding Gap

A second consideration in the relevance of the FC program sub-activity is whether SMEs in Atlantic Canada encounter constraints on their ability to access financing compared to well-established and larger business borrowers.

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[18] A. Atherton, "Should government be stimulating start-ups? An assessment of the scope for public intervention in new venture formation," *Environment and Planning C: Government and Policy*, volume 24 (2006), pp. 21-36; and SQW, *Evaluation of the Investment Readiness Demonstration Projects and Fit4Finance*, report prepared for the U.K. Small Business Service, London (June 2004).

[19] Inno Grips, *Public Private Partnerships for Financing Innovative SMEs*, p. 37.

[20] Ibid.

[21] Folkins R., *The Changing Banking Environment in Atlantic Canada and Effects on the SME Market and the Economy in General*, report prepared for ACOA by CFO Sustainability Group (November, 2002). Readers should also note that during this same period the population of many rural areas in Atlantic Canada declined, as did the overall populations in N.B., N.S. and N.L.

The majority, over 85%, of key informants (ACOA staff, partners, clients and equity-investment organizations) believe that a gap exists in the availability of and access to financing across Atlantic Canada. The common themes with regard to SME access to funding, the provision of investor readiness and the availability of equity financing were:

- The gap or level of need is not uniform. In general terms, SMEs in rural areas are believed to encounter greater difficulties in accessing financing compared to urban SMEs; and SMEs in knowledge-based sectors (e.g., information technology, health products and services, biotechnology, and ocean-linked technologies) and tourism are likely to encounter difficulties in both urban and rural locations. Obtaining financing for expansion was perceived to be more of a challenge than financing for start-up (at least for amounts below $100,000) and modernization projects. This does not necessarily mean all companies seeking expansion or modernization funding encounter difficulties in accessing financing, and due diligence is still necessary to assess the risks and viability of each funding request.

- Significant needs exist for investor-readiness development such as an increased awareness and understanding of financing options and how to access financing sources, diagnostic analysis and business support or mentoring, and facilitating matchmaking with potential investors. Key informants and many surveyed clients (47%) noted that needs exist to a considerable or great extent to attract and develop more investor-ready SMEs and to attract angel investors and establish or strengthen angel network structures. Many also highlighted the issue of equity aversion among SMEs as a barrier to fostering higher rates of growth among suitable firms, and the need for entrepreneurs to understand the expectations of prospective equity investors and be realistic about their prospects and the value of their company.

- There is a need for additional funding for angel and VC investments. It is important to note that ACOA's Executive Committee made a policy decision in 2009 to limit ACOA's VC involvement to investment-readiness skills development and promotion.[22] Many key informants (approximately one third of FC clients interviewed) noted the difficulty of finding equity funding in Atlantic Canada despite efforts to foster the development of VC funds in the region. The limited availability of local funding also adds to the difficulty of attracting the interest of venture capitalists outside of Atlantic Canada who may be interested in opportunities with local lead investors. Others noted that fostering the development of angel investments should have a better payoff compared to developing VC pools. Many of these key informants also believed that opportunities existed to attract more prospective angels living in the region through support for the development of

[22] ACOA, *Audit of Venture Capital: Final Report, Internal Audit Directorate* (February 2010).

> angel networks. FC funding is perceived as being "near equity" in that it is unsecured, interest-free and advanced on flexible repayment terms, and can be a valuable complement to equity investments in SMEs by third-party investors.

Key informants and surveyed clients (over 90% of clients interviewed and over 86% of those surveyed) were strongly supportive of ACOA's role in providing direct funding to expansion and modernization projects, which they saw as complementing the availability of funding from other public and private sources. ACOA was often seen as a catalyst for clients to obtain financing from other providers and to thereby increase the amount of financing available for SME projects. In contrast, many of the key informants stated that ACOA's role with regard to investor readiness and increasing the availability of equity capital should be indirect. That is, to support and facilitate the work of other organizations, such as non-profit business support and angel and VC organizations, rather than to provide investor training support directly or provide funding for equity investments.

Comments made by a number of key informants regarding the nature of investor-readiness support – that such support is a much more complex and time-consuming process than just delivering workshops – are consistent with findings from research in the United Kingdom (U.K.) on the effectiveness of investor-readiness programs. This research found that many investment-readiness programs in the U.K. focused on increasing awareness and understanding of financing options available but neglected the more important, and more resource-intensive, area of diagnostic assessment and problem solving required to make individual companies "investment do-able."[23] Clearly, the skill sets required for increasing awareness and understanding are quite different than those required for hands-on diagnostic work and mentoring by experienced entrepreneurs. Investor-readiness projects funded by ACOA incorporate varying mixes of basic awareness and guidance on the expectations and requirements of equity investors and sources of such funding to more hands-on analysis and advice for firms considering equity funding, including due diligence work by prospective angel and VC investors.[24]

Participants in the client survey were asked to what extent they believed there was a need among SMEs to increase the availability of financing for expansion and modernization projects, investor-readiness support, and angel or VC funding. The distribution of responses for the rural and urban respondents is shown in Figure 1.

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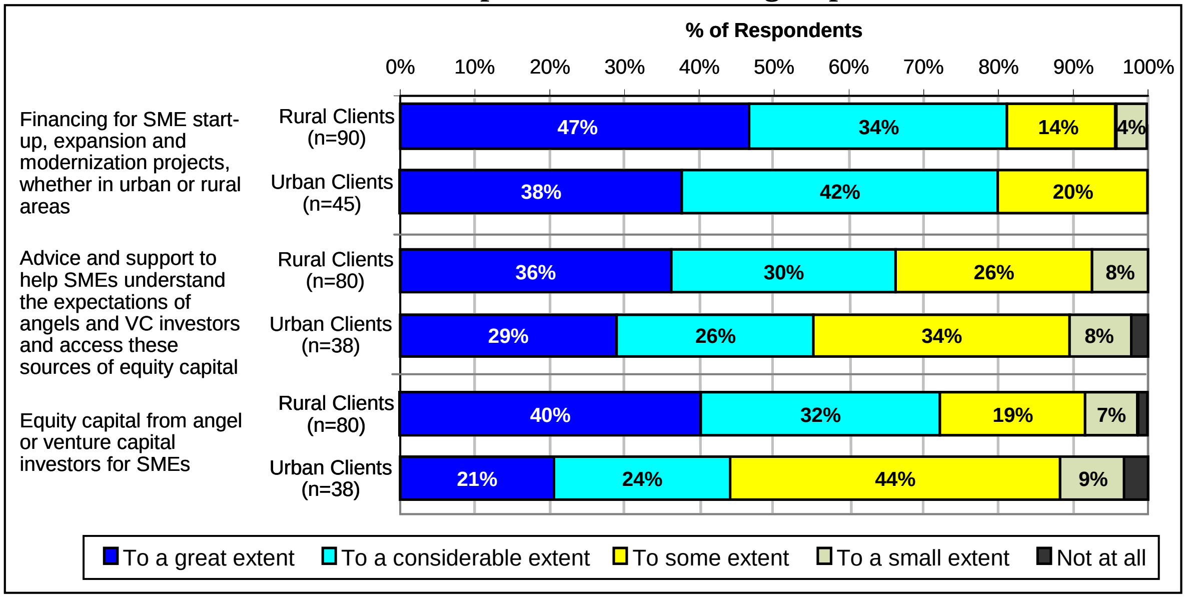
[23] C.M. Mason and R.T. Harrison, "Improving Access to Early Stage Venture Capital in Regional Economies: A New Approach to Investment Readiness," *Local Economy*, Vol. 19, No. 2 (May 2004), pp. 159–173.

[24] During the period covered by the evaluation, ACOA provided approximately $2 million in funding under the FC for seven projects primarily to support the development of investor readiness. The breakdown of this funding between different types of investor-readiness activities could not be determined from the summary project documentation.

Figure 1: Extent to Which Survey Respondents Believe Atlantic Small and Medium-sized Enterprises Face a Funding Gap



Source: Survey of FC clients, excluding "don't know" answers.

The pattern of responses by rural clients differed from urban clients. In particular:

- Large majorities of both rural and urban clients believe there is a considerable or great need for financing for expansion and modernization projects, with rural clients slightly more likely to believe the need is "great" (47% of rural clients vs. 38% of urban clients) rather than "considerable."

- Rural clients are more likely to perceive considerable or great need for both investor-readiness support (66% vs. 55% of urban clients) and increased availability of equity financing (72% vs. 44% of urban clients).

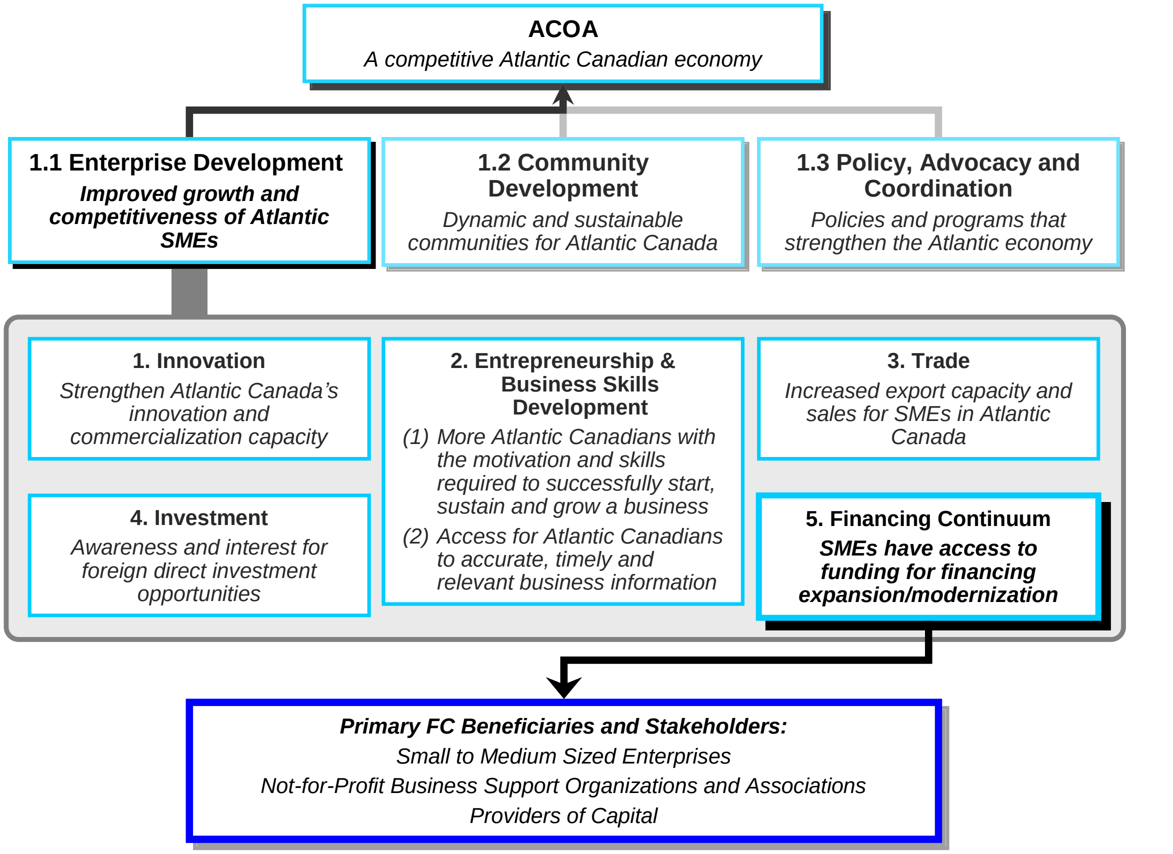
- Urban clients were much more likely to believe that there is only "some" need for increased availability of equity financing (44% versus 19% of rural clients).

These results suggest that rural clients perceive, or encounter, more difficulties in accessing financing than do urban clients, and that these difficulties relate to both debt and equity financing.

3.3 Appropriateness of ACOA's Involvement in Financing Continuum

ACOA's ED program activity is a collection of five relatively distinct and complementary sub-activities designed to improve Atlantic Canada's capacity for economic growth, leading to the achievement of improved growth and competitiveness of Atlantic SMEs, as shown in Figure 2.

Figure 2: Positioning of the Financing Continuum Within the Agency's Program Activity Architecture



In addition to the FC support for expansion/modernization projects, the ED program includes support for:

- innovative research and development, and technology adoption and adaption projects;
- the development of entrepreneurship and business skills, primarily through financial support for programs run by non-commercial organizations;
- international trade development and expansion through financing for trade-related projects and support for joint ACOA-provincial trade development initiatives; and

- initiatives to increase foreign direct investment in Atlantic Canada and to increase awareness of the region among foreign investors.

A further consideration in the appropriateness of ACOA's involvement in funding SME expansion and modernization is whether the FC sub-activity and intended outcomes are aligned with ACOA's mandate and federal government priorities. Figure 3 compares the intended outcomes of the FC sub-activity with the mandate and strategic outcome of the ED program activity and the Agency as a whole, and the applicable federal government outcome area.

The delivery of the various ED sub-activities collectively supports ACOA's mandate to increase opportunity for economic development in Atlantic Canada and, more particularly, to enhance the growth of earned incomes and employment opportunities in that region. In pursuit of this mandate the Agency works to create opportunities for economic growth in Atlantic Canada by helping businesses become more competitive, innovative and productive, by working with communities to develop and diversify local economies, and by championing the strengths of Atlantic Canada in partnership with Atlantic Canadians.

At the government-wide level, FC is directly aligned to two areas of priority, namely strong economic growth identified as a Government of Canada Outcome Area and supporting small business to create jobs and generate economic activity, as identified in Canada's Economic Action Plan.

Strong economic growth is one of 13 high-level outcomes for Canadians and is concerned with programs that aim to increase economic growth and development in all regions and all sectors of the economy. The Treasury Board Secretariat's description of this outcome includes specific mention of work to increase the competitiveness of Canadian businesses and to strengthen community economic development in particular regions, such as Western Canada, Atlantic Canada, and the North.[25]

In the 2009 Budget, enhanced support for small business under the Economic Action Plan was recognized as a means of creating new jobs and driving economic growth. While the budget did not allocate funding directly for SME financing by ACOA, it recognized the need to improve the availability of business financing for SMEs by increasing funding for two other programs that complement ACOA's support for SME growth and competitiveness: increasing the flexibility and lending capacity of the Business Development Bank

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[25] Treasury Board Secretariat, *Whole of Government Framework: Background*, accessed at http://www.tbs-sct.gc.ca/ppg-cpr/frame-cadre-eng.aspx In addition, the President of the Treasury Board's 2008-2009 Report to Parliament, *Canada's Performance*, demonstrates the structure of the high-level outcomes and their linkages to PAA structures by showing the linkage between "strong economic growth" and ACOA's strategic outcome and the Enterprise Development Program Activity, p. 3.

(BDC) and increasing the maximum eligible loan amount under the Canada Small Business Financing (CSBF) program. The provision of financing for SME expansion/modernization projects through FC contributes to employment and economic growth, and this funding often complements the support provided by the BDC and enables SMEs to grow to the point where they are best able to take advantage of the loan guarantees by the CSBF program.

Figure 3: Alignment of Intended the Financing Continuum Outcomes With ACOA and Federal Government Priorities

Financing Continuum Program Sub-activity	Enterprise Development Program	ACOA	Federal Government Outcome Area
<u>Expected result:</u> SMEs have access to funding for financing expansion/ modernization <u>Intended outcomes:</u> (FC logic model):* 1. Provide SMEs with a better understanding of how they can access financing. 2. Improve the access of SMEs to adequate and appropriate sources of financing, whether in urban or rural areas. 3. Conduct and make available research and analysis of marketplace conditions relating to financing suppliers. 4. Improve the retention of capital in Atlantic Canada.	<u>Expected results:</u> improved growth and competitive-ness of Atlantic SMEs. <u>Scope:</u> increased SME performance achieved by targeting key productivity drivers – innovation, acquisition of technology and equipment, business skills development, expansion of trade and investment, and access to capital.	<u>Mandate:</u> increase the opportunity for economic development in Atlantic Canada and enhance the growth of earned incomes and employment opportunities in that region. <u>Strategic outcome:</u> a competitive Atlantic Canadian economy.	<u>Strong economic growth:</u> Program activities that increase economic growth and development in all regions and sectors of the economy.

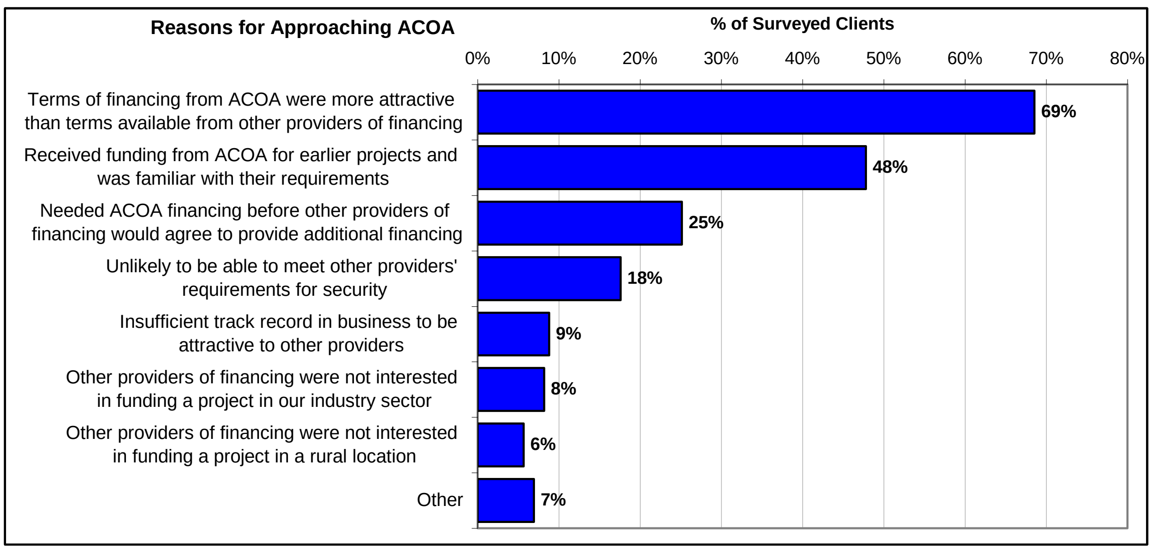
Sources: ACOA Program Activity Architecture, logic model for the FC program sub-activity, *2008-2009 ACOA Departmental Performance Report*, the Treasury Board *Whole of Government Framework*.
* See **Appendix C** for FC sub-activity logic model.

Key informants and survey respondents (clients, partners and ACOA staff) had common patterns of answers as to whether ACOA's role in providing FC was appropriate. The strongest support from these respondents was directed towards ACOA's role in assisting SMEs in identifying and accessing funding and in providing funding for FC projects. There were lower levels of support for funding for business-support services (non-commercial projects), the provision of investor readiness and angel or VC support, and the provision of funding for equity investing (versus a role as facilitator/enabler). Respondents indicated a need for a clear linkage of non-commercial projects to the business community and evidence of industry support.

The involvement of ACOA was seen as appropriate and complementary to other funding providers. In particular, over 80% of clients surveyed did not approach ACOA as the lender of last (or only) resort – less than 20% of respondents indicated they approached ACOA due to an inability to access financing elsewhere. Rather, the most commonly cited reasons for approaching ACOA were its terms (69%), clients' familiarity with ACOA's requirements based on past projects (48%), and other lenders' requirements for ACOA participation (25%). Figure 4 demonstrates the reasons clients cited for approaching ACOA for financing.

The role of ACOA thus makes a difference to the number and rate at which expansion/ modernization and other FC projects proceed. ACOA leveraging requirements help to expand the pool of funds; however, such funds are often contingent on ACOA's participation.

Figure 4: Clients' Reasons for Approaching ACOA



Source: Survey of FC clients.

3.4 Positioning of FC Funding Vis-à-vis Other Sources of Funding

ACOA is not the only public sector provider of financing for SME expansion and modernization projects in Atlantic Canada. Financing is provided by the federal BDC, provincial ministries and agencies, and CBDCs (funded through ACOA's Community Development program activity) as well as credit unions, caisses populaires and private sector banks. Each of type of organization occupies a relatively distinct position in the provision of SME financing based on a combination of factors such as accessibility, risk tolerance, lending terms, cost (interest) and sector coverage or focus. Table 3 characterizes the positioning of the different types of financing sources based on comments provided by ACOA staff, clients and partners who participated in the key informant interviews, with additional information and validation completed through document review.

The differences in positioning between the various formal providers of financing for SMEs suggests that most SMEs have a choice of funding sources available to them and many are able to obtain a mix of complementary funding for their projects. As noted earlier in this report and investigated further in the section on incrementality, ACOA occupies a unique position in that the provision of funding from other sources is often contingent on the participation of the Agency. In effect, these other funders rely on ACOA's due diligence and the opportunity to spread the project risk among a number of lenders. ACOA also plays a much more active role in providing funding for rural SMEs than many other funders, particularly private sector lenders.

Table 3: Positioning of Different Types of Organizations Providing Financing to Atlantic Small and Medium-sized Enterprises

Type of Financing Organization	Key Characteristics
ACOA – FC program sub-activity	• Rural and urban coverage • High risk tolerance; participation by other lenders often contingent on ACOA's participation • Non-secured, interest-free contributions • Flexible repayment terms and periods • Some sector restrictions – retail/wholesale, real estate, government services, personal services and primary production excluded • Project selection criteria include consideration of competitive effects and scope to achieve incremental economic benefits
Community Business Development Corporations	• Based in rural communities and community focused • High risk tolerance; often lender of last resort • Requires security, and charges commercial rates of interest • Wide range of sectors covered, including retail • Generally smaller loans, oriented toward start-ups • Aim is to support clients to the point where they are "bankable" and/or their financing needs may be better met by ACOA and other providers • Project selection criteria include consideration of competitive effects

Type of Financing Organization	Key Characteristics
Provincial ministries and agencies	• Targeted uses, sectors of focus and structuring of financing vary, depending on provincial priorities and availability of funding • Generally require security • Generally include working capital loans • Often positioned similarly to ACOA and enable more leveraging on FC funding
Credit unions and caisses populaires	• Limited amount of lending activity for SMEs; greater emphasis on consumer services • Require security and lend on commercial terms • Community-based and community-oriented • Level of involvement with rural SMEs varies across the Atlantic provinces
Business Development Bank of Canada	• Positioned between ACOA and chartered banks – higher risk tolerance and flexibility compared to chartered banks but on commercial lending terms • Provide term loans (including working capital loans), subordinate financing, and guarantees for operating lines of credit • Provide both security and asset-backed financing • Not constrained by incrementality and competitiveness conditions; focus is on being a “complementary lender” • Broader sector coverage, including retail, wholesale, real estate • Active in both urban and rural areas
Chartered banks	• Unwilling to accept the same level of risk as the CBDCs, ACOA and provincial funding agencies. • Require security, with a preference for tangible assets • Limited presence in rural areas • Decision-making removed from local level • Prefer to see ACOA participating (as do other providers) as a means of spreading risk without having to reduce security

A large majority (79%) of clients surveyed indicated that ACOA’s involvement in the provision of funding and other support services to SMEs complements the support available from other financial providers. Few clients indicated that ACOA’s support duplicates or replaces support provided elsewhere (2% and 3%, respectively). All providers of funding also look for clients to contribute to the total cost of their projects using their own equity or informal investment from their family, friends or other private investors.

3.5 Conclusions

ACOA's participation in the provision of public funding for the expansion and modernization of SMEs in Atlantic Canada is predicated on the existence of a market imperfection, whereby economic efficiency is diminished due to SMEs being less able to access financing compared to larger, better-established business enterprises, leading to a less-than-optimal rate of economic growth. A large body of research conducted in Canada and elsewhere has found that SMEs do experience difficulty in accessing financing and that this financing gap is larger in Atlantic Canada.

A majority of both clients and other stakeholders who participated in the key informant interviews supported the view that there is a financing gap for SMEs in Atlantic Canada; that the gap is most pronounced for SMEs in rural areas and SMEs in knowledge-based sectors, such as information technology, health products and services, biotechnology and ocean-linked technologies. This financing gap also includes an equity gap facing the sub-set of SMEs seeking to fund expansion activities using equity funding. The existence of this gap is a function of a limited availability of equity funding compared to other regions of Canada and a lack of suitably prepared and qualified SMEs that are investor ready.
A large majority of both the external key informants and surveyed clients supported ACOA's role in providing funding for SME expansion and modernization. Many also saw a need for ACOA to clarify and strengthen its approach to facilitating growth in the availability of equity funding and developing investor readiness among SMEs in the wake of the Agency's policy decision to no longer provide investment funds for VC organizations (nor to fund their operating expenses).

The provision of support for SME expansion and modernization under the FC program sub-activity is also directly aligned with the goal of the ED program – to improve the growth and competitiveness of Atlantic SMEs – and the Agency's target outcome – to enable the growth of a competitive Atlantic Canadian economy. More broadly, the FC sub-activity's outcomes are also aligned to one of the government's high-level outcomes for all of Canada – strong economic growth – and contribute to enhanced support for small business, which is an area of focus in the government's Economic Action Plan.

SME financing is provided by a range of federal and provincial agencies in Atlantic Canada, including ACOA, the federal BDC, provincial ministries and agencies, and CBDCs (funded through ACOA's Community Development program), as well as private sector banks, credit unions and caisses populaires. Each of these different types of organizations occupies a relatively distinct position in the market.

ACOA's role is most frequently seen to be complementary to the other providers rather than duplicating effort and resources. In particular, ACOA is more willing to fund higher risk expansion/modernization and related projects on much more flexible terms than other lenders, and is more active in rural areas than private lenders. ACOA is also unique in that funding from other lenders is often conditional on ACOA participation in a project, which complements the Agency's requirement for matching funding from clients and other lenders for commercial FC projects.

The evaluation findings and conclusions show that **the FC sub-activity is a relevant activity to the Agency**, in that it:

- addresses the financing gap experienced by Atlantic SMEs by improving their access to financing for expansion and modernization projects in Atlantic Canada;

- is aligned with ACOA's mandate and contributes to the achievement of the federal government's policy goals for regional economic growth; and

- provides funding for higher risk projects that many other lenders are reluctant to support or will only support on the condition of ACOA's participation, offers flexible payment terms, and is more active in supporting rural SMEs seeking to expand or modernize.

Going forward, ACOA needs to clarify its position and approach to developing investor readiness among SMEs considering the use of equity funding and facilitating the expanded availability of angel and venture funding.

4. Performance: Effectiveness

The assessment of FC's effectiveness examined the extent to which SMEs have access to funding to finance expansion and modernization projects, clients' assessments of the success of these projects, their economic impact on the Atlantic economy, and the extent to which the expected results and outcomes in the PAA and logic model have been achieved. These key areas of performance can be linked back to the expected outcomes for the FC program sub-activity, the ED program and the Agency's mandate to support the development of a competitive Atlantic Canadian economy.

4.1 Performance in Funding SME Expansion and Modernization Projects

Between 2004-2005 and 2008-2009 ACOA allocated $181.3 million to 1,010 FC projects with 875 unique client organizations. Subsequently, 86 of these projects, involving 84 clients, started but were either cancelled, transferred to recovery, went into default or were written off, leaving 924 projects by 792 clients that were either completed or were in progress at the time of the evaluation. ACOA committed $165.9 million in funding to the 924 projects, and the clients were able to obtain further funding commitments of $440.6 million from other providers, including commitments by clients.

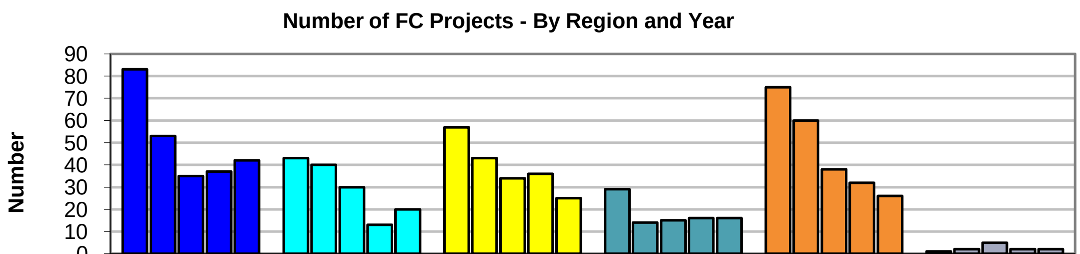
Figure 5 summarizes the number and value of these 924 projects undertaken between 2004-2005 and 2008-2009. According to the data:

- the total number and dollar value of FC projects has fallen each year since 2004-2005;
- the rate of decline was most pronounced between 2004-2005 and 2006-2007. The numbers of projects has stabilized in N.B. and C.B. in recent years but has continued to trend downward in N.L. and N.S;
- N.B. had the largest share of projects by number (27%), followed by N.L. (25%), N.S. (21%), P.E.I. (16%) and C.B. (10%); and
- on a dollar-value basis, N.L. received the largest share of all funding (28%), followed by N.B. (26%), N.S. (17%), P.E.I. (11%) and C.B. (9%). Head Office projects accounted for 8% on a dollar-value basis but just over 1% in number.

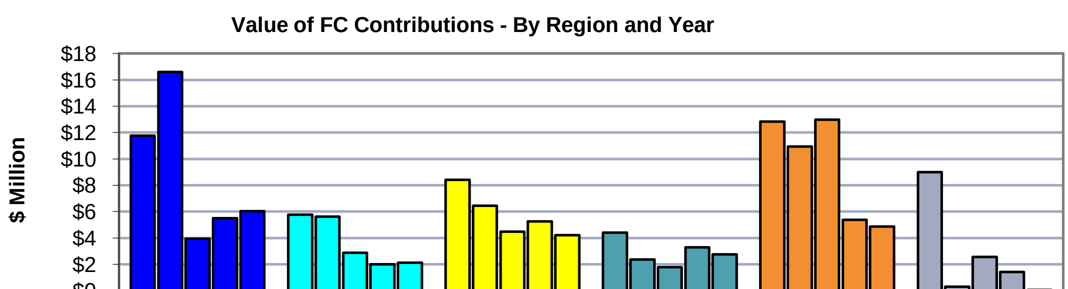
According to program managers interviewed, the trend in FC projects and contributions was a function of an overall decline in the value of funding available for contributions under the ED program activity, of changes in the relative priority given to the sub-activity versus other sub-activities such as Innovation and Trade, of reduced emphasis on support for start-up projects (in recognition of the priority given to supporting start-ups by CBDCs), and of more rigorous attention to the classification of projects to the sub-activity.

Data on the trend and composition of contributions coded to sub-activities within ED support these views. Between 2004-2005 and 2008-2009 the total value of annual contributions within ED went from $218.6 million to $160.0 million, a drop of 28%. This compares to a decline of 62% in FC contributions. The value of contributions under the Innovation and Trade sub-activities remained relatively stable throughout the period.

Figure 5: Distribution of Financing Continuum Projects, by Region and Year



	New Brunswick	Prince Edward Island	Nova Scotia	Cape Breton	Newfoundland & Labrador	Head Office
2004-2005	83	43	57	29	75	1
2005-2006	53	40	43	14	60	2
2006-2007	35	30	34	15	38	5
2007-2008	37	13	36	16	32	2
2008-2009	42	20	25	16	26	2



	New Brunswick	Prince Edward Island	Nova Scotia	Cape Breton	Newfoundland & Labrador	Head Office
2004-2005	$11.8	$5.8	$8.4	$4.4	$12.8	$9.0
2005-2006	$16.6	$5.6	$6.4	$2.4	$10.9	$0.3
2006-2007	$4.0	$2.9	$4.5	$1.8	$13.0	$2.6
2007-2008	$5.5	$2.0	$5.3	$3.3	$5.4	$1.4
2008-2009	$6.0	$2.1	$4.2	$2.7	$4.9	$0.0

Source: ACOA QAccess data, extracted November 5, 2009.

A large majority of projects supported through the FC sub-activity are commercial projects, representing 92% of the total number of projects from 2004-2005 to 2008-2009 and 85% in terms of total project dollar value. Expansion/modernization projects accounted for 71% of the commercial projects, followed by establishment projects (17%), marketing projects (11%), and a small number of other projects (e.g. human resources development, innovation, quality improvement and supplier development). In this regard, the FC sub-activity is clearly focused on the provision of funding support for expansion/modernization. The FC non-commercial projects are intended to provide a service to businesses or to establish, expand or modernize a facility that provides specialized services for businesses and represent a comparatively small share of projects. Clients for non-commercial projects are most likely to be non-profit organizations and most receive funding in the form of non-repayable contributions.

Table 4 shows the number and dollar value of commercial and non-commercial projects. A breakdown of commercial projects by broad project types is provided. According to the data:

- expansion and modernization projects accounted for the largest share of FC projects: 65% of the total number of projects and 54% of the total dollar value;

- the number of establishment (start-up) projects in the total project volume went from 51 (19%) in 2004-2005 to 10 (9%) in 2008-2009. Start-up projects represented 15% of total project volume and 25% of total value over the five-year period;

- marketing projects dominated the remaining projects (10% by volume and 6% by dollar value), with projects relating to quality improvement, supplier development, human-resource development and innovation accounting for a very small share (1% by volume and 0.4% by dollar value).
- non-commercial projects accounted for 8% of the total number of projects (76 of 924); however, the average dollar value of ACOA support for each of these projects was larger, so they accounted for 15% of the total dollar value of FC contributions.

The FC sub-activity is often seen as a "catch-all" category for projects that do not clearly fit within any of the other sub-activities in the ED program activity. As a result, the FC portfolio contains a number of projects that do not clearly fit with the current (2008-2009) project classification criteria for the sub-activity.

Clients who participated in the survey were asked to indicate the objectives of their projects as a means of confirming the extent to which the ACOA classifications of project types were consistent with clients' own expectations. The resulting breakdowns of project objectives by commercial and non-commercial clients and, separately, between rural and urban clients, indicates that:

Table 4: Distribution of the Financing Continuum Projects, by Year and Type of Project

Type of Projects	04/05	05/06	06/07	07/08	08/09	Total
Numbers of Projects:						
Commercial:						
Establishment	51	27	27	25	10	**140**
Expansion/Modernization	183	144	105	86	87	**605**
Marketing	36	21	13	14	13	**97**
Other	1	2	1	1	1	**6**
Non-Commercial	17	18	11	10	20	**76**
Total	**288**	**212**	**157**	**136**	**131**	**924**
Value of Projects ($M)						
Commercial:						
Establishment	$17.4	$6.7	$10.4	$4.3	$1.9	**$40.7**
Expansion/Modernization	27.5	21.0	13.1	13.6	13.8	**89.1**
Marketing	4.0	2.2	1.4	1.9	1.3	**10.7**
Other	0.1	0.1	0.2	0.2	0.2	**0.7**
Non-Commercial	3.2	12.2	3.6	2.8	2.9	**24.7**
Total	**$52.2**	**$42.3**	**$28.6**	**$22.8**	**$20.1**	**$165.9**

Source: ACOA QAccess data, extracted November 5, 2009.

- a large share of projects with expansion or modernization objectives, including productivity improvement, among commercial clients;

- a smaller emphasis on expansion/modernization projects among non-commercial clients and relatively high emphasis on market development and promotional projects (which are often undertaken by sector-based industry associations on behalf of, and with the participation of, companies in the sector);[26] and

- a higher incidence of start-up project objectives among rural clients compared to urban clients identified in the overall mix of FC projects. Twenty-four percent of rural clients identified the start-up of a new business or plant as a project objective compared to only 7% of urban clients. There was no major difference, however, in the extent to which urban and rural clients were using FC contributions for marketing projects, with 40% of rural clients indicating that their projects had such objectives compared to 42% of urban clients.

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[26] Readers should note that the number of non-commercial clients for FC projects is quite low (76 projects out of a total of 924), and this low incidence was mirrored in the survey responses (13 respondents out of a total of 165). As a result, the breakdown of project objectives should be viewed as limited in nature.

The breakdown of clients' descriptions of project objectives is generally consistent with the breakdown in ACOA's classifications of project types.

4.2 Success of Funded Projects

Prior to reporting on the success of funded projects, it is important to consider the incremental nature of ACOA funding provided to FC clients. Incrementality is defined by ACOA as the extent to which a project would not proceed at the proposed location and/or within the proposed time frame and scope without financial assistance from ACOA.

Survey respondents and clients who participated in the key informant interviews were asked what they would have done if ACOA had chosen not to fund their project. The responses to these questions, which are summarized in Figure 11, suggest that FC projects achieve a high degree of incrementality (88-90%).

Another way of looking at the level of incrementality is to estimate the proportion of projects where the client's request for financing with other providers was turned down or was conditionally approved (i.e. was contingent on ACOA's participation). Using this approach, an estimated 68% of commercial projects were incremental, composed of:

- six per cent of clients who approached other funding providers and were turned down;

- Forty-one per cent who approached other funding providers and were approved (in total or in part), with financing conditional on ACOA participating in the funding of the project; and

- Twenty per cent who did not approach any other funding providers but relied on a combination of client and ACOA funding, assuming that they would not be approved by other funders.

The two estimates of the rate of incrementality (88-90% and 68%) are comparable to estimates prepared for Industry Canada on the rate of incrementality achieved for the CSBF program. Estimates for the CSBF program indicated incrementality was approximately 75%.[27] (See **Section 5**: Performance: Efficiency and Economy, for additional details on incrementality results reported by survey respondents and clients.)

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[27] Canada Works Limited (formerly Equinox Management Consultants Ltd.), *Canada Small Business Financing Program: Updated Analysis of Incrementality*, prepared for Industry Canada (June 2009).

Survey participants were also asked how they were measuring the success of their projects and the extent to which they had realized their expectations on these success measures. Results for the most frequently selected success measures for clients with commercial FC projects are summarized in Figure 6.

The most commonly used success measures were increases in sales (71%),[28] profitability (48%) and the number of new jobs created (42%). Success measures relating to improvements to facilities, products/services, productivity and market awareness were less commonly cited, with incidence rates ranging between 20% and 36%.

Clients were most likely to report they had achieved (or expected to achieve) their expectations to a "great" extent based on three success measures:

- improvements to their infrastructure/facilities – 55% to a "great extent" plus 38% to a "considerable" extent;
- improvements to the quality of their products or services – 64% to a "great" extent plus 26% to a "considerable" extent; and
- the number of jobs maintained – 46% to a "great" extent plus 37% to a "considerable" extent.

Achievement to a "considerable" extent (versus to a "great" extent) was more pronounced for:

- increased productivity or a reduction in operating costs – 52% (26% to a "great" extent);
- an increase in awareness of products or services – 44% (38%);
- new products developed or launched – 42% (28%); and
- an increase in sales – 41% (32%).

Taken together, these findings indicate that a large majority of commercial clients (63% - 93%) consider their projects to be successful. Based on clients' assessment of the extent to which their expectations have been satisfied, the most success is being achieved in modernization, quality of products and services, and job maintenance/creation.

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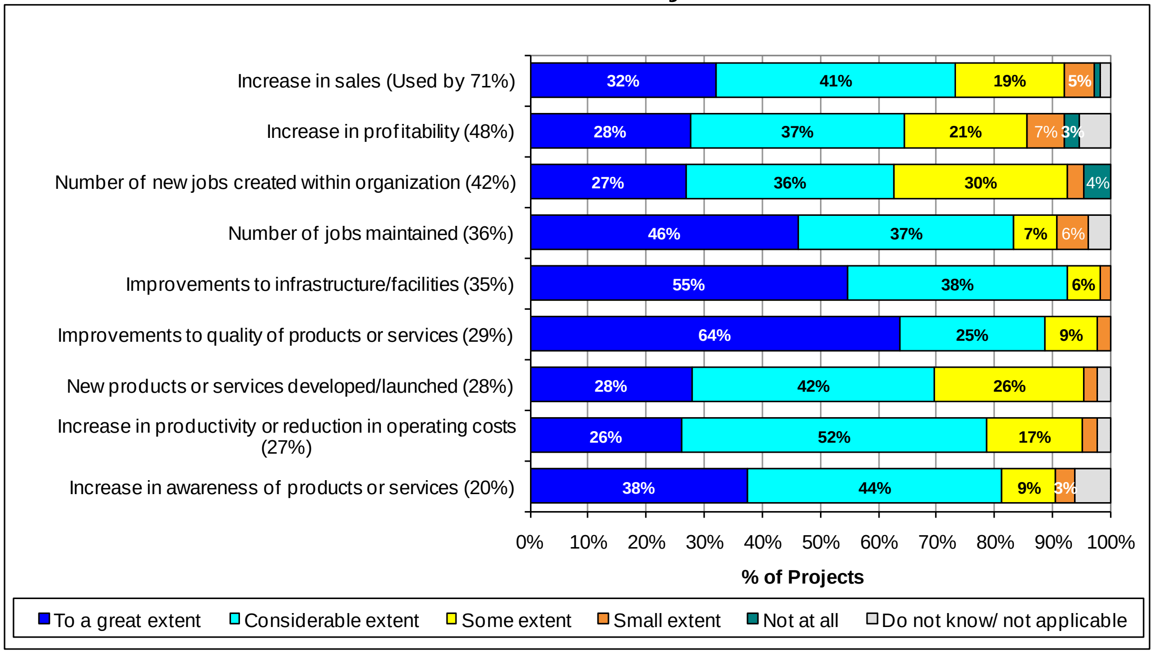
[28] The percentage noted in brackets following each success factor refers to the surveyed commercial clients who indicated these particular success measures were applicable to their projects.

Figure 6: Clients' Assessments of the Degree of Success of Financing Continuum Commercial Projects



Source: Survey of FC clients, excluding clients for non-commercial projects.

The most common success measures selected by survey respondents with non-commercial projects (which are coded as business-support projects by ACOA) were quite different from those commonly selected for commercial projects:

- an increase in awareness of products or services – selected by 46% (6 of 13 respondents);
- improvements to the quality of products or services – 31% (4 of 13);
- improvements to infrastructure/facilities – 31% (4 of 13);
- the number of jobs created within the community or industry sector – 23% (3 of 13); and
- an increase in productivity or a reduction in operating costs – 23% (3 of 13).

This data suggests non-commercial clients are seeking to improve awareness of and demand for their products/services and to improve the quality or productivity of their products/services or facilities. Comments provided by non-commercial clients who participated in key informant interviews or who responded to the survey suggest these clients are achieving their expectations on these success measures to a “considerable” or “great” extent.

One issue that arises with non-commercial FC projects is the extent to which they contribute to the provision of business-support services to SMEs and other Atlantic businesses. This is particularly the case for two sub-categories of non-commercial client projects within the overall mix of non-commercial projects: support for cultural events and organizations, and certain types of support for universities and colleges.

The non-commercial FC projects implemented from 2004-2005 to 2008-2009 included 14 projects that contributed to various organizations providing some form of cultural entertainment, such as The Discovery Centre, Neptune Theatre, Société de ECONOMUSÉE and the Nova Scotia International Tattoo, which represented 1.5% of the total FC projects, and 12% by dollar value of ACOA contributions. While these projects may have a link back to the Atlantic tourism and accommodation sectors – by attracting visitors and generating demand for accommodation – they do not appear to be “business-support services” within the meaning intended for FC (activities that support the business community and strengthen business capabilities).

Similarly, at least some of the projects undertaken by universities and colleges are not business-support services as defined through the FC sub-activity. For example, a number of these projects relate to the acquisition of specialist research and diagnostic equipment that may be better categorized under the Innovation sub-activity. In other cases, the acquisition of equipment relates to needed elements for training programs that enable institutions to provide training and support services for businesses and their employees, and are thus clearly aligned to the expected outcomes for the FC sub-activity. A total of 12 non-commercial projects involved universities and colleges, representing 1.3% of the total number of non-commercial projects, and 1.5% by dollar value of ACOA contributions.

This is not to say that ACOA should not be supporting these types of projects, only that they do not fit neatly within the FC sub-activity versus the Community Development or other ED sub-activities such as trade. The rationale for supporting activities undertaken by industry and business associations – where these organizations are providing a service directly to their members and other firms – and regional development organizations is much more straightforward and clear.

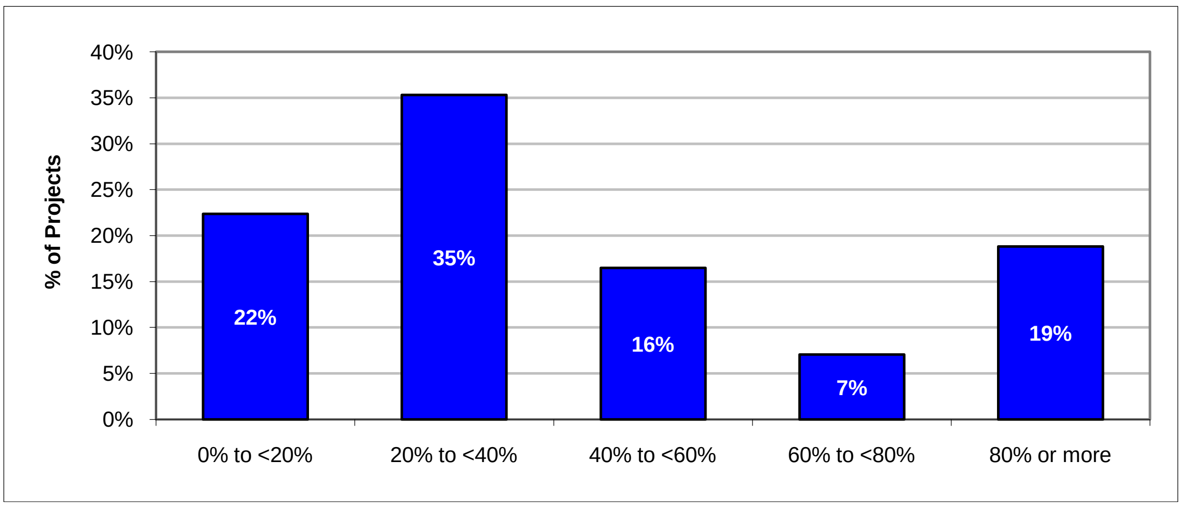
4.3 The Economic Impact of the Financing Continuum Projects

Participants in the client survey were asked to provide quantitative estimates of the impact of their projects on their sales, profitability and number of jobs created. These estimates provide an indication of the possible direct benefits that may be attributed to FC projects.

Clients' estimates of the increase in sales and profitability associated with their projects

The distribution of estimates of the increase in sales achieved by clients who reported they were using this as one of the measures of the success of their project are shown in Figure 7. The data show that 35% of these clients had an increase in sales ranging from 20% to 40%, followed by 22% who had increases of less than 20%. A relatively high proportion (19%) reported increases in sales in excess of 80%. The average increase across all the clients who provided an estimate of sales was 61%. As was noted earlier, 73% of the clients using this success measure indicated they had achieved their expectations to a "considerable" or "great" extent.

Figure 7: Estimated Increase in Sales Achieved by Clients Who Reported Using This Success Measure



Source: Survey of FC clients, commercial clients who were using increase in sales as a success measure and provided an estimate of the increase they attributed to their project (n=85).

A total of 53% of the commercial clients who responded to the survey indicated they used "increase in profitability" as one of their success measures. Among those who used this measure and provided an estimate of the increase they attributed to their project, 48% achieved an increase of less than 20% and another 26% achieved an increase of between 20% and 40%. The average increase across all of these clients was 29%.

Clients' estimates of job creation as a result of their projects

Almost half of the commercial clients who participated in the survey (46%) selected "number of new jobs created within organization" as one of their success measures and almost all (64 of 67) provided an estimate of the number of new full-time, part-time and seasonal jobs they attributed to their project. These estimates are summarized in Figure 8. The outcomes reported were:

- Between one and four new full-time jobs were created for 58% of projects. Another 8% of projects resulted in more than ten new full-time jobs, including a number of projects that resulted in the creation of 50 or more jobs each. These clients were largely involved in manufacturing.

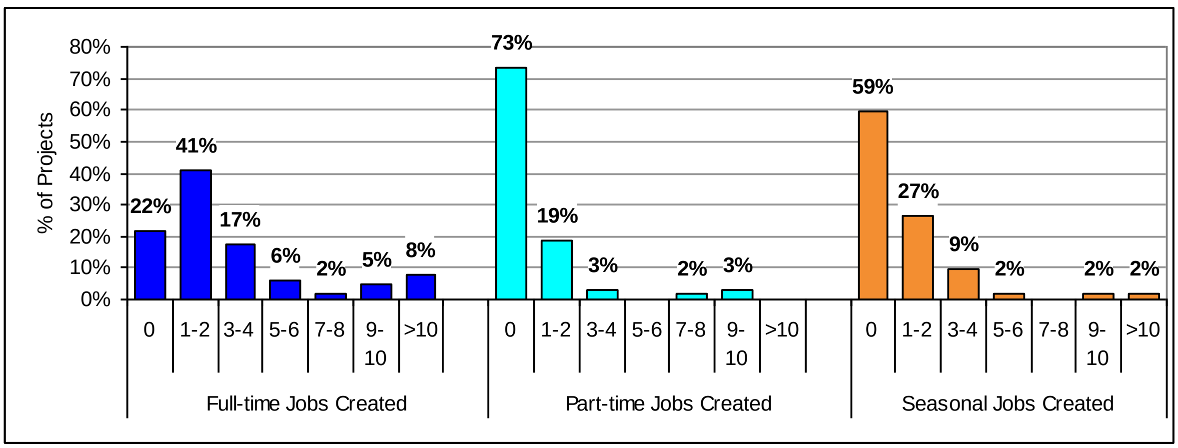
- Between one and four part-time jobs were created for 22% of projects.

- Between one and four seasonal jobs were created for 36% of projects.

- No new full-time jobs were created for 22% of projects. In addition, no new part-time and seasonal jobs were created for 73% and 59% of projects, respectively. This outcome would likely be consistent with expectations relating to FC projects that are undertaken to increase productivity or reduce costs or to strengthen marketing activities.

These job creation outcomes were in line with expectations for a majority (63%) of clients to a considerable (36%) or great (27%) extent. Only a small proportion (7%) reported that their job creation expectations were achieved to a "small" extent or "not at all."

Figure 8: Estimated Increase in Jobs Created by Clients Who Reported Using This Success Measure



Source: Survey of FC commercial clients who used "new jobs created" as a success measure and who provided an estimate of the number of jobs they attributed to their project (n=64).

Among clients who identified job creation as one of their success measures (46% of all clients), an average of 5.5 full-time, 0.8 part-time and 1.3 seasonal positions were created per project. These clients reported that new full-time positions were created for almost 80% of their FC projects, with the majority (58%) of projects resulting in between one and four new full-time jobs each.

Estimated average jobs created by clients who were not using job creation as a success measure (54%) were 3.2 full-time and 0.8 part-time jobs per project. If the mix of client sectors and client sizes for the clients that provided estimates of their job creation is equivalent to that of all FC clients and assuming that one part-time job is equivalent to one half of a full-time job, and excluding seasonal positions, then the Agency's 848 commercial FC projects have generated the equivalent of approximately 4,000 full-time positions. This number also assumes that the positions created as a result of FC projects are sustained. According to the surveyed clients, not all FC projects result in the creation of new jobs, nor are they intended too. For example, projects undertaken to improve productivity or product quality, reduce operating costs or strengthen marketing efforts are more likely to be concerned with maintaining existing employment levels and/or increasing business returns.

Estimated impact of Financing Continuum projects on Atlantic gross domestic product and employment

Additional analysis and economic modelling of the economic impacts of total expenditures on FC projects (that is, ACOA contributions plus funding from clients and other external funding providers) was conducted by ACOA's economic analysis group to estimate the cumulative economic impact of FC projects on GDP in Atlantic Canada from 2004-2005 to 2009-2010.[29] The analysis, performed using the CBoC econometric models for each of the four Atlantic Provinces, estimated the direct impacts of the project expenditures on value added and job creation, and the multiplier effects resulting from the indirect and induced impacts of these expenditures. The analysis also estimated the share of economic impacts that could be attributed to ACOA, that is, taking into account ACOA's share of total project funding, the estimated incrementality of the FC projects (examined in more detail in the next section), and the extent to which actual outcomes differ from pre-project estimates of job creation.

The analysis suggests that the total investment from all funding sources of $663 million in FC projects over the period examined resulted in an estimated increase of $1.5 billion in Atlantic Canada's GDP (cumulative from 2004 to 2010). The results of the study indicated that every dollar of ACOA expenditure on projects funded under the FC program sub-activity resulted in a GDP gain (attributable to ACOA) of $6.43. Sectors most significantly impacted by direct ACOA contributions include manufacturing and other services as well as the agriculture, forestry and fishing sectors, which account for approximately 66% of the growth in GDP.

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[29] ACOA, *Economic Impact Analysis of the ACOA Financing Continuum Sub-activity*, prepared by the Corporate Planning and Performance Management Division, Moncton (April 2010).

Cumulative total direct, indirect and induced employment creation associated with this expenditure is approximately 18,600 jobs. This cumulative level of job growth has created gains in personal disposable income of $573 million, stimulating a rise in consumer spending of approximately $519 million. As such, the FC sub-activity has made a significant contribution to the growth and competitiveness of the Atlantic economy.

4.4 Achievement of Intended Outcomes

The current logic model (see **Appendix C**) for the FC sub-activity contains four expected outcomes contributing to the achievement of the expected result, which is "for SMEs to have access to funding for financing expansion/modernization." The four expected outcomes are that:

- SMEs have a better understanding of how they can access financing;
- SMEs have access to adequate and appropriate sources of financing needed, in urban or rural areas;
- Ongoing research and analysis of marketplace conditions relating to financing suppliers; and
- capital is retained in Atlantic Canada.

<u>Small and medium-sized enterprises have a better understanding of how they can access financing</u>

A large majority of ACOA staff interviewed (approximately 65% of staff who were able to comment on this activity) believed ACOA was providing SMEs with a better understanding of financing sources and how to access them. Many saw this as a core component of the role of account managers, especially given ACOA's leveraging expectations. Many of the participants in the client interviews and surveys echoed this point of view and commented favourably on how ACOA is performing this role.

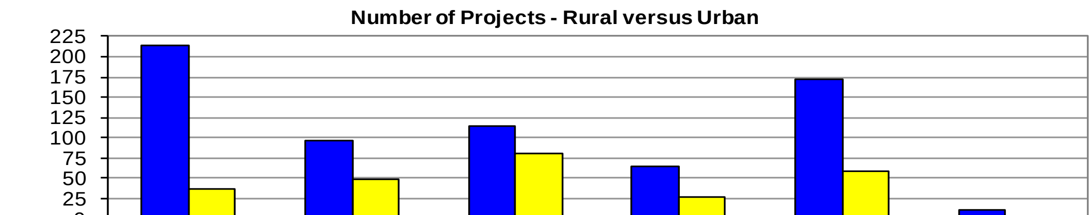
<u>Small and medium-sized enterprises have access to adequate and appropriate sources of financing needed, in urban and rural areas</u>

Findings presented in other sections of the evaluation report show that FC has played a significant role in enabling access to financing for expansion and modernization, and leveraging financing for SMEs from a variety of other public and private sources.

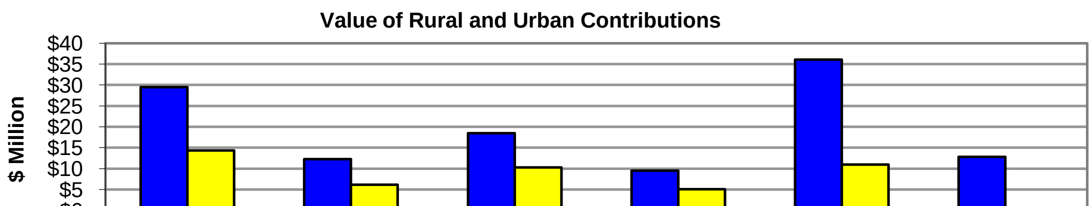
Urban projects are undertaken by clients located in the major urban centres in each region (e.g. Moncton, Saint John, Fredericton, Charlottetown, Halifax, Sydney and St John's). All projects outside of these locations are classified as rural. ACOA closely monitors the relative demand for FC funding from both rural and urban SMEs but does not set explicit targets for the volume or value of rural projects in the overall mix of FC projects. Instead, the Agency's regions respond to the level of demand from SMEs for expansion and modernization support rather than distorting the demand between rural and urban locations with arbitrary targets.

The rural/urban breakdown of projects is shown in Figure 9. As can be seen, the number of rural projects outnumbers urban projects by a large margin. This level of significance of support for rural SMEs compares to the (still high) share of SMEs in rural locations as observed in SME surveys conducted for Industry Canada, which found that 51% of SMEs in Atlantic Canada are located in rural areas, compared to a level of 28% for Canada as a whole.[30]

Figure 9: Split Between Rural and Urban Financing Continuum Projects



	New Brunswick	Prince Edward Island	Nova Scotia	Cape Breton	Newfoundland & Labrador	Head Office
Rural	214	97	114	64	173	10
Urban	36	49	81	26	58	2



	New Brunswick	Prince Edward Island	Nova Scotia	Cape Breton	Newfoundland & Labrador	Head Office
Rural	$29.5	$12.3	$18.5	$9.5	$36.1	$12.8
Urban	$14.3	$6.1	$10.3	$5.1	$10.9	$0.5

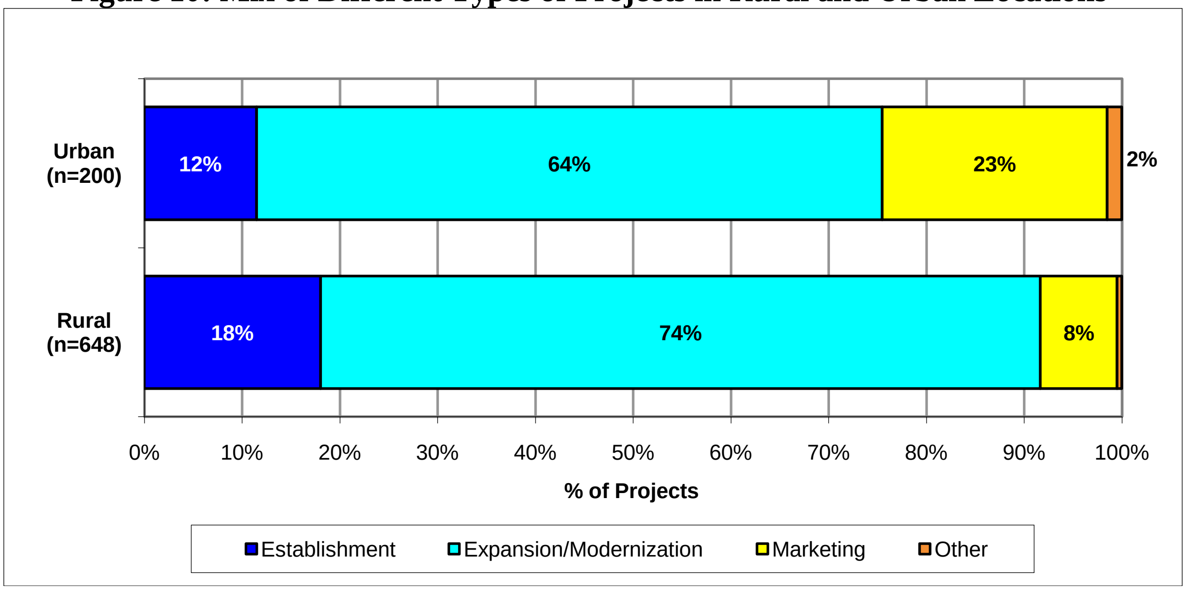
HO projects located in Nova Scotia (7), New Brunswick (3) and PEI (2).
Source: ACOA QAccess data, extracted November 5, 2009.

30 Industry Canada, *Small Business Financing Profiles: Rural Based Entrepreneurs*, SME Financing Data Initiative (October 2008), p. 3.

Rural commercial projects are also more likely to be for expansion/modernization (74% versus 64%) and start-up (18% versus 12%) purposes than are urban projects, as can be seen in Figure 10. In contrast, urban FC clients have a higher relative incidence of marketing projects (23% versus 8%).

Findings in earlier sections of this report demonstrate a need for financing from other sources, including angel and venture capital (VC) investors. ACOA has improved access to appropriate sources, of financing by providing financing directly, enabling SMEs to leverage financing from other sources based on ACOA's contribution, and by supporting VC funds.[31] The contribution of the FC sub-activity to overall adequacy of financing in Atlantic Canada is difficult to assess since SMEs that were rejected for funding are not followed. According to clients interviewed, ACOA's support for the FC activities largely satisfies the needs of targeted beneficiaries.

Figure 10: Mix of Different Types of Projects in Rural and Urban Locations



Source: QAccess data, extracted November 5, 2009.

<u>Ongoing research and analysis of marketplace conditions relating to financing suppliers</u>

Many ACOA staff members interviewed could not identify what the Agency was doing with respect to this outcome or did not understand how it applied to the FC program sub-activity.

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[31] Prior to 2009 Executive Committee decision to discontinue support for establishment and operation of venture capital funds.

They also noted that ongoing research and analysis of marketplace conditions relating to financing is much less extensive than activities related to the other three outcomes. Interview results suggest a limited number of studies and analyses have been produced. Work to support this outcome is concentrated at Head Office, and is (or was) probably used to inform ACOA's own policy analysis. If so, then this is not really an outcome but an output that supports policy-making and program development, and should be removed from the logic model.

Capital is retained in Atlantic Canada

Similarly, the outcome of capital retention is not commonly understood among ACOA staff interviewed, and there does not appear to be a standard, agreed-upon definition of what is meant by capital retention in the context of the FC. Among staff members who commented on this outcome, views as to the definition varied from retaining a higher share of pension savings (financial capital) in the region for investment in Atlantic businesses to minimizing the relocation of physical capital from within Atlantic Canada and developing and retaining human capital, particularly skilled resources, within Atlantic Canada. In addition, it is difficult to measure the impact FC may have on this outcome versus impacts of other factors and events.

The need to retain this expected outcome was also questioned in light of the shift in Agency priorities relative to investor readiness and facilitating the development of angel networks versus support for the strengthening of VC in Atlantic Canada. ACOA senior managers suggested that this outcome was less relevant now than it was in previous years in that the Agency no longer provides capital and/or operating assistance to VC organizations in favour of focusing support on investor readiness.

4.5 Conclusions

From 2004-2005 to 2008-2009 the FC sub-activity achieved a notable level of success in meeting the expected result set in the Agency's PAA – to enable SMEs to access funding to finance their expansion and modernization projects. Between 2004-2005 and 2008-2009, $165.9 million in direct funding was provided to 792 clients for 924 FC projects. FC clients were able to leverage this funding to obtain an additional $441 million from a combination of personal investment and other sources (e.g. federal, provincial). The majority of these projects (92%) were with commercial business organizations, with the remainder involving support for non-commercial projects intended to provide support services to businesses. The majority of the commercial projects were for SME expansion or modernization (71%) or for new business ventures (17%), with the remaining projects being mostly concerned with market-development and product-development activities.

Large majorities of the FC clients considered their projects to be successful, or in the case of projects in progress, expected them to be successful. Measures of success used by these clients involved combinations of increases in sales and profitability; improvements to infrastructure, facilities and product/service quality; introduction of new products/services; and improvements in productivity. Taken together, these assessments of project success by surveyed clients point to a substantial contribution to improved growth and competitiveness by Atlantic SMEs as a result of the sub-activity.

This finding is supported by the results of ACOA's economic analysis using the CBoC econometric models for each of the four Atlantic Provinces. This analysis estimates that FC funding provided by ACOA and other lenders resulted in an additional $1.5 billion dollars of Atlantic GDP (cumulative from 2004 to 2010), and employment impacts of approximately 18,600 direct, indirect and induced jobs.

Opportunities to improve the effectiveness of the FC sub-activity were identified in two areas. First, the current definition and scope of the FC does not appear to be consistent with the intended focus of the sub-activity in ACOA's current PAA, which is to enable SMEs to access funding for business expansion and modernization. This compares with a broader definition applied prior to 2007 that sought to foster the development of a range of SME funding structures across the continuum of needs faced by SMEs. As such, it may no longer be appropriate to use FC as the title for the sub-activity. The logic model for the FC sub-activity is also outdated and does not accurately reflect the evolution of its scope and focus.

Second, a proportion of the non-commercial projects funded under the FC sub-activity do not appear to be contributing to the provision of business support services to SMEs and other Atlantic businesses. In some instances these projects are "quasi-commercial," intended to enable non-profit organizations to develop their products and services and contribute to the social capital of the region. In other instances, projects appear to involve funding for universities and colleges to strengthen their own capabilities without necessarily providing reasonably direct benefits to businesses. These types of projects may be better categorized under other ED sub-activities or the Community Development program within the Agency's PAA, and the FC sub-activity restricted to non-commercial projects that clearly provide services and support to businesses.

The FC sub-activity has been successful in enabling:

- SMEs to access funding for expansion and modernization, and achieve a high degree of leverage on funding provided for FC projects; and

- FC clients to achieve significant growth in sales, and improvements in the productivity of their operations. In turn, the success of these projects has created substantial economic benefits in the form of growth in regional GDP and employment.

FC projects also have a high degree of incrementality in that they would not have proceeded without support from ACOA, or would have proceeded over longer time frames and/or with smaller budgets.

In recent years the FC sub-activity has increased its emphasis on expansion and modernization projects. This narrower focus has not been reflected in the title of the sub-activity or its logic model. At the same time, a proportion of the non-commercial projects categorized as FC projects do not appear to provide business support services, as intended.

5. Performance: Efficiency and Economy

The assessment of the efficiency/economy of the FC sub-activity examined the extent to which ACOA is having an incremental impact, is able to leverage its FC can contributions, can recover the repayable contributions provided to commercial clients, and undertakes required activities in an efficient and affordable manner.

5.1 Estimated Incrementality and Leveraging

Two important considerations in assessing the success and the efficiency/economy of the FC sub-activity are the degree of incrementality achieved and the amount of leveraging ACOA is able to generate on the funding contributions for SME projects.

<u>Incrementality of Financing Continuum projects</u>

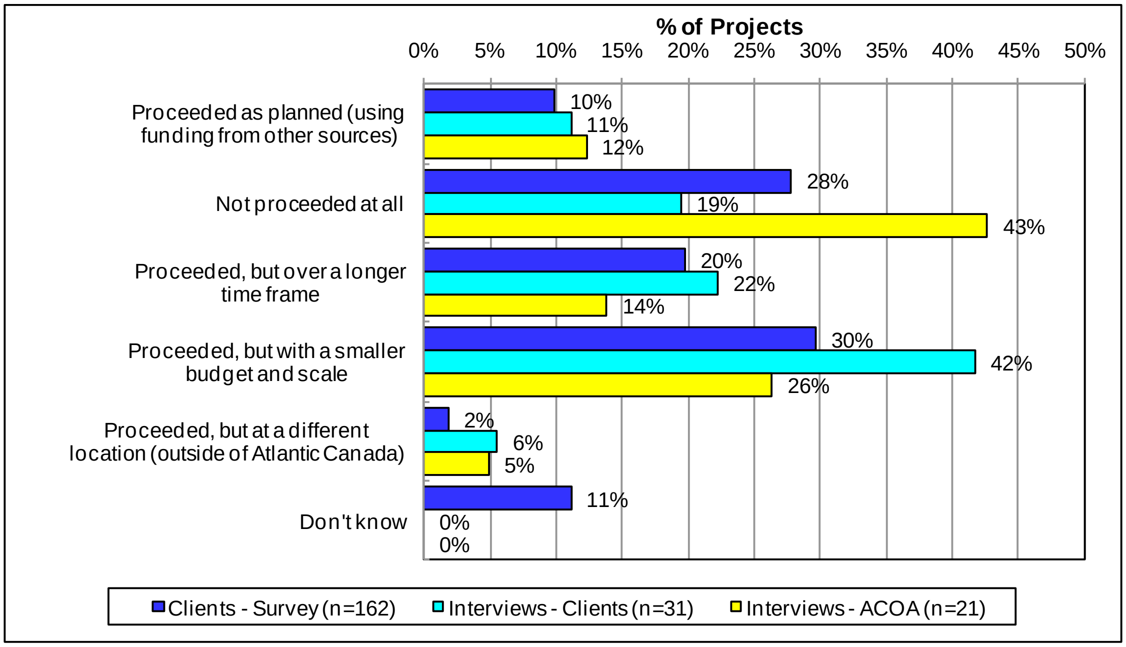
Incrementality is defined by ACOA as the extent to which a project would not proceed at the proposed location and/or within the proposed time frame and scope without financial assistance from ACOA. In order to assess the degree of incrementality, it is necessary to consider the counterfactual situation (i.e. what would have happened in the absence of ACOA funding support). This is a difficult question to answer in the absence of any form of control group and the answer must be inferred largely from clients' own assessments.

Survey respondents and clients who participated in the key informant interviews were asked what they would have done if ACOA had chosen not to fund their project. The responses to these questions, which are summarized in Figure 11, suggest that FC projects achieve a high degree of incrementality, as much as 88% to 90%.

ACOA funding made the difference between proceeding and not proceeding for 28% of the surveyed clients and 19% of those who were interviewed directly. For many others, the availability of ACOA funding enabled clients to implement projects faster than would otherwise be the case (20% to 22%) or to undertake larger-scale projects (30% to 42%). Only 10% to 12% of the clients believed that they would have been able to proceed as planned in the absence of ACOA support.

A similar question was also asked of ACOA staff who were interviewed. Their responses are also shown in Figure 11, and indicate that they too believe that only a small percentage of projects (12%) would have been able to proceed as planned without ACOA funding. ACOA staff, however, were less likely to believe that projects would have proceeded over longer time frames or on a smaller scale/budget and were more likely to believe they would not have been able to proceed at all, compared to clients.

Figure 11: Outcomes If Projects Had Not Received Funding Contributions From ACOA



Source: Survey of FC clients, key informant interviews with selected clients (n=31) and ACOA staff (n=21) who provided estimates.

Another way of looking at the level of incrementality is to estimate the proportion of projects where client's requests for financing from other providers were turned down or was conditionally approved, that is, was contingent on ACOA's participation. Using this approach, an estimated 68% of commercial projects were incremental, composed of:

- Six percent of clients who approached other funding providers and were turned down;
- Forty-one percent who approached other funding providers and were approved (in total or in part), and whose funding was conditional on ACOA participating in funding the project; and
- Twenty percent who did not approach any other funding providers and relied on a combination of client and ACOA funding (assuming that clients did not approach other funders on the expectation that they would not be approved).

The two estimates of the rate of incrementality (88% to 90% and 68%) are comparable to estimates prepared for Industry Canada of the rate of incrementality achieved for the CSBF. Estimates for the CSBF program indicated incrementality was approximately 75%.[32]

<u>Leveraging achieved on ACOA contributions</u>

Leveraging refers to the amount of project funding committed from sources other than ACOA, which may include funding from other federal, provincial and municipal government sources, private-sector funding organizations, informal funding sources (e.g. friends, family, angel investors), and the clients' own contribution. Leveraging provides a means of drawing in additional funding and thereby expanding the pool of funding available for FC projects. ACOA uses leveraging as its primary success indicator for the FC sub-activity in its performance reporting, with a target of attracting $2 in FC investment from other sources for every dollar of ACOA contribution.

A related unintended effect, according to many of the key informants, is that participation by many other funding providers is contingent on ACOA's participation. In effect, other funders rely on ACOA's project evaluations and due diligence to provide a measure of re-assurance regarding the likely risks of proposed projects. This contingent participation also has a bearing on the incrementality of ACOA contributions.

As a matter of general practice, ACOA seeks to fund up to 50% of eligible SME expansion and modernization costs, and up to 75% of eligible costs for other types of FC projects (such as marketing projects), subject to a maximum contribution of $500,000. Overall, the average contribution by ACOA, excluding outliers, was approximately $152,000 (approximately $148,000 for commercial and $200,000 for non-commercial projects). However, the Agency does have flexibility to exceed these targets/amounts when management determines that the potential benefits of a proposed project warrant a higher rate of contribution. Figure 12 shows the distribution of ACOA's share of total project costs (that is, contribution rates) for commercial and non-commercial FC projects.

The distribution of ACOA contribution rates for commercial and non-commercial projects shows that many projects are clustered close to the maximum contribution rates targeted by ACOA (over half in the case of commercial projects). At the same time, many commercial projects had contribution rates that were well below the target maximums – 25% of commercial projects had contribution rates of 40% or less and 50% of non-commercial projects had rates of 60% or less.

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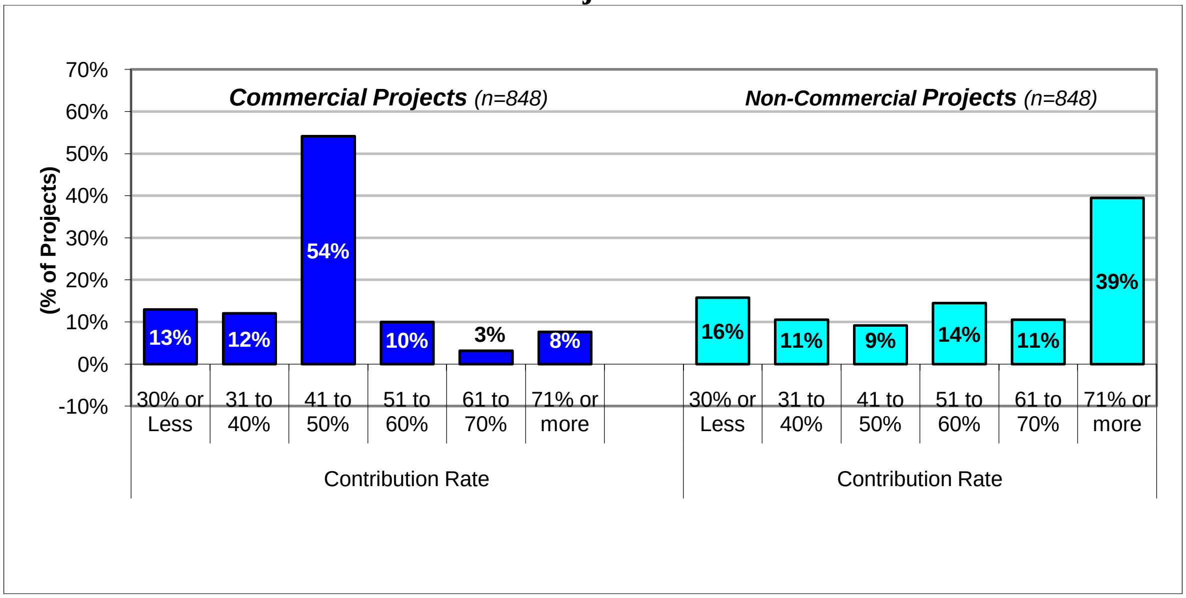
[32] Canada Works Limited (formerly Equinox Management Consultants Ltd.), *Canada Small Business Financing Program: Updated Analysis of Incrementality*, prepared for Industry Canada (June 2009).

Figure 12: Distribution of ACOA Contribution Rates for Financing Continuum Projects



Source: ACOA QAccess data, extracted November 5, 2009.

Calculations of the leverage on ACOA's FC contributions, based on the estimated total project cost and contributions by other sources of funding, indicate that for every dollar ACOA committed, other funders committed $2.70. The leveraging rate for commercial projects was almost $3, and $0.80 for non-commercial projects.

However, this calculation includes four outlying projects where the estimated total costs were significantly higher than the typical FC project and, in the case of the two highest cost projects, had markedly different leveraging rates. These four outliers accounted for 35% of the total cost of all projects and 15% of ACOA's total FC contributions.

When these outlier projects are excluded, the leveraging achieved was approximately $1.80 for every ACOA dollar, with almost $1.90 and $1.40 for commercial and non-commercial projects respectively. Table 5 summarizes the average contribution (weighted by project value) and leveraging rates for the FC sub-activity. The second column excludes the outlying projects to illustrate their effect on the overall outcome.

Table 5: ACOA Contribution and Leveraging Rates for the Financing Continuum Program Sub-activity

	All FC Projects	Excluding Outliers*
Non-Commercial Projects:		
▪ Number of Projects	76	75
▪ Estimated Total Cost ($M)	$45.3	$35.3
▪ ACOA Contribution ($M)	$24.7	$14.7
▪ ACOA Contribution Rate	54.6%	47.7%
▪ Leverage Achieved	$0.83	$1.40
Commercial Projects:		
▪ Number of Projects	848	845
▪ Estimated Total Cost ($M)	$561.2	$359.1
▪ ACOA Contribution ($M)	$141.2	$125.7
▪ ACOA Contribution Rate	25.2%	35.0%
▪ Leverage Achieved	2.97	1.86
All FC Projects:		
▪ ACOA Contribution Rate	27.4%	35.6%
▪ Leverage Achieved	2.66	1.81

* Outliers include 3 commercial and 1 non-commercial projects.
Source: ACOA QAccess data, extracted November 5, 2009.

5.2 Repayment of Contributions by Commercial Clients

Generally, contributions provided to commercial projects are repayable within a ten-year period and most are repaid over five to seven years, on average. At the same time, the Agency accepts that the rate of project defaults and write-offs will be higher than that experienced by private sector lenders due to the high-risk nature of the projects it supports.

As such, ACOA aims to find a suitable balance between supporting projects that would not otherwise be funded, achieving an acceptable rate of repayment, and minimizing the incidence of defaults and write-offs.

According to data prepared for the Agency's annual performance reports, 47% of the contributions to commercial projects under the BDP since its inception in 1995 have been repaid, 35% are outstanding, and the cumulative rate of defaults and write-offs to December 2009 was 16.5%.[33] A similar breakdown of the repayment rates for FC projects initiated from 2004-2005 to 2008-2009, and examined for this evaluation, found that 24%

[33] ACOA, BDP Repayable Contributions Portfolio (December 31, 2009, update), *Report on Plans and Priorities 2010-2011: Supplementary Information*. (Accessed at: www.acoa-apeca.gc.ca/English/publications/ParliamentaryReports/Pages/RPP_2010-2011_1.aspx)

of the disbursements to commercial FC projects have been repaid, 70% is outstanding and 6.4% is in default or written off. Funding for non-commercial projects is non-repayable, and accounted for 14% of disbursements to all FC projects during this time period.

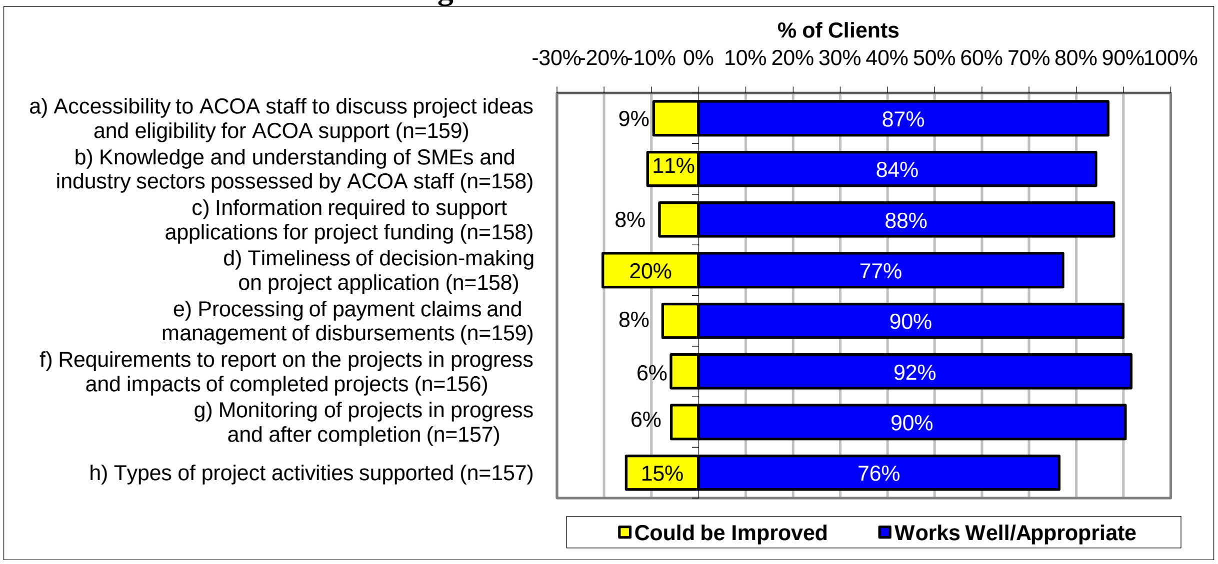
The higher share of outstanding capital in the mix of FC repayments reflects the much shorter time frame for the commercial FC projects compared to the BDP data. However, the repayment of almost one quarter of all disbursements suggests that a substantial number of clients have achieved quite strong returns on their FC projects and the sub-activity is making a notable contribution to the availability of funds for re-investment by the Agency.

5.3 Opportunities for Improvement in Financing Continuum Delivery

Large majorities of the surveyed clients who provided ratings of their satisfaction with FC services and ACOA's terms and conditions for FC funding were either somewhat or highly satisfied, as were a majority of both clients and partners who participated in key informant interviews. A very small number of clients reported experiencing problems with the review and approval of their project applications and/or the management of project implementation and interactions with ACOA.

At a more detailed level, survey respondents and key informants were asked about the functioning of ACOA's process for receiving and reviewing applications and overseeing the implementation of approved projects. The degree to which the survey respondents thought the project life-cycle process worked well or could be improved is summarized in Figure 13.

Figure 13: Extent to Which Clients Believe ACOA's Project Selection and Management Process Works Well



Source: Survey of FC clients.

The data summarized in Figure 13 indicate that a large majority of the Agency's FC clients believe that the core elements involved in taking a project from inception to closure work well. In only three areas did more than 10% of surveyed clients suggest there were opportunities for improvement, these related to the timeliness of decision-making (20%), types of projects supported (15%), and the knowledge of SMEs and industry sectors by ACOA staff (11%). A review of the comments and suggestions relating to each of these suggests a number of possible opportunities for improvements:

Timeliness of decision-making: Comments provided by clients regarding the time to process and approve their applications point to a number of issues experienced by some clients:

- Lack of clarity in the requirements for information to be provided with applications, resulting in requests for further information and/or revisions and, therefore, longer processing times;

- Slow turnaround on final applications due to a combination of workload volumes/pressures for account managers and project volumes;

- Lack of clarity or transparency in decision-making on applications, where a few clients believed the account manager was the only person involved in approving or refusing an application. (In actual practice, every project requires a program manager's sign-off after it has been reviewed by an account manager. If a project is greater than $100,000, sign-off by a director is also required.)

Types of projects supported: Many comments regarding this aspect of the project cycle were suggestions to expand the range of eligible costs, for example, provision for project management costs to include a proportion of salary (or salary equivalent) for the business owner's project management time, and core funding for not-for-profit organizations providing business support services. Some suggested the inclusion or exclusion of different types of eligible activities appeared subjective and was not consistent from one province to another.

Knowledge and understanding of SMEs and industry sectors by ACOA staff: Perhaps unrealistically, most clients who suggested ACOA's performance in this area could be improved expected account managers to have a well-developed understanding of their specific industry sector, which would mean that account managers would need to have a high level of understanding of every sector and sub-sector in the region. These comments may also point to a lack of clarity in the information provided in applications and in the supporting business plans.

Comments and suggestions by clients who participated in key informant interviews were mostly similar to those provided by the survey respondents. Other comments further qualified the comments obtained from the survey, suggesting that: developing sector knowledge required time to ensure that account managers understood clients' businesses and sectors, and turnover in account managers can be quite disruptive for clients. Comments made by key informants suggest that clients appreciate the ability of account managers who have a good understanding of client sectors to provide business advice and better understand the context for proposed projects. Some of these key informants also noted that the timeliness of decision-making was usually quite good once applications are finalized, but getting an application finalized may take several iterations before all required or requested information has been provided and the account manager has a good understanding of the project details.

ACOA staff also tended to highlight issues concerning timeliness, workload management, project monitoring and sector knowledge when commenting on what they thought worked well or was in need of improvement. Some commented that service standards would be useful to ensure more consistent turnaround times on project decisions all the while noting that timeliness was a two-way process (i.e. depended as much on the time required to ensure applications were complete and to clarify aspects of applicants' proposals).[34] A more significant theme running through these comments was an apparent need to revise the application form for FC projects to ensure applicants are better informed about ACOA's requirements. In this regard, suggestions to provide a checklist of information and document requirements as well as pro forma examples of completed applications warrant further consideration.

Another theme in the internal interviews was workload management for account managers. The portfolio of projects assigned to some managers was perceived are too large for effective management and monitoring and it limited opportunities for these managers to engage in more proactive contacts with SMEs and industry groups in their assigned sectors or geographic areas. A number of key informants suggested that some administrative and monitoring tasks could be transferred to other staff levels to enable account managers to focus on the management of applications and projects in process. Unfortunately, the scope of the evaluation did not permit a detailed examination of workload distribution among account managers or a comparison between regions.

[34] Service standards for program delivery were introduced in April 2010, following the completion of data collection for the evaluation but prior to reporting. Service standards were introduced for the decision-making process for project applications and the payment process. The first standard set for decision-making is the time from receipt of a complete application to the issuance of an acknowledgement letter that provides the name and contact details of the account manager assigned to the application.

Finally, comments by more senior regional managers suggest that performance reporting – the provision of aggregate information on the overall progress and results for the BDP and mix of sub-activities in ED to inform management planning, decision-making and reporting – is often ad hoc and relies on data extracts from QAccess[35] rather than a more formalized and consistent reporting system. The only exception to this is the reporting and monitoring of repayability, which is a recognized and important area of focus across the Agency. Over time, directors have identified the information they need to manage projects and staff and have developed ways of getting such information, but not without some effort or reliance on staff able to convert the necessary data to suitable performance information.

5.4 Cost of Service Delivery

Total FC expenditures from 2004-05 to 2008-09 amounted to $275.5 million, including contributions and operating costs. As shown in Table 6, FC contributions declined each year over the period examined, which reflects the trend in the total number of FC projects during this period (as discussed in **section 3**). The share of FC transfers in total BDP contributions went from 39% in 2004-2005 to 22% in 2008-2009, and averaged 33% over the five years.

Table 6: Financing Continuum Expenditures, 2004-05 to 2008-09

Year	Contributions ($000)	Operating Expenses		Total ($000)
		Salaries ($000)	Other* ($000)	
2004-2005	60,804	5,500	5,743	72,047
2005-2006	55,387	10,528	8,397	74,312
2006-2007	39,538	7,790	5,655	52,983
2007-2008	28,925	9,125	4,198	42,248
2008-2009	23,185	7,315	3,458	33,958
Total	**$207,839**	**$40,258**	**$27,451**	**$275,548**

* Operating expenditures do not include statutory payments of approximately $10.2 million for employee benefit plans. Source: Corporate Finance (August 2009).

Estimated salaries and other operating costs attributable to the FC sub-activity also fell over the 2004-2005 to 2008-2009 period, but not as rapidly as contributions, with the result that estimated salary and other operating costs went from 16% of the total (contributions, salaries and other operating costs) in 2004-2005 to 32% in 2007-2008 and 2008-2009. Note however, that the estimate of FC salaries and other operating costs is regarded as indicative

[35] QAccess is the project management database used by ACOA to track and report on contribution agreements.

by program staff and is not considered to provide a reliable basis for monitoring the relative significance of operating and administrative costs at the sub-activity level.

In comparing the rate of decline in salary and other operating costs to the rate of decline in the number of new FC projects, it is important to remember that account managers and other program staff are responsible for managing both existing and new projects, and as noted earlier, the average term for a commercial project in the BDP is five to seven years. To illustrate this, the evaluation analyzed how many FC projects from 2004-2005 to 2008-2009 were still active in November 2009. There were 840 FC projects still in process (plus an unknown number of projects from earlier years).[36] When compared to the number of new project commencements in 2008-2009 (131) this means that for every one of these new projects there were at least 5.4 older projects still in process. When looked at in this context, it will likely take years before FC salary and operating costs fully adjust to the decline in the number of FC projects between 2004-2005 and 2008-2009.

5.5 Conclusions

Funding allocated for the support of FC projects, principally for the expansion and/or modernization of SMEs, have been well-utilized. A high proportion of the FC projects – between 68% and 90% – were found to be incremental (i.e. would not have proceeded at the proposed location and/or within the proposed time frame and scope without financial assistance from ACOA). In addition, a high degree of leverage on financial support from ACOA was also achieved, with $2.7 dollars of project funding invested for every dollar of ACOA support ($1.8 dollars per ACOA dollar after excluding four very large, atypical FC projects). Finally, the rate of repayment of project transfers by FC clients is also strong, with almost a quarter (24%) of the funds disbursed between 2004-2005 and 2008-2009 already repaid and only 6.4% in default or written off. The balance of projects are either non-repayable (i.e. non-commercial), still in progress, or have not yet entered the repayment phase.

A high proportion of the clients for FC projects (over 80%) feel that most aspects of the project selection and management life cycle work well. Areas where opportunities for improvement were most frequently highlighted (by 10% to 20% of the surveyed clients) related to improving the timeliness of decision-making, expanding the types of projects supported, and expanding the knowledge and understanding of SMEs and industry sectors by ACOA staff. Comments by ACOA staff also tended to highlight challenges in these same areas as well as workload management issues.

[36] Projects that were in progress, in repayment and subject to monitoring, transferred to recovery or in default, and pending deletion.

Potential opportunities exist to improve the design of the application process and the form for FC projects, including the introduction of consistent service standards for the key steps, revision of the allocation of tasks to account managers to enable more effective client outreach and project monitoring activities, and the establishment of a more formalized and consistent performance reporting system rather than relying on ad hoc approaches.

ACOA`s funding of FC projects is considered to be efficient and economical in that it is highly incremental and enables clients to achieve a high degree of leveraging. While a majority of clients and program-delivery staff believe that the FC project selection and management life cycle work well, a number of opportunities to further improve the efficiency and economy of these processes were suggested. These opportunities relate to the functioning of the application process, the introduction of service standards and the introduction of a more formalized and consistent performance reporting system.

6. Recommendations

The evaluation findings and conclusions show that the FC sub-activity has been effective in improving the access of SMEs to financing for expansion and modernization projects. In doing so, it addresses a funding gap encountered by the majority of SMEs served by ACOA and thereby contributes to the achievement of the federal government's policy goals for regional economic growth. As a result, the FC sub-activity is relevant and effective in achieving its expected results and outcomes.

However, a number of opportunities exist to improve the design and delivery of the sub-activity; these provide the focus for the following recommendations.

Relevance

Recommendation 1: Define a framework and scope of services to support the development of equity financing for SMEs in Atlantic Canada, drawing on lessons learned with recent investor-readiness projects and communicate details of the updated approach to partners, SMEs and staff.

Partners and staff who participated in the key informant interviews were aware that ACOA was no longer providing investment funds for VC organizations or supporting the operating expenses of these funds. Beyond this, many were not sure of the Agency's approach or strategy to developing investor readiness among SMEs and facilitating the availability of equity financing in Atlantic Canada. Also, many were aware of specific projects undertaken in different regions, such as the angel network initiatives in N.S. and N.L., but unsure whether there was a cohesive Atlantic-wide approach in place.

Possible considerations in developing this service specification and positioning of the Agency include:

- the relative significance of angel investment and VC activity across Atlantic Canada and the potential to expand the level of angel activity through such mechanisms as angel networks;

- the most appropriate ways for ACOA to facilitate the development of angel networks by means of support for outreach to potential angels and/or prospective candidates for equity investments, and by conducting associated due diligence processes;

- best practices in and approaches to the provision of investor readiness development and to the expansion of the pool of possible candidate firms for such development in both rural and urban locations;

- means of developing or supporting linkages between angel investors/networks and VC organizations to support further growth of successful firms and enable angels to make timely exits from their investments;

- possible implications for other ED sub-activities, such as Entrepreneurship and Business Skills Development, and Trade and Innovation.

Consultation with current and potential partners will be necessary to explore external perceptions and concerns in more detail, and to test and refine proposed elements. Once done, the Agency should also implement a communications campaign to inform its key partners, stakeholders and staff about the key features of the approach.

Performance: Effectiveness

Recommendation 2: Clarify the scope of the FC sub-activity to focus on its primary role of enabling SMEs to access funding for expansion and modernization.

Consistent with this focus, the Agency may wish to change the name of the sub-activity. For example, the Agency may want to revert to “access to capital” or “expansion and modernization capital” which is more reflective of the activities being supported. Such a change in the scope of the sub-activity also assumes that the operational projects that are excluded can be more suitably included in one of the other sub-activities such as Trade and Innovation.

Recommendation 3: Revise the FC logic model to reflect the Agency’s current priorities and expectations of the sub-activity.

Recommendation 4: Reinforce the need for non-commercial FC projects to have a clear linkage to business, including clarifying guidelines provided to prospective clients and guidelines used by ACOA staff to determine the fit of prospective non-commercial projects within the scope of the FC sub-activity.

Performance: Efficiency and Economy

Recommendation 5: Review and redesign, as necessary, the process for managing projects through their life cycle, from initial inquiry and application to repayment, to more consistent and timely management of applications and projects, enabling account managers to maximize their involvement in value-added activities with clients.

Specific issues and opportunities to consider in the assessment and redesign of the process include:

- the revision of the project application form and associated review process to ensure information requirements are clearly communicated to and understood by prospective applicants, including for example, a checklist of information requirements and/or preparation of pro forma examples to demonstrate what information is expected. The aim here would be to reduce the amount of time invested by both clients and account managers in getting applications to the point where they are ready for review and approval;

- further development and implementation of service standards to improve the transparency and consistency of application, project implementation and monitoring, and payment processing;

- determining which project monitoring activities are best performed by account managers and which can be transferred to other staff to allow account managers to engage more with prospective clients and business groups and to resolve client and project issues that arise;

- the establishment of more reliable means of allocating and monitoring salary and other operating costs for the delivery of each sub-activity in order to provide program management with a better basis for cost management and budgeting; and

- the development of a standard set of performance reports to assist program directors and managers in monitoring performance and informing planning and decision-making. This may also include enhancements to data management systems to enable ad hoc requests for performance information and breakdowns as well as the selection of a suitable measure (or measures) of the efficiency of key program delivery activities.

While this recommendation has been formulated in reference to the FC, it applies to the delivery of all ED sub-activities.

Appendix A – Evaluation Question Matrix

Evaluation Issues	Indicators	Data Sources / Methodologies				
		Document/ Literature Review	Key Informant Interviews		Analysis of Project Data	Client Survey
			ACOA Staff	External Partners/ Stakeholders		
1. Relevance – the extent to which the FC sub-activity addresses a demonstrable need and is relevant to ACOA's mandate, strategic objectives as well as government-wide priorities and strategies						
1.1 To what extent is the FC sub-activity relevant to, and aligned with, ACOA's mandate and strategic outcomes as well as government-wide priorities/ strategies?	Linkages between FC sub-activity outcomes and 1) ED program activity outcomes, 2) ACOA's strategic outcomes, and 3) federal government priorities and strategies.	×	×		×	
1.2 Is the funding of SME expansion/modernization, and advocacy for the development of financing sources in Atlantic Canada, a legitimate and necessary role for ACOA?	Rationale for ACOA's involvement in financing SME expansion/modernization.	×	×	×	×	
	Presence/absence of alternative sources of SME financing.	×	×	×	×	
1.3 To what extent are projects funded through the FC sub-activity meeting the needs of targeted SME clients?	Client satisfaction.			×		×
	Perceptions and/or data regarding the extent to which SMEs' needs for capital financing are met.		×	×	×	×
1.4 Are there significant unmet needs for SME expansion/ modernization funding?	Perceptions as to whether projects would have proceeded without ACOA financing.		×	×	×	×

Evaluation Issues	Indicators	Data Sources / Methodologies: Document/ Literature Review	Key Informant Interviews: ACOA Staff	Key Informant Interviews: External Partners/ Stakeholders	Analysis of Project Data	Client Survey
1.5 Do FC contributions complement, duplicate or overlap private sector or other government programs for SMEs at the federal or provincial level?	Trends in participation by other public and private sources of SME financing.		×	×	×	×
	Presence/absence of alternative sources of SME financing.	×	×	×	×	×
2. Performance: Effectiveness – the extent to which program objectives have been achieved within the context of expected results and outcomes						
2.1 To what extent does the FC sub-activity enable SMEs to access funding for financing expansion/ modernization projects such that: a) enterprises have a better understanding of how they can access financing; b) SMEs have access to adequate and appropriate sources of financing they need, whether in urban or rural areas; c) research and analysis of marketplace conditions relating to financing suppliers is ongoing; and d) capital is retained in Atlantic Canada.	Extent to which funded projects – commercial and non-commercial as well as expansion of financing sources – are linked to the FC outcomes.		×	×	×	×
	Degree of leverage achieved on ACOA funds ($ and %).	×			×	
	Relative financial success of funded clients (sales, employment growth).	×	×	×	×	×

Evaluation Issues	Indicators	Data Sources / Methodologies				
		Document/ Literature Review	Key Informant Interviews		Analysis of Project Data	Client Survey
			ACOA Staff	External Partners/ Stakeholders		
2.2 What would have happened if this FC support had not been available between 2004-2005 and 2008-2009?	Estimates of what would have occurred in the absence of FC support.		×	×		×
2.3 What factors enhance, or limit, the ability of ACOA to achieve the target FC outcomes?	Perceptions and/or evidence of enhancing and/or limiting factors. Impact of repayability requirements on either SME take-up rates, or participation by other providers of financing, especially private sources.	×	×	×		×
2.4 Are there still gaps in the availability of financing for SME expansion/ modernization in Atlantic Canada? Are they increasing or diminishing?	Perceptions and/or evidence of financing gaps and whether they are narrowing or widening.	×	×	×		×
2.5 To what extent are these gaps related to: a) the amount of funding available for FC projects; and b) the overall breadth and depth of funding options for SMEs in Atlantic Canada.	Trends in the amount of funding for FC projects versus other ED Program Sub-activities.	×	×		×	
	Mix of funding sources used by FC clients.		×	×	×	×
	Published analyses of the presence and significance of a financing gap for SMEs in Atlantic Canada.	×				
	Perceptions of partners, stakeholders and clients.			×		×

Evaluation Issues	Indicators	Data Sources / Methodologies: Document/ Literature Review	Key Informant Interviews: ACOA Staff	Key Informant Interviews: External Partners/ Stakeholders	Analysis of Project Data	Client Survey
2.6 Does the FC sub-activity have the right balance between: a) commercial and non-commercial projects; b) rural and urban projects; and c) projects in key sectors of the Atlantic economy?	Relative shares in the total mix of FC projects of: commercial/ non-commercial projects, rural/urban projects and key sectors.				×	
	Perceptions regarding the suitability of ACOA's approach.		×	×		×
	Issues encountered in the application of guidelines and priorities for project balancing.		×	×		
3. Performance: Efficiency – the extent to which FC activities are undertaken in an affordable manner, taking into consideration the relationship between outputs and the resources to produce them						
3.1 Are there opportunities to improve the efficiencies of ACOA's FC-related activities and outputs?	Factors that have facilitated or impeded success.		×	×		×
	Opportunities to improve the provision of FC outputs.		×	×		×
3.2 Are the criteria for classifying projects as belonging to the FC sub-activity clear and consistent?	Issues/weaknesses concerning the consistent allocation of projects to the FC sub-activity.	×	×			
3.3 What is the relationship between FC projects and those in other Program Sub-activities, and the extent of any inter-dependencies?	Linkages between FC and other ED Program Sub-activities.	×	×		×	
	Views on inter-dependencies.		×			

Evaluation Issues	Indicators	Data Sources / Methodologies: Document/ Literature Review	Key Informant Interviews: ACOA Staff	Key Informant Interviews: External Partners/ Stakeholders	Analysis of Project Data	Client Survey
3.4 Has the involvement of ACOA in providing funding for SME expansion/ modernization had any unintended effects – positive or negative?	Evidence/perceptions of unintended impacts and their effects.	×	×	×		×
3.5 What performance measurement information on FC activities and outputs is produced? How is this information used in decision-making and performance reporting?	Types of performance information produced and reported.	×	×			
	Areas in which information on FC performance is used to inform decision-making.	×	×			
3.6 Are there gaps or weaknesses in this performance information?	Identified and/or perceived gaps/weaknesses in perfor-mance information and their impacts on FC effectiveness.	×	×			
3.7 What are the lessons learned and/or best practices related to the FC?	Perceptions regarding best practices and lessons learned.	×	×	×		
4. Performance: Economy – the extent to which resources allocated to the FC program sub-activity are well-utilized, taking into consideration alternative delivery mechanisms						
4.1 Are there more efficient or cost-effective ways of achieving expected results, taking into consideration alternative delivery mechanisms?	Perceptions regarding possible alternative approaches to the achievement of intended FC outcomes. Insights from alternative approaches in other jurisdictions.	×	×	×		×

Appendix B - Data Collection Methodology

1. Preliminary Interviews

As part of the detailed planning for the evaluation, a series of exploratory interviews with representatives of ACOA and selected external partners and stakeholders was conducted. These interviews were supplemented by an initial scan of background documentation relating to the BDP, the ED program activity and the FC program sub-activity, and an analysis of summary data extracted from QAccess on FC projects from 2004-2005 to 2008-2009. Interviews were conducted with 17 ACOA managers and staff in each of the regions and at Head Office as well as nine representatives of external stakeholder organizations.

The purpose of this preliminary analysis was to: (1) provide key members of the KPMG team with an understanding of how the FC sub-activity works and the types of issues encountered with the delivery and management of FC activities; (2) explore issues affecting the achievement of targeted outcomes and availability of performance data; and (3) inform the planning for the subsequent data collection and analysis tasks.

2. Document and Literature Review

A review of ACOA documentation was conducted related to the design, delivery and performance of the FC sub-activity and its positioning within the mix of sub-activities comprising ED. In addition, a search for and review of published research and evaluations from other jurisdictions was conducted to identify approaches to and lessons learned regarding the nature of financing gaps facing SMEs and responses to gaps in the availability of equity funding for SMEs.

The documentation and literature review was used to:

- investigate the rationale for, and evolution of, the ED program activity and FC sub-activity, focusing on current and past PAAs, Departmental Performance Reports, Reports on Plans and Priorities, ACOA's five-year reports, related policies and strategies of the federal government, and past evaluation and audit studies;

- identify and assess reporting on FC activities, outputs and outcomes;

- identify insights and lessons from published research as well as studies and evaluations conducted for other economic development agencies regarding the presence of financing gaps for SMEs and the effectiveness of public funding programs in addressing these gaps and needs; and

- inform the design of interview guides and the survey questionnaire and cross-validate or supplement information obtained from other lines of inquiry.

3. Key Informant Interviews – ACOA Program Staff

Key informant interviews were conducted with 38 ACOA managers and staff in each of the regions and at Head Office. These key informants included ED and (to a lesser extent) Community Development program managers, a cross-section of account managers and/or development officers involved in the selection, oversight and monitoring of FC projects, as well as a number of managers responsible for claims processing and financial monitoring. These interviews investigated views on the Agency's role, effectiveness and efficiency in supporting the growth of SMEs.

A single structured interview guide was developed for these interviews, taking into account that not all interviewees were expected to be able to answer all the questions. The guide was developed in collaboration with the ACOA evaluation unit.

The scheduling and conduct of the interviews involved:

- an initial e-mail or telephone contact by a member of the KPMG evaluation team to explain the purpose of the interview, to confirm the nature of the interviewee's involvement with the Agency's FC work, and to ask for their availability;

- provision of a copy of the interview guide, by e-mail, to facilitate preparation for the interview;

- scheduling and conducting the interview; and

- preparation/editing of summary notes on each interview for use by the KPMG evaluation team.

These interviews lasted from one to two hours each and were conducted using a combination of telephone and in-person interviews. Interviews were conducted either individually with each informant or in a small group.

4. Key informant Interviews – External Partners and Stakeholders

Key informant interviews were conducted with 51 representatives of a selection of commercial and non-commercial FC clients plus key FC partners and stakeholders with representation from all regions as well as Head Office. These interviews were broken down as follows:

- Twenty-six commercial and non-commercial clients. Commercial clients were primarily drawn from among clients with two or more FC projects between 2004-2005 and 2008-2009. Non-commercial clients ran the gamut from educational institutions to business/industry associations to economic development organizations to organizations organizing special events/attractions.

- Fourteen partners/stakeholders concerned with the financing of SME projects covering such organizations as:
  - Business Development Bank of Canada
  - Provincial ministries with mandates to facilitate and fund economic development
  - Regional offices of chartered banks (focusing on the most active in each region)
  - Community Business Development Corporations
  - Business/industry associations
- Eleven clients/stakeholders involved in the provision of angel or venture capital funding for SMEs and/or investor-readiness training and guidance.

Separate interview guides were developed for each of these different categories. Candidates for these interviews were e-mailed a copy of an introductory letter from ACOA describing the purpose of the evaluation and encouraging their participation. The KPMG evaluation team then contacted each of the targets to schedule an interview time. Interviews were conducted in parallel with the internal key informant interviews and also involved a mix of in-person and telephone interviews.

5. Analysis of Project Data

ACOA’s projects database (QAccess) contains an extensive amount of information on project applications and current and past FC projects. Key details for FC projects from 2004-2005 to 2008-2009 were extracted from the database and used to analyze and summarize the characteristics of FC projects supported by ACOA. This analysis investigated the following project aspects:

- regional distribution – numbers of projects and their dollar values;
- contribution and leverage rates;
- industry sectors of clients;
- distribution of project types and dollar values – by client type (commercial/non-commercial) and program element (establishment, expansion/modernization, marketing, business support);
- projected impact of projects on clients’ sales and employment growth at time of project approval;

- project expenditures versus approvals;
- reasons for project failures; and
- incidence of projects in other ED sub-activities undertaken by FC clients between 2004-2005 and 2008-2009.

Findings from this analysis were used to prepare a profile of FC projects (i.e., outputs), to "drill down" into attributes of particular interest, and to summarize trends in the numbers, locations and types of projects. This information was also used to validate and cross-reference findings from the client survey.

6. Client Survey

An online survey of clients for FC projects initiated between 2004-2005 and 2008-2009 was conducted to investigate client perspectives regarding:

- relevance – client satisfaction, existence of a financing gap, other sources of financing used, and what would have happened in the absence of ACOA funding;
- effectiveness – confirmation of project objectives and results achieved, including changes in sales and employment that may be attributed to the FC-funded projects; and
- efficiency and economy – identification of aspects of project selection, management and monitoring perceived to work well or to be in need of improvement, and suggestions for improvements to ACOA's approach over the life cycle of a project.

The master sample for the survey consisted of all clients with FC projects, excluding those where the offer of funding had been withdrawn or where the project had been transferred to recovery or placed in default for lack of compliance with repayment schedules, written off or cancelled. A relatively large number of the remaining clients/projects did not have e-mail addresses in their QAccess files, so the regional offices were asked to add missing e-mail addresses where possible.

The resulting sample contained 604 e-mail addresses, representing 76% of the population of 792 FC clients. These clients were sent an electronic invitation (in English and French) to participate in the survey and provided with a link to the survey site, which was independent of ACOA to maintain client confidentiality, as well as the option of completing and returning the survey by hand or electronically. The survey remained open for approximately three weeks, during which time two reminders were sent out. Respondents had the option of responding to an English or French version of the questionnaire.

A total of 165 usable responses were received, giving a response rate of 27.3%, which is comparable with the 20% to 30% response rate typically achieved for surveys of this nature. Compared to the overall population of FC projects, the survey respondents are more likely to:

- be from N.S. (30% versus 21% of the total population of FC projects) than from N.B. (23% vs. 27%) or C.B. (8% vs. 10%);

- have recent projects, with 19% in 2007-2008 (vs. 15% in the total FC population) and 22% in 2008-2009 (vs. 14%); and

- have a slightly higher share of urban clients (35% vs. 27%) than the overall FC population, and a lower share of rural clients (65% vs. 73%).

The overall composition of the survey respondents was not considered to be sufficiently different from the profile of the total population of FC projects to skew the findings nor to warrant weighting the survey data to adjust for these differences.

Findings from each of the different groups of key informants were edited and analyzed to identify common themes and issues, and this synthesis was used in the reporting of findings. Survey data was aggregated to provide an overall database and tabular breakdown of the aggregated results used in the analysis and reporting.

Finally, participating clients were asked a series of questions about particular projects they had undertaken. These questions asked for data on the effect of their project outcomes on such dimensions as sales, profitability, job creation and maintenance, market awareness, etc., which may have been difficult to separate out from the effects of other business activities as well as market and competitive issues. For the most part, this means that the data provided is composed of clients' best estimates of impacts attributed to their projects and do not represent definitive measures. A similar qualification applies to their assessment of what they would have done had ACOA chosen not to provide funding.

7. Economic Impact Analysis

The general approach followed in estimating the economic impacts for projects funded by the FC program sub-activity consisted of three phases.

- Phase 1: For all projects, incorporate related investment expenditures.

- Phase 2: For establishment or expansion of a business, model the increase in production related to the investment.

- Phase 3: For projects other than the establishment or expansion of a business, include the economic activity associated with the type of spending under the project.

The economic impact analysis for the FC program sub-activity was undertaken using the CBoC econometric models. The CBoC models are dynamic econometric models of the four Atlantic provinces. The major advantage of the CBoC models is that each province is modeled explicitly. This approach is likely to attenuate the effects of programs such as those administered by ACOA, which alter the share of GDP accounted for by the Atlantic provinces in any particular industry.

Simulations using the CBoC models yield three types of impacts and these are defined as follows:

Direct impact: The initial, immediate economic activities generated by a project or development. Direct impacts associated with the development coincide with the first round of spending in the economy.

Indirect impact: The production and income changes occurring in other industries that supply inputs to a project.

Induced impact: The effect of spending by households in the local economy as a result of direct and indirect effects from an economic activity (i.e. project, event, etc.). The induced effects arise when employees who are working for the project spend their new income in the economy.

Project information was obtained from the Agency's QAccess database. The information obtained included project expenditures by type, the estimated number of jobs created by a project, the amount ACOA committed to the project and the net amount expended on the project.

The first phase of the analysis consisted of modelling the investment scenario. Project costs by type of expenditure were separated into four categories:

- building and renovations – investment in non-residential construction;
- other capital costs – investment in machinery and equipment;
- wages and salaries; and
- other expenditures.

For the investment phase, the first two categories were used for modelling the investment scenario for both commercial and non-commercial projects. It is important that expenditures be segregated into construction investment (building and renovation) and other capital costs (machinery and equipment) because the impact on the Atlantic economy differs by category.

The second phase consisted of modelling the increase in production for commercial projects, which consisted of establishing or expanding a business. For these projects, the estimated number of jobs created for a specific project was used in the analysis. It is important to note that only successful projects – identified through the Agency's monitoring process – were included in this phase of the analysis.

Finally, the last two categories, Wages and Salaries and Other Expenditures, were used to model the third phase of successful commercial and non-commercial projects that were not considered an establishment or an expansion of a business. The Wages and Salaries component was used to model economic activity directly associated with the project.

For the remaining projects, wages and salaries and other expenditures were transformed into value-added output.[37] For this process, the ratio of wages and salaries relative to GDP by province and by sector was used.

It is important to note that wages and salaries paid to ACOA public servants related to delivering the BDP under the FC program sub-activity were not incorporated in the analysis. While these wages and salaries would generate an impact on Atlantic Canada's economy, it was not included in the analysis because the objective was to measure the economic impact of the FC program sub-activity rather than that of the Agency itself.

[37] Value-added output is defined as the difference between the cost of the intermediate inputs to produce a good or service and its value (sales price).

Appendix C - Financing Continuum Program Sub-activity Logic Model

Outputs	**Financing Continuum Outputs are:** •Outreach Events & Products (e.g. Networking – meeting with banking community) •Financing of Projects (e.g. Assessment; Management; Monitoring of projects) •Evaluate and approve ACOA Projects

Reach	**Increased Awareness**	**Building Capacity**	**Skills Developed**	**Improved Access to Capital and Services**	**Improved Partnerships / Networking**	**Businesses Created or Strengthened**
Clients: SMEs; Not for Profit; Providers of capital. Stakeholders / Co-deliverers: Providers of capital; Governments; NGOs; Professionals	Enterprises have a better understanding of how they can access financing			SMEs have access to the adequate and appropriate sources of financing they need whether in urban or rural areas. Ongoing research and analysis of market place conditions relating to financing suppliers. Capital is retained in Atlantic Canada.		

Financing Continuum	**SMEs have access to funding for financing expansion/modernization**
Fostering the development of institutions and enterprises, with emphasis on those of small and medium size	**Increased growth and competitiveness of Atlantic SMEs**
Strategic Outcome	**A competitive Atlantic Canadian Economy**

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