VOLUNTARY SECTOR PILOT PROJECT

Round Table Report

for the

Canada Small Business Financing Act (CSBFA)

February, 2000

Prepared by:
Judith Szabo Broadcast Consultants
Ottawa, Ontario
Tel: (613) 798-2591 Fax: (613) 798-8057
judszabo@storm.ca

Prepared for:
Entrepreneurship and Small Business Office
Industry Canada

VOLUNTARY SECTOR PILOT PROJECT

Round Table Report

for the

Canada Small Business Financing Act (CSBFA)

February, 2000

Prepared by:
Judith Szabo Broadcast Consultants
Ottawa, Ontario
Tel: (613) 798-2591 Fax: (613) 798-8057
judszabo@storm.ca

Prepared for:
Entrepreneurship and Small Business Office
Industry Canada

TABLE OF CONTENTS

				Page
1.	Executive Summary			4
2.	Pilot Project Context			5
	a.	Previous Consultations with the Voluntary Sector		6
3.	Experience with Asset-Based Financing			7
	a.	Current and Past Experience		7
	b.	Barriers		7
	c.	Relationship between a National Organization and its Local Chapters		9
	d.	Board of Director's Authority to Pledge Assets / Personal Guarantees		10
	e.	Organizational Restrictions for Debt Repayment		11
	f.	Ethical Considerations		12
	g.	KEY MESSAGES		13
4.	Pilot Program Design			15
	a.	Program Design Parameters		15
		i	Asset based loans up to $250K	15
		ii	Maximum revenue of $5M	15
		iii	10 year term	17
		iv	Guarantee of 85% on eligible losses	17
		v	Fees Parameters	17
	b.	Program Targeting		18
	c.	Competition between Private Sector and Voluntary Sector Organizations		19
	d.	Program Restrictions		21
	e.	Need for this Program?		21
	f.	KEY MESSAGES		22
5.	Summary of Major Outcomes and Recommendations			24
6.	Conclusion			27

ANNEXES

A. Voluntary Organization Contacted

B. Logistics and Methodology
General Participant Feedback

C. Round Table Questions

D. Voluntary Sector Organization Profile
General and Financial

E. Summary of the1998 Sage Final Report

E1. Excerpt of the For-Profit Group Sessions

E2. Excerpt of the Voluntary Sector Focus Group Sessions

E3. Characteristics of the Sample Voluntary Sector Organizations

I. Executive Summary

"The thing that lies at the foundation of positive change...is service to a fellow human being."
– Lech Walesa, Polish Solidarity Leader

The Liberal Red Book commitments to the voluntary sector have led to a series of government initiatives to develop stronger links with the third pillar of society, one that encompasses 175,000 organizations and $90 billion in revenue.

This report offers ground breaking financial policy research as one of only two sets of consultations ever conducted in Canada on debt financing in the voluntary sector. Although more detailed, this report mirrors remarkably similar information first unearthed in focus groups for previous legislation in 1998. Results of the current research, commissioned by Industry Canada, will play a strong role in determining how and whether the Canada Small Business Financing Act (CSBFA) can be adapted to the needs and requirements of the voluntary sector within the context of the Act.

While neither scientific in design nor comprehensive in outreach, the series of 13 Round Tables in six cities were successful in that strong indicators regarding pilot program feasibility and design were consistently delivered.

Consultations revealed the sector to have fundamentally and sometimes diametrically opposed philosophical and financial needs to the current small business oriented program. Where present experience in debt financing is limited at best and funding alternatives do exist, incentives to find a cost advantage to use the program were suggested in a sector rife with uncertain and uneven funding.

Four inherent program dichotomies exist regarding applicability, suitability and eligibility for a debt financing instrument. These encompass conflicts in the definition and sources of revenue as well as in maximum loan and revenue size. Spin-off effects could create disparities and unequal treatment between organizations both large and small, exasperate national and provincial tendencies and create disaccord with other governmental departments and agencies, both federal and provincial.

Despite strong evidence that the current program parameters and design are unsuitable to the voluntary sector, most Round Table participants welcomed the opportunity of a pilot program as the first step in helping rebuild the financial capacity of the sector after significant funding cutbacks over the last few years. They caution that this proposed program should not take the place of the current funding process.

Most Round Table participants were confident that if the government could negotiate the economic and social policy environment to show incentive and advantage for them to use the program, it would have better uptake than the "micro mini market" now forecasted.

2. Pilot Project Context

The Canada Small Business Financing Act (CSBFA) is a loan guarantee program which replaces the very successful 38-year old Small Business Loans Act (SBLA) designed to establish, expand, improve and modernize small and medium-sized enterprises.

The new CSBFA guidelines came into effect December 10, 1998, and provide the Minister authority to make recommendations "respecting the establishment and operation of one or more pilot projects for testing whether to guarantee loans made to borrowers in the voluntary sector or capital leases...."

Based on these guidelines, preliminary consultations took place in late November and early December, 1999 for the purpose of understanding the voluntary sector's[1] financial needs and debt-financing experience as well as to obtain comments on the current program design parameters. A total of 13 Round Tables in six cities across Canada provided feedback from 79 participants; 75 through Round Tables and four by written submissions. Annex A lists the 260 organizations initially contacted.

Although there was a method to how and why some organizations were chosen and not others, Industry Canada recognizes that the information in this report is incomplete and has limited context. It is one of the reasons why these research-oriented consultations are referred to as 'Round Tables' and not the more official and scientifically based 'focus groups'. Annex B provides detailed information on the methodology and logistics of the consultation.

It was recognized that a program historically geared to small business might not be completely applicable to the voluntary sector and might need some modifications. The Round Tables were organized to help identify some of the commonalities and differences between the private and voluntary sectors and to determine how best, or if whether it is feasible to build a pilot program that meets the needs of the voluntary sector within the context of the CSBFA . Annex C contains the questions asked of the Round Table participants.

Despite some methodological incongruencies, the process was nevertheless instrumental in very effectively isolating some broad, sector-specific issues. Based on the information provided by the voluntary sector organizations who participated in the process, Annex D gives a profile sketch on their general and financial make-up.

This report analyzes the information received during these initial consultations. Its recommendations and conclusions will be folded into the evaluation and design of a voluntary sector pilot project.

---

[1] A definition of the voluntary sector is problematic. As a broad rule of thumb, organizations surveyed included charitable and not for profit bodies.

Previous Consultations with the Voluntary Sector

Only four other sets of focus groups have ever been conducted on this subject in Canada. Commissioned by Industry Canada in 1998, the focus groups were part of a larger policy review of the Small Business Loans Act and involved national consultations with lenders as well as with potential, current and previous loan guarantee recipients.

One of the many topics discussed included SBLA applicability to the voluntary sector. In general, financial institutions expressed reservation about opening up the SBLA to this new sector while the voluntary sector focus groups were divided in their response.

A brief review of the mixed results of these consultations are found in Annex and Sub-Annexes E: Summary of the 1998 Sage Final Report.

The results of the 1998 focus groups and the issues identified in the 1999 comprehensive set of consultations are very similar.

3. Experience with Asset-Based Financing

a. Current and Past Experience

Round Table discussions revealed that the use of asset based financing is not a common practice amongst voluntary sector organizations. For those who do use this form of financing, many older, established voluntary sector organizations had no trouble obtaining fixed asset loans as they possessed more of the attributes required by lending institutions such as sufficient security - either through endowments or buildings, strong community profile, length of service and a good, long-term relationship with their banker.

Many of the smaller voluntary sector organizations are too small to qualify for any type of loan nor do they find much need for an asset-based loan. A constant refrain was that debt financing was not as important to voluntary sector organizations as is the ability to access more operating funds. It was stated that in the voluntary sector, it is possible to find alternatives to financing assets through loans by, for example, using reserves or having a capital fund-raising campaign. It is not very easy however, to obtain funds for operating expenditures. Often times, debt financing to voluntary sector organizations means relying on a line of credit to cover cash flow shortages and other innovative solutions such as having local chapters borrow money from their national organization.

Annex D gives a very general and financial profile of some of the organizations who participated in the Round Tables.

b. Barriers

Participants identified that most barriers to obtaining fixed asset loans are found within the lending institutions themselves. Other barriers included security concerns, voluntary sector organization structure and various regulations.

Financial Institutions

Round Table members consistently stated that financial institutions do not understand the role, nature nor the community commitment of voluntary sector organizations. Lenders were often admonished for lacking flexibility, for not taking reasonable risks and for treating voluntary sector organizations the same as small businesses when the two have fundamentally different principles. For example, participants stated that financial institutions do not lend money for designated non-profit property as it is non-revenue generating. It was felt that increased understanding is needed on both sides.

The changing nature of the financial services industry has resulted in many revised business practices and attitudes on the part of both clients and lenders. Some participants remarked that contrary to popular belief, personal relationships with bankers and long-term relationships with lenders are no longer necessarily an advantage. Some participants stated that this business practice is close to being outdated due to the high turnover of bank account managers and the increased competition in financial services. As well, lending competition has reduced choice in rural areas and as a result, loan decisions are sometimes made in near-by major city centres which makes it difficult to have a personal relationship with a lender.

> *"You have to walk (away from your bank if you are not being serviced in the manner you wish). At the end of the day, the relationship isn't worth that much."*

Increased competition in the financial services industry might create bias to approve certain loans to the voluntary sector and not others. Banks now have high profile marketing campaigns and are tying their community commitment with their strategic plans. This could lead some non-profits to not be treated equally or fairly should their community commitment not be aligned with the lender's corporate and community goals.

The cost of paper work required for lenders (ie: audited statements/business plan) is also considered a barrier for several organizations. Voluntary sector organizations feel they are at a disadvantage as for-profits can write-off the cost & time needed for the exercise but they cannot. Their monies are usually highly segmented and project based.

Security

Lending institutions and voluntary sector organizations have a fundamental definitional barrier regarding security issues. Lenders rely on hard assets for security while most voluntary sector organizations rely on soft assets ie: their volunteers and the "people-power" needed to provide community based services. Many voluntary sector organizations do not have traditional "hard asset" security to use as leverage.

> *"If a pilot program cannot help us with either (the issues of) assets for collateral, revenue streams that are more a projection than a reality and with management expertise/capacity to counter the scepticism of the ability of non-profits to run a business; if a pilot program cannot help us with any of these three things, then having the program is no better than what is currently available."*

RECOMMENDATION — Amend the definition of "asset" to include soft, intangibles such as people and intellectual property. This would help to target the market of smaller voluntary organizations.

The few possible options available to voluntary organizations eg: guaranteed income through a government contract or continuity and longevity (years in operation) are not considered sufficient collateral for a loan. The former does not qualify as it does conform to a lender's definition of revenue. For some organizations, the latter is difficult to achieve as they do not have the track record to work around cash flow variability.

Voluntary Sector Organization Structure

A good proportion of the organizations consulted stated that "economic literacy skills" are lacking in the voluntary sector and are a definite barrier to obtaining any sort of bank loan. Many voluntary sector organizations do not have time, the required resources, nor the people with the business savvy and negotiating skills required to prepare the necessary documents and deal with the financial institution.

> *"Sometimes access to credit is not enough when the sector doesn't know how to manage, doesn't know how credit works and doesn't read financial statements."*

It was also highlighted that an important distinction between a for-profit and non-profit organization is that service improvements in a voluntary organization do not always correlate with an advanced reliability for loan repayment. That is, improving the ability of a voluntary organization to carry out its mandate does not necessarily mean that it will generate more revenue.

Regulations

Many Round Table members remarked that preparing administrative requirements for government grants received is time-consuming and frustrating as each government department has different regulations and different forms to fill out.

> *"It is sometimes easier dealing with banks than the government."*

> *"If (pledging assets) can make it easier to open businesses for non profit organizations then there might be easier uptake to use this program because it is a hell of a lot easier than filling out the government grants."*

It was also stated that income for any voluntary organization, is often project-based and runs for a shorter time period than the usual five year lease for an office.

c. Relationship between the National Organization and the Local Chapters

The relationship between the national organization and its local chapter(s) is determined by an organizations' bylaws. The sector's diversity infers that legal, operational and government structures vary from organization to organization. According to one participant studying the sector, there are eight to ten major Canadian models in use but no one single model predominates.

In many cases, local chapters are the engines of the organization and direct the national office, which offers networking and policy advice. In other cases, organizations have centralized decision-making and financial control.

The majority of participants preferred that debt financing be arranged with local incorporated chapters independently from their national organization.

d. Board of Director's Authority to Pledge Assets / Personal Guarantees

There was an even split of people who were aware of whether their organization's by-laws requires Directors to pledge assets. However, even if the clause existed in the by-laws, it was stated that in reality, most Board members would never be asked to provide a personal guarantee and assume this amount of risk. In the few cases where Board members were asked to pledge assets, it was usually for start-up or very young organizations.

The definition of a personal guarantee was questioned as several participants stated that a voluntary organization board structure is different from that of a corporate board. Participants consider it difficult to get good Board members and stated that a personal guarantee request might be considered going beyond the scope of volunteer duty. If personal guarantees were required, they felt it might change the composition of people on the Board of Directors to favour only the very fortunate with sufficient personal resources. This requirement could result in a decrease in the diversity and the breadth of community experience on the Board.

Almost all participants agreed that volunteers are committed to organizational goals (indeed, that is why they become volunteers in the first place), but not enough to sign personal guarantees.

> *"You can have my time, you can have my soul, but you can't have my signature."*

Some Round Table members mentioned that they had a hard time justifying a personal guarantee when the lending institution already has a government guarantee of 85% on the loan. In addition, they felt there was no incentive to personally guarantee loans. As one participant stated:

> *"Anyone who can guarantee a loan can write a donation to your organization."*

Participants suggested several alternatives to a personal guarantee:

RECOMMENDATION Rather than requiring a personal guarantee, a fixed-asset loan should be based on organizational character, quality of personnel, standing in the community and years of service.

RECOMMENDATION Personal guarantees should be applied to the declining loan balance and not to the total amount.

It was also suggested that problems existed regarding Director Liability insurance for the voluntary sector. Consensus was that the insurance provides limited and inadequate coverage and is therefore not really needed, is difficult to obtain for some organizations focusing on young people and if and when obtained, insurance is expensive.

e. Organizational Restrictions for Debt Repayment

Perceived and actual restrictions on debt repayment derive from the opinions and structure of the voluntary sector itself as well as from external sources.

Some voluntary sector organizations believe they are in a high-risk sector for lending. There is a lack of stable, core funding as organizations cannot guarantee the amount of donations or revenue sources per year. This makes it difficult to manage cash flow to allow for debt financing.

> *"It is hard to envisage a situation where a responsible organization would take on fixed term debt and thereby commit to a recurring, multi-year stream of interest payments in an unsure revenue environment."*

It was often declared that the sector is under strong funding pressure due to the reduction of government transfers and program monies. Based on these funding realities, participants stated that any fiscally responsible Board of Directors would be unlikely to authorize a fixed-asset loan nor would it be likely to offer project funds as security for a loan.

> *"Debt is intended to provide financial leverage for growth. In a private sector environment where growth is often a business objective, this can make sense, although not without significant risk. In a non-profit environment where growth does not necessarily have the same imperative and where revenues are dependent upon sources beyond one's control, such leverage invites financial difficulty for no obvious benefit."*

Other sources of restrictions for debt repayment are the diversity of regulations and grant requirements for the many funding agencies and government departments. Some departments and agencies limit the use of grant money as interest on loans; others specifically disallow grant monies to be used at all.

Participants stated that government and agency grant requirements have increased over the years. Different regulations and forms exist for each department and agency. This has forced voluntary sector organizations to spend more time in grant administration by providing the detailed financial and general information needed for documentation.

f. Ethical Considerations

The majority of participants felt there were some ethical or moral dimensions involved in using debt financing whether they be client perception, moral obligation, conflict of interest or unfair conduct.

One inhibitor to using debt financing would be the client's perception of the voluntary sector organization's mandate. Round Table members stated that it would be "a marketing challenge" to justify fund-raising for debt repayment although many acknowledge that voluntary sector organizations make a difficult business decision. They understand that their service-oriented mandate requires the maximum amount of money to go to services, yet to keep the organization in the red, financing is required for long-term planning.

> *"There are moral obligations, not necessarily contractual (ones). Legally, (voluntary sector organizations) can use (fundraised) monies to pay down operating expenses. It might make financial sense but it is not a good business or public relations decision."*

There were those participants however, who felt that this is an "old way" of thinking and the trend is towards a more business oriented approach. There are no ethical dilemmas when debt financing helps build an organization's capacity and long-term viability. It is just the cost of doing business.

Other ethical considerations mentioned include the possibility of a conflict of interest when companies or financial institutions become big corporate sponsors of voluntary sector organizations. These funds could presume hidden bonds and expectations. Conversely, utilization of the pilot program might jeopardize funding coming from other organizations.

Lastly, some participants felt that giving banks more money, and guaranteed money at that, is a travesty particularly when so many not for profits are "struggling to survive."

g. KEY MESSAGES

Experience

- Many small, voluntary organizations do not have need or have insufficient security for debt financing.

- Larger voluntary organizations sometimes use debt financing for buildings and have either had no trouble or have negotiated hard with their lending institution.
- Only two other financial programs targeted to the voluntary sector are known to be offered, both by credit unions.

Barriers

- There are many, varied barriers. Most barriers were identified as being within financial institutions, followed by security concerns, voluntary sector organization structure and regulations. The following suggestions were made to help overcome voluntary sector barriers to obtaining debt financing.

RECOMMENDATION Include both voluntary sector organizations and financial institutions in the next round of consultations to begin a dialogue and increase understanding of needs and constraints.

RECOMMENDATION If smaller voluntary organizations are the target market, amend the definition of "asset" to include soft, intangible assets such as people and intellectual property.

RECOMMENDATION To overcome voluntary sector structural disadvantages, there was widespread support to either finance, create a funding pool or enter into a strategic alliance with (an) intermediary(ies) to help with information dissemination, education, training workshops, marketing and business expertise.

RECOMMENDATION Establish networks designed to educate organizations about the program and encourage community entrepreneurship. Some examples of possible networks include community economic development agencies, Chamber of Commerces, banks & co-operatives.

RECOMMENDATION Build into the program a development fund for planning documents needed by lenders such as a feasibility study or business plan. This would overcome a voluntary organization's cost of preparing a loan application and help it obtain the loan. If the loan is not accepted by the financial institution, then the cost of the application preparation (suggested at between $5K to $25K) is forgiven as this financing is included in the total amount of the loan requested. This could be a similar but simplified version of the Program Development Fund offered by the Canadian Mortgage and Housing Corporation. It was also suggested this method would be an easy way to allow all financial institutions to contribute to the community and obtain good publicity.

National vs. Local Relationship

- There was strong feedback to view local chapters of national organizations as independent from their national organizations, provided they are separately incorporated.

Personal Guarantees

- There was a very strong view that personal guarantees should not be demanded nor required of volunteer Board members. Rather, that organizational character, quality of personnel, standing in the community and years of service should count more when securing a fixed-asset loan.

RECOMMENDATION Personal guarantees should be applied to the declining loan balance and not to the total amount.

Ethical Considerations

- The majority of participants felt that there were some ethical and moral dimensions in using asset-based financing. It is not clear whether this would inhibit organizations from using a proposed pilot program. However, client perception of the mandates of most voluntary sector organizations could make it difficult to justify fund-raising for debt repayment as well as jeopardize grants from other organizations and government departments.

4. Pilot Program Design

a. Program Design Parameters

For this section, participants were asked to comment on each of the program design elements which currently exist for the small business sector.

i Asset Based Loans up to $250K

A multitude of comments were made regarding maximum loan size. Some declared the ratio of $250K to $5M too low which would result in a disproportionate amount of administrative work relative to the loan size.

It was also determined that a program conflict exists in that very few charities under $5M revenue are both service and asset-based. Larger voluntary sector organizations with strong possibility of loan approval could not use the program because both the maximum loan amount and the maximum revenue size are too small. Smaller voluntary sector organizations could not qualify or have their loan approved because of inadequate and uncertain financing. Under the current configuration, therefore, this program is not hitting the target market of smaller voluntary organizations for which it is designed.

> *"...this project is designed to give a further option to those organizations that are already in a position to secure funding for their projects and does not provide an opportunity to any groups that are currently unable to attain a loan for a capital project."*

RECOMMENDATION	Use this loan amount as capitalization for a loan fund or as a form of bridge financing as alternatives to a maximum revenue size.
RECOMMENDATION	Include in the pilot program access and the provision of a line of credit as well as working capital loans.

ii Maximum Revenue of $5M

Problems with this parameter are centred around three areas: a policy dichotomy related to income generation and the definition and sources of revenue.

The issue of income generation adds complexity to any proposed policy for the voluntary sector. The pilot project parameters currently on the table are designed for profit-generating small businesses. However, Canada Customs and Revenue Agency (formerly Revenue Canada) legislation does not allow voluntary organizations to make profits and still retain eligibility to maintain their charitable status[2].

A growing number of voluntary sector organizations obtain at least a part of their revenue in the grey area of operating productive or profit-making enterprises related to their mandate. The proceeds of these enterprises are funnelled back into the organization and the funds are used within the context of the organization's community mandate. Further discussion on this topic can be found in Part 2, Section C: Competition between Private and Voluntary Sector Organizations.

The design flaw in this current program is that it could encourage voluntary sector organizations to further engage in revenue producing enterprises in order to qualify for an asset based loan. This could lead to potential conflict not only with the Canada Customs and Revenue Agency but also with other national and provincial policy makers.[3]

As the definition of revenue is problematic, various suggestions were made in order to better fit the pilot program to voluntary sector needs. These included to use project amounts instead of gross organizational revenue or to not use a revenue limit at all. Another suggestion was to factor in sources of revenue. Many participants wondered whether government grant money would be eligible to repay this government guaranteed loan.

RECOMMENDATION	Allow for various sources of revenue such as operations and unrestricted net assets ie: the information contained in financial statements. Do not count restricted capital, endowment and capital monies.

Unless this issue is resolved, participants emphasized that a two-tiered system could develop as national organizations with a higher revenue base would not be eligible over its lower revenue producing provincial chapters.

iii 10 Year Term

---

[2] The Canada Customs and Revenue Agency has drafted, but not yet published, a revised guide on "related business" for registered charities as defined by the Income Tax Act. The pamphlet gives additional clarification on the definition and guidelines on charities operating revenue generating businesses related to their mandate. A published report is expected in Winter 2000 or early 2001.

[3] In December, 1999, the CCRA published an informative brochure and guideline on *"Registered Charities: Community Economic Development Programs" (RC 4143).* It expands the definition of charitable organizations to include CEDs and defines the details under which CEDs can operate and still retain their charitable status. The brochure also briefly outlines and defines CCRA interpretation on "related business" (p. 12). The pamphlet can be found on the internet at www.ccra-adrc.gc.ca/charities under the category "Brochures and Guides".

Not many comments were received. Some perceived 10 years as being a reasonable period while others felt that smaller organizations need a longer financial period to allow for lower monthly payments.

RECOMMENDATION Ensure flexible repayment terms.

iv Guarantee of 85% on Eligible Losses

RECOMMENDATION Provide a financing guarantee based on the value of the finished product being financed instead of the total loan amount. This would allow smaller organizations to claim an asset as security.

v Fee Parameters

Round Table members were asked to comment on the program's three existing fees of an up-front registration fee of 2%, an annual administration fee of 1.25% and a lender fee of a maximum of 3% over prime.

RECOMMENDATION Change the name of the front end "registration fee" to "insurance pool fee" for increased transparency, clarity and understanding.

Most agreed that all the terms are very high. As one participant stated, *"That's just 2% more fund-raising I have to do."* Several suggestions were made such as offering a one year interest free loan to allow for growth and offering fluid loan terms with lower rates and risk and higher loan amounts.

Not charging a fee at all was also proposed. A loan application from a voluntary organization would then be considered a financial institution's "contribution to the sector" and could lead to the dual goals of implementing an innovative form of social marketing as well as solidly supporting the third societal pillar.

Many felt that incentives were needed for uptake in the community. Participants agreed that there was a "lack of advantage" to use this expensive instrument when alternatives are available such as a line of credit, reserves, donations, endowments or capital fund-raising campaigns.

> *"It is not the inability to obtain debt financing but the lack of apparent advantage to using asset based debt financing that is the issue.... Given the apparent cost of the financing you are proposing, it makes more sense to use a line of credit or reserves to finance something than to use cash reserves or equipment as collateral for asset based debt financing."*

RECOMMENDATION Offer voluntary sector organizations incentives to use the program.

Overall Comments

There were many comments regarding the lack of applicability of this program to the needs of the voluntary sector. Participants stated that the program criteria should be more aligned to the voluntary sector, and not to banks or the government as they apply now. There was overall agreement that the current parameters are not applicable and are not a good fit.

> *"I'm not sure if parameters are the problem, it's the concept of debt financing I am having trouble with."*

It was felt that a "one size fits all" type of program will not work. As one participant stated, *"You are trying to adapt an instrument that is too simplistic...."* Whatever program design is proposed, participants were of the united opinion to keep the design simple. They recommend that very specific or too much information not be required, as it consumes too many administrative resources.

b. Program Targeting

Type:

Participants acknowledged that the voluntary sector is difficult to define as it encompasses many diverse organizations in different fields in many provinces with varying provincially legislated definitions.

> *"You're looking at this sector like it's a sector and its not. How it works, how it's governed and how it's managed are all different."*

Participants reiterated that a clear definition of the program target market is necessary.

RECOMMENDATION Choose the section of the sector cautiously and be careful applying the program to the sector.

There were a variety of assumptions made as to user exclusions. Most felt that hospitals, churches and universities would be excluded. Several stated that provincial parties should not be eligible. Others suggested MUSH be eliminated: Museums, Universities, Schools and Hospitals. It was pointed out however, that churches are some of the major sponsors of urban community economic development programs in the United States. It was agreed that churches are lesser players in Canada but are still relevant.

Geographical

The majority preferred targeting nationally to appeal to the broadest range of not for profits.

> *"This is about confidence. If you are looking to set an example for the rest of the country, find a formula where success is needed."*

RECOMMENDATION Criteria must be developed to establish a definition of program success. Will it be business oriented to include on-time repayment or will it be based on value or community outcome to better reflect the importance of the voluntary sector?

Participants cautioned against newly created voluntary sector organizations or voluntary sector organizations without a track record in service delivery or not recognized in the societal infrastructure. The program could be used to foster increased competition or damage the government's credibility.

c Competition between the Private Sector and Voluntary Sector Organizations

Comments centred around three major areas: a comparison between the voluntary and private sectors, the trend towards a more business-oriented approach and competition between the sectors.

Round Table participants stressed that the voluntary sector is fundamentally different from the private sector and reflects differences within itself ie: non-profits, charities and registered non-profits. While voluntary sector organizations operate the same as a small business, they do not operate based on business doctrine - their commitment is to community and service, not to profit.

The dichotomy of the voluntary sector is that in many cases, it needs to operate with a business mind set and a view to the bottom line but cannot because funding restrictions do not allow them to make long-term commitments. At the same time, the voluntary organizations recognize and are proud of the fact that their values, systems, goals and funding /revenue bases are unique to the sector. This uniqueness is often not very well understood by the private sector and particularly, financial institutions.

> *"This is not about voluntary organizations being more like business; maybe more business-like, but <u>not</u> like business."*

Over the last several years, a growing trend has seen voluntary sector organizations moving towards a more business-like approach involving increased accountability and accreditations and leading to a larger number of mergers and strategic alliances. Some reasons for this could relate to organizational maturity and /or the reality of decreasing government transfers and program funding.

This growing trend reflects a sectoral split whereby some voluntary sector organizations operate "the new way" using a business mind-set (maybe larger, older, higher budget organizations). Other organizations operate in the traditional voluntary sector approach which, according to some, uses "old mechanisms" and relies on the government and the community to fund all operations.

> *"Corporate donations will not make up even 10% of the amount of government grant reductions."*

> *"There is no way that the revenue generating sources of non profit organizations can make up for the lack of government funding, nor should it."*

The difference between the two philosophies could depend on the types and variety of funding the organization receives. Many voluntary organizations are not funded to practice strategic business practices such as building up a contingency fund, investing and long-term planning.

Round Table participants indicated that the pilot project is seen as significantly veering the voluntary sector towards a small business profile; something that, according to the 1998 discussion & focus group feedback, neither voluntary sector organizations nor small business want. Voluntary sector organizations do not want to lose their not for profit/charitable status while small business does not want additional competition or want to subsidize voluntary sector organization losses.

Most participants were split on the existence of competition and whether the voluntary sector /private sector was hard done by this or not.

> *"What kind of business can a non-profit organization offer if you're not allowed to have a business?"(according to Revenue Canada regulations).*

According to several participants, voluntary sector organizations do not have an unfair advantage; it is similar to comparing apples and oranges. They cited the examples of how the private sector writes off costs, has tax incentives and receives subsidies and how the voluntary sector cannot take advantage of any of these benefits.

> *"It is better to have a parallel environment, separate and distinct."*

Some suggested that competition is becoming more and more prevalent but it is not yet a major issue. Many stated that an additional policy to right any real or perceived wrong is not needed but that a recognition of the blurring of roles between the private and the voluntary sector is required.

> *"Non-profits are not on the same playing field - that's not a bad thing. Yes, we're bumping, but it's ok. Where government is encouraging and contributing to the conflict is where I have the problem."*

d. Program Restrictions

Several participants stated that it would not be necessary to impose restrictions on program use since they felt few organizations would use this form of debt financing and expose themselves to such a high degree of risk. They felt the strongest preventative measure is the ability to choose the best project in the first place. The ability to choose a good project would be improved, they claimed, if development money is built into the program.

Several participants stressed the need for Industry Canada to ensure that the pilot program does not weaken the voluntary sector by enabling organizations to overextend themselves and face financial ruin. It was argued that voluntary organizations often let good intentions get in the way of good business sense.

e. Need for this Program?

There was unanimous agreement that a need exists to offer financial services to the voluntary sector. The majority felt that asset-based financing is too limiting and that there is a greater need for working capital and funding for marketing and advertising.

> *"Look at where the need is instead of fooling around with these types of programs."*

Despite this caveat, voluntary sector organizations want the opportunity to utilize this option since program funding decreases have made any additional help welcome. While it was never explicitly stated, some feeling could exist that the government should "do something" for the voluntary sector as restitution for previous funding cuts. Participants stated that one use of this program could be as a top-off source of funding after exhausting all other financing choices.

There was an almost unanimous opinion that the program will have limited to very limited uptake due to funding restrictions by voluntary sector organizations and the program's inherent design conflicts. The organizations that need this program the most might have the most difficulty in paying back the loan. Others cited the high program cost which would make it the last financing choice with many. Some have suggested the program would appeal to a "mini-micro market" with a take-up of less than one percent of the population.

> *"In 30 years as an accountant, I have never seen one case where this IC program could be useful or could be used."*

There was strong certainty that many proposals will fall within the knowledge/information technology and services sectors and if the CSBFA does not acknowledge soft assets, the program will have even more of a limited scope. Most agreed that the pilot project will be a "hard sell" as it is not the perfect solution.

> *"This program will not strengthen the voluntary sector. It does not address any of the problems put forth in the Broadbent and PCO Reports."*

Some mentioned that they are not sure whether the program parameters are the problem. Rather, they felt the main issue and fundamental concept difficulty is whether voluntary organizations need and should use debt financing.

f. KEY MESSAGES

Parameters

- No consensus exists on specific program parameters except that the terms are too high and that the program should be easy to understand and use without requiring additional administration time.

- Program applicability to the voluntary sector is very low. Incentives are needed which could include the suggestions to lower or eliminate fees, offer flexible repayment rates, offer a line of credit and working capital within the program, being able to use the program as a capitalization fund or as bridge financing and include all sources of revenue as potential security for the loan.

- The program's target market of small voluntary sector organizations is not feasible due to program conflicts on maximum revenue and loan size. The variance could lead to allegations of unfairness and disparity as a two-tiered system develops and isolates the haves and the have-nots, the small and the large organizations and the national and the provincial organizations.

- Program conflicts regarding the definition and sources of revenue could encourage some voluntary sector organizations to further move into profit-making enterprises to qualify for the loan. This would lead to government disaccord with the Canada Customs and Revenue Agency regulations on enterprise income and charitable status eligibility.

Design

- The voluntary sector segment should be clearly defined, nationally targeted with no program restrictions to ensure a better program response rate. The project needs explicit criteria and a detailed project definition of "success".

- Most participants were split on the existence of competition and whether the voluntary sector /private sector was hard done by this or not. Many stated that additional policy to right any real or perceived wrong is not needed but that a recognition of the blurring of roles between the private and the voluntary sector is required.

- The program would be regarded as a needed additional resource and financing option for voluntary sector organizations but is expected to appeal to a very small segment of the voluntary sector due to organizational funding restrictions, high program costs and unsuitability to the voluntary sector.

5. Summary of Major Outcomes and Recommendations

The following comments and recommendations flow from the detailed analysis in Sections 3 and 4. They have been grouped in narrative format for ease of reading and are divided into four categories: Overall, Program Design, Program Parameters and the Future.

Overall

In general, Round Table participants urged policy makers to have a broader perspective to help voluntary sector organizations with their financing needs. Debt-financing, they commented, is just a small slice of what is really needed. The program should be considered within a more global and strategic context to encompass and harmonize with other federal and provincial government departmental offerings to the voluntary sector and the diverse rules & regulations. There was widespread concern that the proposed pilot program not represent a hidden policy shift to replace grants to community organizations with loans.

Most participants agreed that some competition existed between the voluntary and private sectors in the delivery of various programs and services. However, an equal number considered it to have any real or perceived consequences at this time. More significantly, is a growing use of productive enterprise by the voluntary sector and an increasingly stronger blurring of roles between the private and the voluntary sectors.

Many of the diverse barriers voluntary sector organizations face in obtaining financing are endemic to financial institutions, and are also categorized to include security requirements, voluntary sector organization structure and regulations. The following recommendations were made to counter existing barriers.

- Finance, create a funding pool, establish educational networks or enter into a strategic alliance with (an) intermediary(ies) to help with information dissemination, education, training workshops, marketing and business expertise.

- Build into the program a forgivable program development fund to help voluntary sector organizations offset the cost of preparing needed documents for lenders.

Despite significant barriers, a pilot program would still be considered a much needed additional resource and financing option by the majority of voluntary sector organizations. Some suggestions offered were to use the program as a capitalization fund or as a form of bridge financing.

Program uptake is uncertain due to existing program conflicts in the target market and ethical concerns. There is a clear consensus that voluntary sector organization funding restrictions, high program costs and unsuitability to the voluntary sector would make the program appeal to only a “mini-micro-market” or segment of the voluntary sector.

Even if a pilot project is designed, there is a valid question as to whether the program would be used based on the large number of Round Table participants who felt that there were some ethical and moral dimensions involved in using debt financing. Client perception might make it difficult to justify fund-raising for debt repayment as well as jeopardize grants from other organizations and government departments. Voluntary sector organizations might face barriers from the very same government wanting to assist them with access to debt financing.

Program Design

The voluntary sector segment to which this pilot project is to be targeted should be cautiously chosen, clearly defined, carefully applied and nationally targeted with no program restrictions or exclusions to ensure a better program response rate.

The pilot program should be simple in design and easy to understand with strong program evaluation criteria, particularly as it relates to the definition of "program success." It was also recommended that the definition of "asset" be amended to include soft, intangibles such as people and intellectual property. Local, separately incorporated, chapters of national organizations should be considered independent program-eligible bodies.

There was a very strong view that personal guarantees should not be demanded nor required of volunteer Board members. Rather, that organizational character, quality of personnel, standing in the community and years of service should count more when securing a fixed-asset loan.

Program Parameters

Program applicability to the voluntary sector is very low. No consensus exists on specific program parameters except that the terms are too high. It was recommended that incentives be offered to use the program such as flexible rates, terms and repayment options, building management expertise and capacity, adding access to a line of credit and working capital as part of the program and allowing a broader definition of revenue.

Round Table members identified four program conflicts. The program's target market of small voluntary sector organizations is not feasible due to differences on maximum revenue and loan size. Very few voluntary sector organizations with less than $5M revenue are both service and asset based which could lead to a two-tiered program between large and small voluntary sector organizations and result in allegations of unfairness and disparity. The third and fourth program conflicts are on the definition and sources of revenue which could encourage some voluntary sector organizations to further move into profit-making enterprises to qualify for the loan. This would lead to government disaccord with Revenue Canada regulations.

The Future

It was suggested that research be conducted on revenue sources and usage related to productive enterprises and more information obtained from financial institutions to determine the demand for loans to voluntary sector organizations.

For the highest community buy-in, participants recommended creating strong communication and educational tools to alert potential users of this financing option. Voluntary sector organizations would need a business learning curve to obtain the maximum value from the pilot program.

A strong recommendation was made for a more comprehensive consultation with the voluntary sector and the suggestion that joint consultations be held with the financial sector to help clarify policy options, build dialogue and develop understanding between voluntary sector and financial organizations.

6. Conclusion

Funding decreases and increased competition for funds has changed the voluntary sector mosaic. It has spawned a different way of thinking; the old, government funded mentality compared to the new, more quasi business ventures mind set. Survival begets change. The growing use of productive enterprise by the voluntary sector is increasingly blurring the separation and dividing line between for-profit business and non-profit organizations. By all accounts, no great overriding conflict has occurred but participants feel it is only a matter of time.

The four policy conflicts inherent in the current program darkens the grey area and could force voluntary sector organizations to have a stronger revenue generating focus to pay off the loan. Indeed, program conflicts on the definition and sources of revenue as well as on maximum revenue and loan size do not allow the program to access its target market. Moreover, it could also lead to a two tiered system of eligible large and small organizations, assertions of unfairness and disparity and policy conflicts with other federal and provincial departments.

Existing program parameters make for a low resonance of applicability to the voluntary sector. Participants are nevertheless pleased to have anything that encourages the viability of not for profits. They applaud the government initiative and look forward to working with policy makers in developing a stronger program since "something on the table is better than nothing." For the voluntary sector, a debt financing program would be an additional financing option, a choice that was not there yesterday, which could perhaps be used in an innovative way such as bridge financing.

Yet the reality of voluntary sector organization funding restrictions, high program costs and program unsuitability to the voluntary sector would make the program appeal to only a "mini-micro-market" or segment of the voluntary sector. When combined with the fact that voluntary sector organizations have other alternatives to debt financing and many surveyed do not use or have need for it, many incentives would be needed to make this asset-based policy an advantageous and cost effective choice for most organizations. Some program specific incentives could include opening up the definition of assets and revenue, being more flexible in the terms, rates and repayment options and offering management expertise and capacity in building appropriate business tools for success.

Round Table members were unanimous that voluntary organization financing options should come from a broader, more strategic perspective where debt financing is just one part of the pie: access to a line of credit, operation funds and funds earmarked for marketing and advertising are also needed. It is not surprising then that participants philosophically question whether voluntary sector organizations in general, and voluntary sector organization start-up organizations in particular, need asset-based financing. This is particularly true when revenue is limited and could possibly involve a conflict of interest if the voluntary sector organization's main revenue source (s) are from government grants. The issue gains added complexity when the sector's concerns about ethical and moral dimensions are added.

It is clear that the fairly straightforward policy levers created for small business cannot be easily translated into the more complex voluntary sector terrain where both social and economic policy forces blend in equal measure. More work and consultations are needed to readily adapt the current CSBFA program to voluntary sector needs and requirements.

It is apparent that both the voluntary sector and Industry Canada are willing to explore further possibilities. The political will exists. Most voluntary sector participants are enthusiastic and committed to developing the process and creating opportunity to (re)build capacity in the sector. In the end, the question remains whether it is in the public interest or good to deliver a pilot program, that for now, reaches an extremely limited potential audience. If so, strong research is needed to target the program to the market niche.

ANNEX A

VOLUNTARY ORGANIZATIONS CONTACTED

ANNEX B

LOGISTICS AND METHODOLOGY

With a voluntary sector in Canada that encompasses over 175,000 organizations, it is economically unrealistic or feasible to expect to survey the totality. In the end, 260 voluntary sector organizations were chosen, not necessarily randomly, as initial points of contact. Sources were primarily organizations who had already had involvement with various government task forces, committees and / or programs.

Sources included participants/organizations on the recent Privy Council Office Joint Table Task Force, Industry Canada's VolNet National Advisory Committee members, VolNet delivery agencies, members of the Voluntary Sector Roundtable (the Broadbent Report), members from the Canadian Community Economic Development (CED) Network, other CED businesses and policy interest groups. The Coalition of National Voluntary Organizations (NVO) was extremely helpful in spreading the word to find interested participants. Finally, the voluntary sector grassroots contact system was also very efficient in obtaining the last few names. Please see Annex A for a list of the 260 organizations canvassed.

Most invitees were sent one or two introductory letters along with a discussion paper and were invited to either participate in a Round Table session or provide written comments on the discussion document. Table 1 lists the number of organizations in each city invited to participate in this initial stage of research for a voluntary sector pilot project.

Table 1.
TOTAL NUMBER OF INVITEES BY CITY (TTL# = 260)

CITY	#	*CITY*	#
Calgary	70	Montreal	31
Ottawa	66	Winnipeg	20
Halifax	21	Toronto	52

Table 2 provides a very rough breakdown of the 260 organizations invited to participate. Categories based on Revenue Canada classifications.

Table 2. INVITEE BREAKDOWN BY PERCENTAGE (TTL = 260) - STILL TO DO					
CATEGORY	*%*	*CATEGORY*	*%*	*CATEGORY*	*%*
Welfare	8	Women	4.7	Agricultural	1
Community Benefit	9	Seniors	1	Multicultural	6.3
Civic Improvement	1	Community Economic Development (pure)	2.6	Cultural / Arts	2.6
Miscellaneous	5.2	Social Groups (misc.)	10	Health	13.1
Educational	5.7	Religion	2.6	Recreational	5.7
Environmental	8	Professional	4.7	Native Groups	2.6
Youth	4.2				
SUBTOTAL	41.1	SUBTOTAL	25.6	SUBTOTAL	31.3
TOTAL = 98 (CHECK THIS NUMBER - SHOULD BE 100)					

Of the 260 initial contacts, feedback on the proposed pilot project was obtained from 79 voluntary sector organizations; 75 during a series of 13 Round Tables in six cities across Canada, as well as four written responses. Round Tables were conducted between November 22 and December 9, 1999. Tables 3 and 4 outline the number of Round Tables per city as well as the number of participants per Round Table in each city.

Table 3. ROUND TABLES PER CITY (TTL = 13)			
CITY	*#*	*CITY*	*#*
Calgary	2	Toronto	4
Ottawa	2	Halifax	2
Montreal	1	Winnipeg	2

Table 4.
ROUND TABLE PARTICIPANTS PER CITY (TTL = 75)

	DATE	*LOCATION*	*TIME*	*NUMBER OF PARTICIPANTS*
1.	November 22	Calgary	Morning	3
2.	November 23	Calgary	Morning	9
3.	November 30	Ottawa	Morning	8
4.	November 30	Ottawa	Afternoon	11
5.	December 1	Montreal	Morning	7
6.	December 2	Toronto	Morning	7
7.	December 2	Toronto	Afternoon	2
8.	December 3	Toronto	Morning	5
9.	December 3	Toronto	Afternoon	6
10.	December 7	Halifax	Morning	3
11.	December 7	Halifax	Afternoon	6
12.	December 9	Winnipeg	Morning	4
13.	December 9	Winnipeg	Afternoon	4

The Calgary Round Tables were conducted by the Calgary-based Canada West Foundation, a non-profit research institute and registered charity.

Industry Canada participants included, at one session or another, members from the Entrepreneurship and Small Business Office (ESBO) headed by Robert Dunlop - Director General, Peter Webber - Manager, ESBO along with Laura Corkill and Steven West - policy analysts. Alain Rabeau and Paul Castonguay of Intersol Consulting Associates Ltd. shared responsibility for moderating the sessions and Judith Szabo was the dutiful scribe.

General Participant Feedback

Many of the 75 participants stressed that as they had not spoken to their Board of Directors or to their members, the Round Tables could not be considered an official consultation. They urged Industry Canada to treat the sessions as only a dialogue and a starting point from which both groups could learn.

RECOMMENDATION — Participants felt that a more wide-spread consultation with the voluntary sector was needed and that a sample size of 79 organizations out of 260 canvassed out of a total number of 175,000 possible organizations is not sufficient.

RECOMMENDATION — Several participants recommended that per diems be offered for consultation participation - otherwise they feel they are "cheating other projects".

Overall, voluntary sector organizations were very positive and willing to work with Industry Canada to create a fixed asset policy that would benefit everyone. As one participant commented, "anything to encourage the viability of not for profits is good."

However, participants were skeptical about Industry Canada's motivation and commitment in offering this program particularly since, they mentioned, the sector had been "skewered" with government budget cutbacks. They caution that this new program should not download public responsibilities to the voluntary sector or change departmental perceptions on how to finance the voluntary sector. They strongly feel that this program should not replace grants to community organizations.

ANNEX C

ROUND TABLE QUESTIONS

PART I - Experience with Asset-Based Financing

1. Has your organization **ever used debt financing**, and, if so, was it borrowed for working capital or asset purchases and improvements? What enabled you to **qualify** for debt financing?

2. Have any organizations with which you are familiar, used asset-based financing or tried to obtain this type of financing but have been unsuccessful? Have **financial institutions imposed requirements** that make it impossible to get a loan? What are the **attitudes and practices of traditional lenders** toward voluntary organizations?

3. Should Industry Canada view **local chapters as independent organizations** when it comes to qualifying for an asset-based loan?

4. Does your organization have **restrictions on** what **cash flows** can be used for debt servicing e.g. contractual, ethical, historical?

5. How do you think **financial institutions view** the **revenue stability** of voluntary sector organizations?

6. Do financial institutions already offer **financing options** (loans) that are geared to the needs of voluntary organizations?

7. Do officers and directors of your organization have the legal authority to **pledge** the assets of your organization as **security** for asset-based loans?

8. Would officers and directors of your organization be able, or willing, to provide **personal guarantees** for asset-based loans?

PART 2 - Pilot Program Design

1. (For some Round Tables, participants were asked to fill in their organization's financial profile)

2. What is your opinion on the following **(current) program parameters**?
   a. Asset-based loans up to $250K
   b. Open to organizations with a maximum annual revenue of $5M
   c. Terms of up to 10 years
   d. Guarantees of 85% on eligible losses
   e. Up front registration fee of 2%

f. Annual administration fee of 1.25%
g. Lenders limited to a maximum of 3% over the prime rate

Viability

3. Should the pilot program be **open to all** voluntary sector organizations or should it be tested using provincial and/or sectoral limitations? If it should be restricted, then to whom and to what region?

4. If small businesses are considered to have annual revenues below $5M, then what size of voluntary organization, in terms of **annual revenues**, would be most appropriate for the design of this pilot project?

5. Has your organization or any organizations you know of had any conflict with small business offering similar services? Ie: will this program create additional **competition**?

6. What **measures** do you recommend to make loaning money to voluntary sector organizations **more appealing to lenders**? For example, should the program require the voluntary sector loan applicant to provide ADDITIONAL security over what is usually required of small business?

7. Should Industry Canada **restrict eligibility** of specific stakeholders e.g. a church, political group or community newspaper, because of perceptions of the state interfering with freedom of speech, freedom of religion or freedom of association? An example was used of a lender seizing the assets, and the subsequent folding of a voluntary sector organization which has defaulted on its loan. This action might be perceived as involving the government.

Wrap Up

8. Is there a **need** for asset-based financing?

9. Are there **enough potential users** of a loan guarantee program in the voluntary sector? What kind of voluntary sector organizations would fall into this group?

10. You are at a reception with the Minister of Industry, Mr. John Manley. You have 30 seconds to pass on your **key message** about this pilot program. What would you say?

ANNEX D

VOLUNTARY SECTOR ORGANIZATION PROFILE

This profile is based on information obtained during the Round Tables as well as from the four written responses to the circulated Discussion Paper.

General

For the purposes of the pilot project, most participants felt that Industry Canada would have difficulty defining the term voluntary sector. They stated that voluntary sector organizations are very diverse and different in the way they are governed, managed and organized. It is one of the reasons why a national organization representing the sector does not exist.

The changing face of volunteerism in Canada has lead to a high volunteer and staff turnover and consequently, to a lack of organizational stability. Many organizations have difficulty obtaining and retaining good volunteers and Board members. Board volunteers are reluctant to commit to long-term planning when they know their time on the Board is limited.

Financial

The funding constraint on voluntary sector organizations has necessitated fiscally conservative budget policies and practices. Voluntary organizations spend money only after it is received and avoid or use little debt financing as many do not have traditional security. As well, participants state that other options to obtain assets exist, such as endowments and capital fund-raising campaigns.

Participants stated that most funds are already earmarked and that all core operating costs are divided into projects, which precludes long-term planning. As well, very few funding agencies are giving money for operating expenses which leads to "creative reporting" on the part of the voluntary organizations. Many stress that even if an asset-based loan is approved, there is no cash flow to meet the loan payments.

Working capital in the form of a line of credit is usually maxed at $15-20K and is used for operating cash. For a small non-governmental organization, this amount would only represent one to two payrolls.

Financial Profile of Voluntary Sector Organizations

The following profile was derived from the information voluntary organizations anonymously provided to Industry Canada during the course of the Round Tables. The purpose of this exercise was to obtain a better understanding of the sector's financial profile. As such, participants were asked to roughly indicate their organization's sources of revenues, the types of assets they have as well as the types of financing they use.

Several caveats are necessary as this profile cannot, in any way, be considered a representative sample of the voluntary sector or even of all the organizations contacted for these consultations. Of the 79 Round Table participants, only 29 financial profiles were received. This is due, in part, to the changing dimension of the Round Tables from when consultations began. Earlier groups had not had the opportunity to submit a profile as we had not yet identified this information need.

Furthermore, many profiles were incomplete or used different correlation factors (ie: dollar amounts vs. percentages or national vs. local chapters) which made it difficult to ensure that like factors were being compared. The asset section is a case in point.

Revenues

- Revenue sources are varied and most organizations do not rely on a sole income point.
- The exception to this are organizations who stated that donations or project based income are their sole revenue base. These organizations are usually heavily dependent on these revenue sources to the exclusion of other revenue streams.
- Organizations declared that the majority of revenues are derived from fee for service and donations followed in equal measure by government grants, project-based funds and productive enterprises.
- Fee for service revenues are obtained in large part from government and individuals.
- For organizations whose primary source of income is donations, there is about a 2 to 1 ratio of individual versus corporate donations; ie: individuals contribute about twice the amount corporations do.
- Revenues from productive enterprise come through leases or sales and is, as a category, considered to be growing rapidly.
- A small minority rely on either loan interest (restricted use) or membership fees as their sole source of income.
- Many organizations are dependent on the United Way for operating grants.
- Very few organizations have a revenue base with a balanced or equal income stream from all available sources.

Assets

- Most organizations have some assets, if only equipment, and then sometimes, only second hand equipment.
- There is a near tie between organizations with no assets or having only current assets (6) versus 7 organizations who declared their building as the primary asset (most had other assets also).
- An equal number (4) of organizations share an asset mix of building and equipment only as do building and endowments only.
- An equal number (4) stated that endowments were their sole asset.

Financing

- The majority (10) do not use financing or did not declare their financing base.
- The second largest group (7) stated they had both a mortgage and used working capital.
- However, if we isolate all the organizations who have a mortgage or a capital lease (9), they would almost number the organizations which do not use financing at all. The same number would hold true for organizations which use working capital in their financing mix.
- Following close behind are organizations whose only source of financing is working capital (6). Many include having a line of credit while one declared inventory and receivables only.

ANNEX E

SUMMARY OF THE 1998 SAGE FINAL REPORT

Two of the elements of the 1998 Comprehensive Review on the Small Business Loans Act involved focus groups with past, present and future SBLA users, and roundtable discussions with financial institutions, lenders and selected interest groups The four focus group consultations relevant to the voluntary sector took place across Canada and concentrated on two groups of representatives from for-profit businesses and two groups with members from the voluntary sector.

All groups were asked whether the SBLA fixed asset financing should be extended to the voluntary sector, particularly since these organizations are an integral part of the economy and labour force. The following is a brief summary of the consultation results. Detailed reports of the two for-profit focus groups and the two voluntary sector focus groups can be found appended to this annex along with a summary of the characteristics found in the voluntary organizations surveyed (ANNEX E1-E3).

Common elements and themes reported by the private and the voluntary sector focus group participants included:

- questioning whether there was a need for SBLA financing in the sector; and
- expressing reservation about the uncertainty of volunteer organization cash flow/funding which would, in turn, make a SBLA loan too risky and lead to an inability to repay.

Issues of Concern for the Business Focus Group Participants (Annex E1)

- The personal liability of the volunteer association's managing director.
- The lack of accountability on the part of the managing director and the volunteers due in part to high turn-over.
- A higher default rate for loans to the voluntary sector might put the whole SBLA program at risk.
- The sector would not be able to meet the basic loan criteria.

Issues of Concern for Voluntary Sector Focus Group Participants (Annex E2)
The two groups were split in their opinion about opening up the SBLA program to include the voluntary sector.

Some felt that extending SBLA financing into the voluntary sector would help to increase financing options for small businesses; would make the program more efficient and help to better serve the community (but only when operational concerns were removed from the decision). Others felt that a program addition would not result in significant change to the status quo.

Concerns raised involved issues of responsibility and benefaction. Some felt that a SBLA loan would impact negatively on project ownership and loan repayment as well as squash creativity and reduce volunteer commitment to fund-raising activities. If a SBLA loan is approved, donors might feel that the organization might not need their donor dollars.

Financial Institutions & Lenders

Ninety-two percent of stakeholders did not want the SBLA to be applied to the voluntary sector for the following reasons:

- that it was outside the spirit of the program;
- that voluntary organizations have a social role, not necessarily an economic one; and
- it would require a government guarantee of 75% - 100%, an equity increase to at least 20%, changes to the loan ceiling and would require a unique credit analysis and security.

Seven stakeholders including four (4) banks disagreed with the concept but, if pushed, recommended that a separate program be necessary along with a 100% government guarantee. Only one bank was amenable to the idea but recommended a 75% financing maximum on the asset value.

Several stakeholders commented that before action is taken, the exact financing needs and cost implications of this sector must be determined as well as the source of funds identified.

ADD SAGE REPORT EXCERPTS

E1. - 2 PAGES
E2. - 5 PAGES
E3. - 1 PAGE

TOTAL - 8 PAGES