

**EVALUATION STUDY OF THE
SMALL BUSINESS INCENTIVES PROGRAM
(A COMPONENT OF THE EASTERN
ONTARIO SUBSIDIARY AGREEMENT)**

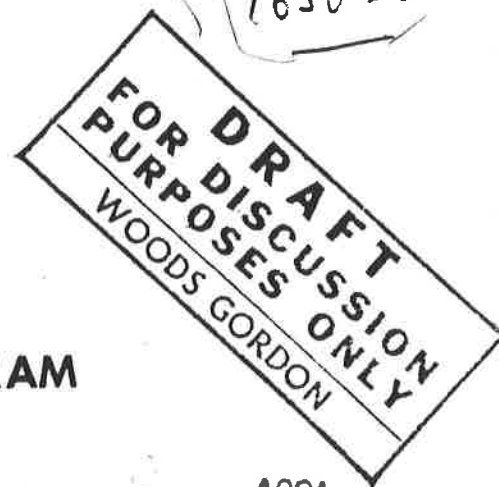
**MANAGEMENT COMMITTEE
EASTERN ONTARIO DEVELOPMENT PROGRAM**

September 1982

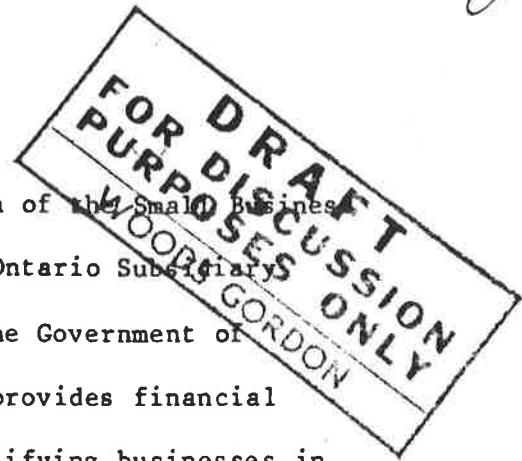
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This report presents an Evaluation of the Small Business Incentive Program established under the Eastern Ontario Subsidary Agreement between the Government of Canada and the Government of Ontario. The Small Business Incentives Program provides financial assistance by means of a forgivable loan to qualifying businesses in designated areas of Eastern Ontario. Our evaluation is summarized in the following comments:

KEY FINDINGS AND CONCLUSIONS

Summary Assessment

THE SMALL BUSINESS INCENTIVES PROGRAM IS OF SIGNIFICANT BENEFIT TO THE ECONOMY OF EASTERN ONTARIO AND TO THE BUSINESSES WHO HAVE BEEN ASSISTED. WE ALSO FOUND THAT THE PROGRAM IS BEING DELIVERED IN A REASONABLY EFFICIENT MANNER.

More specifically we found that the Small Business Incentives Program has achieved the following:

- (1) its primary objective of leveraging small-scale capital investment is being achieved. However, in a notable number of cases the investment is by firms that would not normally be called "small business". A total of 103 projects have been approved as of June 30th accounting for a total of \$28 million (perhaps as much as 10% of all capital investment in the region) for approved forgivable loans of \$7.3 million. Without the incentive at least half of this activity would not have occurred and the remaining projects would have been significantly reduced. However, upwards of 45%, depending on the definition used, may not be considered "small businesses".
- (2) The Program is having mixed success in meeting its other objectives:
 - the objective of stabilization is being achieved in that the traditionally important sectors of food and beverages, textiles, apparel and metal fabricating industries have been assisted relatively more than other sectors.
 - ✓ - the objective of diversifying the regional economy is not being achieved since there is relatively little investment being supported in new and promising sectors.



- the objective of bolstering manufacturing is being supported since the Program is almost entirely being directed towards this sector.
 - there is some movement towards improving regional productivity in that 10% of the projects were for modernization. ✓
 - data are inadequate to determine whether local disparities are being reduced.
- (3) The Program is having a significant impact on the Regional economy of the Area:
- about 1,000 jobs are expected as a result of the investments. This could provide jobs to 5% of those currently unemployed. Limited evidence to date indicates that the expected impacts are occurring despite the current economic climate.
 - all recipients expect significant sales increases.
 - 80% of recipients expect some improvement in competitiveness
 - estimates of increased exports and import replacement were sketchy but positive.
 - five companies reported that they would have gone out of business if it was not for the SBIP assistance.
- (4) The evidence is inadequate to determine if the Program is having a differential impact on non-qualified adjacent areas. what little data that does exist indicates that the economy of these other areas have outperformed the economy of the SBIP area.
- (5) The Program seems to be efficient. In rough terms, the Program is helping create one expected job for every \$7,000 of approved loans. It has so far proven to create one job for every \$16,000 of disbursements.
- (6) The Administrative processes and controls are reasonably efficient with some opportunities for improvement.
- (7) The program is well perceived by the recipients and others in the region and has a significant level of awareness among businesses in Eastern Ontario.
- (8) The SBIP does tend to replace other similar government assistance.
- (9) In comparison to other financial incentive mechanisms that government could consider to assist small business in Eastern Ontario, forgivable loans seem to be the most appropriate.
- (10) The objectives and criteria are inadequately documented and there is some inconsistency between several of the objectives. The lack of ongoing monitoring mechanisms lessens the ability of Program Administrators to meet the Program's objectives.



As a result of our findings and conclusions we recommend that the sponsoring governments:

- (1) State the objectives more specifically and tailor the criteria to more closely reflect these goals. In particular, a definition of small business should be adopted - perhaps the same as the SBLA (sales of less than \$1.5 million). Also, related service industries should be more specifically defined.
- (2) Targets and standards should be set for the objectives and administrative processes.
- (3) A monitoring system should be adopted to better trace the progress of the Program towards its objectives.
- (4) Partial payments to companies when approval is first given should be authorized on a special circumstances basis.
- (5) Special financial assistance for the application process should be considered for very small enterprises.



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AN EVALUATION OF THE SMALL BUSINESS INCENTIVES PROGRAM

PREAMBLE

This report presents an evaluation of the Small Business Incentives Program. The Small Business Incentives Program ('SBIP' or Program') was established as part of the Eastern Ontario Subsidary Agreement (EOSA) signed in December of 1979. The Agreement is jointly managed and funded by the Government of the Province of Ontario (represented by the Ministry of Treasury and Economics - MTE) and the Government of Canada (represented by the Department of Regional Industrial Expansion - DRIE¹), under the auspices of the General Development Agreement (GDA) signed by the two governments in February of 1974.

This evaluation was commissioned by the Management Committee for EOSA under the requirements for program evaluation set out in the GDA. Originally, the programs established under EOSA were to expire in 1984 at which time an evaluation of their effectiveness was to have been carried out. However, as of June of this year, approved allocations under the SBIP had almost approached the initial funding limit of \$10 million. It was therefore determined that an evaluation would be appropriate at this time to provide input into the planning of the Program's future direction.

¹ Formerly the Department of Regional Economic Expansion - DREE



As set out in the Terms of Reference for the study, the objectives of this evaluation were that the consultants carry out:

- o an assessment of the Program's objectives and whether these are being fulfilled;
- o a review of the effect of the Program on the Eastern Ontario area including a determination of any difference to areas not designated, while attempting to exclude the effect of the current economic slowdown and increased interest rates on the Program's impacts;
- o an assessment of the economy and efficiency of the Program's delivery;
- o a review of the effect of the Program on other available federal and provincial government assistance on small business;
- o an assessment of the public awareness and perceptions of the Program, particularly by the applicants;
- o a review of the future of the Program including possible improvements to its design or delivery.

The Report

This report addresses these objectives and is organized into four general sections:

1. An Introduction which describes the Nature of the Program and its Delivery and outlines the Evaluation Methodology
2. The Findings and Conclusions of our analysis of the Program's objectives, effectiveness and efficiency
3. Our Recommendations and Suggestions that address the issues identified in our findings on the design, delivery and potential alternatives for the Program.
4. A Set of Appendices that provide background technical documentation

1 INTRODUCTION

1.1 Nature of the Program and Its Delivery

The Small Business Incentives Program of the Eastern Ontario Subsidiary Agreement is an outcome of a long process of



government study and concern for the socio-economic well-being of Eastern Ontario. Previous federal and provincial reviews identified the following basic circumstances prevalent in Eastern Ontario (outside of Ottawa-Carleton) that gave rise to this concern¹:

- o the area's per capita income was below the provincial average
- o unemployment was higher than the provincial average
- o employment opportunities were dwindling in two of the area's main economic activities: agriculture and forestry. Also, manufacturing was over-dependent on industries requiring federal trade protection
- o overall productivity was lower than the provincial average
- o resource opportunities were under-utilized

Recognizing the need to address these problems, the two levels of government agreed to provide assistance to Eastern Ontario through a range of programs. The Small Business Incentive Program was established as part of this initiative.

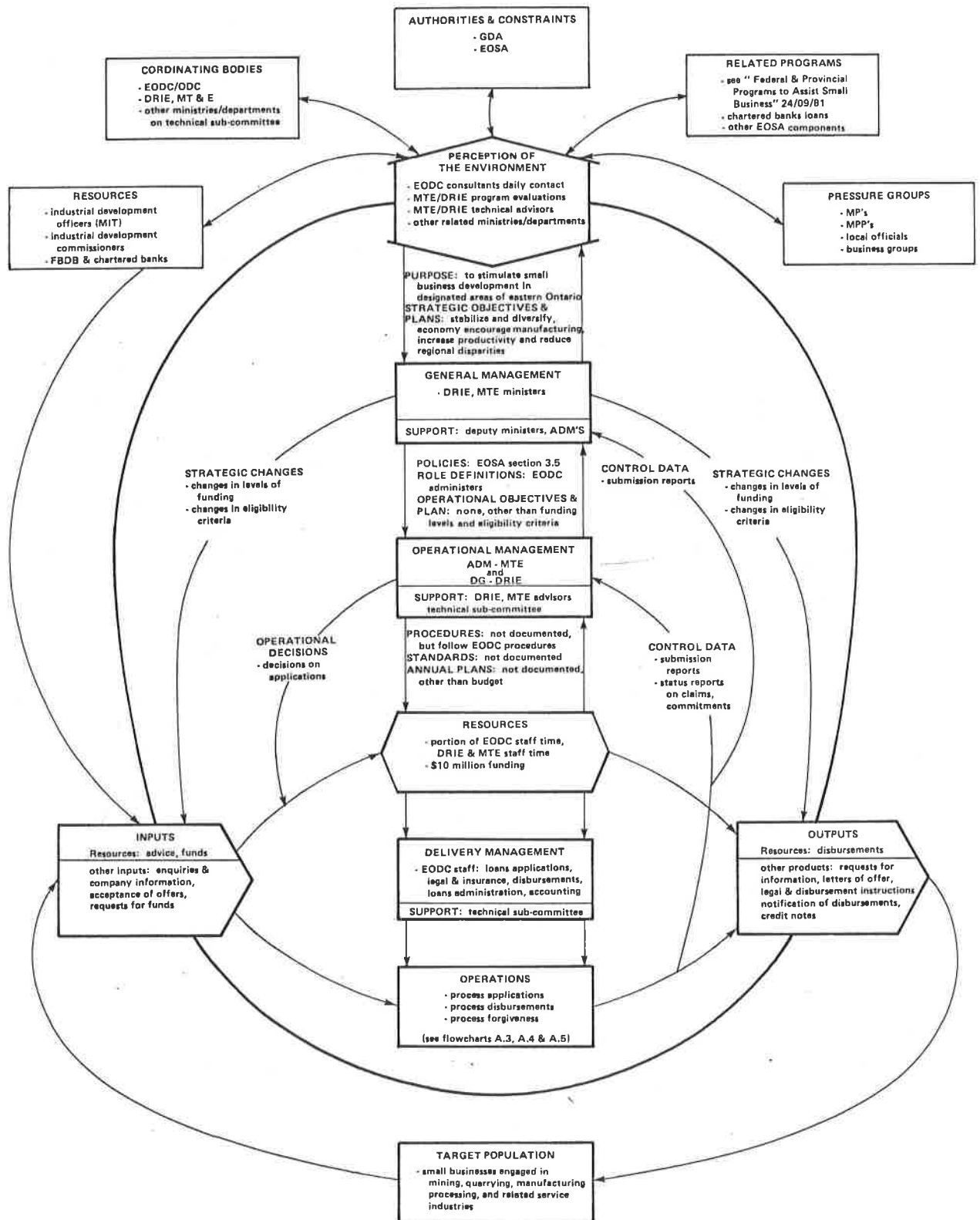
¹ See for instance:

Design for Development - Ontario's Future: Trends and Options, Ministry of Treasury, Economics and Intergovernmental Affairs, published in March of 1976.

Eastern Ontario Subsidiary Agreement: Detail Analysis, unpublished paper by the Ontario Region of the Department of Regional and Economic Expansion, March 1979.

Background Analysis and Preliminary Shape of the Eastern Ontario Subsidiary Agreement, unpublished paper by the Ministry of Treasury and Economics, December 1978.

Exhibit 2
AN OVERVIEW MODEL OF THE
SMALL BUSINESS INCENTIVES PROGRAM





As currently designed, the Small Business Incentives Program provides forgivable loans to firms who undertake a capital project of not more than \$600,000 for up to 50% of the qualified costs. The facility must be located in Eastern Ontario, excluding the Ottawa-Carleton Regional Municipality (see Exhibit 1) and must be active in one of the following industries: mining, quarrying, processing, manufacturing and related services.

The Program is funded equally by the governments of Ontario and Canada. It is administered by a Management Committee that is chaired by one representative from each level of government. The Management Committee is assisted by a Technical Sub-Committee which includes representatives from various ministries and departments in the two governments.

The Program is delivered through the Eastern Ontario Development Corporation which is a provincial crown agency that provides financing to business in Ontario under a variety of programs. The full network of roles, influences, inputs and outputs are portrayed in Exhibit 2. Specific comments will be made with regard to the purposes, relationships and activities of the key components of the model throughout the remainder of the report. Likewise, statistical profiles of the Program's activities will be provided at appropriate stages to support the analyses.

1.2 Evaluation Methodology

In general, an evaluation of a public sector program seeks to provide those closely associated with the planning, administration and policy evaluation of a program with answers to their



questions and concerns on key issues. As shown schematically in Exhibit 3, these issues and questions focus, after reviewing the objectives, on how the Program has performed and whether it can be improved. Following the answers to these questions, a series of recommendations and suggestions can be formulated that will address any outstanding issues that require resolution.

In order to answer these critical questions, a variety of information sources are required to provide the necessary data. Because of the complexity of the questions, a number of different sources must be tapped. In this regard, we undertook the following information-gathering activities for this evaluation study.

- 1) Interviews with the Management Committee, the Technical Sub-Committee, senior officials in the Eastern Ontario Development Corporation's head office and field consultants from its regional offices in Ottawa and Kingston, and other government officials closely associated with the design, delivery or evaluation of the Program.
- 2) A survey of the 102 recipients (those with loans authorized as of June 30, 1982). There were 81 respondents to the survey and a brief review of the non-respondents indicates that their answers probably would not alter the conclusions. The survey consisted of personal contact, the filling out of a written questionnaire and follow-up of particular issues when appropriate. Appendix B provides greater detail on the survey.
- 3) A survey of a representative sample of 40 firms in Eastern Ontario that did not utilize the SBIP. Due to sample size and selection procedure, the results cannot be ascribed to all firms in the area but they do provide some valuable background information. Further information is also provided in Appendix B.
- 4) A review of the literature and a series of interviews with experts on small business problems and financing. In particular, the reports available for the Small Business Financing Review (SBFR) of the federal department of Industry, Trade and Commerce and discussions with organizations such as the Canadian Federation of Independent Business.



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- 5) A series of interviews with related financial and development officials in Eastern Ontario, including field officers from the Federal Business Development Bank (FBDB), the Industrial Development Officers of the Ministry of Industry and Trade (IDO's), selected bank managers and municipal industrial development commissioners.
- 6) The review of efficiency and economy utilized a rigorous methodology based on our firm's Value-for-Money Auditing practice and the related practices of the Office of the Auditor General, the federal Audit Services Bureau and current provincial internal audit practices. Further information on the application of the methodology is contained in Appendix A.
- 7) A complete search of available statistical information relevant to the study objectives, small business and the Eastern Ontario region. As a result, several limited sources specific to the Study area and current enough to assist in impact evaluation were used from Statistics Canada and Dun and Bradstreet.
- 8) A review of relevant background documents about Eastern Ontario and about federal and provincial business support programs.

In evaluating the Small Business Incentives Program based on the information gathered by these processes, the analysis was constrained by the following:

- o the first disbursements approved by the SBIP were made in January of 1981 and as of the end of June of 1982, only one-third of the total (\$10 million) funding had been disbursed. Thus, although the Program funds have been largely committed, there has yet to be enough elapsed time to observe the full impacts on the regional economy and on the recipients.
- o there is a significant lack of definitive and up-to-date statistical data on small business activity in Eastern Ontario.
- o there is a lack of certain baseline data on small business needs, perceptions and awareness of government programs before the Program was instituted and before various promotional activities were undertaken. These types of data are very difficult to reconstruct after the fact.



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- o there is a lack of internal administrative data that would permit the delivery of the Program to be costed in accurate terms.

Bearing in mind these constraints, our Findings and Conclusions are detailed in the following section of the report.



2 FINDINGS AND CONCLUSIONS

2.1 Summary Assessment

The Small Business Incentives Program is of significant benefit to the economy of Eastern Ontario and to the businesses who have been assisted. We also found that the Program is being delivered in a reasonably efficient manner.

In particular, our findings and conclusions relevant to the objectives of this study are as follows:

- Objectives o The Immediate Objective of leveraging small-scale capital investment is being achieved. However, in a notable number of cases the investment is by firms that would not normally be called "small business".
- Objectives o The Program is having mixed success in meeting its Intermediate Objectives. The manufacturing sector is being bolstered. There is a stabilization of those industries which have been traditionally the most dominant in Eastern Ontario but which have been declining recently in importance. Regional Productivity is being improved slightly. However, there is no evidence that Diversification is occurring and we were unable to determine if Regional Disparities are being reduced.
- Regional Impact o The Program is having a beneficial effect on the regional economy of Eastern Ontario by raising employment, adding capital investment, increasing sales and improving productivity. The lack of sufficient data and the large impacts of current economic trends prevented us from assessing the differential impact on areas that are not designated. Existing data do indicate that in a general sense, the economy of the adjacent non-designated areas have either matched or out-performed the economy of the designated region.
- Efficiency, Economy & Control o The Program is being delivered efficiently although a lack of documentation and monitoring procedures weakens control. The assessment of the economy of the delivery was found to be inappropriate due to the nature of delivery.



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Relationship o The Program has tended to replace other available
with Other federal and provincial government assistance when
Assistance they serve the same purpose. The provision of a
Programs forgiveable loan appears to be the best type of
assistance for the recipient firms given the stated
objectives, the conditions in Eastern Ontario and
the problems of small business.

Public o The Program is well-known amongst businesses and
Awareness relevant local financial and business advisors
& Perception with the possible exception of bankers. The Program
is well-perceived by the recipient firms and by
the local financial and business advisors who are
familiar with it.

The remainder of this chapter discusses each of these findings in more detail.

2.2 Objectives

2.2.1 Introduction

In assessing the objectives and whether they have been fulfilled, we examined several aspects:

- o the rationale and consistency of the stated objectives and their definitions.
- o the suitability of the criteria for eligibility and for the decisions related to the level of assistance provided.
- o the success in achieving the immediate objective of leveraging small scale capital investment.
- o the success in achieving the intermediate objectives:
 - stabilize the regional economy.
 - diversify the regional economy.



- bolster manufacturing
- increase regional productivity
- reduce regional disparities

Before evaluating the objectives under the above headings, the following is the background to their design and a statement of their definitions.

The specific objectives of the SBIP were formulated within the overall context of the GDA and EOSA. Whereas the objectives of the GDA were very general and only provided for special measures to bolster regional development in such areas as Eastern Ontario, the stated objectives of EOSA were somewhat more directed and included: stabilizing the economy, ensuring the long-term availability of natural resources, and stimulating private sector investment.¹ These objectives were established within the context of the overall objective to improve the economic and social well-being of the residents of Eastern Ontario. The development of the SBIP was based on the following rationale:

- o the majority of EOSA programs focussed on developing the resources of Eastern Ontario. There was a requirement that a linkage be established between the improvements of these resources and their subsequent production locally into finished products, if Eastern Ontario was to fully benefit from their economic potential.
- o the most appropriate type of economic development was felt to be that which encouraged indigenous industry. This inferred supporting the smaller operations that tend to be developed by local entrepreneurs.
- o existing government assistance to businesses (at that time they included the Canada-wide programs of the federal government such as the Small Business Development Bond, DREE's RDIA incentives in North Renfrew, and the provincial programs administered by the EODC) were felt not to be appropriate to the needs of small scale enterprises.

¹ Section 2.2 of the Eastern Ontario Subsidiary Agreement between Canada and Ontario, December 20, 1979.



The objectives of EOSA and the above factors led to the formulation of a Small Business Incentives Program with the following objectives:

- o in the immediate term, to lever private sector capital investment in small business in Eastern Ontario.
- o in the intermediate term, this investment is intended to:
 - diversify the economy of Eastern Ontario, to reduce its dependence on import vulnerable industry (due to GATT negotiations) and other industry highly dependent on public policy.
 - reduce local disparities by raising employment and income levels in Eastern Ontario.
 - assist growth in the manufacturing sector of Eastern Ontario.
 - increase regional productivity.
 - stabilize the regional economy by arresting the decline which particularly is apparent in certain key elements of the manufacturing, processing and service sectors.

Exhibit 4 displays how each of these objectives are casually related to each other, to the instrument of capital incentives and to the ultimate objective of EOSA.

2.2.2 Evaluation of the Integrity of the Objectives.

In general the stated objectives of the SBIP are consistent with the overall intentions of the GDA and EOSA. However, the objectives do lack clear documentation that would ensure that the Program assistance mechanism, that is, a forgivable loan, will actually realize the intended effects indicated by the objectives. There is also some degree of inconsistency between the stabilization objective and the diversification objective. This lack of clarity and consistency inhibits the use of the objectives to guide Program decisions. The following discusses why we reached these conclusions.



The SBIP Evaluation Assessment is the only document that is available that specifically identifies individual objectives for this Program (Exhibit 4). The EOSA contract only states that the Program is to "stimulate small business development". There are some discussions in the federal background document (noted earlier) but there is a definite lack of a detailed set of objectives specific to the SBIP that were stated at the outset. Because of this, it is difficult to determine whether the Program was implemented with each of the strategic objectives clearly in mind. Our interviews with officials involved at the outset seemed to infer that the central purpose of SBIP was to assist indigenous entrepreneurs. It was assumed that aid in this manner would lead to the fulfillment of the intermediate objectives. However, there is no clear documentation of how the small business incentive would translate into the realization of the intermediate objectives.

When comparing the objectives for the SBIP with those of EOSA there is consistency. There are some objectives that are shared (stabilize and diversify), one that is more specific for the SBIP than EOSA (EOSA's stimulate private sector investment becomes SBIP's support for small business investment) and some that are unique (EOSA has two objectives that focus on natural resources while SBIP objectives address regional productivity, manufacturing growth and regional disparity). In practice, however, there are two objectives shared by both SBIP and EOSA which are difficult to meet at the same time with limited resources. Diversification of the economy and stabilization of existing industry could possibly work at cross-purposes to each other since the former focusses on new sector development while the latter focusses on existing sectors.



Where there is a lack of documentation and a clearly indicated direction for the objectives, and when individuals who were integrally involved in the design of the Program may no longer be making policy decisions with respect to the delivery of the Program, there is always a danger that day-to-day decisions will drift from the direction originally intended for the Program at its inception.

One way to counter-act this tendency is to establish clear criteria that direct Program activities towards the fulfillment of the objectives which were established with the initiation of the Program. The following sub-section reviews this aspect.

2.2.3 The Evaluation of the Design of the Eligibility and Decision Criteria

The eligibility and the decision criteria adopted to operationalize the stated SBIP objectives provide the Program administrators with a reasonable degree of useful flexibility. However, in certain areas they lack consistency with the Program's objectives and in other areas the criteria are not adequately defined or documented.

The official eligibility criteria are listed in Exhibit 5. These establish who is eligible to apply for SBIP assistance and control the maximum amount of the incentive loan. The actual decision, assuming these criteria are met, on whether to provide the loan and its value, is guided by a series of informal criteria. Our interviews indicated that the following informal criteria are used:

- o viability of the operation. This is the primary criterion which determines whether assistance is provided and supercedes all other criteria in the decision-making.



- o the amount of employment creation. This is the primary criterion which determines how much assistance should be provided. Employment maintenance is also a recognized factor in specific situations.
- o increased exports.
- o import replacement.
- o some concept of financial need.
- o the amount of financial assistance requested - in many cases the maximum was not requested.
- o the collective "feel" of the Program administrators as to the promise and local importance of the project, including its effect on other companies in the area.

We were not provided with any documentation on how these decision criteria are defined or on how they are applied, nor were our interviews successful in determining how they were used in practice. In fact, we encountered some distinct reticence by our interviewees to provide this information. Without such documentation it is difficult to assess how appropriate the decision criteria are to the fulfillment of the objectives.

On examining the criteria in comparison to the objectives we note that:

- o there is a lack of clarity with respect the Program's focus on "small business" since no specific criteria are used to define the applicant - only the project.
- o there are no criteria that relate to the diversification or stabilization objectives.
- o import replacement, although important, is almost impossible to document or anticipate.
- o there is considerable scope for flexibility and recognizing the individual needs of a firm.



The most important issue which emerges from a comparison between the criteria and the objectives is the lack of a definition of small business. The limit on the size of the capital project was deliberately used instead in order to provide the Program administrators with as much flexibility as possible. However, this does allow for the possibility that large firms will obtain aid for small scale investment. The following section reviews this issue.

Are Small Businesses Receiving Assistance?

The primary focus and common understanding of those administering the Program is that it should generate investment by small business. The Program is achieving this but it also assists certain enterprises that typically would not be considered small business.

Exhibit 6 and 7 demonstrate that the \$600,000 capital investment criteria only partially succeeded in directing assistance to smaller business. As can be seen, on an employment basis, there is a notable under-representation of assistance to very small firms (those with less than 20 employees). Considering that the number of SBIP projects in the 0-19 employment category is over-exaggerated because of the start-up situation, the pattern in Table 6 probably overstates the number of small firms receiving SBIP assistance. It should also be noted that there is an over-representation of businesses with 50-99 employees.

These findings are also supported when tabulations on recipients, classed by value of sales (Exhibit 7), are examined. There seems to be a definite over-weighting of SBIP recipients in the larger sales classes (\$1 million to \$5 million) with a corresponding



under-representation in smaller sales classes. Exhibit 8 takes the analysis one step further by using various accepted definitions of "small business" to define the SBIP recipients. Depending on the definition used, upwards of 30-45% of the SBIP recipients would be considered as other than "small business". This ranges down to 8%. For instance, if the definition used by the Small Business Loans Act (sales must be less than \$1.5 million dollars), 37% of SBIP recipients would not qualify SBIP assistance to these firms totalled about \$3.2 million dollars. Some of these larger firms are subsidiaries of very large multi-national corporations including Pratt and Whitney, Foremost McKesson and Emerson Electric.

There are several factors which would contribute to the above situation:

- o there is no specific eligibility criteria keyed directly to size of business and there is no clear definition of small business associated with the Program's objectives
- o larger businesses tend to be more knowledgeable of government assistance programs and how to apply for them. ✓
- o there is a natural aversion of small enterprises to approach government for assistance because they lack the time, resources and capability to adequately complete the application process. 7

While some of the funding is being disbursed to larger firms, many small businesses are receiving financial assistance from the SBIP and, in total, they are receiving the majority of the funding.

2.3 Evaluation of Impact on The Immediate Objective of Leveraging Small Business Investment

As of June 30, 1982, the Program had approved assistance to some 103 projects. As shown in Exhibit 9 the assistance was for



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EXHIBIT 9

SUMMARY PROFILE OF THE SAID RECIPIENTS
BY PURPOSE AND AMOUNT OF ASSISTANCE

<u>Amount of Approved Assistance</u>	<u>Modernize</u>	<u>PURPOSE OF PROJECT Expand Existing Product Lines</u>	<u>Expand Into New Product Lines</u>	<u>Start-up New Business</u>	<u>Total</u>	
					<u>#</u>	<u>%</u>
0 - 24,999	2	13	4	6	25	24.2
25,000 - 49,999	5	12	1	3	21	20.3
50,000 - 74,999	1	7	2	4	14	13.5
75,000 - 99,999	1	9	3	3	16	15.5
100,000 - 199,999	2	8	6	4	20	19.4
200,000 - 299,999	0	2	1	1	4	3.8
300,000 +	<u>0</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>3</u>	<u>2.9</u>
TOTAL: Number	11	53	17	22	103	100.0
%	10.6	51.4	16.5	21.3	100.0	



modernization (11%) expansions of existing product lines (51%), expansions into new product lines (17%) and for the start-up of new facilities (21%). The 102 recipient firms represent approximately one in ten of the firms in mining and manufacturing industries existent in the eligible area of Eastern Ontario.

Before evaluating exactly how the Program has benefitted the recipients, the following is a hypothetical example of how the SBIP assistance actually impacts the applicant firm. Exhibit 10 presents the financial impact of financing an expansion through the use of a bank and owner equity versus the use of a bank, owner equity and a SBIP forgivable loan. There are several important simplifications; the time value of money is ignored (as is usually the case in a small firm), the first year inflow of the financing and outflow of the expenses are excluded, it treats the forgivable loan as a grant in that there is no need to forgive it each year, and deferred taxes are ignored. The example, which is a reasonable one based on our experience, clearly shows that a non-viable expansion proposition becomes viable. A projected net capital outflow of (\$53,000) becomes a net inflow of \$130,000. In this particular example, the capital cost allowance was applied to that portion of the asset that was not funded by the forgivable loan (asset account reduced by the amount of the forgivable loan). This seemed to be the prevailing practice of the recipients and is consistent with Canadian Generally Accepted Accounting Principles.

The Program has benefitted the recipient firms in various ways.

- o first and foremost it is a financially attractive Program for small scale investment since it is an injection of cash that is not repaid or owed by the recipient.



- o in only two cases did the recipients state that the SBIP assistance they received have no impact on their operations.
- o five companies stated that they would have gone out of business if they had not received the assistance. Three companies did go out of business despite their SBIP assistance. Considering the overall economic situation, this seems like a low number and is therefore supportive of the Program's beneficial impact.
- o nine projects would not have been undertaken in the SBIP area but in another geographic location (four new ones and five existing operations) had financial assistance through this program not been available.
- o SBIP assistance has or is expected to increase sales in all firms, increase plant competitiveness in 80% of firms, and increase plant utilization in 90% of the firms.

The Program has been effective in leveraging small scale capital investment. We directly asked the recipients whether they would have gone ahead with the project anyway if SBIP assistance had not been forthcoming. Of the 81 replies, 41 companies (50%) said they would have proceeded anyway, 36 (45%) said they would not have and 4 (5%) were indeterminant. Exhibit 11 displays some further features of these replies. The approximate 50% "go/no go" ratio extended across all types of projects. Also, of the 41 projects that would have proceeded whether SBIP assistance had been provided or not three-quarters said that they would have reduced the size of the project if the assistance had not been given. Although we could not estimate the effect of this scaling down, we believe it would have been significant.

We attempted to verify indirectly whether the projects would have proceeded without SBIP assistance but were unable to do so. An examination of funding sources used and a review of the search patterns for financing used by the recipients provided no clear indication either way.



2.4 Evaluation of the Effect of the Program on the Regional Economy of Eastern Ontario and Adjacent Areas

The Program is having a noticeable effect on the regional economy of Eastern Ontario by raising employment, adding capital stock, increasing sales and improving productivity. Significant gains were expected and have been achieved despite the recent economic climate.

Based on very limited data, the economies of the adjacent non-designated areas have either matched or out-performed the economy of the designated region.

2.4.1 Direct Impact on the Regional Economy

In terms of improving the economic well-being of the Area, the projects approved as of June 30 promise to generate about 1,000 jobs in the immediate future (within one year of project completion). There is also a somewhat indeterminant additional employment gain over a more extended time frame - perhaps another 300 employees. If the originally forecast increase were to occur it would lower the overall unemployment rate of the qualified area by about 0.7% of one percent or, from a different point of view, about 5% of those currently unemployed would find jobs (assuming no importation of labour).

An even better indicator of the impact of the assistance is to determine whether the promised impacts are realized. Exhibit 12 charts the employment promises and performance of those respondents that had actually received disbursements as of June 30. This sub-group was selected since it was assumed that a disbursement inferred that the capital investment had been made. The exhibit indicates that promised



impacts generally have been fulfilled despite the economic trends of the past eighteen months. Of the 40 firms tabulated, only 5 firms reported employment losses when they had expected to maintain or increase employment levels. Another 9 firms had not realized an employment increase when they had originally expected to do so; 17 firms gained their expected employment increases; and 7 actually exceeded expectations. The other two firms achieved some employment gains but not as large as had been expected.

The 103 projects will add about \$28 million dollars of capital assets to the mining and manufacturing businesses of Eastern Ontario. This could represent on the order of 10% of total capital investment.¹ Very few of the projects have not gone ahead immediately or been scaled down by the recipient. We were only informed of 3 instances of the former and 2 of the latter.

Employment and capital investment were the key measures quantified in estimating impacts. Most of the other economic variables: sales, exports, import replacement, efficiency, etc., were usually couched in general improvement trends rather than in specific numbers. An examination of answers to questions on these measures were not sufficiently clear to establish numerical data. However, the following generalizations can be made:

- o current economic trends have tended to depress sales, plant utilization and exports but not by as much as might have been expected.

¹ For the 30 months between January 1980 and June 1982, total industrial permits in the SBIP area amounted to \$82 million dollars (Source: unpublished data from Statistics Canada, Cat 64-001, Building Permits). If one assumes that building permits account for one quarter of total capital investment, then the total invested in the SBIP area would amount to \$328 million.



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- o exports and import replacement were notable in fewer cases than employment improvement and sales increases. There was a definite problem in attempting to estimate either of the former.
- o about 50% of respondents felt that they had achieved their expected impacts in these areas. The other half were split fairly evenly between not having had enough time to experience the impact and having had the negative impacts of the economy outweigh the positive impacts of the Program.

The evaluation of impacts traditionally focusses on several types of the impacts: first, the direct impacts to the economy caused by the increase in activities of the funded firms; second, the indirect impacts of what the activities of the funded firms then cause on other firms and individuals in the area; and third, the induced impacts that are created when the cycle of effects repeats itself. This is traditionally called a 'multiplier analysis'. Because this is an interim evaluation in which a large segment of the direct impacts have yet to be felt, we have not undertaken a multiplier analysis. However, a full and final evaluation should take all these levels of effects into consideration. It would be safe to assume that the total additions to the local economy would be greater than what these direct impacts would reflect.

**2.4.2 Review of Economic Trends in Eligible Eastern Ontario
and Adjacent Non-Eligible Areas**

There are few statistics available that indicate the current progress of economic development in the qualified and



non-qualified regions. The three that we identified are all from Statistics Canada and are very limited but do provide some indication of current trends. These are:

- o labour force data from the monthly household data
- o building permit data from municipal records
- o employment data from the larger firm establishment survey

Exhibit 13 charts the annual unemployment rates for Ontario, Eastern Ontario - excluding Ottawa-Carleton, the Ottawa portion of the Ottawa-Hull CMA and the Central Ontario region. Although 1981 saw a definite improvement over 1980 in the SBIP area, the first six months of 1982 have strongly reversed the trend - at a pace faster than Ontario or the adjacent non-qualified area. Ottawa has continued its increasing overall strength in employment, while Central Ontario has continued to increase its unemployment rate.

Except for the adjacent non-qualified area, these trends are generally reflected in the Industrial Composite employment index derived from an establishment-based survey of larger firms (greater than 19 employees). A compilation of unpublished data for the SBIP area, Ottawa-Carleton, the three adjacent counties (smaller than the Central Ontario Region of the Labour Force Survey) and Ontario is shown in Exhibit 14. Whereas the SBIP area closely mirrored both Ontario and Ottawa-Carleton's employment pattern until mid-1981, it has declined significantly since then, dipping to a point less than the 1977 average in the Spring of 1982. On the other hand, the index for the three adjacent counties had trended upwards very strongly until mid-1980 and has since fallen back. However, it is still at a level significantly above the SBIP area.



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EXHIBIT 15.1

ANNUAL PERCENT CHANGE IN VALUE OF
INDUSTRIAL BUILDING PERMITS IN SELECTED AREAS

(\$0-\$499,000)
1977-1982

	<u>Ontario</u>	<u>Eligible Area</u>	<u>Ottawa-Carlton</u>	<u>Fringe Area²</u>
1978	12.9	11.0	-12.8	21.2
1979	6.2	- 4.6	6.4	27.1
1980	- 7.4	-16.3	14.9	-28.0
1981	126.0	4.4	-47.1	10.7
1982 ¹	-58.6	-41.8	- 9.9	-19.2

¹ Percentage change of first six months of 1982 compared to first six months of 1981.

² Counties of Victoria, Haliburton and Northumberland.

Source: Published and unpublished data from,
Building Permits, Statistics Canada,
Cat. 64-001.



In terms of capital investment, as indicated by industrial building permits, Exhibits 15.1 and 15.2 demonstrate that the SBIP area has recently performed poorly relative to the two adjacent non-qualified areas but the trend over a longer time period is unclear.

If the above three macro-economic measures approximate reality, the Program does not seem to have been able to reduce the recent rate of decline of the economy of the SBIP area as compared to the adjacent non-qualified areas and Ontario. However, these are very rough measures and a full comprehensive macro-economic evaluation must wait the availability of better statistics as well as the achievement of the full impacts of all approved projects within the regional economy.

2.5 Evaluation of the Attainment of the Intermediate Objectives

The Program is having mixed success in meeting its Intermediate Objectives. There is a contribution to the Stabilization of industries which have been traditionally the most dominant but which have been declining recently in importance in Eastern Ontario because the majority of assistance has gone to these industries. There is little assistance being used by promising new industries. The Manufacturing Sector is being bolstered and Regional Productivity likely has improved somewhat. We were unable to determine if Regional Disparities are being reduced.

2.5.1 Intermediate Objective: Stabilize the Regional Economy

This objective infers a bolstering of the current industrial structure, in particular, those industries in which the Area



has traditionally been strong. The evidence to date indicates that the Program has been achieving this goal. Although there are some data problems, a rough picture is available using Dun and Bradstreet files as provided in Exhibit 16. The smaller and medium sized concerns in the SBIP area are dominated by food and beverages, textiles, chemicals, wood, metal fabricating and apparel industries.

A comparison of the existing base with an industrial classification of program recipients is provided in Exhibit 17. The chart indicates that food and beverages, textiles, apparel and metal fabricating have been assisted relatively more than the other sectors. Of the leading sectors, only the wood/lumber processing and chemicals industries have been under-represented in assistance.

2.5.2 Intermediate Objective: Diversify the Economy

This objective involves a broadening of the economic base and a wish to target towards new or at least under-represented industries. This objective was based on the predominance of publically-controlled industries - either in a direct sense (public administration) or indirectly (e.g. industries subject to public trade policy such as clothing) - in the Area.

Previous analyses in the provincial and federal background papers cited earlier have indicated that manufacturing, finance, insurance and real estate, and services are notably under-represented in the Area while farming, forestry and public administration have been over-represented (even with the exclusion of Ottawa-Carleton). This is confirmed by the rough analysis of Dun and Bradstreet firms shown in Exhibit 18. The fact that this Program has



spurred an increase in manufacturing means that the overall sectoral structure is being diversified - albeit in a limited way (1,000 jobs out of a total employed labour force of 237,000). However, within manufacturing, there is only weak evidence that the Program is helping to diversify the industrial base. Referring to Exhibit 17, the slight over-representation of assistance to electrical products and transportation equipment does indicate some movement in the direction of diversification. There was only one 'related service industry' project assisted by the Program.

The lack of any significant move towards diversifying the regional economy could be based on several factors:

- o there are no criteria, either formal or informal, that focus the assistance in one direction versus another. The federal background paper did identify certain opportunity sectors (food and beverages, wood, high technology products, fertilizers, plastics fabrication, printing and publishing, and non-metallic mineral products) but these are not actively interpreted in the objectives or the criteria.
- o the Program is largely re-active in terms of potential recipients approaching EODC and the distribution of assistance simply reflects the pattern of approaches. Under this situation, it is more probable that the approaches would reflect the existing structure.
- o there is no definition of 'related service industries'. Given that the EODC is manufacturing-oriented with some tourism activity, there is a natural tendency on their part to pre-screen out service industry. The fact that only one loan opportunity to diversity in this area is being missed.

2.5.3 Intermediate Objective: Assist the Growth of the Manufacturing Sector

As indicated above, there is significant movement towards achieving this goal. The program almost entirely has been supporting



the manufacturing sector. The fact that about 10% of the existing manufacturing firms have been assisted would indicate that this sector has been notably aided.

2.5.4 Intermediate Objective: Increase Regional Productivity

Progress towards increasing regional productivity would appear to have been very limited. Only 10% of the projects were for modernization, although the expansions, which form the bulk of investment, would likely improve productivity. Of the 54 firms replying to a question on this topic in our survey of recipients, 78% said that their plant had become more competitive as a result of the funded project. Whether this will lead to enough improvement to be noticeable in macro-economic terms (overall value-added per employee) cannot yet be measured.

However, the fact that this Program is targeted at small-scale operations significantly constrains the potential for overall productivity improvement since the majority of value-added is accounted for by large operations whose productivity is likely to be little affected by projects of under \$600,000. In 1979, only 21% of value added by manufacturing in Ontario was contributed by firms with less than 100 employees.¹ Thus, a productivity program that is aimed at this size sector would have to have a very large impact on the category to be noticeable on an overall basis.

2.5.5 Intermediate Objective: Reduce Local Disparities

This intermediate objective focussed on improving the social and economic well-being of Eastern Ontario so that the area would

¹ Statistics Canada Manufacturing Industries of Canada: Canada and the Provinces, Table 57, Cat. 31-2-3.



better its relative standing in relation to the provincial average.

The stated objective of reducing regional disparities usually refers to Eastern Ontario as compared to the rest of the Province (normally interpreted as the provincial average). There are no objectives for reducing disparities within the area except to target aid to both rural and urban locations. The Province at one time considered using growth pole theory as a regional development strategy in Eastern Ontario. (This hypothesizes that by sponsoring development in particular centres, development incentives will help create a growth cycle in which a particular location begins to radiate growth to the surrounding area and other communities throughout the region).

In the absence of any objectives and criteria for within area distribution, we assume that the Program is intended to help firms equally across the entire qualified area. Exhibit 19 plots the 102 approvals as of June 30, 1982. A visual scan of the distribution would indicate a reasonably well-disbursed pattern of assistance in both urban and rural areas. Exhibit 20 measures this disbursal in a more relative sense. In terms of companies receiving assistance, Hastings is the most under-represented (12.6% of recipients versus 21.9% of potential companies) whereas Prescott-Russell, Renfrew, and Stormont, Dundas and Glengary are the most over-represented. In terms of amount of assistance, the same general pattern is evident but somewhat exaggerated in that Hastings is even more under-represented. Considering that there is bound to be some mis-matching, we feel that the Hastings situation is the only serious inequality. We were not able to determine a reason for this.



2.6 AN EVALUATION OF THE PROGRAM'S EFFICIENCY, ECONOMY AND CONTROL

For this review we used the Office of the Auditor General's definitions of efficiency and economy, as follows:

- o efficiency refers to the relationship between the goods and services produced and resources used to produce them;
- o economy refers to the terms and conditions under which the organization acquires human and material resources.

There were several important findings in our review of these major aspects:

- o the Program seems to be efficient in terms of impacts per inputs. However, the lack of measurement of important administrative costs prevents a comprehensive evaluation.
- o the Program seems to be efficient in terms of program administration.
- o eligibility, compliance and financial controls are sound. However, there does seem to be some problems with overall management controls.
- o although the original intention was to examine the economy of the Program, this was found not to be appropriate.

Each of these findings are now discussed in more detail.

2.6.1 Efficiency Performance of Program

Assessing efficiency requires measures of input/output relationships and a standard against which to compare these measures. For this study we considered efficiency from the perspective of the overall Program and from the perspective of program administration.

From the perspective of the overall Program, we found that the major intended outputs of the Program were increased jobs,



increased exports and displaced imports. Since the main related input of the Program is forgivable loans, efficiency measures could be:

- o jobs created per loan dollar disbursed;
- o dollar value of export sales created per loan dollar disbursed; and,
- o dollar value of imports displaced per loan dollar disbursed.

From the perspective of program administration, efficiency relates to administrative overhead and speed of service. The main related efficiency measures could be:

- o administrative expense per loan dollar disbursed;
- o administrative expense per loan dollar approved;
- o elapsed time between request for financial assistance and letter of offer;
- o elapsed time between request for funds and date of cheque;
- o elapsed time between Loan Disbursement Request and data of cheque; and
- o elapsed time between date of cheque and forgiveness report.

We found that none of these efficiency indicators were actually measured by anyone involved with the Program. One reason given was that insufficient disbursements had been made to date so it was too early in the development of the Program to undertake such measures. A second reason is that, although some of the information is available, information on administrative expenses related to the SBIP is not tracked, therefore administrative expense measures are not possible. We also found that there are no readily available standards which could be used to compare the performance of this Program with others. Thus, assessment of performance is difficult.



We believe that all of the efficiency indicators identified above are measurable except those related to import displacement and administrative expenses. Import displacement information is not available on a micro level, and companies cannot easily determine whether imports have been displaced by their products or whether their sales have increased the existing markets while imports are continuing in the same market. As noted in the preceding paragraph, EODC has no process or system to identify administrative expenses associated with SBIP, neither in terms of person-hours or dollar costs.

If the 'loan dollar disbursed' is defined as 'loan dollar committed' and "jobs created" is defined as "expected increase in jobs" the Program is generating approximately one job for every \$9,000 in loans (see earlier Exhibit 11 - based on the 81 respondents to our survey, 609 jobs will be created for \$5,658,000 in forgivable loans). If the total 102 projects are used as the measurement focus, 1,000 jobs will be created for \$7,240,000 of loans, or about \$7,000 per job. However, if only the 40 projects that had received disbursements as of June 30 and that replied to our survey, are analyzed the net job growth of the firms are about 125 for disbursements of about \$2,000,000 or about \$16,000 a job. We were not able to compare any of these figures to documented results of other programs. Informally, we are aware that 'rules of thumb' on job creation by government programs can vary from \$5,000 per job to \$30,000 or higher. We believe that the cost per job in this Program is very reasonable. If the income taxes paid and the saving in welfare costs or unemployment costs are viewed as the 'return' on the governments' investment, there is probably only a two or three



year pay-back term. This excludes all the other returns such as increased local taxes and the additional business activity. In terms of jobs per dollar the Program seems quite efficient.

We were not able to compile a usable measure of exports per loan dollar since few of the recipients were able to quantify either the expected gain or the actual gain. As mentioned earlier, import displacement is not measurable on a micro scale.

In terms of administrative efficiency, we examined the elapsed time between request for financial assistance and the letter of offer. We used the survey respondents' answers rather than administrative records kept by EODC since the date of first contact is not necessarily recorded by the EODC rather they record when the request was first officially accepted for approval. Overall, for the 81 respondents to our survey, the average elapsed time was 4.5 months. Exhibit 21 charts both the actual turnaround and the respondents' opinions of whether the process was too slow, acceptable or quick. As shown in the Exhibit, 75% of respondents thought the process to be adequate or quick and only 25% thought it to be too slow. The loan approval process seems reasonably efficient (further comments are provided below on the delivery vehicle).

We were not able to fully assess the efficiency of the disbursement process since less activity has occurred in this area of the Program. A qualitative review of the process (described in Section 2.6.2 below) indicates that the procedures are efficient. However, our discussions with recipients indicated that there was some problem in their understanding of when and how they would receive the loan amount.



Official procedures are to pay the loan only when all other financing is in place or has been used and proof of purchase has been provided. Our review of the official letters of offer indicated that this was not always stated although it was in the majority of cases. About 10% of the 50 Letters of Offer that we reviewed did not include this information. Our interviews indicated at least seven cases in which the recipient was unhappy about not receiving the disbursement quickly enough. In several cases it was because the recipient was unaware of the proper timing of payment and the others ranged from a legitimate complaint to exceedingly high expectations on the part of the applicant.

The forgiveness process does not seem to be overly efficient in terms of timing. Our review of files indicated that only three forgiveness reports had been prepared. Although there may be one or two more in process, there should be greater activity in this area. One reason for delay is that the forgiveness has a low priority in the EODC's view since the money has been disbursed and is not expected to be repaid.

2.6.2 Administrative Processes

As part of this review we developed flowcharts for the loans application, loans disbursement and loan forgiveness processes. These are contained in Appendix A.

We assessed these processes in order to be able to provide a qualitative comment on the efficiency of the SBIP delivery. We found that there is evidence that program administration is



efficient. The following points illustrate actions that have been taken to help improve efficiency:

- o field office consultants pre-screen applications, advise applicants, and prepare complete reports before Toronto EODC becomes involved, reducing the time required in Toronto to prepare submissions to the Sub-Committee;
- o information on cases is distributed to the Sub-Committee two weeks before it meets, allowing members to familiarize themselves with the cases before the meeting and to process more cases during the meeting;
- o EODC has standardized application forms, submission reports, letters of offer, legal and disbursement instructions, contributing to a faster processing of applications;
- o the Loan Disbursements and the Legal and Insurance Branches become involved at an early stage of the processes, contributing to a faster processing of applications;
- o EODC does all disbursements itself and the Ministry of Treasury and Economics recovers funds from the Department of Regional Industrial Expansion after disbursements, streamlining the process from the recipient's point of view.

Overall, the processes documented in the flowcharts of Appendix A appear reasonably efficient.

Two bottlenecks could tend to adversely effect the speed of service. These are:

- o potential recipients, when applying for assistance, sometimes take several weeks, or even months, to prepare and submit their requests and supporting information. In many cases this is a result of a lack of technical ability in making financial applications on the part of the applicants. In general there was little complaint over the degree of information requested. Over 77% of respondents to our survey felt that the information requested as part of the loan process was appropriate. While 17% felt it was too much and 6% stated it was too little.
- o the Sub-Committee and Management Committee do not always meet monthly. Each missed meeting contributes a one month delay to the process for an applicant, although there are provisions



for Management Committee approval between meetings if the need arises.

These situations are only partly under EODC control. However, they could result in applicants having a negative view of program administration. In general, we did not find either to be a serious problem.

2.6.3 Program Controls

Based on our understanding of EODC operations related to the SBIP, we identified desirable program controls in four categories:

- o eligibility controls
- o compliance controls
- o financial controls
- o overall management controls

Appendix A describes these controls in more detail, as well as what we found in place for each control.

The EODC exercises reasonable control over the eligibility of companies for the loans and for loan forgiveness. Procedures are in place and are consistently applied to assess applications with respect to type of business, type of project and nature of effects of the project. Eligibility for funds is formally approved by the Co-Chairmen of the Management Committee, and a reasonable procedure for forgiving loans is followed. It is likely that only eligible applicants will receive approval and that only eligible loans will be forgiven.

The EODC controls over recipient compliance with the terms and conditions of the SBIP are reasonable. There is a check that recipients meet the conditions before disbursements are made, and before



loans are forgiven. Therefore it is likely that funds will be spent for the purpose for which they were intended.

There were several areas in which management control could be improved:

- o in an overall directive sense, the objectives are not clearly defined in terms of the decision criteria. We have already pointed out problems in target group definition, lack of direction on the stabilization and diversification objectives and the lack of a clear definition of qualified industries.
- o there are no targets for Program effectiveness or efficiency and there is no procedure in place for the EODC to report on these matters.
- o there is some confusion as to who has ultimate responsibility for the Program due to the fragmentation of roles across two levels of government and several ministries (see earlier Exhibit 2).

On the other hand, we found several positive aspects:

- o the flexibility of the objectives and criteria permit a reasonable amount of tailoring to the individual situation of the recipient.
- o given the possibility of problems caused by the points raised above, the management of the Program has been successful in meeting most of the objectives.
- o the Program is well-supported by those responsible for administering and delivering it.
- o despite the involvement of two levels of government and their departments and a provincial crown corporation.
- o financial controls are in place to ensure that funds are approved only if available, that disbursements are made in accordance with appropriate financial procedures, and that there is an appropriate separation of duties. This control is achieved by a combination of EODC procedures and the Ministry's internal audit of EODC.



2.6.4 Economy

This study was to include both efficiency and economy aspects. However, we note that:

- o no new resources were acquired to administer SBIP, since it was integrated with current ongoing EODC operations;
- o EODC did not acquire human or material resources specifically for administering SBIP.

Therefore, economy is not an issue for the delivery of SBIP, although it can be said that the decision to deliver SBIP through the EODC was an economical one.

2.6.5 Evaluation of the Delivery Vehicle.

We found that the EODC is generally successful in fulfilling its role as the delivery vehicle for this Program.

As described earlier, any bottlenecks in the process are generally beyond their control. They undertake the Program delivery as efficiently as is possible or that is known to be possible, considering the lack of administrative cost data.

The recipients who replied to our survey were generally very complimentary with respect to the EODC. When directly asked to choose between the three options, 75% found the EODC to be helpful, 21% to be acceptable and only 4% found them not helpful. The fact that the covering letter came from the EODC may have biased the answers somewhat. However, our informal discussion when administering the questionnaire combined with the added comments on the questionnaire supported the overall rating - comments ran about 5 to 1 in support of the EODC. In particular, it was evident that many firms had developed



an excellent working relationship with the EODC field staff. The EODC was favourably compared to other government agencies.

The only concerns we had were over the slippage in timeliness of forgiveness reports and the EODC's possible bias towards manufacturing concerns which might lead to qualified service firms being pre-screened out at the point of first contact. However, the lack of clear direction on the definition of qualified businesses is mostly to blame for the latter.

There was some reluctance on the part of the EODC to permit the consultants direct access to individual application files and to the basis on which the decision criteria were applied. According to EODC this refusal was based on the need to maintain client confidentiality. Although not critical to the evaluation, it did reduce the amount of potential information available for our use. Other than these two aspects, the Corporation was co-operative and accessible during the course of the study.

2.7 Evaluation of the Perceptions and Awareness of the Program

In general, the comments we received from the recipients and knowledgeable financial and business officials in the area were very positive. The Program is relatively well-known amongst potential recipients and related local financial and business advisors except with the possible exception of the banks.

2.7.1 Perceptions

The positive aspects of the Program from the individual recipients' points of view, based on our interviews, surveys and



observations are:

- o over 95% of all recipients were supportive of the Program, feeling that it was beneficial to them.
- o in particular, they felt that the Program had lowered their relative costs while allowing them to pursue additional markets.
- o we found no indication that the Program had prompted any company to expand or start up when it should not have. We assume that this is a result of the screening process and the fact that the project size is limited. The fact that only 3 firms that received assistance had subsequently declared bankruptcy in a poor economic time period to be further evidence of this.
- o most recipients felt that the Program had helped them become more competitive and that it had placed them in a good position for the hoped-for turnaround.
- o the recipients were generally supportive of the eligibility criteria. Almost 67% thought that the project maxim was appropriate while 31% thought it was too low and 1% thought it was too high. There was a greater degree of desire for a higher maxim of the forgivable loan with 60% thinking it is appropriate, 39% too low and 1% too high. The earlier recipients were especially concerned about this.
- o overall, the direct and hidden costs to the recipient of obtaining the assistance were not deemed to be too onerous. The direct costs consist of lawyer and accountant fees and the indirect costs are composed of time spent by company officials. Only one recipient indicated that the application costs exceeded the benefits to be gained. While another 8 indicated that these costs were higher than they should have been, they, nevertheless, did not outweigh the benefits of the Program. We were not able to accurately 'cost' the application process to the recipient. (One recipient estimated that it cost him \$20,000 to get \$150,000 loan - we do not think that this is typical). On the other hand, of the 40 outside (non-recipient companies) that we surveyed there were 21 companies that had capital projects of less than \$600,000 which had been completed during the past three years. Fifteen of these did not use any government assistance. The predominant reasons given were that they anticipated that the application logistics would not be worth the trouble or they preferred to finance their expansions through their own sources of capital.

There were a few negative aspects from the recipients point of view:

- o the costs of application, although not onerous overall, did distress some and provided others with certain problems. In particular, companies that were unsophisticated and that had never gone through such a process before had difficulty in



preparing the proper documentation which tended to slow the process. This is a typical problem for small businesses when approaching any financial institution. As will be discussed later, the field staff of EODC were found to be very helpful in many of these situations.

- o the length of time for the application process was raised a few times (5 specific comments, see Section 2.10 on the overall rating of this aspect by recipients). In addition, the fact that funding is 'last in' was felt to be constricting to several other recipients.

2.7.2 Awareness

Overall, we found a significant level of awareness of the Program within the qualified area and that existing government agencies are the most important referral sources and are more important than advertising.

The recipients we surveyed stated that they first found out about the Program from the following sources:

- Industrial Development Officers of MIT (30%)
- the Eastern Ontario Development Corporation (25%)
- advertising (16%)
- FBDB (4%)
- accountant (4%)
- provincial MPP (3%)
- federal MP (2%)
- bank manager (2%)
- sundry sources (13%)

In the fall of 1981, EOSA undertook a significant advertising campaign to promote the Agreement and the Small Business Incentives Program. This included billboards, display booths at fairs, direct mailing of descriptive brochures, advertising in local press and in several major publications. Since there was no research undertaken to establish baseline data before the campaign, it is impossible to fully evaluate its success. We did interview the 15 recipients that



told us they had heard of the Program through advertising. About half (8) had applied before the campaign while the other half were after. These findings could be changed if the applications currently under consideration varied from the historical pattern.

Our telephone survey of non-recipients found a very high awareness of SBIP. Over 90% of the 40 firms stated that they were aware of the Program. This was largely attributed to the fact that they were quite familiar with EODC.

Although it is extremely difficult to assess conclusively, we feel that the Program has a significant level of awareness throughout the area, with one exception. In our survey of local area experts FBDB officials, IDO's, Industrial Commissions and Bank Managers, we found that only one out of the five bank managers questioned had heard of the Program. This is consistent with some of the findings of The Small Business Financing Review which found banks to be very unfamiliar with government financial assistance Programs.

2.7.3 Visibility of Sponsoring Governments

Largely due to the fact the Program is delivered through a provincial agency, the provincial government has higher visibility in the Program than does the federal government. We also found some individuals that were relatively unaware of either level of government's involvement. All correspondence is between the recipient and EODC. Although the approval documentation does state the involvement of the two levels of government we got the distinct impression that the federal involvement was not noticed in many cases. Because this was not a question on the survey instrument, the above comments are based on



informal comments received during the survey process as well as comments received through the survey of local area experts.

2.8 Evaluation of the Relationship of the SBIP to Other Government Assistance

We found that this Program generally will replace any other similar program (funding assistance) when the potential recipient is faced with a choice. It simply is the most financially attractive of available aids. Also, since no stacking is allowed,¹ a choice must be made. We did find six instances where FBDB was used in addition to SBIP and on the four where SBDB's were also used. Neither of these are governed by the no stacking rule. We suspect that the pre-screening undertaken by the EODC field consultants is largely the reason for why a recipient would utilize the SBIP form of assistance versus another form such as a loan incentive. The consultant simply streams the applicant depending on the size of project. Also, if it represents CIRB related industries, the applicant will usually be directed to them. This replacement is typified by the fact that EOSA activity occupied approximately 50% of the time of the EODC field consultants according to our interviews. Administrative data were not available to accurately verify the amount of time spent by EODC in Toronto or in the regional offices.

There was a scattering of use of other government programs.

¹ There was at least one instance in which the stacking rule was waived because of special circumstances. We found no instances of the rule being circumvented by the recipients.



Of the 32 recipients who replied positively to the question on the use of other types of assistance (44 said they did not and 5 did not answer, 17 were using some form of ODC/EODC assistance for previous projects, 9 were using a manpower/employment program, 2 an agricultural assistance scheme, 2 were using an Export Market Development program, 1 used a Defense Improvement Productivity program (DIPP), and 1 a research grant.



2.9 EVALUATION OF ALTERNATIVE MECHANISMS FOR PROVIDING FINANCIAL ASSISTANCE TO SMALL BUSINESS

Based on a limited review of alternative government financial incentive mechanisms, and assuming that the present objectives for small businesses in Eastern Ontario would be maintained, we did not identify any alternative mechanisms that, for both government and small business would be clearly superior to the use of forgivable loans.

The previous sections have evaluated the performance of the Program as it is presently constituted. This section examines alternative assistance mechanisms to determine if the impacts and efficiency could be substantially improved. These alternatives would consist of either amendments to the existing Program or replacement with alternative approaches. Our analysis of different approaches is necessarily general in that we did not undertake a major study of the different options. Rather, we reviewed the overall logic based on various research to date, interviews and the experience of senior Woods Gordon staff.

The following discussions begin with several assumptions:

- o that incentives to spur private sector activities will lead to improved economic well-being in Eastern Ontario. That is, that direct public sector activity, such as relocating civil service jobs into the area, is not an option to be reviewed.
- o that an incentive to small business is a viable approach to spurring private sector activity. This was a basic assumption in the design of the current Program. It is also a very popular economic development concept at the present time. Research in Canada and the United States point to the value of this approach and federal and provincial policy thrusts have recognized this strategy. There is, however, a lack of conclusive evidence that it is a viable regional development strategy.



- o that the ultimate and strategic objectives set out in EOSA are the objectives for any alternative Program.

An additional assumption that is obviously critical is that government involvement is needed to encourage small business growth in Eastern Ontario.

In addition to forgivable loans, we reviewed grants, loans, loan guarantees, equity/joint venture financing, and tax incentives. We did not review the other major types of assistance such as regulatory mechanisms, infrastructural development, manpower training assistance and management assistance. The following short discussions highlight the major points that we felt should be used to form an overall judgement.

Forgivable Loan Strengths

- o provides equity financing without any loss of ownership position
- o allows geographic targeting of the aid (therefore, it assists the regional disparities objective)
- o is very financially attractive to the recipient. Depending on the percent of assistance, it is more beneficial than interest subsidies.
- o it creates jobs, capital investment and increased sales
- o it is successful even in a period of poor economic trends
- o provides financing in an area where access to financing is limited. Businesses in major metropolitan areas have far more access to capital sources than do businesses outside these centres
- o red-tape requirements are minimized because of the small dollar amount and the non-recovery feature

Weaknesses

- o it does assist employment maintenance in a poor productivity situation where demand exists but it does not aid businesses that are having trouble financing their receivables or



inventory. Thus, it is suitable for the strong firms but is not appropriate for the many existing, stand-pat firms.

- o although minimal, the collateral and equity requirements could restrict new firms and create additional direct and hidden costs to applicants.
- o open to judgement and favouritism.

Grant

The same main advantage and disadvantages exist for grants as for forgivable loans. Entrepreneurial spirit is usually strongly biased against direct government "hand-outs" grants are regarded as hand-outs. However, when they are structured in the form of a 'loan', they become somewhat more palatable. Thus a 'forgivable loan' is a preferable mechanism to a direct grant although the latter probably has less administrative cost.

Loan

Strengths

- o can be targeted by area, industry etc.
- o provides the government with some control over operations
- o helps to replace lack of debt sources in some rural areas

Weaknesses

- o cost to government is difficult to determine (depends on failure rate)
- o administratively more complex than grants because of monitoring requirement
- o requires some selection process
- o small business most often need equity financing rather than debt and thus a loan program would worsen the situation
- o requires collateral to be brought forward



Loan Guarantee

Strengths

- o utilizes private sector financing and minimizes current cash flow demands on government
- o minimal involvement by government in the direct affairs of the firm
- o fosters private sector: role in economic development

Weaknesses

- o the bank does not take as much concern in the day-to-day operations of the business and therefore it minimizes their business advisory role since they have little risk
- o the recipient must deal with two lenders
- o depending on the government policy, this investment can be expensive as a loan or even a grant if the charge to the department/ministry's budget is on the basis that the loan will not be paid back by the recipient
- o requires some selection process
- o requires collateral to be brought forward
- o tends to encourage debt financing when equity would usually be more appropriate

Equity/Joint Venture Financing

Strengths

- o provides assistance in start-up situations
- o can be targeted by sector and region
- o cost to government can be controlled

Weaknesses

- o small entrepreneurs are strongly opposed to losing any of their ownership - especially to government
- o high risk to government and it is likely to lose the majority of invested funds
- o government could become involved in small business management and its associated problems



- o company decision-making may be influenced by the intrusion of other public sector policies.

Tax Incentive

Strengths

- o preferred by "profit making" industry over all other financial incentives
- o does not require the recipient to complete an application process
- o there is no cost to recipient to obtain the benefit aside from additional financial advice
- o impact on the growth of government administration limited
- o does not apply differentially to firms (equal opportunity to benefit)

Weaknesses

- o firm must be profitable to take advantage of the incentive
- o difficult to target regionally although there is a current precedent (Investment Tax Credit)
- o difficult for government to assess cost in advance and to control
- o financial benefits can go to firms who do not require the additional assistance and also to firms who are approaching financial insolvency

The review of program alternatives was undertaken with the following financial problems confronted by small businesses, especially those in Eastern Ontario:

- o equity is far more important than debt financing for many small businesses.
- o financing need is greatest in start-up when cash flow and profits are low
- o not all small businesses want, desire or need help
- o outside of major metropolitan areas, there is a serious shortage of venture capital organizations and debt financing from banks is more difficult



- o equity capital can raise debt financing but debt financing nwill not raise equity
- o small business want a simple procedure for obtaining money

On the other hand, government has some basic concerns when evaluating the appropriateness of financial incentive mechanisms, it:

- o does not want to help one firm to the disadvantage of another
- o needs assurance that there will be some positive economic value
- o would like to be able to measure impacts
- o would prefer to be selective in identification of recipients
- o would prefer not to become intensley involved in operations of the firm.

Having weighed all the above factors, we found that the present approach is the preferable since it addresses the greater need of equity while being more attractive than grants to small businesses.



3 RECOMMENDATIONS

The results of the preceeding sections on Findings and Conclusions have been generally supportive of the Program as it is currently structured. It is effective and it is efficient insofar as we can determine with the available information.

However, we did identify several outstanding issues which, if addressed, could lead to improvement in the administration of the Program and the optimizing of its beneficial impacts.

3.1 Objectives and Monitoring

The current objectives are very general with a minimum number of decision criteria used to operationalize them. In particular, although the Program is supposedly targeted towards small business, there is no eligibility criterion that limits assistance to small businesses. This has some benefits in terms of flexibility but in practice has meant that larger firms, including subsidiaries of large multi-nationals have received assistance. If the Program is truly intended to be for small business, then we recommend that:

- o explicit small business eligibility criteria be established. For the sake of consistency, we suggest that the SBIA size criteria (sales of less than \$1.5 million) be used.
- o if the strategic objective of diversifying the economy is to be actively pursued, a better definition of the opportunity sectors and how to influence development in their direction is required. This presents an operational problem in terms of directing a reactive program but the use of a weighted criteria that benefits some sectors more than others could be one approach.
- o in particular, the criteria on 'related service industries' must be better defined and the field consultants made aware of the change.



The current objectives are quite general and inadequately documented. This has partially led to a set of informal decision criteria that may or may not ensure that the objectives are met. Although it is impossible to specifically focus objectives for such a wide-ranging Program, we recommend that:

- o the objectives should be explicitly described with their full rationale and with a set of targets where possible.
- o the eligibility and decision criteria should be documented as to how they relate to the objectives and to the targets.
- o targets or standards should also be set, with a documented rationale, for a set of efficiency measures including the administrative process (application turnaround, disbursement timing and forgiveness review) as well as for performance efficiency (incentive dollars per job, etc.). Although the documenting of these can restrict the flexibility, without such an approach, consistency and successful performance are difficult to ensure on an ongoing basis.
- o a monitoring system should be devised by which basic Program performance measures are compiled monthly/quarterly in accordance with the objectives and targets. For instance, in order to monitor progress on the diversification and stabilization objectives, regular reports on the industry and commodity of recipients and applicants should be prepared. Likewise, regional tabulations, size tabulations, type of project and how the applicant heard of the Program all should be compiled on an ongoing basis. From an efficiency perspective, the elapsed time of each application, the cost per job and other related measures should be regularly tabulated and reviewed. These are not onerous requirements and they would assist significantly the policy process and, in the long term, the achievement of the objectives.
- o there should be a regular process by which the key persons involved in policy design, program administration and delivery ensure a common understanding of objectives, targets and impact. This could consist of an annual meeting between the Management Committee, the Technical Sub-Committee, EODC head office staff and the field consultants from the regional offices. We think it is especially important that the field consultants be aware of all the policy concerns since they play such a critical role in the delivery process.



3.2 Design

The design of the program from the recipients point of view was quite appropriate. The one significant issue was the timing of disbursements. There was some lack of understanding of this process on the recipient's part. In several instances, it was not mentioned in the letter of offer although we assume it had been explained in person. This criterion is not formally part of the EOSA contract. Also, other programs operate differently. For instance, NORDA does provide some of the agreed-upon incentive up-front. We did not determine a strong need for such action as the original provision is designed to prevent a firm from 'taking the money and running'. However, we think that the following should be considered.

- o the Management Committee, at their discretion, could authorize partial up-front payment of the incentive if the conditions warrant it. The criteria should be specifically defined for making the decision. Also, a full explanation of the terms of disbursement should be included with the letter of offer indicating, in detail, how the disbursements will be handled.

The paperwork required to complete the application generally was found not to be onerous. As is to be expected, the smaller, less sophisticated businesses had more difficulty in compiling the necessary information. One possibility that we considered was to make a certain amount of money available for a very small firm to use to hire the resources necessary to assist in the application. This would help them get over the 'learning curve' involved in approaching government assistance programs. For instance, there was a considerable number of recipients that had established relationships with EODC and this obviously played a role in their decision to approach the EODC for



the SBIP assistance. We also know that a significant number of non-recipients did not want to approach the government due to their costs in time and dollars. However, there were no precedents for such a proposal and it would mean some overlap with the field consultant's responsibilities. Notwithstanding these problems, we recommend that:

- o the possibility of financially assisting very small firms to prepare their applications be considered and/or that a simple guide on how to prepare the application be written.

We also considered the idea of encouraging recipients to consult with an appropriate advisory service (financial, production or marketing) as a condition of their incentive. This would aid in the perceived management expertise problem of small business (especially highlighted in the Small Business Financing Review) as well as contribute towards the successful introduction of the capital project. However, we found no indication that the recipients of the SBIP assistance were having problems managing their businesses as a result of the incentive. Thus, we felt that it was not appropriate to tie such a requirement to the incentive. Also, the current size distribution of recipients would indicate that many recipients under present criteria would not need such assistance since they have it in-house. However, if strict size of business criteria were to be adopted, we think that this approach would warrant further consideration.

Although the general awareness of the Program is good we feel that greater awareness is required on the part of banks and thus we recommend that:

- o if the Program were to continue, a special promotional effort be undertaken with the banks in the region.



The administration of the Program was found to be efficient with only the following aspects warranting suggestions for improvement. The application process seems to be reasonably responsive with average turnaround time of 4.5 months but the potential for delay because of missed monthly Management Committee meetings is the one area that could be made more efficient. Although there are procedures for interim approval between meetings on an emergency basis, we think that it is important that the monthly timetable be met whenever cases are outstanding since applicants will be reluctant to complain. Slippage at this stage also undermines the efficiency of the process to that point. The other aspect is the forgiveness process is not as timely as it should be and thus the recipients are not being monitored appropriately. In this regard, we recommend the following:

- o that the first forgiveness report be prepared before one year has elapsed. That the forgiveness report include more detail than at present; namely, that changes in employment, sales, exports, productivity and any other benefit expected in the original application be documented with reasons for exceptions.
- o that the forgiveness reports be regularly monitored to determine how the Program is impacting the recipients. Thus, the monitoring program referred to earlier would consist of trends as they relate to approvals and as they relate to forgiveness reports.

In summary, our overall assessment is that the Program is effectively helping the recipients and the region's economy. It is efficiently designed and delivered. If it were to continue, the objectives and criteria should be more clearly defined with supporting rationales and targets, and a better monitoring of the trends evident in approvals and forgiveness should be maintained. In particular, a



definition of small business should be adopted and a better understanding of the 'related service industries' should be determined. These improvements would help to ensure that any future Program would continue and improve the success of the Program to date.

3.3 Recommendations on Evaluation Procedures

This present evaluation is one of the first formal evaluations to be undertaken on a regional development program. As such, there are some important lessons that can be learned.

First, the success of an evaluation of a regional program is very much dependent on up-to-date data. Very often, a program will be designed, implemented and evaluated within the time period it takes Statistics Canada to produce comprehensive statistics on the area for the year before implementation. For instance, Census of Population data is collected every 10 years. The Census of Manufacturers has a two-three year time lag and obviously is limited in sectoral coverage. Thus, a concerted effort should be made at the outset of the Program to statistically describe the critical components of the economy in relation to the program's objectives. This should be done in a way that can be replicated later and would likely involve direct survey activities. This approach is especially important in terms of perceptions, and opinions since these are impossible to determine after the fact. Considering that most assistance programs involve millions of dollars of expenditure, the cost of such research at the outset could be justified.

Although we found the SBIP recipients very cooperative it might be appropriate to include in the terms of offer, a requirement to



Woods Gordon

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cooperate with an evaluation on a confidential basis and that any information, forms etc. that were filed as part of the application process be made accessible to outside evaluators on a confidential basis. This would also avoid any problems in gaining access to all administrative records connected with the Program. Such a requirement would be no different than the current provision for press releases.



APPENDIX A

BACKGROUND DETAIL ON THE EVALUATION OF
PROGRAM EFFICIENCY AND ECONOMY

Section of this report describes our findings and recommendations for program efficiency and economy. This appendix presents details on the work done and certain aspects of the findings.

1. Overview

The overall process we followed involved:

- gaining an initial understanding of EODC operations and controls
- identifying possible measures of efficiency and economy and verifying existing measures;
- assessing the practicality of additional measures
- developing preliminary conclusions on efficiency and economy;
- identifying and evaluating controls over EODC operations and processes
- identifying the impact of control weaknesses;
- developing conclusions and recommendations.

We based this process on current value-for-money audit techniques as practiced by the Office of the Auditor General, the federal Audit Services Bureau, and provincial ministries and crown corporations. Our process was not as rigorous as a full audit, as such a level of detail was not required for this study.

In carrying out this work we: reviewed pertinent documentation on SBIP and the EODC; reviewed case files; interviewed EODC staff in Loans Applications, Disbursement, and Administration; interviewed Sub-Committee and Management Committee members; and interviewed Ministry staff directly involved in the Program.



2. Performance Measurement

To directly assess efficiency, we identified desirable and actual measures. For those indicators that were desirable but not measured we assessed the practicality of measurement. Exhibit A.1, opposite, summarizes this work.

Because none of the desired indicators are measured, no work was required to verify measurement.

3. Administrative Processes

To assess the EODC's administrative processes we interviewed EODC staff and prepared flowcharts. Exhibits A.3, A.4 and A.5 at the end of this Appendix are the detailed flowcharts for loans applications, disbursements and forgiveness.

We assessed these processes to identify areas where efficiency could be improved. Section 3.2.2.2 of this report summarizes our findings.

4. Program Controls

We based our assessment of program controls on our understanding of EODC operations, reflected in the flowcharts, and the relationship between EODC and the Ministry/Department. We identified desirable controls, determined what controls were in place, and identified the impact of existing controls and any control weaknesses.

Section 3.2.2.2 of this report summarizes our findings. Exhibit A.2 lists the desired and actual controls, and impact for four categories: eligibility, compliance, financial and overall management.

EXHIBIT A.1

SUMMARY OF EFFICIENCY PERFORMANCE MEASUREMENT

<u>Possible Measures</u>	<u>Actual Measures</u>	<u>Practical Measures</u>	<u>Source Data</u>
jobs created per loan dollar disbursed	no	yes	Disbursements: dollar value of loans disbursed. Loans Administration: information from recipients on jobs created.
dollar value of export sales created per loan dollar disbursed	no	yes	Disbursements: dollar value of loans disbursed. Loans Administration: information from recipients.
dollar value of imports displaced per loan dollar disbursed	no	no	import displacement not accurately measurable.
administration expense per loan dollar disbursed	no	no	administrative expenses for SBIP not measureable without a detailed time and expense recording system.
administrative expense per loan dollar approved	no	no	administrative expenses for SBIP not measurable without a detailed time and expense recording system.
elapsed time between request for financial assistance and letter of offer	no	yes	Disbursements: date on "Request for Financial Assistance Form", date on letter of offer.
elapsed time between request for funds date of cheque	no	yes	Disbursements: date of letter requesting funds, date on cheque.
elapsed time between Loan Disbursement Request and date of cheque	no	yes	Disbursements: date on Loan Disbursement Request, and date on cheque
elapsed time between date of cheque and Forgiveness Report	no	yes	Date of final cheque. Forgiveness: date on Forgiveness Report



EXHIBIT A.2

SUMMARY ASSESSMENT OF CONTROLS

ELIGIBILITY CONTROLS

<u>DESIRED</u>	<u>ACTUAL</u>	<u>IMPACT</u>
1. Eligibility criteria are known and used in assessing applications a) types of business, b) types of projects, c) types of desired effects.	1. a) Types of industry listing in Subsidiary Agreement - generally interpreted to be secondary manufacturing. "Small business" not defined. b) Types of projects outlined in Subsidiary Agreement. c) Desired effects not documented, but consistently stated to be job creation, import displacement, new exports.	1. a) Likely that only eligible applicants will receive approval. b) No guarantee that applicants will fit the various strategic objectives (diversity, stabilize etc.)
2. Eligibility is formally approved by responsible authority.	2. Recommendations by field consultant, Loans Applications, Technical Sub-Committee, Management Committee. Approval signified by project authority and signatures of Management Committee co-chairmen.	2. As 1 a and b above. However judgement in setting loan size could influence point 1 b above.
3. Eligibility criteria for loan forgiveness are known and used.	3. Loans Administration has procedure for assessing eligibility for forgiveness. Sub-Committee approves recommendation.	3. Likely that only eligible project loans will be approved for forgiveness.

COMPLIANCE CONTROLS

1. There is a verification that terms and conditions are met before disbursements are made.	1. Disbursements verifies that: - assets are in place, - expenditures are valid, - other recipient funds used before disbursements are made.	1. Funds will be spent for the purpose for which they were intended.
2. There is a verification that terms and conditions are met before loans are forgiven.	2. Loans Administration verifies that: - financial statements of recipient are reasonable, - the company is a going concern before forgiving the loan. It also obtains information on the recipient from any other sources available. Compliance is recognized in Loan Forgiveness Report sent to Sub- Committee.	2. a) Likely that loans will be forgiven only for eligible projects. b) Under what a refusal to forgive a loan would mean or what impact calling a loan would have. Neither is expected to occur in practice.



EXHIBIT A.2 Continued

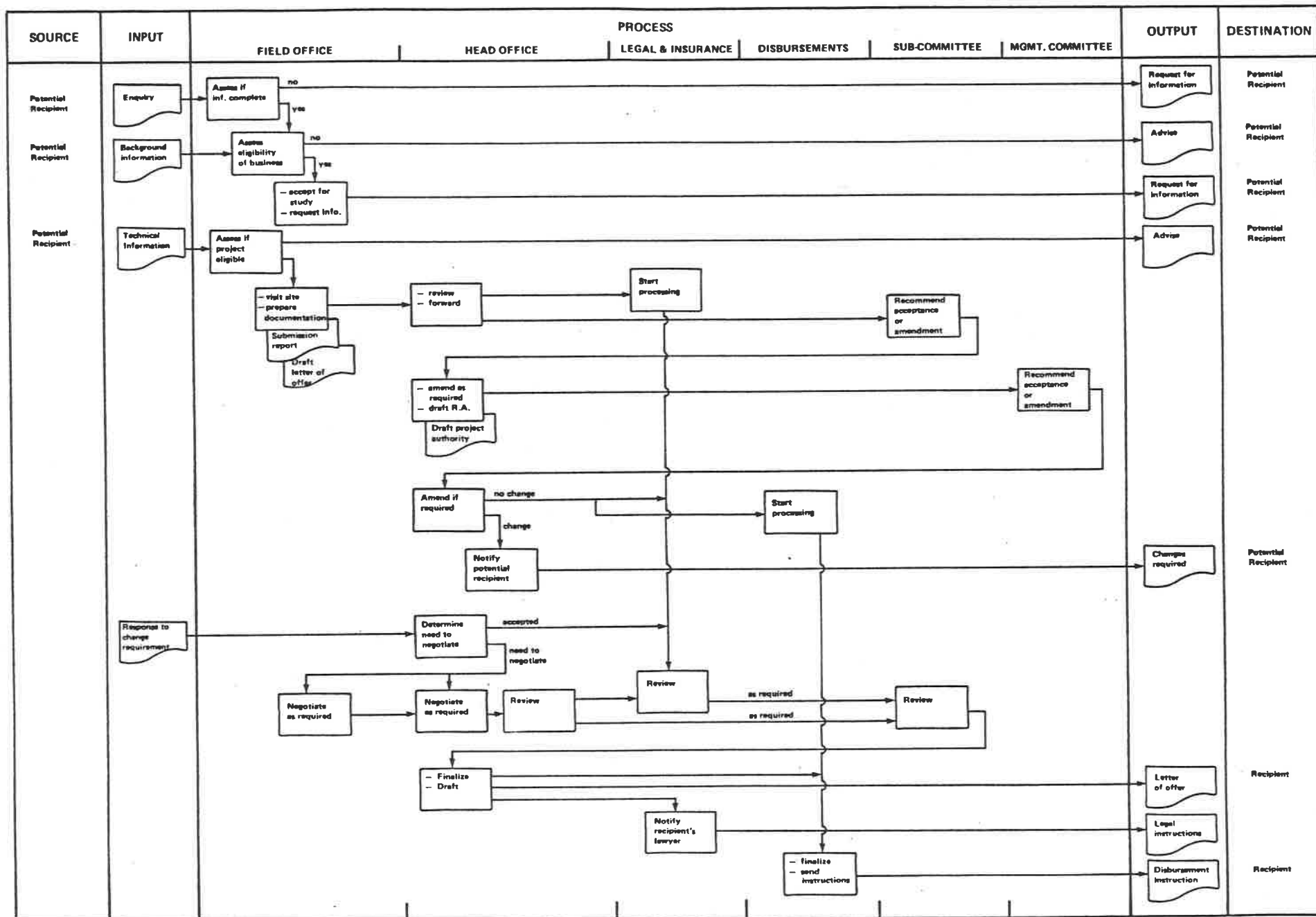
FINANCIAL CONTROL^S

<u>DESIRED</u>	<u>ACTUAL</u>	<u>IMPACT</u>
1. Funding is approved only if available a) for the project on existing projects, b) from the fund for proposed projects.	1. a) Case files show project approved funds and disbursements. b) "Management Report - The Development Corporations - Combined Summary of Loans and Guarantees Approval" shows uncommitted free balance.	1. Minimum potential for over-commitment and over-expenditure.
2. Disbursements are made in accordance with appropriate financial procedures.	2. Disbursement is audited by Ministry of Industry and Tourism internal audit.	2. Reasonable assurance that controls over disbursements are adequate.
3. There is an appropriate separation of duties.	3. Loans Administration authorizes expenditure. Accounting authorizes payment.	3. Minimum chance for fraud or collusion.

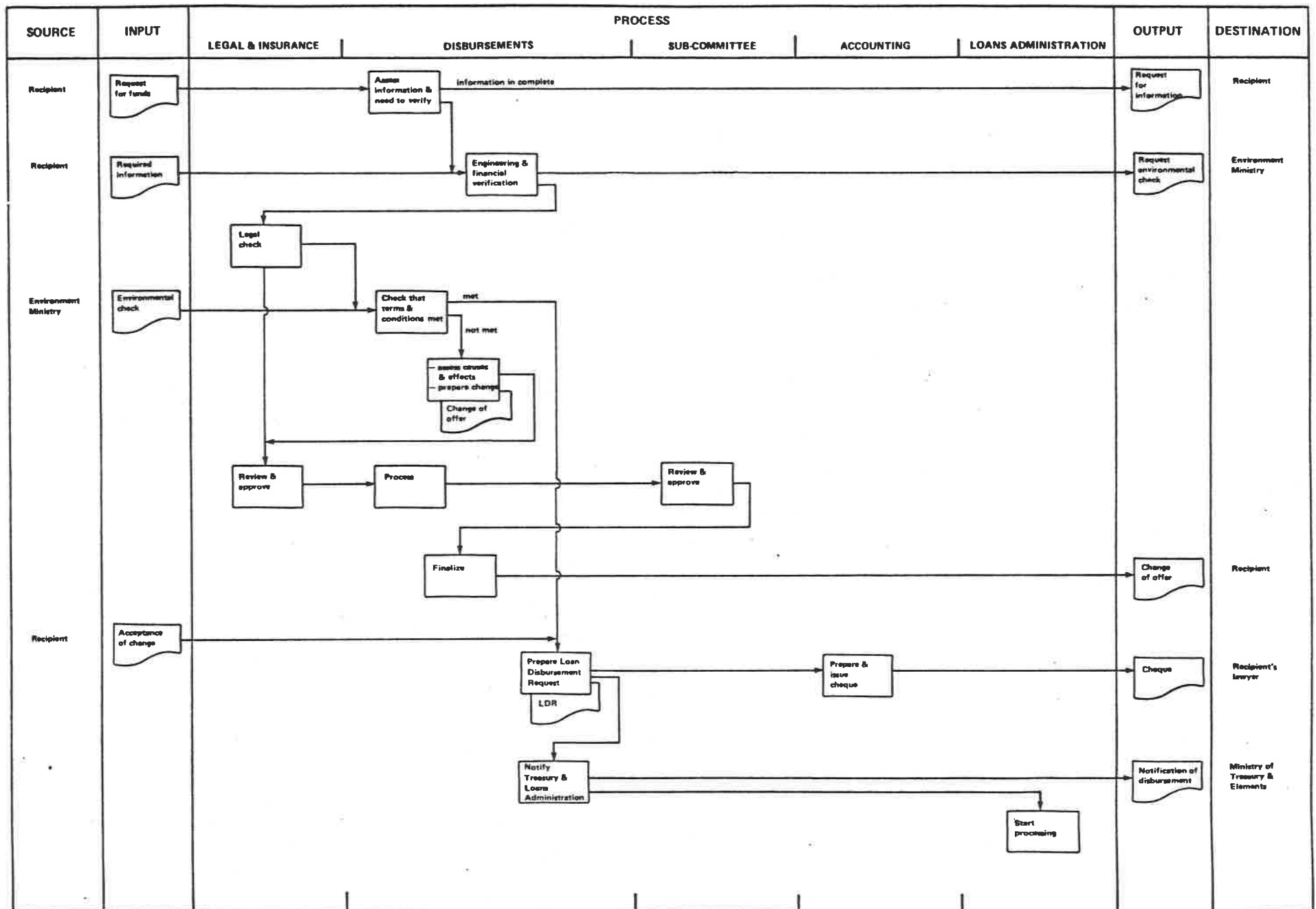
OVERALL MANAGEMENT CONTROLS

1. Program objectives and target population are clearly identified and documented.	1. Subsidiary Agreement lists general purpose of program and types of business.	1. No basis of assessing effectiveness. Possible that funds are given to companies that should not receive funds, i.e. are not "small business".
2. Targets are known for effectiveness, efficiency and economy.	2. No targets. Program administration costs not known.	2. No basis for assessing effectiveness, efficiency and economy.
3. Actuals are compared to targets and variance is used as basis for initiating corrective action.	3. Not done.	3. No basis for keeping program in line with targets on continuing basis.
4. Reports on program activities are provided to management on a regular basis.	4. Field consultants and regular reports to Loans Applications on status of all types of loans and grants. Commitment control reports go to all senior managers.	4. General status of the program is known.

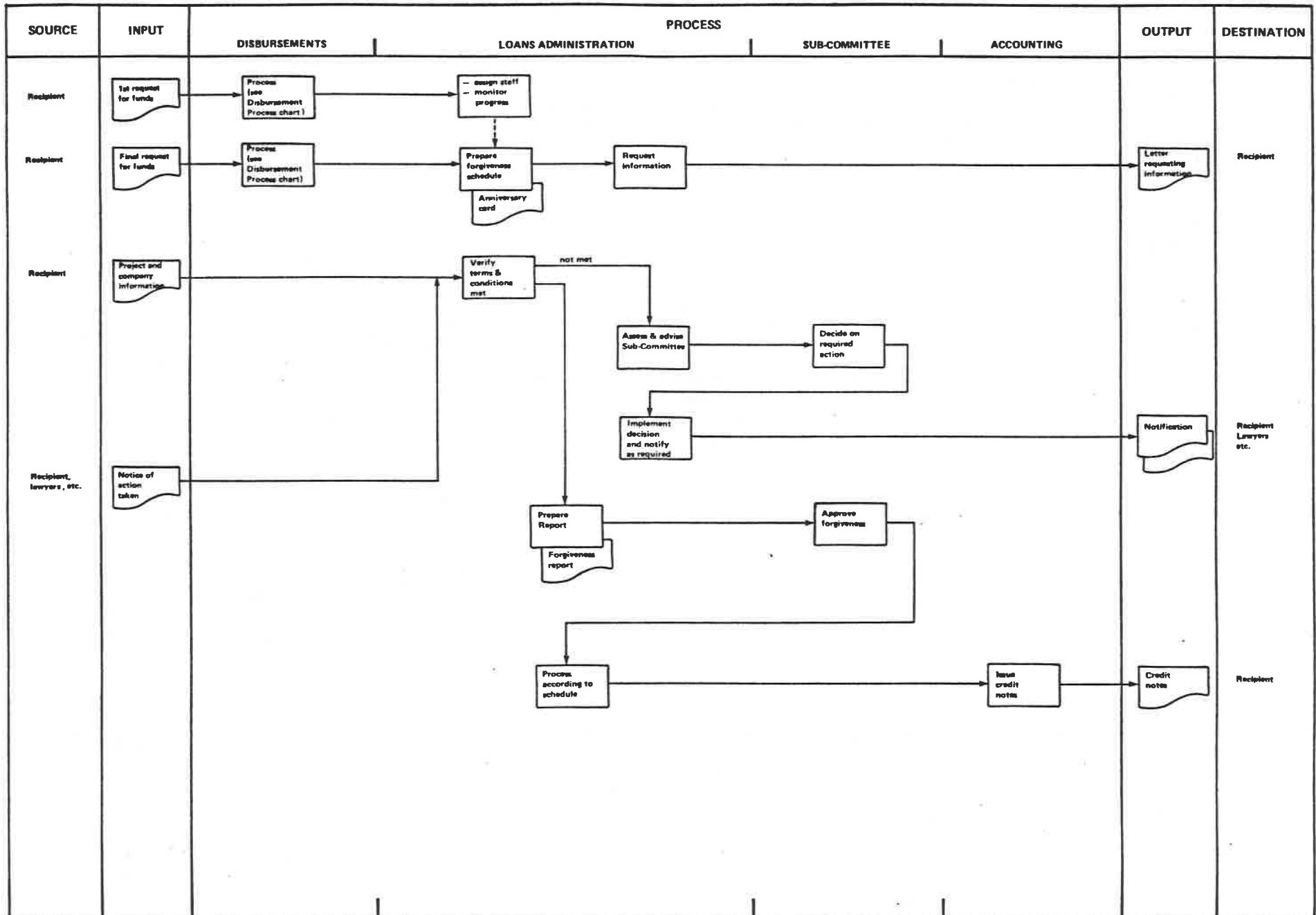
APPLICATION PROCESS



DISBURSEMENT PROCESS



FORGIVENESS PROCESS





B.i Survey of Recipients

We undertook a survey of firms that had received approval for a forgivable loan under the Small Business Incentives program as of June 30, 1982. There were 103 projects approved which involved 102 firms (one firm had received two approvals for two different projects).

The following methodology was used:

- Step 1 A written survey instrument was designed and its logic and content pretested with several recipients. The survey form is attached to this appendix.
- Step 2. An attempt was made to contact all recipients by phone to inform them of the survey and to ask for their cooperation. Arrangements were made to drop off the questionnaire in person.
- Step 3 The questionnaire including an introduction covering letter under EODC's letterhead was distributed in person by financially-trained staff of Woods Gordon/Clarkson Gordon. At the time of distribution, the purpose of the survey was fully explained and assurances given for the confidentiality of the responses. Arrangements were made to call back in person a few days later to pick up the completed questionnaire. In several cases, these arrangements were made by phone and mail since the location of the office where the questionnaire was to be completed was not in the qualified area.
- Step 4. The questionnaire was picked up in person by the same staff member who had distributed it. The completed questionnaire was quickly reviewed at that time to ensure completeness and clarity of responses. If the form had not been completed, the respondent was asked to do so at that time. In several cases, this was not possible and the survey was sent by courier afterwards.
- Step 5. A random selection of the completed surveys were compared to information available on file in the Ministry of Treasury and Economics. This was to verify the accuracy of the respondent's information. The information was very comparable with only slight differences that were probably due mostly to memory errors or slight changes in plans.



The above procedure resulted in 81 replies out of a possible total of 102 (the firm with two projects only completed one form), or almost 80%. The 21 non-respondents did not reply for various reasons: they were out of business (3), they could not be contacted at an appropriate time (3), they refused (96), and they indicated that they would cooperate but did not in fact actually reply (9).

A review of the 21 non-respondents indicated that they tended to be slightly bigger firms than the average size of responding businesses. Otherwise, they generally reflected the same pattern of locations, industries and timing of the responding firms. On this basis, we assumed that if the non-respondents had replied, they would not have changed the conclusions evident from an analysis of actual responses.

B.ii Survey of Non-Recipients

We conducted a survey of 40 manufacturing firms with less than 100 employees located within the study area. The selection was not based on a rigorous random sampling methodology and thus the answers cannot be ascribed to the general population of firms. The names were drawn from the list of firms included in the Ministry of Treasury and Economics' Industrial Profiles of Ontario Municipalities. The selection was based on judgement to ensure a wide representation by industry, size and location.



The interviews were conducted by phone and included the following topics:

- o Number of employees
- o Whether capital projects undertaken within last three years

IF YES

Type of capital project

- modernize facilities
- expand facilities, same production line
- expand into new production line(s)
- start new business or facility

Size of project

- less than \$600,000
- more than \$600,000

Financing

- bank
- self
- government (specify)
- other (specify)
- if not government, was government considered?
 - reason why not used

IF NO

Would you consider the use of government financing if you were undertaking a capital project in future?

- o What government programs have you used in the past?
- o Are you aware of the Eastern Ontario Development Corporation?
 - what is your opinion of them?
- o Are you aware of the Small Business Incentives Program?



Eastern Ontario Development Corporation

1200 Bay Street, Queen's Park, Toronto, Ontario M7A 2E7 (416) 965-4622

August 11, 1982

Dear Sir/Madam,

The Province of Ontario and the Government of Canada have requested Woods Gordon, a national management consulting firm associated with the accounting company of Clarkson Gordon, to undertake an evaluation of the Small Business Incentives Program. This program provides forgivable loans for capital investments in qualified industries located in Eastern Ontario. The program is one of several included in the Eastern Ontario Subsidiary Agreement between the two levels of government and is administered by the Eastern Ontario Development Corporation.

Since your business has received authorization for a forgivable loan under this program, the consultants would like to ask several questions about your experience in obtaining aid under this program. Your answers will be kept in strictest confidence by the consultants and only summary findings will be passed on to the two sponsoring governments. This is not an audit of your application and will have no bearing on your eligibility for loan forgiveness or other aspects of your business relationship with the program's sponsors.

It is important that the consultants obtain as much co-operation as is possible to enable their recommendations to be useful in the planning of future government support programs to small businesses.



Ministry of
Industry and
Tourism
Ontario



Woods Gordon

If you have any questions regarding this review, please do not hesitate to contact me or Mr. Gerald Grant, the Woods Gordon Partner in charge of this study (at 416-864-1212). We thank you, in advance, for your co-operation and assistance.

Sincerely,

Mr. A.E. Beckley
Director
Loan Application Branch



Woods Gordon

**SURVEY OF THOSE WITH FORGIVEABLE LOAN AUTHORIZATIONS UNDER
THE SMALL BUSINESS INCENTIVE PROGRAM ADMINISTERED BY THE
EASTERN ONTARIO DEVELOPMENT CORPORATION (E.O.D.C.)**

**STRICTLY CONFIDENTIAL - THIS SURVEY IS FOR USE
IN EVALUATING THE OVERALL PROGRAM AND IS NOT
RELATED IN ANY WAY TO YOUR LOAN APPLICATION OR
LOAN FORGIVENESS - THIS IS NOT AN AUDIT OF THE LOAN**

Part A - To Be Completed By Interviewer

Company Name:

Address:

Phone Number:

Contact Name:

Title:

**Was contact involved in
loan process:**

(If no, please explain)

**Type of Business undertaken
at site where loan used:**

**Type of company (single
location, owner-run,
branch plant, etc.):**

SIC:

Part B - To Be Completed By Company

**Within the past three years, your company has received
authorization from the Eastern Ontario Development Corporation for a
forgiveable loan. The following questions refer to the loan process and the
use for which the loan was/is/will be put.**



- 2 -

- B.1 When did you first approach the E.O.D.C. about the loan? (approximate if you cannot recall exact date).

Date (D/M/Y): _____

- B.2 When did you receive final approval for the loan? (approximate if you cannot recall exact date).

Date (D/M/Y): _____

- B.3 Do you feel that the process to obtain the forgivable loan was?
(Circle one)

Quick

Acceptable

Too Slow

- B.4 What was the purpose or project for which you wanted the forgivable loan? (Check one.)

Modernize plant (i.e. replace machinery, etc.) _____

Expand existing facilities (additional equipment to expand existing production). _____

Expand into new types of production. _____

Start a new business (start-up of new facility). _____

Other - specify: _____

- B.5 What was the total cost of the project? _____ dollars

- B.6 In general, what organizations did you approach for financing for this project and what were the results? (Check appropriate column)

<u>Organization</u>	<u>Approached?</u>	<u>Provided Funds?</u>	<u>Refused?</u>
Chartered Banks	_____	_____	_____
FBDB	_____	_____	_____
Government - specify	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____



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Other - specify _____

B.7 Specifically, what were the sources of funds for this project?

Small Business Incentive Program forgivable loan	_____	dollars
Shareholders/Owner Equity	_____	"
Internal Company Resources	_____	"
FBDB loan	_____	"
Chartered Bank loan	_____	"
Other specify: _____	_____	"
_____	_____	"
Total (should match B.5)	_____	dollars

B.8 In applying for the forgivable loan, did you find the E.O.D.C.? (Circle one.)

Helpful

Acceptable

Not Helpful

Additional comments?

(Use back of page if necessary)

B.9 How did you find out about the Small Business Incentive Program? (Check one.)

_____ Advertising (brochure, billboard etc.)
_____ Industrial Development Officer of the Ontario Ministry of Industry and Trade
_____ FBDB (Federal Business Development Bank)



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_____ E.O.D.C.
_____ Chartered Bank
_____ Federal Member of Parliament (M.P.)
_____ Provincial Member of Parliament M.P.P.
_____ Other specify _____

Part C - To Be Completed By Company

At the time you made the forgivable loan you were asked to estimate the impacts of the loan on various aspects of your business. Conditions have changed and it is possible that these impacts have changed. The following questions are designed to evaluate these changes.

C.1 At the time your forgivable loan was authorized (date in B.2) what were the following?

Number of full time employees and working owners _____ number
At what level of plant capacity were you operating? (Plant utilization) _____ percent
Approximate annual sales _____ dollars
Approximate export sales _____ dollars

C.2.a When you made your forgivable loan application, what did you estimate the economic benefits to be?

(Estimated Amount)

Increase in employment _____ number or %
Increase exports _____ dollars or %
Replace imports _____ dollars or %
Increase competitiveness Yes _____ No _____
Other specify _____



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C.2.b Have these impacts been achieved? Yes _____ No _____

If no please explain: _____

C.3 At the present time what is the following?

Number of full time employees and working owners _____ number
Plant utilization _____ percent
Approximate annual sales _____ dollars
Approximate export sales _____ dollars

C.4.a In general terms to date what has the impact been of getting the forgivable loan? (Circle one per line).

Has employment: Increased Decreased Stayed the same
Have sales: Increased Decreased Stayed the same
Have exports: Increased Decreased Stayed the same
Has plant competitiveness: Increased Decreased Stayed the same
Has plant utilization: Increased Decreased Stayed the same

C.4.b In general terms, if the project's impacts are yet to be fully felt, what will the impact of the loan be in future? (Circle one per line).

Will employment: Increase Decrease Stay the same
Will sales: Increase Decrease Stay the same
Will exports: Increase Decrease Stay the same
Will plant competitiveness: Increase Decrease Stay the same
Will plant utilization: Increase Decrease Stay the same



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C.4.c Supposing you had not received the forgiveable loan.

Would you have undertaken this project? Yes _____ No _____

Would the size of the project been smaller? Yes _____ No _____

Would you have undertaken this project elsewhere? Yes _____ No _____

What other impacts would there have been
if you had not received the loan?

C.5 Please comment on the following aspects of the forgiveable loan program. (Circle one per line.)

Is maximum of project value that
qualifies: too low too high appropriate

Is maximum of forgiveable loan
amount: too low too high appropriate

Was information required for
loan process too little too much appropriate

Any other comments on the forgiveable loan program?

(use back of questionnaire to continue)



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Part D - To Be Completed By Company

The Small Business Incentive Program is only one of a number of government-sponsored programs to assist businesses. The following questions refer to your experience and views of other programs that you are aware of or with which have had experience.

- D.1 The SBIP forgivable loan was authorized for a particular project. Do you currently receive any other government assistance for this same project? Yes _____ No _____

If yes, please provide details: _____

- D.2 Outside of the project for this forgivable loan, have you, or are you currently, receiving financial or other assistance from any government program? Yes _____ No _____

If yes, please provide details: _____

- D.3 Please provide any comments that you have on Government assistance to smaller businesses.
