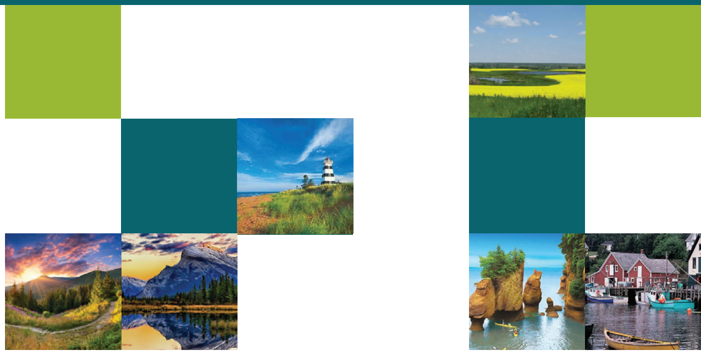
WHY REFINANCE THE CFP PROGRAM?

community futures
NETWORK OF CANADA
réseau de développement
DES COLLECTIVITES DU CANADA



"Increase funding for the Community Futures Program and assist Community Futures Organizations in unblocking unused resources with the aim of increasing the penetration of small business loans and business development services in remote and rural areas of Canada."

SME and Entrepreneurship Policy in Canada, OECD Studies on SMEs and Entrepreneurship, 2018.

RECOMMENDATION 32

Further leverage the network of 268 locally-directed organizations across rural Canada (Community Futures Network of Canada) to support its overarching goal of ensuring a competitive Canadian economy by providing additional resources, and further support the modernization of the terms and conditions of the Community Futures Program to better serve the needs of rural entrepreneurs and communities.

CULTIVATING COMPETITIVENESS: HELPING CANADIANS SUCCEED, Report of the Standing Committee on Finance, House of Commons, December 2018, p. 76

RECOMMENDATION 13-3

"Recommendation 13-3: The committee recommends that the federal government reaffirm its long-term commitment to the Community Futures program. The committee believes it is important for the federal government to reaffirm its long term commitment to the Community Futures program, one of the few unequivocal success stories in federal rural policy and, aside from the post office, one of the few visible signs of the federal government in rural Canada. The Community Futures program success is due in no small part to the fact that it is locally run and suited to local conditions. Like the social economy approach, it too is flexible. For these reasons, the committee also believes that the federal government should consider expanding the size of loans available under the program as well as the total financing envelope for the program."

Beyond freefall: Halting rural poverty, Final Report of the Standing Senate Committee on Agriculture and Forestry, 2008

Contrary to what can be said in the corridors, no additional funding was allocated to the Community Futures Program (CFP) in the 2019 federal budget. That is why the Community Futures Network of Canada continued to work with the federal government to demonstrate the impact of this program in rural and remote regions in Canada.

WHY REFINANCE THE CFP AS RECOMMENDED BY THE OECD AND THE SENATE COMMITTEE?

With 268 grassroots organizations across the country in rural areas and territories, CFDCs and CBDCs are the largest federal-funded organizations in the territory after post offices, present and active in **168 electoral districts, representing 50% of the population of Canada.**

For more than 35 years, CFDCs and CBDCs have been working in the areas of intervention that Canada's current government prioritizes: improving the living environment of their fellow citizens by creating and maintaining jobs, diversifying the economy, entrepreneurship among youth, women and indigenous nations, innovation and adaptation of companies to new technologies, sustainable development, etc. They work to eliminate the barriers that hinder the development of their community and support and finance businesses that create collective wealth.

The impacts of the additional funding will be significant. We anticipate being able to:

- Increase our lending by more than 12% per year
- Undertake annually more than 1,600 new CED projects that will leverage an additional $50.7 M
- Serve over 6,200 new clients per year
- Create more than 4,000 new jobs per year

2018-2019 RESULTS

- More than **4,400 structuring projects** in communities for investments of **$10.7M.**
- **5,871 loans** to SMEs, investments of **$320M.**
- Each dollar invested in funding generates a **$1.9 contribution** from other financiers.

For the past eight years, Statistics Canada has compared the performance of businesses supported by CFDCs and CBDCs in each of Canada's regions with companies that did not receive these services.

CREATION OF SUPERIOR EMPLOYMENT OF 2 TO 5%

Job creation was stronger in CFDCs and CBDCs-supported enterprises with percentage point differences ranging from plus 2 to plus 5.1%. In fact, companies assisted by CFDCs and CBDCs achieve average annual employment growth of between 3.5% and 8% depending on the region, whereas employment in the companies in the comparison group varies between 1.5% to 2.9% for the same regions. Unsurprisingly, we observe that the wage bill is also increasing faster in the assisted enterprises, and this in proportions exceeding 3%.

SURVIVAL RATE 20 TO 28% HIGHER AND INCREASE SALES FASTER 2 TO 4%

The performance of companies assisted by CFDCs and CBDCs is also measured in terms of survival rate and sales volume. In fact, the survival rate after the fifth year of companies assisted by CFDCs and CBDCs is higher by 20 to 28 percentage points, whereas the growth rate of sales is faster with a difference in percentage point between 2.3 and 4% in their favor.

What makes the difference in the performance of client companies of CFDCs and CBDCs is the quality of support and expertise provided to entrepreneurs. That's why improving the funding of the program is essential to keep the resources that make that difference.

The request for additional funding from the Government of Canada is $43M per year for the next five years. The RDCC considers that this contribution is an investment and not an expense for the government because of the tax revenues it generates:

- Increase in personal income tax from new jobs created;
- Corporate income tax from the increase in turnover;
- Tax on goods and services resulting from sales and use of funds lent by CFDCs and CBDCs;
- Taxes from additional employee and employer contributions (employer payroll taxes and group benefit plans).

This contribution of new funds will be used to support more structuring community projects in communities and to better finance SMEs.

COMPLEMENTARY ROLE WITH BUSINESS DEVELOPMENT BANK OF CANADA (BDC)

CFDCs

The CFDCs are private organizations, NPOs, which work for the economic development of their community. Their aim since 1979: create and maintain jobs. Through local development projects, SADCs work to create a climate conducive to business development and entrepreneurship at the local level.

They also manage an investment fund (average of $3.8M) which is more defined as development fund. But they are not financial institutions. Performance is not the goal. The decision to lend is based in large part on the relationship and qualities of the entrepreneur and a good knowledge of the environment.

70% of loans are medium or high risk. CFDC clients are businesses with a majority of 20 or fewer employees. 40% of the loans are made to finance start-ups. They can also be used to provide working capital or to consolidate the business. Although the loan limit is $250,000, the average loan is about $70,000 to serve more clients; the guarantee is rather casual. CFDCs may also have equity, debenture or other equity loans. The CF are recognized for providing personalized and very consistent support throughout their project. Because of this proximity, their loss rate is low and business performance is excellent, as Statistics Canada's studies have shown over the past eight years.

BDC

BDC is a crown corporation and a financial institution. Its role is to finance companies and especially SMEs. They also offer consultation.

Their clientele are mostly companies with 20 or more employees. The decision to lend is based on ratios and the guarantee is widespread. In recent years, BDC has developed an online lending process for applications of $300,000 and less. Eligibility ratios have been raised due to over-demands.

The trend at BDC is to focus their interventions on loans of $300,000 and more. Due to the limited resources in rural and remote areas, BDC cannot provide personalized support, especially to small businesses.